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"> 3,950 3,950 9.25%), 5.00% ETP, Due 1/1/22) Total Non-Affiliate Debt Investments — Life
 Science 67,026 67,026 Non-Affiliate Debt Investments — Technology — 88.9% (8) Audacy Corporation
 (2)(12) Communications Term Loan (10.25% cash (Libor + 7.90%; Floor 4,000 3,936 3,636 9.50%), 5.00%
 ETP, Due 7/1/22) Intelepeer Holdings, Inc. (2)(12) Communications Term Loan (12.30% cash (Libor + 9.95%;
 Floor 4,000 3,948 3,948 11.25%), 2.50% ETP, Due 7/1/21) Term Loan (12.30% cash (Libor + 9.95%;
 Floor 3,000 2,955 2,955 11.25%), 2.50% ETP, Due 2/1/21) Food52, Inc. (2)(12) Consumer-related
 Technologies Term Loan (10.90% cash (Libor + 8.40%; Floor 3,000 2,918 2,918 10.90%), 3.00% ETP, Due
 1/1/23) Term Loan (10.90% cash (Libor + 8.40%; Floor 3,000 2,918 2,918 10.90%), 3.00% ETP, Due
 1/1/23) Mohawk Group Holdings, Inc. (2)(12) Consumer-related Technologies Term Loan (9.90% cash (Libor
 + 7.40%; Floor 5,000 4,885 4,885 9.90%), 4.00% ETP, Due 1/1/23) Term Loan (9.90% cash (Libor +
 7.40%; Floor 5,000 4,885 4,885 9.90%), 4.00% ETP, Due 1/1/23) Term Loan (9.90% cash (Libor +
 7.40%; Floor 5,000 4,885 4,885 9.90%), 4.00% ETP, Due 1/1/23)

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2018

(In thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
Kaminario, Inc. (2)(12)	Data Storage	Term Loan (10.87% cash (Libor + 8.40%; Floor 10.65%), 3.00% ETP, Due 1/1/23)	5,000	4,918	4,918
		Term Loan (10.87% cash (Libor + 8.40%; Floor 10.65%), 3.00% ETP, Due 1/1/23)	5,000	4,917	4,917
IgnitionOne, Inc. (2)(12)	Internet and Media	Term Loan (12.58% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,871	2,871
		Term Loan (12.58% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,871	2,871
		Term Loan (12.58% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,871	2,871
		Term Loan (12.58% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,871	2,871
Jump Ramp Games, Inc. (2)(12)	Internet and Media	Term Loan (12.08% cash (Libor + 9.73%), 3.00% ETP, Due 4/1/21)	4,000	3,960	3,960
Kixeye, Inc. (2)(12)	Internet and Media	Term Loan (11.95% cash (Libor + 9.60%; Floor 10.75%), 2.00% ETP, Due 5/1/21)	2,700	2,617	2,617
			2,700	2,661	2,661

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		Term Loan (11.95% cash (Libor + 9.60%; Floor 10.75%), 2.00% ETP, Due 5/1/21)			
Rocket Lawyer Incorporated (2)(12)	Internet and Media	Term Loan (11.75% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 7/1/21)	4,000	3,952	3,952
		Term Loan (11.75% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 7/1/21)	4,000	3,952	3,952
		Term Loan (11.75% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 11/1/21)	2,000	1,973	1,973
Verve Wireless, Inc. (2)(12)	Internet and Media	Term Loan (11.15% cash (Libor + 8.80%; Floor 10.80%), 3.33% ETP, Due 9/1/21)	3,300	3,172	3,172
Zinio Holdings, LLC (2)(12)	Internet and Media	Term Loan (13.60% cash (Libor + 11.25%; Floor 11.75%), 6.00% ETP, Due 2/1/20)	3,225	3,213	3,213
The NanoSteel Company, Inc. (2)(12)	Materials	Term Loan (11.00% cash (Libor + 8.50%; Floor 11.00%), 4.0% ETP, Due 6/1/22)	4,250	4,186	4,186
		Term Loan (11.00% cash (Libor + 8.50%; Floor 11.00%), 4.0% ETP, Due 6/1/22)	4,250	4,186	4,186
Powerhouse Dynamics, Inc. (2)(12)	Power Management	Term Loan (13.05% cash (Libor + 10.70%; Floor 11.20%), 3.32% ETP, Due 9/1/19)	525	512	512
Luxtera, Inc. (12)	Semiconductors	Term Loan (12.00% cash (Prime + 6.75%), Due 3/28/20)	2,000	1,945	1,945
		Term Loan (12.00% cash (Prime + 6.75%), Due 3/28/20)	1,500	1,468	1,468
Bridge2 Solutions, LLC. (2)(12)	Software	Term Loan (11.60% cash (Libor + 9.25%; Floor 10.50%), 2.00% ETP, Due 11/1/21)	5,000	4,835	4,835
		Term Loan (11.60% cash (Libor + 9.25%; Floor 10.50%), 2.00% ETP, Due 11/1/21)	5,000	4,835	4,835
Education Elements, Inc. (2)(12)	Software	Term Loan (12.35% cash (Libor + 10.00%; Floor	350	346	346

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		10.50%), 4.00% ETP, Due 8/1/19)			
New Signature US, Inc. (2)(12)(13)	Software	Term Loan (10.85% cash (Libor + 8.50%; Floor 10.50%), 3.50% ETP, Due 7/1/22)	2,750	2,699	2,699
SIGNiX, Inc. (12)	Software	Term Loan (13.35% cash (Libor + 11.00%; Floor 11.50%), 8.67% ETP, Due 2/1/20)	1,845	1,790	1,555
xAd, Inc. (2)(12)	Software	Term Loan (11.05% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	5,000	4,923	4,923
		Term Loan (11.05% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	5,000	4,923	4,923
		Term Loan (11.05% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	3,000	2,954	2,954
		Term Loan (11.05% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	2,000	1,969	1,969
Total Non- Affiliate Debt Investments — Technology				119,720	119,185
Non-Affiliate Debt Investments — Healthcare information and services — 17.5% (8)					
Catasys, Inc. (2)(5)(12)	Software	Term Loan (10.10% cash (Libor + 7.75%; Floor 9.75%), 6.00% ETP, Due 3/1/22)	2,500	2,478	2,478
		Term Loan (10.10% cash (Libor + 7.75%; Floor 9.75%), 6.00% ETP, Due 3/1/22)	2,500	2,478	2,478
		Term Loan (10.10% cash (Libor + 7.75%; Floor 9.75%), 6.00% ETP, Due 3/1/22)	2,500	2,477	2,477

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2018

(In thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
HealthEdge Software, Inc. (2)(12)	Software	Term Loan (10.60% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 7/1/22)	5,000	4,948	4,948
		Term Loan (10.60% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 1/1/23)	3,750	3,704	3,704
		Term Loan (10.60% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 4/1/23)	3,750	3,701	3,701
		Term Loan (10.69% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 1/1/24)	3,750	3,696	3,696
Total Non- Affiliate Debt Investments — Healthcare information and services				23,482	23,482
Total Non- Affiliate Debt Investments				210,228	209,693
Non-Affiliate Warrant Investments — 6.9% (8)					
Non-Affiliate Warrants — Life Science — 1.5% (8)					
ACT Biotech Corporation	Biotechnology	130,872 Preferred Stock Warrants		12	—
Alpine Immune Sciences, Inc. (5)(12)	Biotechnology	4,634 Common Stock Warrants		122	—
Celsion Corporation (2)(5)(12)	Biotechnology	95,465 Common Stock Warrants		79	1
Espero BioPharma, Inc. (2)(5)(12)	Biotechnology	1,506,937 Common Stock Warrants		184	185
Rocket Pharmaceuticals Corporation (5)(12)	Biotechnology	7,051 Common Stock Warrants		17	—
	Biotechnology			51	34

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Palatin Technologies, Inc. (2)(5)(12)		608,058 Common Stock Warrants		
Revance Therapeutics, Inc. (5)(12)	Biotechnology	34,113 Common Stock Warrants	68	210
Sample6, Inc. (2)(12)	Biotechnology	661,956 Preferred Stock Warrants	53	26
Strongbridge U.S. Inc. (2)(5)(12)	Biotechnology	160,714 Common Stock Warrants	72	356
Sunesis Pharmaceuticals, Inc. (5)(12)	Biotechnology	2,050 Common Stock Warrants	5	—
vTv Therapeutics Inc. (2)(5)(12)	Biotechnology	95,293 Common Stock Warrants	44	1
Titan Pharmaceuticals, Inc. (2)(5)(12)	Drug Delivery	2,240,000 Common Stock Warrants	95	89
AccuVein Inc. (2)(12)	Medical Device	1,174,881 Preferred Stock Warrants	24	28
Aerin Medical, Inc. (2)(12)	Medical Device	1,818,182 Preferred Stock Warrants	66	68
Conventus Orthopaedics, Inc. (2)(12)	Medical Device	720,000 Preferred Stock Warrants	95	99
CSA Medical, Inc. (12)	Medical Device	745,562 Preferred Stock Warrants	89	86
Lantos Technologies, Inc. (2)(12)	Medical Device	1,715,926 Common Stock Warrants	253	285
MacuLogix, Inc. (2)(12)	Medical Device	234,742 Preferred Stock Warrants	179	90
Mitralign, Inc. (2)(12)	Medical Device	64,190 Common Stock Warrants	52	1
NinePoint Medical, Inc. (2)(12)	Medical Device	29,102 Preferred Stock Warrants	33	6
ReShape Lifesciences Inc. (5)(12)	Medical Device	121 Common Stock Warrants	341	—
Tryton Medical, Inc. (2)(12)	Medical Device	122,362 Preferred Stock Warrants	15	13
VERO Biotech LLC (2)(12)	Medical Device	800 Common Stock Warrants	53	331
Total Non-Affiliate Warrants — Life Science			2,002	1,909
Non-Affiliate Warrants — Technology — 4.8% (8)				
Audacy Corporation (2)(12)	Communications	1,545,575 Preferred Stock Warrants	194	—
Intelepeer Holdings, Inc. (2)(12)	Communications	1,171,549 Preferred Stock Warrants	94	57
PebblePost, Inc. (2)(12)	Communications	598,850 Preferred Stock Warrants	92	158
Food52, Inc. (2)(12)	Consumer-related Technologies	102,941 Preferred Stock Warrants	104	104
Gwynnie Bee, Inc. (2)(12)	Consumer-related Technologies	268,591 Preferred Stock Warrants	68	820
Le Tote, Inc. (2)(12)	Consumer-related Technologies	202,974 Preferred Stock Warrants	63	368
			195	195

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Mohawk Group Holdings, Inc. (2)(12)	Consumer-related Technologies	300,000 Common Stock Warrants		
Rhapsody International Inc. (2)(12)	Consumer-related Technologies	852,273 Common Stock Warrants	164	—
Kaminario, Inc. (2)(12)	Data Storage	9,981,346 Preferred Stock Warrants	124	161
IgnitionOne, Inc. (2)(12)	Internet and Media	262,910 Preferred Stock Warrants	672	665
Jump Ramp Games, Inc. (2)(12)	Internet and Media	159,766 Preferred Stock Warrants	32	1
Kixeye, Inc. (2)(12)	Internet and Media	791,251 Preferred Stock Warrants	75	61
Rocket Lawyer Incorporated (2)(12)	Internet and Media	261,721 Preferred Stock Warrants	92	76
Verve Wireless, Inc. (2)(12)	Internet and Media	112,805 Common Stock Warrants	120	120
The NanoSteel Company, Inc. (2)(12)	Materials	467,277 Preferred Stock Warrants	233	567
Powerhouse Dynamics, Inc. (2)(12)	Power Management	348,838 Preferred Stock Warrants	33	—
Avalanche Technology, Inc. (2)(12)	Semiconductors	202,602 Preferred Stock Warrants	101	53
Luxtera, Inc.(2)(12)	Semiconductors	3,546,553 Preferred Stock Warrants	213	744
Soraa, Inc. (2)(12)	Semiconductors	203,616 Preferred Stock Warrants	80	426

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2018

(In thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
Bolt Solutions Inc. (2)(12)	Software	202,892 Preferred Stock Warrants		113	—
Bridge2 Solutions, Inc. (2)(12)	Software	125,458 Common Stock Warrants		432	756
BSI Platform Holdings, LLC (2)(12)(13)	Software	137,500 Preferred Stock Warrants		19	19
Clarabridge, Inc. (12)	Software	53,486 Preferred Stock Warrants		14	106
Education Elements, Inc. (2)(12)	Software	238,121 Preferred Stock Warrants		28	23
Lotame Solutions, Inc. (2)(12)	Software	288,115 Preferred Stock Warrants		22	286
Metricly, Inc. (12)	Software	41,569 Common Stock Warrants		48	—
Riv Data Corp. (2)(12)	Software	321,428 Preferred Stock Warrants		12	36
ShopKeep.com, Inc. (2)(12)	Software	193,962 Preferred Stock Warrants		118	114
SIGNiX, Inc. (12)	Software	133,560 Preferred Stock Warrants		225	35
Skyword, Inc. (12)	Software	301,056 Preferred Stock Warrants		48	3
Sys-Tech Solutions, Inc. (2)(12)	Software	375,000 Preferred Stock Warrants		242	429
Weblinc Corporation (2)(12)	Software	195,122 Preferred Stock Warrants		42	—
xAd, Inc. (2)(12)	Software	4,343,350 Preferred Stock Warrants		177	251
Total Non-Affiliate Warrants — Technology Non-Affiliate Warrants — Cleantech — 0.1% (8)				4,289	6,634
Renmatix, Inc. (2)(12)	Alternative Energy	53,022 Preferred Stock Warrants		68	—

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Tigo Energy, Inc. (2)(12)	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)(12)	Diagnostics	49,000 Preferred Stock Warrants	29	2
ProterixBio, Inc. (2)(12)	Diagnostics	2,676 Common Stock Warrants	42	—
Singulex, Inc. (12)	Other Healthcare	294,231 Preferred Stock Warrants	44	45
Verity Solutions Group, Inc. (12)	Other Healthcare	300,360 Preferred Stock Warrants	100	65
Watermark Medical, Inc. (2)(12)	Other Healthcare	27,373 Preferred Stock Warrants	74	62
HealthEdge Software, Inc. (2)(12)	Software	205,481 Preferred Stock Warrants	83	71
Medsphere Systems Corporation (2)(12)	Software	7,097,792 Preferred Stock Warrants	60	212
Recondo Technology, Inc. (2)(12)	Software	556,796 Preferred Stock Warrants	95	212
Total Non-Affiliate Warrants — Healthcare information and services			527	669
Total Non-Affiliate Warrants			6,986	9,324
Non-Affiliate Other Investments — 5.7% (8)				
Espero Pharmaceuticals, Inc. (12)	Biotechnology	Royalty Agreement	5,300	4,700
ZetrOZ, Inc. (12)	Medical Device	Royalty Agreement	142	700
Vette Technology, LLC (12)	Data Storage	Royalty Agreement Due 4/18/2019	4,173	40
Triple Double Holdings, LLC (12)	Software	License Agreement	2,200	2,200
Total Non-Affiliate Other Investments			11,815	7,640
Non-Affiliate Equity — 0.7% (8)				
Insmad Incorporated (5)	Biotechnology	33,208 Common Stock	238	436
Revanche Therapeutics, Inc.(5)	Biotechnology	5,125 Common Stock	73	103
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	13,082 Common Stock	83	5
SnagAJob.com, Inc. (12)	Consumer-related Technologies	82,974 Common Stock	9	83
Verve Wireless, Inc. (2)(12)	Internet and Media	100,598 Preferred Stock	225	225
Formetrix, Inc. (2)(12)	Materials	74,286 Common Stock	74	74
TruSignal, Inc. (12)	Software	32,637 Common Stock	41	41
Total Non-Affiliate Equity			743	967
Total Non-Affiliate Portfolio Investment Assets			\$ 229,772	\$ 227,624
Non-controlled Affiliate Investments — 5.6% (8)				
Non-controlled Affiliate Debt Investments — Technology — 5.0% (8)				
Decisyon, Inc. (12)	Software		\$ 1,523	\$ 1,522
				\$ 1,464

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Term Loan (14.658% cash (Libor + 12.308%; Floor 12.50%), 8.00% ETP, Due 12/1/20)			
Term Loan (14.658% cash (Libor + 12.308%; Floor 12.50%), 8.00% ETP, Due 12/1/20)	833	795	764
Term Loan (12.02% cash, Due 12/31/19)	250	250	240
Term Loan (12.03% cash, Due 12/31/19)	250	250	240
Term Loan (12.24% cash, Due 12/31/19)	750	750	721
Term Loan (13.08% cash, Due 12/31/19)	300	300	289
Term Loan (13.10% cash, Due 12/31/19)	200	200	192

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2018

(In thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
StereoVision Imaging, Inc. (12)	Software	Term Loan (9.38% Cash (Libor + 7.03%; Floor 8.50%), 8.50% ETP, Due 9/1/21) (11)	3,200	2,798	2,798
Total Non-controlled Affiliate Debt Investments — Technology				6,865	6,708
Non-controlled Affiliate Warrants — Technology — 0.0% (8)					
Decisyon, Inc. (12)	Software	82,967 Common Stock Warrants		46	—
Total Non-controlled Affiliate Warrants — Technology				46	—
Non-controlled Affiliate Equity — Technology — 0.6% (8)					
Decisyon, Inc. (12)	Software	45,365,936 Common Stock		185	75
StereoVision Imaging, Inc. (12)	Software	1,943,572 Common Stock		791	791
Total Non-controlled Affiliate Equity				976	866
Total Non-controlled Affiliate Portfolio Investment Assets				\$ 7,887	\$7,574
Controlled Affiliate Investments — 9.9% (8)					
Controlled Affiliate Equity — Financial — 9.9% (8)					
Horizon Secured Loan Fund I LLC (12)(14)	Investment funds			\$ 13,262	\$13,243
Total Controlled Affiliate Equity				13,262	13,243
Total Controlled Affiliate Portfolio Investment Assets				\$ 13,262	\$13,243
Total Portfolio Investment Assets — 185.1%(8)				\$ 250,921	\$248,441

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- (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 revolving credit facility with KeyBank National Association (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 but not more than 25% 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).
- (3)

- 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 December 31, 2018 is provided.
- (4)

- (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 December 31, 2018, 5.0% of the Company’s total investments on a cost and fair value basis 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.
- (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 has a payment-in-kind (“PIK”) feature.
- (12) 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

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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

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2017

(In thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
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)(14)	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)(14)	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)(14)	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)(14)	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
			3,000	2,954	2,954

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		Term Loan (8.85% cash (Libor + 7.45%; Floor 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)(14)	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)(14)	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)(14)	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)(14)	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)(14)	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)					
	Communications		4,000	3,888	3,888

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Intelepeer Holdings, Inc. (14)		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)(14)	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)(14)	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)(14)	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

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2017

(In thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
IgnitionOne, Inc. (2)(14)	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
		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)(14)	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)(14)	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)(14)	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)(14)	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 7/1/21)	2,000	1,963	1,963

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		10.50%), 3.00% ETP, Due 11/1/21)			
Zinio Holdings, LLC (2)(14)	Internet and Media	Term Loan (12.62% cash (Libor + 11.25%; Floor 11.75%), 6.00% ETP, Due 2/1/20)	4,000	3,978	3,978
The NanoSteel Company, Inc. (2)(14)	Materials	Term Loan (10.87% cash (Libor + 9.50%; Floor 10.00%), 7.20% ETP, Due 1/1/20)	4,653	4,578	4,578
		Term Loan (10.87% cash (Libor + 9.50%; Floor 10.00%), 6.45% ETP, Due 1/1/20)	2,327	2,289	2,289
		Term Loan (10.87% cash (Libor + 9.50%; Floor 10.00%), 5.85% ETP, Due 3/1/20)	2,500	2,457	2,457
Powerhouse Dynamics, Inc. (2)(14)	Power Management	Term Loan (12.07% cash (Libor + 10.70%; Floor 11.20%), 3.00% ETP, Due 3/1/19)	1,250	1,234	1,234
Luxtera, Inc. (14)	Semiconductors	Term Loan (11.25% cash (Prime + 6.75%), Due 3/28/20)	2,000	1,902	1,902
		Term Loan (11.25% cash (Prime + 6.75%), Due 3/28/20)	1,500	1,443	1,443
Bridge2 Solutions, LLC. (2)(14)	Software	Term Loan (10.62% cash (Libor + 9.25%; Floor 10.50%), 2.00% ETP, Due 11/1/21)	5,000	4,777	4,777
		Term Loan (10.62% cash (Libor + 9.25%; Floor 10.50%), 2.00% ETP, Due 11/1/21)	5,000	4,777	4,777
Digital Signal Corporation (11)(12)(14)	Software	Term Loan (11.62% cash (Libor + 10.25%; Floor 10.43%), 5.00% ETP, Due 7/1/19)	1,290	1,256	1,210
		Term Loan (11.62% cash (Libor + 10.25%; Floor 10.43%), 5.00% ETP, Due 7/1/19)	1,290	1,256	1,210
		Term Loan (10.00% cash, Due 12/31/17)	501	501	483
Education Elements, Inc. (2)(14)	Software	Term Loan (11.37% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 1/1/19)	800	789	789
		Term Loan (11.37% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 8/1/19)	950	937	937
Metricly, Inc. (14)	Software	Term Loan (13.62% cash (Libor + 12.25%; Floor 12.50%), 3.33% ETP, Due 9/1/18)	184	184	184
ShopKeep.com, Inc. (2)(14)	Software	Term Loan (11.32% cash (Libor + 9.95%; Floor	6,000	5,897	5,897

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		10.45%), 4.08% ETP, Due 10/1/20)			
		Term Loan (11.32% cash (Libor + 9.95%; Floor	4,000	3,924	3,924
		10.45%), 3.55% ETP, Due 2/1/21)			
SIGNiX, Inc. (14)	Software	Term Loan (12.37% cash (Libor + 11.00%; Floor	2,180	2,073	1,930
		11.50%), 5.33% ETP, Due 2/1/20)			
SilkRoad Technology, Inc. (2)(14)	Software	Term Loan (11.72% cash (Libor + 10.35%; Floor	7,000	6,904	6,904
		10.85%; Ceiling 12.85%), 5.00% ETP, Due 6/1/20)			
Weblinc Corporation (2)(14)	Software	Term Loan (11.62% cash (Libor + 10.25%; Floor	3,000	2,913	2,913
		11.25%), 3.00% ETP, Due 3/1/21)			

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2017

(In thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
xAd, Inc. (2)(14)	Software	Term Loan (10.07% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	5,000	4,895	4,895
		Term Loan (10.07% cash (Libor + 8.70%; Floor 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)(14)	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)					
	Biotechnology			60	—

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ACT Biotech Corporation (14)		604,038 Preferred Stock Warrants		
Alpine Immune Sciences, Inc. (5)(14)	Biotechnology	4,634 Common Stock Warrants	122	—
Argos Therapeutics, Inc. (2)(5)(14)	Biotechnology	73,112 Common Stock Warrants	33	—
Celsion Corporation (5)(14)	Biotechnology	408 Common Stock Warrants	15	—
Rocket Pharmaceuticals Corporation (5)(14)	Biotechnology	7,051 Common Stock Warrants	17	—
Palatin Technologies, Inc. (2)(5)(14)	Biotechnology	608,058 Common Stock Warrants	51	82
Revance Therapeutics, Inc. (5)(14)	Biotechnology	34,113 Common Stock Warrants	68	729
Sample6, Inc. (2)(14)	Biotechnology	661,956 Preferred Stock Warrants	53	25
Strongbridge U.S. Inc. (5)(14)	Biotechnology	160,714 Common Stock Warrants	72	794
Sunesis Pharmaceuticals, Inc. (5)(14)	Biotechnology	2,050 Common Stock Warrants	5	—
vTv Therapeutics Inc. (2)(5)(14)	Biotechnology	95,293 Common Stock Warrants	44	82
Titan Pharmaceuticals, Inc. (2)(5)(14)	Drug Delivery	280,612 Common Stock Warrants	88	30
AccuVein Inc. (2)(14)	Medical Device	75,769 Preferred Stock Warrants	24	27
Aerin Medical, Inc. (2)(14)	Medical Device	1,818,182 Preferred Stock Warrants	66	66
Conventus Orthopaedics, Inc. (2)(14)	Medical Device	720,000 Preferred Stock Warrants	95	95
IntegenX, Inc. (2)(14)	Medical Device	170,646 Preferred Stock Warrants	35	32
Lantos Technologies, Inc. (2)(14)	Medical Device	471,979 Common Stock Warrants	39	145
Mederi Therapeutics, Inc. (2)(14)	Medical Device	248,736 Preferred Stock Warrants	26	—
Mitralign, Inc. (2)(14)	Medical Device	64,190 Common Stock Warrants	52	1
NinePoint Medical, Inc. (2)(14)	Medical Device	29,102 Preferred Stock Warrants	33	2
OraMetrix, Inc. (2)(14)	Medical Device	812,348 Preferred Stock Warrants	78	—
ReShape Lifesciences Inc. (5)(14)	Medical Device	134 Common Stock Warrants	347	—
Tryton Medical, Inc. (2)(14)	Medical Device	122,362 Preferred Stock Warrants	15	12
VERO Biotech LLC (2)(14)	Medical Device	800,000 Common Stock Warrants	53	53
ViOptix, Inc. (14)	Medical Device	375,763 Preferred Stock Warrants	13	—
Total Non-Affiliate Warrants — Life Science			1,504	2,175

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Non-Affiliate Warrants — Technology — 4.6% (8)

Ekahau, Inc. (2)(14)	Communications	978,261 Preferred Stock Warrants	32	22
Intelepeer Holdings, Inc. (14)	Communications	2,256,549 Preferred Stock Warrants	149	110
PebblePost, Inc. (2)(14)	Communications	598,850 Preferred Stock Warrants	92	92
Additech, Inc. (2)(14)	Consumer-related Technologies	150,000 Preferred Stock Warrants	33	31
Gwynnie Bee, Inc. (2)(14)	Consumer-related Technologies	268,591 Preferred Stock Warrants	68	816
Le Tote, Inc. (2)(14)	Consumer-related Technologies	202,974 Preferred Stock Warrants	63	363
Rhapsody International Inc. (2)(14)	Consumer-related Technologies	852,273 Common Stock Warrants	164	—
SavingStar, Inc. (2)(14)	Consumer-related Technologies	850,439 Preferred Stock Warrants	104	103
IgnitionOne, Inc. (2)(14)	Internet and Media	262,910 Preferred Stock Warrants	672	668
Jump Ramp Games, Inc. (2)(14)	Internet and Media	159,766 Preferred Stock Warrants	31	31
Kixeye, Inc. (2)(14)	Internet and Media	791,251 Preferred Stock Warrants	75	74
Rocket Lawyer Incorporated (2)(14)	Internet and Media	261,721 Preferred Stock Warrants	91	91
The NanoSteel Company, Inc. (2)(14)	Materials	379,360 Preferred Stock Warrants	187	448
Nanocomp Technologies, Inc. (2)(14)	Networking	1,440,489 Preferred Stock Warrants	67	—

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2017

(In thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Cost of Amount Investments (6)	Fair Value
Powerhouse Dynamics, Inc. (2)(14)	Power Management	290,698 Preferred Stock Warrants	28	26
Avalanche Technology, Inc. (2)(14)	Semiconductors	202,602 Preferred Stock Warrants	101	40
eASIC Corporation (2)(14)	Semiconductors	40,445 Preferred Stock Warrants	25	28
Kaminario, Inc.(14)	Semiconductors	1,087,203 Preferred Stock Warrants	59	44
Luxtera, Inc.(2)(14)	Semiconductors	3,546,553 Preferred Stock Warrants	213	361
Soraa, Inc. (2)(14)	Semiconductors	203,616 Preferred Stock Warrants	80	438
Bolt Solutions Inc. (2)(14)	Software	202,892 Preferred Stock Warrants	113	99
Bridge2 Solutions, Inc. (2)(14)	Software	125,458 Common Stock Warrants	433	760
Clarabridge, Inc. (14)	Software	53,486 Preferred Stock Warrants	14	82
Digital Signal Corporation (14)	Software	125,116 Common Stock Warrants	32	—
Education Elements, Inc. (2)(14)	Software	238,121 Preferred Stock Warrants	28	28
Lotame Solutions, Inc. (2)(14)	Software	288,115 Preferred Stock Warrants	22	281
Metricly, Inc. (14)	Software	41,569 Common Stock Warrants	48	—
Riv Data Corp. (2)(14)	Software	321,428 Preferred Stock Warrants	12	38
ShopKeep.com, Inc. (2)(14)	Software	193,962 Preferred Stock Warrants	118	138
SIGNiX, Inc. (14)	Software	133,560 Preferred Stock Warrants	225	109

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Skyword, Inc. (14)	Software	301,056 Preferred Stock Warrants	48	32
SpringCM, Inc. (2)(14)	Software	2,385,686 Preferred Stock Warrants	55	132
Sys-Tech Solutions, Inc. (14)	Software	375,000 Preferred Stock Warrants	242	464
Visage Mobile, Inc. (14)	Software	1,692,047 Preferred Stock Warrants	19	2
Weblinc Corporation (2)(14)	Software	195,122 Preferred Stock Warrants	42	42
xAd, Inc. (2)(14)	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. (14)	Alternative Energy	53,022 Preferred Stock Warrants	68	—
Tigo Energy, Inc. (2)(14)	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)(14)	Diagnostics	49,000 Preferred Stock Warrants	29	2
ProterixBio, Inc. (2)(14)	Diagnostics	3,156 Common Stock Warrants	54	—
Singulex, Inc. (14)	Other Healthcare	294,231 Preferred Stock Warrants	44	44
Verity Solutions Group, Inc. (14)	Other Healthcare	300,360 Preferred Stock Warrants	100	62
Watermark Medical, Inc. (2)(14)	Other Healthcare	27,373 Preferred Stock Warrants	74	59
HealthEdge Software, Inc. (2)(14)	Software	110,644 Preferred Stock Warrants	46	46
Medsphere Systems Corporation (2)(14)	Software	7,097,792 Preferred Stock Warrants	60	208
Recondo Technology, Inc. (2)(14)	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. (14)	Biotechnology	Royalty Agreement	5,300	4,700
ZetrOZ, Inc. (14)	Medical Device	Royalty Agreement	305	700
Vette Technology, LLC (14)	Data Storage	Royalty Agreement Due 4/18/2019	4,226	100
Triple Double Holdings, LLC (14)	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

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Revanche Therapeutics, Inc.(5)	Biotechnology	5,125 Common Stock	73	183
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	13,082 Common Stock	83	49
SnagAJob.com, Inc. (14)	Consumer-related Technologies	82,974 Common Stock	9	83
TruSignal, Inc. (14)	Software	32,637 Common Stock	41	41
Total Non-Affiliate Equity			444	1,391
Total Non-Affiliate Portfolio Investment Assets			\$ 219,303	\$218,600

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2017

(In thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
Affiliate Investments — 2.6% (8)					
Affiliate Debt Investments — Technology — 2.5% (8)					
Decisyon, Inc. (14)	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
Affiliate Warrants — Technology — 0.0% (8)					
Decisyon, Inc. (14)	Software	82,967 Common Stock Warrants		46	—
Total Affiliate Warrants — Technology				46	—
Affiliate Equity — Technology — 0.1% (8)					
Decisyon, Inc. (14)	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.

- 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.

- 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.

- (4) Portfolio company is a public company.
- (5) For debt investments, represents principal balance less unearned income.
- (6) Warrants, Equity and Other Investments are non-income producing.
- (7) 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.

- 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) 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.

- (11) Debt investment has a PIK feature.
- (12) The fair value of the investment was valued using significant unobservable inputs.

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-K 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.

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.

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.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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 December 31, 2018, there were no debt investments on non-accrual status. As of December 31, 2017, there was one investment on non-accrual status with a cost of \$3.0 million and a fair value of \$2.9 million. For the year ended December 31, 2018, the Company did not receive any payments from debt investments on non-accrual status. For the year ended December 31, 2017, the Company recognized, as interest income, payments of \$0.1 million received from one portfolio company whose debt investment was on non-accrual status. For the year ended December 31, 2016, the Company did not recognize 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 years ended December 31, 2018, 2017 and 2016 was 6.5%, 6.0% and 10.8%, 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 December 31, 2018, HSLFI distributed \$0.3 million classified as dividend income to the Company.

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 December 31, 2018 and 2017 was \$2.2 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 December 31, 2018 and 2017 were \$2.4 million and \$1.8 million, respectively. The amortization expense for the years ended December 31, 2018, 2017 and 2016 was \$0.6 million, \$0.8 million and \$0.6 million, respectively.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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, 2018, the Company reclassified \$0.03 million to paid-in capital from distributions in excess of net investment income, which related to excise taxes payable. 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. For the year ended December 31, 2016, the Company reclassified \$0.1 million to paid-in capital from distributions in excess of net investment income, which related to excise taxes refunded in 2016.

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 years ended December 31, 2018, 2017 and 2016, \$0.03 million, \$0.03 million and \$0.1 million, respectively, was recorded for U.S. federal excise tax.

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 December 31, 2018 and 2017. The 2017, 2016 and 2015 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 year ended December 31, 2018, the Company did not repurchase any shares of its common stock. During the year ended December 31, 2017, the Company repurchased 5,923 shares of its common stock at an average price of \$9.97 on the open market at a total cost of \$0.1 million. During the year ended December 31, 2016, the Company repurchased 48,160 shares of its common stock at an average price of \$10.66 on the open market at a total cost of \$0.5 million. From the inception of the stock repurchase program through December 31, 2018, the Company repurchased 167,465 shares of its common stock at an average price of \$11.22 on the open market at a total cost of \$1.9 million.

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 pronouncements

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.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”), which modifies disclosure requirements for the fair value measurement of Level 3 securities of public companies. This guidance is effective for annual and interim periods beginning on or after December 15, 2019 and early adoption is permitted. The Company

has elected to early adopt ASU 2018-13 for the year ended December 31, 2018. As a result, no significant changes were made to the Company's disclosures in the notes to the consolidated financial statements.

Securities and Exchange Commission Disclosure Update and Simplification

In August 2018, the Securities and Exchange Commission (the "SEC") adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification (the "SEC Release"), amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. The SEC Release is effective for all filings on or after November 5, 2018. As required, the Company adopted the SEC Release for the year ended December 31, 2018. The SEC Release required changes to the presentation of the Company's Consolidated Statements of Assets and Liabilities and the Consolidated Statements of Changes in Net Assets. Prior to adoption, the Company presented distributable earnings on the Consolidated Statements of Assets and Liabilities and the Consolidated Statement of Net Assets as three components: 1) distributions in excess of net investment income; 2) net unrealized depreciation on investments; and 3) net realized loss on investments. Upon adoption, the Company presents distributable earnings in total on the Consolidated Statements of Assets and Liabilities and the Consolidated Statements of Changes in Net Assets. The changes in presentation have been retrospectively applied to the Consolidated Statement of Assets and Liabilities as of December 31, 2017 and to the Consolidated Statements of Changes in Net Assets for the years ended December 31, 2017 and 2016.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

The following table provides a reconciliation of previously disclosed components of distributable earnings on the Consolidated Statement of Assets and Liabilities as of December 31, 2017 to currently disclosed total distributable earnings on the Consolidated Statement of Assets and Liabilities as of December 31, 2017:

	December 31, 2017	
	(In thousands)	
Distributions in excess of net investment income	\$ (1,898)
Net unrealized depreciation on investments	(978)
Net realized loss on investments	(41,702)
Distributable earnings	\$ (44,578)

The following table provides a reconciliation of previously disclosed components of distributable earnings on the Consolidated Statement of Changes in Net Assets as of December 31, 2017 and 2016 to currently disclosed total distributable earnings on the Consolidated Statement of Assets and Liabilities as of December 31, 2017 and 2016:

	For the year ended December 31, 2017			
	Accumulated	Net	Net Realized	Distributable
	Undistributed	Unrealized	Loss on	Earnings
	(Distributions	on	Investments	
	in	Investments		
	Excess	of) Net		
	of) Net	Investment		
	Investment	Income		
	Income			
	(In thousands)			
Net investment income, net of excise tax	\$12,297	\$ —	\$ —	\$ 12,297
Net unrealized appreciation on investments	—	18,485	—	18,485
Net realized loss on investments	—	—	(21,191)	(21,191)
Net increase in net assets resulting from operations	\$12,297	\$ 18,485	\$ (21,191)	\$ 9,591

	For the year ended December 31, 2016		
	Accumulated	Net	Distributable
	Undistributed	Unrealized	Earnings
		Loss on	
		Investments	

	(Distribution in Excess of) Net Investment Income (In thousands)	Depreciation on Investments	Investments	
Net investment income, net of excise tax	\$ 17,099	\$ —	\$ —	\$ 17,099
Net unrealized depreciation on investments	—	(14,236)	—	(14,236)
Net realized loss on investments	—	—	(7,776)	(7,776)
Net decrease in net assets resulting from operations	\$ 17,099	\$ (14,236)	\$ (7,776)	\$ (4,913)

Note 3. Related party transactions

Investment Management Agreement

The Investment Management Agreement was reapproved by the Board on July 27, 2018. On October 30, 2018, the shareholders, at a special meeting of the stockholders, approved a new Investment Management Agreement to replace the existing Investment Management Agreement which will go into effect upon a change of control of the Advisor. 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 SEC. 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.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Through October 30, 2018, the base management fee is calculated at an annual rate of 2.00% of the Company's gross assets (less cash and cash equivalents) including any assets acquired with the proceeds of leverage. From and after October 31, 2018, the first date on which the reduced asset coverage requirements in Section 61(a)(2) of the 1940 Act apply to the Company, the base management fee was and will be calculated at an annual rate of 2.00% of the Company's gross assets (less cash and cash equivalents) including any assets acquired with the proceeds of leverage; provided, that, to the extent the Company's gross assets (less cash and cash equivalents) exceed \$250 million, the base management fee on the amount of such excess over \$250 million will be calculated at an annual rate of 1.60% of the Company's gross assets (less cash and cash equivalents) including any assets acquired with the proceeds of leverage. The base management fee is payable monthly in arrears and is prorated for any partial month.

The base management fee payable at December 31, 2018 and 2017 was \$0.4 million. The base management fee expense was \$4.6 million, \$3.8 million and \$4.7 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The incentive fee has two parts, as follows:

The first part, which is subject to the Incentive Fee Cap and Deferral Mechanism, as defined below, is calculated and payable quarterly in arrears based on the Company's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, "Pre-Incentive Fee Net Investment Income" means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees received from portfolio companies) accrued during the calendar quarter, minus expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement (as defined below), and any interest expense and any dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with PIK 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.

Horizon Technology Finance Corporation and Subsidiaries

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

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

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 are not subject to recoupment.

During the years ended December 31, 2018 and 2017, the Advisor waived performance based incentive fees of \$1.2 million and \$0.1 million, respectively, which the Advisor would have otherwise earned.

The net performance based incentive fee expense was \$3.2 million, \$1.6 million and \$2.1 million for the years ended December 31, 2018, 2017 and 2016, respectively. The incentive fee on Pre-Incentive Fee Net Investment Income was subject to the Incentive Fee Cap and Deferral Mechanism for the years ended December 31, 2018, 2017 and 2016, which resulted in \$0.2 million, \$1.1 million and \$1.7 million, respectively, of reduced expense and additional net investment income. The performance based incentive fee payable at December 31, 2018 and 2017 was \$1.0 million and \$0.5 million, respectively. The entire incentive fee payable at December 31, 2018 and 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 \$0.7 million, \$0.7 million and \$0.9 million for the years ended December 31, 2018, 2017 and 2016, respectively.

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Notes to Consolidated Financial Statements

Note 4. Investments

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

	December 31, 2018		December 31, 2017	
	Cost	Fair Value	Cost	Fair Value
	(In thousands)			
Investments				
Debt	\$217,093	\$216,401	\$204,235	\$203,793
Warrants	7,032	9,324	6,182	9,090
Other	11,815	7,640	12,031	7,700
Equity	1,719	1,833	629	1,516
Equity interest in HSLFI	13,262	13,243	—	—
Total investments	\$250,921	\$248,441	\$223,077	\$222,099

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

	December 31, 2018		December 31, 2017	
	Cost	Fair Value	Cost	Fair Value
	(In thousands)			
Life Science				
Biotechnology	\$25,770	\$25,426	\$21,249	\$22,694
Drug Delivery	1,590	1,584	6,918	6,860
Medical Device	47,504	47,869	37,374	37,306
Technology				
Communications	11,219	10,754	19,823	19,773
Consumer-Related	21,094	22,061	11,359	12,314
Data Storage	14,132	10,036	4,226	100
Internet and Media	38,200	38,132	39,768	39,763
Materials	8,679	9,013	9,511	9,772

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Networking	—	—	66	—
Power Management	545	512	1,262	1,260
Semiconductors	3,807	4,636	3,823	4,256
Software	40,942	40,912	58,516	58,744
Cleantech				
Alternative Energy	68	—	68	—
Energy Efficiency	100	112	100	117
Healthcare Information and Services				
Diagnostics	71	2	83	2
Other	218	172	218	165
Software	23,720	23,977	8,713	8,973
Investment funds				
HSLFI	13,262	13,243	—	—
Total investments	\$250,921	\$248,441	\$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 December 31, 2018, HSLFI had total assets of \$26.4 million. HSLFI's portfolio consisted of debt investments in four portfolio companies as of December 31, 2018. As of December 31, 2018, the largest investment in a single portfolio company in the HSLFI's portfolio in aggregate principal amount was \$8.3 million and the four largest investments in portfolio companies in the HSLFI totaled \$25.0 million. As of December 31, 2018, HSLFI had no investments on non-accrual status. HSLFI invests in portfolio companies in the same industries in which the Company may directly invest.

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The Company invests cash or securities in portfolio companies in HSLFI in exchange for limited liability company equity interests in HSLFI. As of December 31, 2018, the Company and Arena each owned 50.0% of the equity interests of HSLFI. The Company had an original commitment to fund \$25.0 million of equity interests in HSLFI. As of December 31, 2018, \$11.7 million was unfunded. The Company's investment in HSLFI consisted of an equity contribution of \$13.3 million as of December 31, 2018.

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 member. HFI is a special purpose bankruptcy-remote entity and is a separate legal entity from HSLFI. Any assets conveyed to HFI are not available to creditors of HSLFI or any other entity other than HFI's lenders.

In addition, on June 1, 2018, HSLFI entered into a sale and servicing agreement with HFI, as Issuer, and 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 (the "NYL Facility") 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. Any notes issued by HFI will be collateralized by all investments held by HFI and permit an advance rate of up to 67% of the aggregate principal amount of eligible debt investments. The interest rate on the notes issued under the NYL Facility 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 such notes at the time of issuance. There were no advances made by the Noteholders as of December 31, 2018.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

The following table shows HSLFI's individual investments as of December 31, 2018:

Portfolio Company ⁽¹⁾	Sector	Type of Investment ⁽²⁾⁽³⁾⁽⁴⁾	Principal Amount	Cost of Investments ⁽⁵⁾	Fair Value
(Dollars in thousands)					
Debt Investments — Life science					
Celsion Corporation (6)(7)(8)	Biotechnology	Term Loan (9.98% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	\$ 2,500	\$ 2,449	\$2,449
		Term Loan (9.98% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	2,500	2,449	2,449
Total Debt Investments — Life science				4,898	4,898
Debt Investments — Technology					
Intelepeer Holdings, Inc. (6)(7)	Communications	Term Loan (12.30% cash (Libor + 9.95%; Floor 11.25%), 2.50% ETP, Due 7/1/21)	4,000	3,948	3,948
		Term Loan (12.30% cash (Libor + 9.95%; Floor 11.25%), 2.50% ETP, Due 7/1/21)	4,000	3,948	3,948
New Signature US, Inc. (6)(7)(9)	Software	Term Loan (10.85% cash (Libor + 8.50%; Floor 10.50%), 3.50% ETP, Due 7/1/22)	8,250	8,098	8,098
Total Debt Investments — Technology				15,994	15,994
Debt Investments — Healthcare information and services					
HealthEdge Software, Inc. (6)(7)	Software	Term Loan (10.60% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 10/1/23)	3,750	3,699	3,699
Total Debt Investments — Healthcare information and services				3,699	3,699
Total Debt Investments				24,591	24,591
Warrant Investments — Life science					
Celsion Corporation (6)(7)(8)	Biotechnology	95,057 Common Stock Warrants		58	1
Total Warrant Investments — Life science				58	1
Warrant Investments — Technology					

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Intelepeer Holdings, Inc. (6)(7)	Communications	1,280,000 Preferred Stock Warrants	49	70
BSI Platform Holdings, LLC (6)(7)(9)	Software	412,500 Preferred Stock Warrants	57	56
Total Warrant Investments — Technology			106	126
Warrant Investments — Healthcare information and services				
HealthEdge Software, Inc. (6)(7)	Software	47,418 Preferred Stock Warrants	16	16
Total Warrant Investments — Healthcare information and services			16	16
Total Warrant Investments			180	143
Total Portfolio Investment Assets			\$ 24,771	\$24,734
Short Term Investments — Money Market Funds				
US Bank Money Market Deposit Account (6)			\$ 74	\$74
Total Short Term Investments — Money Market Funds			\$ 74	\$74

(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 December 31, 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) Has been pledged as collateral under the NYL Facility.

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

(8) Portfolio company is a public company.

(9) 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 December 31, 2018:

	December 31, 2018	
	Principal Balance	Fair Value of Unfunded Commitment Liability
	(In thousands)	
New Signature US, Inc.	\$ 3,000	\$ 30
Total	\$ 3,000	\$ 30

The following tables show certain summarized financial information for HSLFI as of December 31, 2018 and for the period June 1, 2018 through December 31, 2018:

	December 31, 2018 (In thousands)
Selected Statement of Assets and Liabilities Information	
Total investments at fair value (cost of \$24,771)	\$ 24,734
Cash and cash equivalents	76
Investments in money market funds	74
Interest receivable	252
Other assets	1,306
Total assets	\$ 26,442
Other liabilities	\$ 81
Total liabilities	81
Members' equity	26,361
Total liabilities and members' equity	\$ 26,442

For the period
June 1, 2018

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through
December 31, 2018
(In thousands)

Selected Statements of Operations Information	
Interest income on investments	\$ 689
Total expenses	\$ 180
Net investment income	\$ 509
Net unrealized depreciation on investments	\$ (37)
Net increase in net assets resulting from operations	\$ 472

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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 but not more than 25% of such portfolio company's voting securities. Transactions related to investments in non-controlled affiliated companies for the year ended December 31, 2018 were as follows:

Year ended December 31, 2018

Portfolio Company	Fair value at December 31, 2017	Purchases	Sales	Transfers in/(out) at fair value	Discount accretion	Net unrealized gain/(loss)	Fair value at December 31, 2018	Net realized gain/(loss)	Interest income
(In thousands)									
Decisyon, Inc.	\$1,449	\$ —	\$ —	\$ —	\$ —	\$ 15	\$ 1,464	\$ —	\$ 265
	735	—	—	—	23	6	764	—	140
	238	—	—	—	—	2	240	—	35
	238	—	—	—	—	2	240	—	34
	714	—	—	—	—	7	721	—	104
	—	300	—	—	—	(11)	289	—	20
	—	200	—	—	—	(8)	192	—	8
	125	—	—	—	—	(50)	75	—	—
StereoVision, Inc.	—	2,798	—	—	—	—	2,798	—	119
	—	791	—	—	—	—	791	—	—
Total non-controlled affiliates	\$3,499	\$ 4,089	\$ —	\$ —	\$ 23	\$ (37)	\$ 7,574	\$ —	\$ 725

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

Year ended December 31, 2017

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Portfolio Company	Fair value at December 31, 2016	Purchases	Sales	Transfers in at fair value	Discount accretion	Net unrealized gain (loss)	Fair value at December 31, 2017	Net realized gain (loss)	Interest income
	(In thousands)								
Decisyon, Inc. ⁽¹⁾	\$—	\$ —	\$ —	\$ 1,440	\$ —	\$ 9	\$ 1,449	\$ —	\$ 122
	—	—	—	715	16	4	735	—	63
	—	—	—	237	—	1	238	—	8
	—	—	—	237	—	1	238	—	8
	—	750	—	—	—	(36)	714	—	24
	—	—	—	125	—	—	125	—	—
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.

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

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 year ended December 31, 2018 were as follows:

Year ended December 31, 2018

Portfolio Company	Fair value at December 31, 2017	Purchases	Distributions	Transfers in/(out) at fair value	Dividends declared	Net unrealized gain/(loss)	Fair value at December 31, 2018	Net realized gain/(loss)	Dividend income
	(In thousands)								
HSLFI ⁽¹⁾	\$—	\$ 13,262	\$ 255	\$ —	\$ (255)	\$ (19)	\$ 13,243	\$ —	\$ 255
Total controlled affiliates	\$—	\$ 13,262	\$ 255	\$ —	\$ (255)	\$ (19)	\$ 13,243	\$ —	\$ 255

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 provide cash or securities in portfolio companies to HSLFI in exchange for limited liability company equity interests. All portfolio (1) and other material decisions regarding HSLFI must be submitted to HSLFI's board of managers which is comprised of an equal number of managers appointed by each of the Company and Arena. Because management of HSLFI is shared equally between the Company and Arena, the Company does not believe it controls HSLFI for purposes of the 1940 Act or otherwise.

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

Note 6. Fair value

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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.

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

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

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

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

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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 year end rates at which similar debt investments would be made to borrowers with similar credit ratings and for the same remaining maturities. At December 31, 2018 and 2017, the hypothetical market yields used ranged from 11% to 25% and 10% to 25%, respectively. 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.

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.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

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

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

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

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The following tables provide a summary of quantitative information about the Company's Level 3 fair value measurements of its investments as of December 31, 2018 and 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 December 31, 2018:

December 31, 2018					
Investment Type (Dollars in thousands, except per share data)	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range	Weighted Average ⁽¹⁾
Debt investments	\$216,401	Discounted Expected Future Cash Flows	Hypothetical Market Yield	11% – 25%	13%
Warrant investments	7,888	Black-Scholes Valuation Model	Price Per Share	\$0.00 – \$980.00	\$44.76
			Average Industry	20%	20%
			Volatility	20%	20%
			Marketability Discount	1 to 5 years	2 years
	744	Estimated Proceeds	Price Per Share	\$0.21	\$0.21
Other investments	7,640	Multiple Probability Weighted Cash Flow Model	Discount Rate	0% – 25%	19%
			Probability Weighting	10% – 100%	36%
Equity investments	1,289	Last Equity Financing	Price Per Share	\$0.00 – \$2.24	\$ 0.80
Total Level 3 investments	\$233,962				

Weighted average is calculated by multiplying (a) the unobservable input for each investment in the investment (1) type by (b) (1) the fair value of the related investment in the investment type divided by (2) the total fair value of the investment type.

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:

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December 31, 2017

Investment Type (Dollars in thousands, except per share data)	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range	Weighted Average ⁽¹⁾
Debt investments	\$200,893	Discounted Expected Future Cash Flows	Hypothetical Market Yield	10% – 25%	13%
					18%
	2,900	Liquidation Scenario	Discount Rate	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	
			Volatility	20%	20%
			Marketability Discount	20%	20%
			Estimated Time to Exit	1 to 5 years	3 years
	2	Expected Proceeds	Price Per Share	\$0.001	\$0.001
Other investments	7,700	Multiple Probability Weighted Cash Flow Model	Discount Rate	18% – 25%	19%
			Probability Weighting	0% – 100%	36%
Equity investments	249	Last Equity Financing	Price Per Share	\$0.00 – \$1.26	\$ 0.54
Total Level 3 investments	\$219,115				

Weighted average is calculated by multiplying (a) the unobservable input for each investment in the investment (1) type by (b) (1) the fair value of the related investment in the investment type divided by (2) the total fair value of the investment type.

Borrowings: The carrying amount of borrowings under the Company’s revolving credit facility (the “Key Facility”) with KeyBank National Association (“Key”) approximates fair value due to the variable interest rate of the Key Facility and is categorized as Level 2 within the fair value hierarchy described above. Additionally, the Company considers its creditworthiness in determining the fair value of such borrowings. The fair value of the fixed rate 2022 Notes (as defined in Note 7) is based on the closing public share price on the date of measurement. On December 31, 2018, the closing price of the 2022 Notes on the New York Stock Exchange was \$24.90 per note, or \$37.2 million. Therefore, the Company has categorized this borrowing as Level 1 within the fair value hierarchy described above.

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

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

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

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Debt investments	\$—	\$—	\$216,401	\$216,401
Warrant investments	—	692	8,632	9,324
Other investments	—	—	7,640	7,640
Equity investments	544	—	1,289	1,833
Equity interest in HSLFI ⁽¹⁾	—	—	—	13,243
Total investments	\$544	\$ 692	\$233,962	\$248,441

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

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

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Total investments \$1,267 \$1,717 \$219,115 \$222,099

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2018:

	December 31, 2018				Total
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	
Level 3 assets, beginning of period	\$203,793	\$ 7,373	\$ 249	\$ 7,700	\$219,115
Purchase of investments	101,257	—	—	—	101,257
Warrants and equity received and classified as Level 3	—	1,479	1,090	—	2,569
Principal payments received on investments	(84,224)	—	—	(215)	(84,439)
Proceeds from sale of investments	(3,064)	(1,241)	—	—	(4,305)
Net realized (loss) gain on investments	(32)	578	—	—	546
Unrealized (depreciation) appreciation included in earnings	(248)	443	(50)	155	300
Other	(1,081)	—	—	—	(1,081)
Level 3 assets, end of period	\$216,401	\$ 8,632	\$ 1,289	\$ 7,640	\$233,962

During the year ended December 31, 2018, there were no transfers in or out of Level 3 assets.

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

The change in unrealized appreciation included in the consolidated statement of operations attributable to Level 3 investments still held at December 31, 2018 includes \$0.2 million in unrealized depreciation on debt and other investments, \$0.2 million in unrealized appreciation on warrant investments and \$0.05 million in unrealized depreciation on equity investments.

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2017:

	December 31, 2017				
	Debt	Warrant	Equity	Other	Total
	Investments	Investments	Investments	Investments	
	(In thousands)				
Level 3 assets, beginning of period	\$ 186,186	\$ 5,857	\$ 268	\$ 600	\$ 192,911
Purchase of investments	135,556	—	—	—	135,556
Warrants and equity received and classified as Level 3	—	2,355	41	—	2,396
Principal payments received on investments	(103,659)	—	—	(152)	(103,811)
Proceeds from sale of investments	—	(1,804)	—	—	(1,804)
Net realized (loss) gain on investments	(21,219)	766	—	—	(20,453)
Unrealized appreciation (depreciation) included in earnings	16,427	199	(60)	(248)	16,318
Transfer from debt investments to other investments	(7,500)	—	—	7,500	—
Other	(1,998)	—	—	—	(1,998)
Level 3 assets, end of period	\$ 203,793	\$ 7,373	\$ 249	\$ 7,700	\$ 219,115

During the year ended December 31, 2017, there were no transfers in or out of Level 3 assets.

The change in unrealized appreciation included in the consolidated statement of operations attributable to Level 3 investments still held at December 31, 2017 includes \$0.1 million in unrealized appreciation on debt and other investments, \$0.3 million in unrealized depreciation on warrant investments and \$0.01 million in unrealized appreciation on equity investments.

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

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

As of December 31, 2018 and 2017, all of the balances of all the Company's financial instruments were recorded at fair value, except for the Company's 2022 Notes, as previously described.

Off-balance-sheet instruments

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

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 7. Borrowings

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

	December 31, 2018			December 31, 2017		
	Total Commitment	Balance Outstanding	Unused Commitment	Total Commitment	Balance Outstanding	Unused Commitment
	(In thousands)					
Key Facility	\$ 125,000	\$ 90,500	\$ 34,500	\$ 95,000	\$ 58,000	\$ 37,000
2022 Notes	37,375	37,375	—	37,375	37,375	—
Total before debt issuance costs	162,375	127,875	34,500	132,375	95,375	37,000
Unamortized debt issuance costs attributable to term borrowings	—	(1,022)	—	—	(1,300)	—
Total borrowings outstanding, net	\$ 162,375	\$ 126,853	\$ 34,500	\$ 132,375	\$ 94,075	\$ 37,000

Currently, with certain limited exceptions, as a BDC, the Company is only allowed to borrow amounts such that the Company's asset coverage, as defined in the 1940 Act, is at least 150% after such borrowings. As of December 31, 2018, the asset coverage for borrowed amounts was 205%.

On March 23, 2018, President Trump signed into law the Small Business Credit Availability Act as part of an omnibus spending bill, which, among other things, amends the 1940 Act to reduce the minimum required asset coverage applicable to BDCs under the 1940 Act from 200% to 150% if certain approval and disclosure requirements are met. Before such reduced asset coverage requirement can apply to the Company, such reduced asset coverage requirement must be approved by either (a) a "required majority" (as defined in Section 57(o) of the 1940 Act) of the Board, in which case such reduced asset coverage requirement would take effect on the first anniversary of the date of such Board approval, or (b) a majority of votes cast by the stockholders of the Company at a special or annual meeting at which a quorum is present, in which case such reduced asset coverage requirement shall take effect on the day after such approval. On June 7, 2018, a "required majority" of the Board approved the reduced asset coverage requirements and separately recommended that the Company's stockholders approve the reduced asset coverage requirements at a special meeting of the Company's stockholders. The Company held a special meeting on October 30, 2018 during which the reduced asset coverage requirements were approved by stockholders. The reduced asset coverage requirements took effect October 31, 2018.

The Company entered into the Key Facility with Key effective November 4, 2013. On December 28, 2018, the Company amended the Key Facility, increasing the aggregate commitments under the Key Facility by \$25 million to \$150 million. The Key Facility has an accordion feature which allows for an increase in the total loan commitment to \$150 million from the \$125 million commitment. The Key Facility is collateralized by all debt investments and warrants held by Credit II and permits an advance rate of up to 50% of eligible debt investments held by Credit II. The Key Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the debt investments securing the Key Facility to certain criteria for qualified debt investments and includes portfolio company concentration limits as defined in the related loan agreement. The Key Facility has a revolving period that extends to April 6, 2021, followed by a two-year amortization period and is scheduled to mature on April 6, 2023. The interest rate is based upon the one-month LIBOR, plus a spread of 3.25%, with a LIBOR floor of 0.75%. The LIBOR rate was 2.50% and 1.56% on December 31, 2018 and 2017, respectively. The average interest rate for the years ended December 31, 2018 and 2017 was 5.23% and 4.33%, respectively. The Key Facility requires the payment of an unused line fee in an amount equal to 0.50% of any unborrowed amount available under the facility annually. As of December 31, 2018 and 2017, the Company had borrowing capacity under the Key Facility of \$34.5 million and \$37.0 million, respectively. At December 31, 2018 and 2017, \$0.9 million and \$23.6 million, respectively, was available, subject to existing terms and advance rates.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

On March 23, 2012, the Company issued and sold an aggregate principal amount of \$30.0 million of 7.375% senior unsecured notes due in 2019 and on April 18, 2012, pursuant to the underwriters' 30 day option to purchase additional notes, the Company sold an additional \$3.0 million of such notes (collectively, the "2019 Notes"). The 2019 Notes had a stated maturity of March 15, 2019 and were redeemable in whole or in part at the Company's option at any time or from time to time at a redemption price of \$25 per security plus accrued and unpaid interest. The 2019 Notes bore interest at a rate of 7.375% per year payable quarterly on March 15, June 15, September 15 and December 15 of each year. The 2019 Notes were the Company's direct unsecured obligations and (i) ranked equally in right of payment with the Company's future unsecured indebtedness; (ii) were senior in right of payment to any of the Company's future indebtedness that expressly provided it was subordinated to the 2019 Notes; (iii) were effectively subordinated to all of the Company's existing and future secured indebtedness (including indebtedness that was initially unsecured to which the Company subsequently granted security), to the extent of the value of the assets securing such indebtedness, and (iv) were structurally subordinated to all existing and future indebtedness and other obligations of any of the Company's subsidiaries. On October 30, 2017 (the "Redemption Date"), the Company redeemed all of the issued and outstanding 2019 Notes in an aggregate principal amount of \$33.0 million and paid accrued interest of \$0.3 million. The Company accelerated \$0.2 million of unamortized debt issuance costs related to the 2019 Notes. The 2019 Notes were delisted effective on the Redemption Date.

On September 29, 2017, the Company issued and sold an aggregate principal amount of \$32.5 million of 6.25% notes due in 2022 and on October 11, 2017, pursuant to the underwriters' 30 day option to purchase additional notes, the Company sold an additional \$4.9 million of such notes (collectively, the "2022 Notes"). The 2022 Notes have a stated maturity of September 15, 2022 and may be redeemed in whole or in part at the Company's option at any time or from time to time on or after September 15, 2019 at a redemption price of \$25 per security plus accrued and unpaid interest. The 2022 Notes bear interest at a rate of 6.25% per year, payable quarterly on March 15, June 15, September 15 and December 15 of each year. The 2022 Notes are the Company's direct unsecured obligations and (i) rank equally in right of payment with the Company's current and future unsecured indebtedness; (ii) are senior in right of payment to any of the Company's future indebtedness that expressly provides it is subordinated to the 2022 Notes; (iii) are effectively subordinated to all of the Company's existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grants security), to the extent of the value of the assets securing such indebtedness, and (iv) are structurally subordinated to all existing and future indebtedness and other obligations of any of the Company's subsidiaries. As of December 31, 2018, the Company was in material compliance with the terms of the 2022 Notes. The 2022 Notes are listed on the New York Stock Exchange under the symbol "HTFA".

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

The following table shows information about our senior securities as of December 31, 2018, 2017, 2016, 2015 and 2014:

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities ⁽¹⁾	Asset Coverage per Unit ⁽²⁾	Involuntary Liquidation Preference per Unit ⁽³⁾	Average Market Value per Unit ⁽⁴⁾
(In thousands, except unit data)				
Credit facilities				
2018	\$90,500	\$ 2,896	—	N/A
2017	\$58,000	\$ 3,973	—	N/A
2016	\$63,000	\$ 3,733	—	N/A
2015	\$68,000	\$ 4,048	—	N/A
2014	\$10,000	\$ 22,000	—	N/A
2022 Notes				
2018	\$37,375	\$ 7,014	—	\$ 25.52
2017	\$37,375	\$ 6,166	—	\$ 25.66
2019 Notes				
2018	—	—	—	—
2017	—	—	—	—
2016	\$33,000	\$ 7,127	—	\$ 25.42
2015	\$33,000	\$ 8,342	—	\$ 25.26
2014	\$33,000	\$ 6,667	—	\$ 25.64
2013-1 Securitization				
2018	—	—	—	—
2017	—	—	—	—
2016	—	—	—	—
2015	\$14,546	\$ 18,926	—	N/A
2014	\$38,753	\$ 5,677	—	N/A
Total senior securities				
2018	\$127,875	\$ 2,050	—	N/A
2017	\$95,375	\$ 2,416	—	N/A
2016	\$96,000	\$ 2,450	—	N/A
2015	\$115,546	\$ 2,383	—	N/A

2014	\$81,753	\$ 2,691	—	N/A
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(1) Total amount of senior securities outstanding at the end of the period presented.

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

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

(4) Not applicable to the Company's credit facilities and 2013-1 Securitization because such securities are not registered for public trading.

Note 8. Federal income tax

The Company has elected to be treated as a RIC under Subchapter M of the Code and to distribute substantially all of its taxable income. Accordingly, no provision for federal, state or local income tax has been recorded in the financial statements. Taxable income differs from net increase in net assets resulting from operations primarily due to unrealized appreciation on investments as investment gains and losses are not included in taxable income until they are realized.

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

The following table reconciles net increase (decrease) in net assets resulting from operations to taxable income:

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Net increase (decrease) in net assets resulting from operations	\$13,010	\$9,591	\$(4,913)
Net unrealized depreciation (appreciation) on investments	1,501	(18,485)	14,236
Other book-tax differences	199	806	(844)
Change in capital loss carry forward	(645)	21,191	7,776
Taxable income before deductions for distributions	\$14,065	\$13,103	\$16,255

The tax characters of distributions paid are as follows:

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Ordinary income	\$13,834	\$13,818	\$15,759
Total	\$13,834	\$13,818	\$15,759

The components of undistributed ordinary income earnings on a tax basis were as follows:

	As of December 31,		
	2018	2017	2016
	(In thousands)		
Undistributed ordinary income	\$1,269	\$1,036	\$1,753
Long term capital loss carry forward	(41,057)	(41,702)	(20,511)
Unrealized appreciation	5,237	6,049	3,830
Unrealized depreciation	(7,717)	(7,027)	(23,293)
Other temporary differences	3,123	2,955	2,169
Total	\$(39,145)	\$(38,689)	\$(36,052)

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% excise tax on such income, as required. For the years ended December 31, 2018 and 2017, the Company elected to carry forward taxable income in excess of current year distributions of \$1.3 million and \$1.0 million, respectively. At December 31, 2018 and 2017, a provision for excise tax of \$0.03 million was recorded.

Capital losses in excess of capital gains earned in a tax year may generally be carried forward, without expiration, and used to offset capital gains, subject to certain limitations. During the year ended December 31, 2018, the Company used \$0.6 million of its capital loss carry forward to offset capital gains. During the years ended December 31, 2017 and 2016, the Company did not use any of its capital loss carry forward to offset capital gains.

For federal income tax purposes, the tax cost of investments at December 31, 2018 and 2017 was \$250.9 million and \$223.1 million, respectively. The gross unrealized appreciation on investments at December 31, 2018 and 2017 was \$5.2 million and \$6.0 million, respectively. The gross unrealized depreciation on investments at December 31, 2018 and 2017 was \$7.7 million and \$7.0 million, respectively.

Note 9. Financial instruments with off-balance-sheet risk

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

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

The balance of unfunded commitments to extend credit was \$27.5 million and \$33.3 million as of December 31, 2018 and 2017, respectively. Commitments to extend credit consist principally of the unused portions of commitments that obligate the Company to extend credit, such as revolving credit arrangements or similar transactions. These commitments are often subject to financial or non-financial milestones and other conditions to borrow that must be achieved before the commitment can be drawn. In addition, the commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The following table provides the Company's unfunded commitments by portfolio company as of December 31, 2018:

	December 31, 2018	
	Principal Balance	Fair Value of Unfunded Commitment Liability
	(In thousands)	
Aerin Medical, Inc.	\$ 5,000	\$ 63
CSA Medical, Inc.	9,000	128
Espero Biopharma, Inc.	10,000	100
New Signature US, Inc. ⁽¹⁾	2,500	10
StereoVision Imaging, Inc.	1,000	—
Total	\$ 27,500	\$ 301

(1) Includes the Company's portion of HSLFI's commitment.

The table above also provides the fair value of the Company's unfunded commitment liability as of December 31, 2018 which totaled \$0.3 million. The fair value at inception of the delay draw credit agreements is equal to the fees and/or warrants received to enter into these agreements, taking into account the remaining terms of the agreements and the counterparties' credit profile. The unfunded commitment liability reflects the fair value of these future funding commitments and is included in the Company's consolidated statement of assets and liabilities.

Note 10. Concentrations of credit risk

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

The Company's largest debt investments may vary from year to year as new debt investments are recorded and existing debt investments are repaid. The Company's five largest debt investments, at cost, represented 32% and 29% of total debt investments outstanding as of December 31, 2018 and 2017, respectively. No single debt investment represented more than 10% of the total debt investments as of December 31, 2018 or 2017. Investment income, consisting of interest and fees, can fluctuate significantly upon repayment of large debt investments. Interest income from the five largest debt investments accounted for 25%, 14% and 17% of total interest and fee income on investments for the years ended December 31, 2018, 2017 and 2016, respectively.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Distributions

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

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Share Value
(In thousands, except share and per share data)						
Year Ended December 31, 2018						
10/26/18	2/20/19	3/15/19	\$ 0.10	\$ —	—	\$—
10/26/18	1/17/19	2/15/19	0.10	1,139	1,166	15
10/26/18	12/18/18	1/15/19	0.10	1,140	1,125	13
7/27/18	11/19/18	12/14/18	0.10	1,139	1,222	14
7/27/18	10/18/18	11/15/18	0.10	1,138	1,255	15
7/27/18	9/18/18	10/16/18	0.10	1,138	1,253	15
4/27/18	8/17/18	9/14/18	0.10	1,139	1,212	14
4/27/18	7/19/18	8/15/18	0.10	1,139	1,202	14
4/27/18	6/19/18	7/17/18	0.10	1,140	1,221	13
3/1/18	5/17/18	6/15/18	0.10	1,140	1,271	13
3/1/18	4/19/18	5/15/18	0.10	1,140	1,287	13
3/1/18	3/19/18	4/17/18	0.10	1,139	1,255	13
			\$ 1.20	\$ 12,531	13,469	\$152
Year Ended December 31, 2017						
10/27/17	2/21/18	3/15/18	\$ 0.10	\$ 1,138	1,241	\$14
10/27/17	1/22/18	2/15/18	0.10	1,139	1,185	13
10/27/17	12/20/17	1/17/18	0.10	1,139	1,119	13
7/28/17	11/20/17	12/15/17	0.10	1,139	1,227	13
7/28/17	10/19/17	11/15/17	0.10	1,139	1,195	13
7/28/17	9/20/17	10/16/17	0.10	1,138	1,205	14
4/27/17	8/18/17	9/15/17	0.10	1,140	1,199	13
4/27/17	7/20/17	8/15/17	0.10	1,140	1,159	12
4/27/17	6/20/17	7/14/17	0.10	1,138	1,164	13
3/3/17	5/19/17	6/15/17	0.10	1,137	1,202	14
3/3/17	4/21/17	5/16/17	0.10	1,137	1,287	15
3/3/17	3/20/17	4/18/17	0.10	1,134	1,510	18
			\$ 1.20	\$ 13,658	14,693	\$165

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On March 1, 2019, the Board declared monthly distributions per share, payable as set forth in the following table:

Ex-Dividend Date	Record Date	Payment Date	Distributions Declared
May 16, 2019	May 17, 2019	June 17, 2019	\$ 0.10
April 17, 2019	April 18, 2019	May 15, 2019	\$ 0.10
March 18, 2019	March 19, 2019	April 16, 2019	\$ 0.10

After paying distributions of \$1.10 per share deemed paid for tax purposes in 2018, declaring on October 26, 2018 a distribution of \$0.10 per share payable January 15, 2019, and taxable earnings of \$1.22 per share in 2018, the Company's undistributed spillover income as of December 31, 2018 was \$0.11 per share. Spillover income includes any ordinary income and net capital gains from the preceding tax years that were not distributed during such tax years.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 12. Subsequent event

On March 5, 2019, 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, 2019 and ending on December 31, 2019. Such waived incentive fees will not be subject to recoupment.

Note 13. Financial highlights

The following table shows financial highlights for the Company:

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(In thousands, except share and per share data)				
Per share data:					
Net asset value at beginning of period	\$11.72	\$12.09	\$13.85	\$14.36	\$14.14
Net investment income	1.20	1.07	1.48	1.25	1.11
Realized gain (loss) on investments	0.06	(1.84)	(0.67)	(0.15)	(0.37)
Unrealized (depreciation) appreciation on investments	(0.13)	1.60	(1.24)	(0.04)	0.86
Net increase (decrease) in net assets resulting from operations	1.13	0.83	(0.43)	1.06	1.60
Net dilution from issuance of common stock	—	—	—	(0.18)	—
Distributions declared ⁽¹⁾	(1.20)	(1.20)	(1.34)	(1.38)	(1.38)
From net investment income	(1.20)	(1.20)	(1.34)	(1.38)	(1.38)
From net realized gain on investments	—	—	—	—	—
Return of capital	—	—	—	—	—
Net accretion from repurchase of common stock	—	—	0.01	0.02	—
Other ⁽²⁾	(0.01)	—	—	(0.03)	—
Net asset value at end of period	\$11.64	\$11.72	\$12.09	\$13.85	\$14.36

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Per share market value, beginning of period	\$11.22		\$10.53		\$11.73		\$13.99		\$14.21
Per share market value, end of period	11.25		11.22		10.53		11.73		13.99
Total return based on a market value (3)	11.0	%	17.9	%	1.5	%	(6.3)	%	8.2
Shares outstanding at end of period	11,535,129		11,520,406		11,510,424		11,535,212		9,628,124
Ratios, net of waivers, to average net assets:									
Expenses without incentive fees	10.4	%	8.6	%	9.2	%	8.6	%	13.3
Incentive fees	2.4	%	1.2	%	1.4	%	2.2	%	1.5
Net expenses	12.8	%	9.8	%	10.6	%	10.8	%	14.8
Net investment income with incentive fees	10.3	%	9.0	%	11.4	%	8.9	%	7.8
Ratios, without waivers, to average net assets:									
Expenses without incentive fees ⁽⁴⁾	10.4	%	8.6	%	9.2	%	8.9	%	13.5
Incentive fees ⁽⁴⁾	3.3	%	1.3	%	1.4	%	2.2	%	1.5
Net expenses ⁽⁴⁾	13.7	%	9.9	%	10.6	%	11.1	%	15.0
Net investment income with incentive fees ⁽⁴⁾	9.4	%	8.9	%	11.4	%	8.7	%	7.5
Net assets at the end of the period	\$134,257		\$135,075		\$139,192		\$159,751		\$138,248
Average net asset value	\$134,364		\$137,293		\$150,612		\$157,612		\$137,848
Average debt per share	\$8.62		\$6.60		\$8.91		\$7.87		\$10.68
Portfolio turnover ratio	50.4	%	79.4	%	27.1	%	56.1	%	46.5

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

Includes the impact of the different share amounts as a result of calculating per share data based on the weighted average basic shares outstanding during the period and certain per share data based on the shares outstanding as of a period end or transaction date.

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

During the years ended December 31, 2018, 2017 and 2014, the Advisor waived \$1.2 million, \$0.1 million and \$0.1 million of incentive fee. During the years ended December 31, 2015 and 2014, the Advisor waived \$0.3 million and \$0.2 million, respectively, of base management fee.

Horizon Technology Finance Corporation and Subsidiaries**Notes to Consolidated Financial Statements****Note 14. Summarized financial information for HSLFI****Horizon Secured Loan Fund I****Statements of Assets and Liabilities****(Dollars in thousands)**

	December 31, 2018
Assets	
Investments at fair value (cost of \$24,771)	\$ 24,734
Cash and cash equivalents	76
Investments in money market funds	74
Interest receivable	252
Other assets	1,306
Total assets	\$ 26,442
Liabilities	
Other liabilities	\$ 81
Total liabilities	81
Commitments and contingencies	
Members' Capital	
Members' capital	26,361
Total members' capital	26,361
Total liabilities and members' capital	\$ 26,442

Horizon Technology Finance Corporation and Subsidiaries**Notes to Consolidated Financial Statements****Horizon Secured Loan Fund I****Statements of Assets and Liabilities****(Dollars in thousands)**

	For the period June 1, 2018 through December 31, 2018
Investment income	
Interest income	\$ 689
Total investment income	689
Expenses	
Interest expense	140
General and administrative	40
Total expenses	180
Net investment income	509
Net unrealized depreciation on investments	
Net unrealized depreciation on investments	(37)
Net unrealized depreciation on investments	(37)
Net increase in net assets resulting from operations	\$ 472

Commitments and contingencies

The following table provides HSLFI's unfunded commitments by portfolio company as of December 31, 2018:

December 31, 2018

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

Note 15. Selected quarterly financial data (unaudited)

	December 2018	September 30, 2018	June 30, 2018	March 31, 2018
	(In thousands, except per share data)			
Total investment income	\$ 8,805	\$ 7,797	\$ 7,313	\$ 7,175
Net investment income	\$ 3,964	\$ 3,402	\$ 3,290	\$ 3,210
Net realized and unrealized (loss) gain	\$ (746)	\$ 857	\$ (360)	\$ (607)
Net increase in net asset resulting from operations	\$ 3,218	\$ 4,259	\$ 2,930	\$ 2,603
Net investment income per share ⁽¹⁾	\$ 0.34	\$ 0.30	\$ 0.29	\$ 0.28
Net increase in net assets per share ⁽¹⁾	\$ 0.28	\$ 0.37	\$ 0.25	\$ 0.23
Net asset value per share at period end ⁽²⁾	\$ 11.64	\$ 11.66	\$ 11.60	\$ 11.65

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

	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
	(In thousands, except per share data)			
Total investment income	\$6,163	\$ 6,774	\$5,878	\$ 6,962
Net investment income	\$2,379	\$ 3,797	\$2,754	\$ 3,367
Net realized and unrealized gain (loss)	\$117	\$ (1,088) \$(2,021) \$ 286
Net increase in net asset resulting from operations	\$2,496	\$ 2,709	\$733	\$ 3,653
Net investment income per share ⁽¹⁾	\$0.21	\$ 0.33	\$0.24	\$ 0.29
Net increase in net assets per share ⁽¹⁾	\$0.21	\$ 0.24	\$0.06	\$ 0.32
Net asset value per share at period end ⁽²⁾	\$11.72	\$ 11.81	\$11.87	\$ 12.11

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

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

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None

Item 9A. *Controls and Procedures*

(a) Evaluation of disclosure controls and procedures

As of December 31, 2018, we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

(b) Management's Report on Internal Control Over Financial Reporting

Management's Report on Internal Control Over Financial Reporting and RSM US LLP's Report of Independent Registered Public Accounting Firm are included in "Item 8. Consolidated Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

(c) Changes in internal controls over financial reporting.

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

Item 9B. *Other Information*

None

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PART III

We will file a definitive Proxy Statement for our 2019 Annual Meeting of Stockholders with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of our definitive Proxy Statement that specifically address the items set forth herein are incorporated by reference.

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by Item 10 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2019 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission not later than 120 days following the end of our fiscal year.

Item 11. *Executive Compensation*

The information required by Item 11 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2019 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission not later than 120 days following the end of our fiscal year.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by Item 12 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2019 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission not later than 120 days following the end of our fiscal year.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by Item 13 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2019 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission not later than

120 days following the end of our fiscal year.

Item 14. *Principal Accounting Fees and Services*

The information required by Item 14 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2019 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission not later than 120 days following the end of our fiscal year.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial statements

(1) Financial statements — Refer to Item 8 starting on page 77.

(2) Financial statement schedules — None

(3) Exhibits

Exhibit No.	Description
<u>3.1</u>	<u>Amended and Restated Certificate of Incorporation (Incorporated by reference to exhibit (a) of the Company's Pre-effective Amendment No. 2 to the Registration Statement on Form N-2, filed on July 2, 2010)</u>
<u>3.2</u>	<u>Amended and Restated Bylaws (Incorporated by reference to exhibit (b) of the Company's Pre-effective Amendment No. 2 to the Registration Statement on Form N-2, filed on July 2, 2010)</u>
<u>4.1</u>	<u>Form of Specimen Certificate (Incorporated by reference to exhibit (d) of the Company's Pre-effective Amendment No. 3 to the Registration Statement on Form N-2, filed on July 19, 2010)</u>
<u>4.2</u>	<u>Indenture, dated as of March 23, 2012, between the Company and U.S. Bank National Association (Incorporated by reference to Exhibit (d)(7) of the Company's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2, File No. 333-178516, filed on March 23, 2012)</u>
<u>4.3</u>	<u>Second Supplemental Indenture, dated as of September 29, 2017, between the Company and U.S. Bank National Association (Incorporated by reference to Exhibit (d)(12) of the Company's Post-Effective Amendment No. 5 to the Registration Statement on Form N-2, File No. 333-201886, filed on September 29, 2017)</u>
<u>4.4</u>	<u>Form of 6.25% 2022 Notes due 2022 (included as part of Exhibit 4.3)</u>
<u>10.1</u>	

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Amended and Restated Investment Management Agreement (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed on August 5, 2014)

10.2 Form of Custodial Agreement (Incorporated by reference to exhibit (j) of the Company's Pre-effective Amendment No. 3 to the Registration Statement on Form N-2, filed on July 19, 2010)

10.3 Form of Administration Agreement (Incorporated by reference to exhibit (k)(1) of the Company's Pre-effective Amendment No. 2 to the Registration Statement on Form N-2, filed on July 2, 2010)

10.4 Form of Trademark License Agreement by and between the Company and Horizon Technology Finance Management, LLC (Incorporated by reference to exhibit (k)(2) of the Company's Pre-effective Amendment No. 2 to the Registration Statement on Form N-2, filed on July 2, 2010)

10.5 Form of Dividend Reinvestment Plan (Incorporated by reference to exhibit (e) of the Company's Pre-effective Amendment No. 2 to the Registration Statement on Form N-2, filed on July 2, 2010)

10.6 Amended and Restated Loan and Security Agreement, dated as of November 4, 2013, by and among Horizon Credit II LLC, as the borrower, the Lenders that are signatories thereto, as the lenders, and Key Equipment Finance Inc., as the arranger and the agent (Incorporated by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K, filed on March 11, 2014)

10.7 Amendment No. 1 to Amended and Restated Loan Agreement, dated as of August 12, 2015, by and among Horizon Credit II LLC, as the borrower, Alostara Bank of Commerce, as lender, and KeyBank National Association, as lender, arranger and agent (Incorporated by reference to Exhibit (k)(13) of Pre-effective Amendment No. 3 to the Company's Registration Statement on Form N-2, filed on August 19, 2015)

10.8 Amended and Restated Sale and Servicing Agreement, dated as of November 4, 2013, by and among Horizon Credit II LLC, as the buyer, Horizon Technology Finance Corporation, as the originator and the servicer, Horizon Technology Finance Management LLC, as the sub-servicer, U.S. Bank National Association, as the collateral custodian and backup servicer, and Key Equipment Finance Inc., as the agent (Incorporated by reference to Exhibit 10.15 of the Company's Annual Report on Form 10-K, filed on March 11, 2014)

- 10.9 Agreement Regarding Loan Assignment and Related Matters, dated as of November 4, 2013, by and among Horizon Credit II LLC, Wells Fargo Capital Finance, LLC and Key Equipment Finance Inc. (Incorporated by reference to Exhibit 10.16 of the Company's Annual Report on Form 10-K, filed on March 11, 2014)
- 10.10 Joinder Agreement, dated April 27, 2016, by and among MUFG Union Bank, N.A., as lender, KeyBank National Association as agent, Horizon Credit II LLC, as borrower, and the Company, as servicer (Incorporated by reference to Exhibit (k)(11) to the Post-Effective Amendment No. 2 to the Company's Registration Statement on Form N-2, File No. 333-201886, filed on June 10, 2016)
- 10.11 Amendment No. 2 to Amended and Restated Loan Agreement, dated as of April 6, 2018, by and among Horizon Credit II LLC, as the borrower, State Bank and Trust Company (successor by merger to AloStar Bank of Commerce), as lender, MUFG Union Bank, N.A., as lender, and KeyBank National Association (successor by merger to Key Equipment Finance Inc.) as lender, arranger, and agent (Incorporated by reference to Exhibit 10.01 of the Quarterly Report on Form 10-Q of the Company, filed on May 1, 2018)
- 10.12 Horizon Secured Loan Fund I LLC Limited Liability Company Agreement dated June 1, 2018 by and between the Company and Arena Sunset SPV, LLC (Incorporated by reference to Exhibit (k)(9) of the Company's Registration Statement on Form N-2, File No. 333-225698, filed on June 18, 2018)
- 10.13* Amendment No. 3 to Amended and Restated Loan Agreement, dated as of December 28, 2018, by and among Horizon Credit II LLC, as the borrower, State Bank and Trust Company (successor by merger to AloStar Bank of Commerce), as lender, MUFG Union Bank, N.A., as lender, and KeyBank National Association (successor by merger to Key Equipment Finance Inc.) as lender, arranger, and agent.
- 14.1 Code of Ethics of the Company (Incorporated by reference to Exhibit 14.1 of the Company's Annual Report on Form 10-K, filed on March 7, 2017)
- 21* List of Subsidiaries
- 24 Power of Attorney (included on signature page hereto)
- 31.1* Certificate of the Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a)
- 31.2* Certificate of the Principal Financial and Accounting Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a)
- 32.1* Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2* Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.1 Privacy Policy of the Company (Incorporated by reference to Exhibit 99.1 of the Company's Annual Report on Form 10-K, filed on March 16, 2011)

*Filed herewith

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Horizon Technology Finance Corporation

Date: March 5, 2019 By: /s/ Robert D. Pomeroy, Jr.
 Name: Robert D. Pomeroy, Jr.
 Title: Chief Executive Officer and Chairman of the Board of Directors

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Robert D. Pomeroy, Jr., Daniel R. Trolio and Gerald A. Michaud as his true and lawful attorneys-in-fact, each with full power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact or their substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Robert D. Pomeroy, Jr. Robert D. Pomeroy, Jr.	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	March 5, 2019
/s/ Daniel R. Trolio Daniel R. Trolio	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 5, 2019
/s/ Gerald A. Michaud Gerald A. Michaud	President and Director	March 5, 2019
/s/ James J. Bottiglieri James J. Bottiglieri	Director	March 5, 2019
	Director	

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/s/ Edmund V.
Mahoney
Edmund V. Mahoney

March 5,
2019

/s/ Elaine A. Sarsynski Director
Elaine A. Sarsynski

March 5,
2019

/s/ Joseph J. Savage Director
Joseph J. Savage

March 5,
2019