Horizon Technology Finance Corp
Form 10-Q
April 30, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2019

OR

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

FOR THE TRANSITION PERIOD FROM ______ TO

COMMISSION FILE NUMBER: 814-00802

HORIZON TECHNOLOGY FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨
Emerging growth company	¨		

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

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

The number of shares of the registrant’s common stock traded under the symbol “HRZN” on the Nasdaq Global Select Market, $0.001 par value per share, outstanding as of April 30, 2019 was 13,539,680.

HORIZON TECHNOLOGY FINANCE CORPORATION

FORM 10-Q

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PART I: FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Assets and Liabilities (Unaudited)

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

	March 31, 2019	December 31, 2018
Assets		
Non-affiliate investments at fair value (cost of $248,890 and $229,772, respectively)	$ 245,226	$ 227,624
Non-controlled affiliate investments at fair value (cost of $7,742 and $7,887, respectively) (Note 5)	7,581	7,574
Controlled affiliate investments at fair value (cost of $13,360 and $13,262, respectively) (Note 5)	13,345	13,243
Total investments at fair value (cost of $269,992 and $250,921, respectively) (Note 4)	266,152	248,441
Cash	22,163	12,591
Interest receivable	4,848	3,966
Other assets	1,628	1,751
Total assets	$ 294,791	$ 266,749
Liabilities		
Borrowings (Note 7)	$ 131,923	$ 126,853
Distributions payable	4,062	3,461
Base management fee payable (Note 3)	447	422
Incentive fee payable (Note 3)	808	991
Other accrued expenses	1,127	765
Total liabilities	138,367	132,492
Commitments and Contingencies (Note 8)		
Net assets		
Preferred stock, par value $0.001 per share, 1,000,000 shares authorized, zero shares issued and outstanding as of March 31, 2019 and December 31, 2019	—	—
	14	12

Common stock, par value $0.001 per share, 100,000,000 shares authorized, 13,705,946 and 11,702,594 shares issued and 13,538,481 and 11,535,129 shares outstanding as of March 31, 2019 and December 31, 2018, respectively		
Paid-in capital in excess of par	202,818	179,616
Distributable earnings	(46,408)	(45,371)
Total net assets	156,424	134,257
Total liabilities and net assets	$ 294,791	$ 266,749
Net asset value per common share	$ 11.55	$ 11.64

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Operations (Unaudited)

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

	For the Three Months Ended March 31, 2019	2018
Investment income		
Interest income on investments		
Interest income on non-affiliate investments	$ 7,434	$ 6,622
Interest income on affiliate investments	223	131
Total interest income on investments	7,657	6,753
Fee income		
Fee income on non-affiliate investments	313	422
Fee income on affiliate investments	5	—
Total fee income	318	422
Dividend income		
Dividend income on controlled affiliate investments	331	—
Total dividend income	331	—
Total investment income	8,306	7,175
Expenses		
Interest expense	2,048	1,484
Base management fee (Note 3)	1,297	1,114
Performance based incentive fee (Note 3)	1,948	545
Administrative fee (Note 3)	211	184
Professional fees	491	445
General and administrative	218	193
Total expenses	6,213	3,965
Performance based incentive fees waived (Note 3)	(1,140)	—
Net expenses	5,073	3,965
Net investment income	3,233	3,210
Net realized and unrealized loss on investments		
Net realized gain (loss) on non-affiliate investments	1,151	(149)
Net realized gain (loss) on investments	1,151	(149)
Net unrealized depreciation on non-affiliate investments	(1,515)	(332)
Net unrealized appreciation (depreciation) on affiliate investments	152	(126)
Net unrealized appreciation on controlled affiliate investments	4	—
Net unrealized depreciation on investments	(1,359)	(458)
Net realized and unrealized loss on investments	(208)	(607)
Net increase in net assets resulting from operations	$ 3,025	$ 2,603
Net investment income per common share	$ 0.28	$ 0.28

Net increase in net assets per common share	$ 0.26	$ 0.23
Distributions declared per share	$ 0.30	$ 0.30
Weighted average shares outstanding	11,670,196	11,522,153

See Notes to Consolidated Financial Statements

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Changes in Net Assets (Unaudited)

(Dollars in thousands, except share data)

	Common Stock		Paid-In Capital in Excess of	Distributable	Total Net
	Shares	Amount	Par	**Earnings**	Assets
Balance at December 31, 2017	11,520,406	$ 12	$ 179,641	$ (44,578)	$ 135,075
Net increase in net assets resulting from operations, net of excise tax:					
Net investment income, net of excise tax	—	—	—	3,210	3,210
Net realized loss on investments	—	—	—	(149)	(149)
Net unrealized depreciation on investments	—	—	—	(458)	(458)
Issuance of common stock under dividend reinvestment plan	3,545	—	40	—	40
Distributions declared	—	—	—	(3,457)	(3,457)
Balance at March 31, 2018	11,523,951	12	179,681	(45,432)	134,261
Balance at December 31, 2018	11,535,129	12	179,616	(45,371)	134,257
Issuance of common stock, net of offering costs	2,000,000	2	23,160	—	23,162
Net increase in net assets resulting from operations, net of excise tax:					
Net investment income, net of excise tax	—	—	—	3,233	3,233
Net realized gain on investments	—	—	—	1,151	1,151
Net unrealized depreciation on investments	—	—	—	(1,359)	(1,359)
Issuance of common stock under dividend reinvestment plan	3,352	—	42	—	42
Distributions declared	—	—	—	(4,062)	(4,062)
Balance at March 31, 2019	13,538,481	$ 14	$ 202,818	$ (46,408)	$ 156,424

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	For the Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$ 3,025	$ 2,603
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used in) provided by operating activities:		
Amortization of debt issuance costs	172	150
Net realized (gain) loss on investments	(1,151)	149
Net unrealized depreciation on investments	1,359	458
Purchase of investments	(38,082)	(8,562)
Principal payments received on investments	18,613	15,540
Proceeds from sale of investments	1,768	2,715
Distributions from controlled affiliate investment	233	—
Dividends from controlled affiliate investment	(331)	—
Changes in assets and liabilities:		
(Increase) decrease in interest receivable	(327)	4
Increase in end-of-term payments	(555)	(242)
Decrease in unearned income	(120)	(106)
Decrease (increase) in other assets	21	(124)
Increase in other accrued expenses	362	355
Increase in base management fee payable	25	5
(Decrease) increase in incentive fee payable	(183)	4
Net cash (used in) provided by operating activities	(15,171)	12,949
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of offering costs	23,162	—
Advances on credit facility	15,000	—
Repayment of credit facility	(10,000)	—
Distributions paid	(3,419)	(3,416)
Net cash provided by (used in) financing activities	24,743	(3,416)
Net increase in cash	9,572	9,533
Cash:		
Beginning of period	12,591	6,594
End of period	$ 22,163	$ 16,127
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,785	$ 1,278
Supplemental non-cash investing and financing activities:		

Warrant investments received and recorded as unearned income	$ 714	$ 248
Distributions payable	$ 4,062	$ 3,457
End-of-term payments receivable	$ 3,570	$ 3,178

See Notes to Consolidated Financial Statements

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

March 31, 2019

(Dollars 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 — 156.7% (8)					
Non-Affiliate Debt Investments — 146.1% (8)					
Non-Affiliate Debt Investments — Life Science — 50.9% (8)					
Celsion Corporation (2)(5)(12)	Biotechnology	Term Loan (10.12% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	$ 2,500	$ 2,453	$ 2,453
		Term Loan (10.12% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	2,500	2,453	2,453
Espero BioPharma, Inc. (2)(12)	Biotechnology	Term Loan (12.39% cash (Libor + 9.9%; Floor 12.00%), 4.00% ETP, Due 6/30/19)	5,000	4,830	4,830
Mustang Bio, Inc. (2)(5)(12)	Biotechnology	Term Loan (9.00% cash (Libor + 6.5%; Floor 9.00%), 5.00% ETP, Due 10/1/22)	5,000	4,807	4,807
		Term Loan (9.00% cash (Libor + 6.5%; Floor 9.00%), 5.00% ETP, Due 10/1/22)	5,000	4,903	4,903
		Term Loan (9.00% cash (Libor + 6.5%; Floor 9.00%), 5.00% ETP, Due 10/1/22)	5,000	4,903	4,903
Palatin Technologies, Inc. (2)(5)(12)	Biotechnology	Term Loan (10.99% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 8/1/19)	667	661	661
		Term Loan (10.99% cash (Libor + 8.50%; Floor 9.00%), 3.27% ETP, Due 8/1/19)	667	667	667
	Biotechnology		3,385	3,361	3,361

vTv Therapeutics Inc. (2)(5)(12)		Term Loan (12.49% cash (Libor + 10.00%; Floor 10.50%), 6.00% ETP, Due 5/1/20)			
		Term Loan (12.49% cash (Libor + 10.00%; Floor 10.50%), 6.00% ETP, Due 10/1/20)	2,813	2,785	2,785
Titan Pharmaceuticals, Inc. (2)(5)(12)	Drug Delivery	Term Loan (10.89% cash (Libor + 8.40%; Floor 9.50%), 5.00% ETP, Due 6/1/21)	1,600	1,506	1,506
Aerin Medical, Inc. (2)(12)	Medical Device	Term Loan (9.94% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	4,000	3,895	3,895
		Term Loan (9.94% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	3,000	2,969	2,969
		Term Loan (9.94% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	3,000	2,969	2,969
Conventus Orthopaedics, Inc. (2)(12)	Medical Device	Revolving Loan (10.49% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,955	3,955
		Revolving Loan (10.49% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,955	3,955
		Revolving Loan (10.49% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,955	3,955
CSA Medical, Inc. (2)(12)	Medical Device	Term Loan (10.42% cash (Libor + 7.93%; Floor 10.00%), 5.00% ETP, Due 10/1/22)	6,000	5,775	5,775
Lantos Technologies, Inc. (2)(12)	Medical Device	Term Loan (10.92% cash (Libor + 8.43%; Floor 10.00%), 10.00% ETP, Due 9/1/21)	4,000	3,604	3,604
MacuLogix, Inc. (2)(12)	Medical Device	Term Loan (10.17% cash (Libor + 7.68%; Floor 9.50%), 4.00% ETP, Due 8/1/22)	3,750	3,632	3,632
		Term Loan (10.17% cash (Libor + 7.68%; Floor 9.50%), 4.00% ETP, Due 8/1/22)	3,750	3,646	3,646
VERO Biotech LLC (2)(12)	Medical Device	Term Loan (10.49% cash (Libor + 8.00%; Floor 9.25%), 5.00% ETP, Due 1/1/22)	4,000	3,954	3,954
			4,000	3,954	3,954

		Term Loan (10.49% cash (Libor + 8.00%; Floor 9.25%), 5.00% ETP, Due 1/1/22)			
Total Non-Affiliate Debt Investments — Life Science				79,592	79,592
Non-Affiliate Debt Investments — Technology — 79.0% (8)					
Audacy Corporation (2)(12)	Communications	Term Loan (10.39% cash (Libor + 7.90%; Floor 9.50%), 5.00% ETP, Due 7/1/22)	3,143	3,092	2,492
Intelepeer Holdings, Inc. (2)(12)	Communications	Term Loan (12.44% cash (Libor + 9.95%; Floor 11.25%), 3.30% ETP, Due 1/1/22)	4,000	3,929	3,929
		Term Loan (12.44% cash (Libor + 9.95%; Floor 11.25%), 2.50% ETP, Due 2/1/22)	3,000	2,941	2,941
		Term Loan (12.45% cash (Libor + 9.95%; Floor 12.45%), 2.50% ETP, Due 10/1/22)	1,073	1,053	1,053
Betabrand Corporation (2)(12)	Consumer-related Technologies	Term Loan (10.05% cash (Libor + 7.50%; Floor 10.05%), 4.50% ETP, Due 9/1/23)	4,250	4,102	4,102
		Term Loan (10.05% cash (Libor + 7.50%; Floor 10.05%), 4.50% ETP, Due 9/1/23)	4,250	4,168	4,168

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

March 31, 2019

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
Food52, Inc. (2)(12)	Consumer-related Technologies	Term Loan (10.90% cash (Libor + 8.40%; Floor 10.90%), 3.00% ETP, Due 1/1/23)	3,000	2,923	2,923
		Term Loan (10.90% cash (Libor + 8.40%; Floor 10.90%), 3.00% ETP, Due 1/1/23)	3,000	2,923	2,923
Mohawk Group Holdings, Inc. (2)(12)	Consumer-related Technologies	Term Loan (9.90% cash (Libor + 7.40%; Floor 9.90%), 4.00% ETP, Due 1/1/23)	5,000	4,892	4,892
		Term Loan (9.90% cash (Libor + 7.40%; Floor 9.90%), 4.00% ETP, Due 1/1/23)	5,000	4,892	4,892
		Term Loan (9.90% cash (Libor + 7.40%; Floor 9.90%), 4.00% ETP, Due 1/1/23)	5,000	4,892	4,892
Canara, Inc. (2)(12)	Data Storage	Term Loan (11.09% cash (Libor + 8.60%; Floor 11.00%), 1.00% ETP, Due 2/1/23)	5,000	4,836	4,836
		Term Loan (11.09% cash (Libor + 8.60%; Floor 11.00%), 1.00% ETP, Due 2/1/23)	5,000	4,836	4,836
Kaminario, Inc. (2)(12)	Data Storage	Term Loan (10.89% cash (Libor + 8.40%; Floor 10.65%), 3.00% ETP, Due 1/1/23)	5,000	4,923	4,923
		Term Loan (10.89% cash (Libor + 8.40%; Floor 10.65%), 3.00% ETP, Due 1/1/23)	5,000	4,923	4,923
IgnitionOne, Inc. (2)(12)	Internet and Media	Term Loan (12.72% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,881	2,881
		Term Loan (12.72% cash (Libor + 10.23%; Floor	3,000	2,881	2,881

		10.23%), 2.00% ETP, Due 4/1/22)			
		Term Loan (12.72% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,881	2,881
		Term Loan (12.72% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,881	2,881
Jump Ramp Games, Inc. (2)(12)	Internet and Media	Term Loan (12.22% cash (Libor + 9.73%), 3.00% ETP, Due 4/1/21)	4,000	3,964	3,964
Kixeye, Inc. (2)(12)	Internet and Media	Term Loan (12.09% cash (Libor + 9.60%; Floor 10.75%), 4.00% ETP, Due 5/1/21)	2,550	2,476	2,476
		Term Loan (12.09% cash (Libor + 9.60%; Floor 10.75%), 4.00% ETP, Due 5/1/21)	2,550	2,516	2,516
Verve Wireless, Inc. (2)(12)	Internet and Media	Term Loan (11.29% cash (Libor + 8.80%; Floor 10.80%), 3.33% ETP, Due 9/1/21)	3,000	2,884	2,884
Zinio Holdings, LLC (2)(12)	Internet and Media	Term Loan (13.74% cash (Libor + 11.25%; Floor 11.75%), 8.50% ETP, Due 2/1/20)	2,800	2,791	2,791
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	4,190	4,190
		Term Loan (11.00% cash (Libor + 8.50%; Floor 11.00%), 4.0% ETP, Due 6/1/22)	4,250	4,190	4,190
Powerhouse Dynamics, Inc. (2)(12)	Power Management	Term Loan (13.19% cash (Libor + 10.70%; Floor 11.20%), 3.32% ETP, Due 9/1/19)	408	400	400
Bridge2 Solutions, LLC. (2)(12)	Software	Term Loan (11.74% cash (Libor + 9.25%; Floor 10.50%), 2.00% ETP, Due 11/1/21)	5,000	4,850	4,850
		Term Loan (11.74% cash (Libor + 9.25%; Floor 10.50%), 2.00% ETP, Due 11/1/21)	5,000	4,850	4,850
Education Elements, Inc. (2)(12)	Software	Term Loan (12.49% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 8/1/19)	200	197	197
New Signature US, Inc. (2)(12)(13)	Software	Term Loan (10.99% cash (Libor + 8.50%; Floor 10.50%), 3.50% ETP, Due 7/1/22)	2,750	2,712	2,712
		Term Loan (10.99% cash (Libor + 8.50%; Floor 10.50%), 3.50% ETP, Due 2/1/23)	1,000	984	984
SIGNiX, Inc. (12)	Software	Term Loan (13.49% cash (Libor + 11.00%; Floor 11.50%), 8.67% ETP, Due 2/1/20)	1,645	1,602	1,500
xAd, Inc. (2)(12)	Software	Term Loan (11.19% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	5,000	4,930	4,930

	Term Loan (11.19% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	5,000	4,930	4,930
	Term Loan (11.19% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	3,000	2,958	2,958

See Notes to Consolidated Financial Statements

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

March 31, 2019

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
		Term Loan (11.19% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	2,000	1,972	1,972
Total Non-Affiliate Debt Investments — Technology				124,245	123,543
Non-Affiliate Debt Investments — Healthcare information and services — 16.2% (8)					
Catasys, Inc. (2)(5)(12)	Software	Term Loan (10.24% cash (Libor + 7.75%; Floor 9.75%), 6.00% ETP, Due 3/1/22)	2,500	2,480	2,480
		Term Loan (10.24% cash (Libor + 7.75%; Floor 9.75%), 6.00% ETP, Due 3/1/22)	2,500	2,480	2,480
		Term Loan (10.24% cash (Libor + 7.75%; Floor 9.75%), 6.00% ETP, Due 3/1/22)	2,500	2,479	2,479
		Revolving Loan (10.23% cash (Libor + 7.75%; Floor 9.75%), 6.00% ETP, Due 8/31/22)	2,500	2,276	2,276
HealthEdge Software, Inc. (2)(12)	Software	Term Loan (10.74% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 7/1/22)	4,643	4,593	4,593
		Term Loan (10.74% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 1/1/23)	3,750	3,707	3,707
		Term Loan (10.74% cash (Libor + 8.25%;	3,750	3,704	3,704

		Floor 9.25%), 3.00% ETP, Due 4/1/23)			
		Term Loan (10.74% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 1/1/24)	3,750	3,699	3,699
Total Non-Affiliate Debt Investments — Healthcare information and services				25,418	25,418
Total Non- Affiliate Debt Investments				229,255	228,553
Non-Affiliate Warrant Investments — 6.2% (8)					
Non-Affiliate Warrants — Life Science — 1.4% (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	11
Espero BioPharma, Inc. (2)(5)(12)	Biotechnology	1,506,937 Common Stock Warrants		185	182
Mustang Bio, Inc. (2)(5)(12)	Biotechnology	288,184 Common Stock Warrants		187	187
Rocket Pharmaceuticals Corporation (5)(12)	Biotechnology	7,051 Common Stock Warrants		17	3
Palatin Technologies, Inc. (2)(5)(12)	Biotechnology	608,058 Common Stock Warrants		51	139
Revance Therapeutics, Inc. (5)(12)	Biotechnology	34,113 Common Stock Warrants		68	86
Sample6, Inc. (2)(12)	Biotechnology	661,956 Preferred Stock Warrants		53	25
Strongbridge U.S. Inc. (2)(5)(12)	Biotechnology	160,714 Common Stock Warrants		72	433
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	—
Titan Pharmaceuticals, Inc. (2)(5)(12)	Drug Delivery	373,333 Common Stock Warrants		95	201
AccuVein Inc. (2)(12)	Medical Device	1,174,881 Preferred Stock Warrants		24	27
Aerin Medical, Inc. (2)(12)	Medical Device	1,818,182 Preferred Stock Warrants		66	66
Conventus Orthopaedics, Inc. (2)(12)	Medical Device	720,000 Preferred Stock Warrants		95	97
CSA Medical, Inc. (12)	Medical Device	745,562 Preferred Stock Warrants		89	84
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	88
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	329
Total Non-Affiliate Warrants — Life Science			2,138	2,262
Non-Affiliate Warrants — Technology — 4.2% (8)				
Audacy Corporation (2)(12)	Communications	1,545,575 Preferred Stock Warrants	194	—
Intelepeer Holdings, Inc. (2)(12)	Communications	1,702,617 Preferred Stock Warrants	122	83
PebblePost, Inc. (2)(12)	Communications	598,850 Preferred Stock Warrants	92	156
Betabrand Corporation (2)(12)	Consumer-related Technologies	248,211 Preferred Stock Warrants	101	101
Food52, Inc. (2)(12)	Consumer-related Technologies	102,941 Preferred Stock Warrants	104	102
Gwynnie Bee, Inc. (2)(12)	Consumer-related Technologies	268,591 Preferred Stock Warrants	68	837
Le Tote, Inc. (2)(12)	Consumer-related Technologies	202,974 Preferred Stock Warrants	63	366
Mohawk Group Holdings, Inc. (2)(12)	Consumer-related Technologies	300,000 Common Stock Warrants	195	190
Rhapsody International Inc. (2)(12)	Consumer-related Technologies	852,273 Common Stock Warrants	164	—
Canara, Inc. (2)(12)	Data Storage	500,000 Preferred Stock Warrants	242	242
Kaminario, Inc. (2)(12)	Data Storage	9,981,346 Preferred Stock Warrants	124	159
IgnitionOne, Inc. (2)(12)	Internet and Media	262,910 Preferred Stock Warrants	672	697

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

March 31, 2019

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
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	60
Rocket Lawyer Incorporated (2)(12)	Internet and Media	261,721 Preferred Stock Warrants		92	75
Verve Wireless, Inc. (2)(12)	Internet and Media	112,805 Common Stock Warrants		120	119
The NanoSteel Company, Inc. (2)(12)	Materials	467,277 Preferred Stock Warrants		233	561
Powerhouse Dynamics, Inc. (2)(12)	Power Management	348,838 Preferred Stock Warrants		33	50
Avalanche Technology, Inc. (2)(12)	Semiconductors	202,602 Preferred Stock Warrants		101	53
Soraa, Inc. (2)(12)	Semiconductors	203,616 Preferred Stock Warrants		80	423
Bridge2 Solutions, Inc. (2)(12)	Software	125,458 Common Stock Warrants		432	755
BSI Platform Holdings, LLC (2)(12)(13)	Software	187,500 Preferred Stock Warrants		26	25
Clarabridge, Inc. (12)	Software	53,486 Preferred Stock Warrants		14	105
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	284
Metricly, Inc. (12)	Software	41,569 Common Stock Warrants		48	—
Riv Data Corp. (2)(12)	Software	321,428 Preferred Stock Warrants		12	254
ShopKeep.com, Inc. (2)(12)	Software	193,962 Preferred Stock Warrants		118	113
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	248
Total Non-Affiliate Warrants — Technology			4,341	6,549
Non-Affiliate Warrants — Cleantech — 0.1% (8)				
Renmatix, Inc. (2)(12)	Alternative Energy	53,022 Preferred Stock Warrants	68	—
Tigo Energy, Inc. (2)(12)	Energy Efficiency	804,604 Preferred Stock Warrants	100	111
Total Non-Affiliate Warrants — Cleantech			168	111
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	64
Watermark Medical, Inc. (2)(12)	Other Healthcare	27,373 Preferred Stock Warrants	74	61
Catasys, Inc. (2)(5)(12)	Software	40,282 Common Stock Warrants	149	149
HealthEdge Software, Inc. (2)(12)	Software	205,481 Preferred Stock Warrants	83	69
Medsphere Systems Corporation (2)(12)	Software	7,097,792 Preferred Stock Warrants	60	210
Recondo Technology, Inc. (2)(12)	Software	556,796 Preferred Stock Warrants	95	211
Total Non-Affiliate Warrants — Healthcare information and services			676	811
Total Non-Affiliate Warrants			7,323	9,733
Non-Affiliate Other Investments — 4.1% (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	4,166	20
Triple Double Holdings, LLC (12)	Software	License Agreement	2,200	1,000
Total Non-Affiliate Other Investments			11,808	6,420
Non-Affiliate Equity — 0.3% (8)				
Revance Therapeutics, Inc.(5)	Biotechnology	5,125 Common Stock	72	81
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	13,082 Common Stock	83	16
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				504	520
Total Non-Affiliate Portfolio Investment Assets				$ 248,890	$245,226
Non-controlled Affiliate Investments — 4.9% (8)					
Non-controlled Affiliate Debt Investments — Technology — 4.3% (8)					
Decisyon, Inc. (12)	Software	Term Loan (14.798% cash (Libor + 12.308%; Floor 12.50%), 8.00% ETP, Due 12/1/20)	$ 1,426	$ 1,425	$1,423
		Term Loan (14.798% cash (Libor + 12.308%; Floor 12.50%), 8.00% ETP, Due 12/1/20)	780	747	746

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Horizon Technology Finance Corporation and Subsidiaries

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March 31, 2019

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
		Term Loan (12.02% cash, Due 12/31/19)	250	250	250
		Term Loan (12.03% cash, Due 12/31/19)	250	250	250
		Term Loan (12.24% cash, Due 12/31/19)	750	750	748
		Term Loan (13.08% cash, Due 12/31/19)	300	300	300
		Term Loan (13.10% cash, Due 12/31/19)	200	200	200
StereoVision Imaging, Inc. (12)	Software	Term Loan (9.52% 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				6,720	6,715
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				$ 7,742	$ 7,581
Controlled Affiliate Investments — 8.5% (8)					
Controlled Affiliate Equity — Financial — 8.5% (8)					
Horizon Secured Loan Fund I LLC (12)(14)	Investment funds			$ 13,360	$ 13,345
Total Controlled Affiliate Equity				13,360	13,345

Total Controlled Affiliate Portfolio Investment Assets	$ 13,360	$13,345
Total Portfolio Investment Assets — 170.1%(8)	$ 269,992	$266,152

(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”).

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

(4) All interest is payable in cash due monthly in arrears, unless otherwise indicated, and applies only to the Company’s debt investments. Interest rate is the annual interest rate on the debt investment and does not include end-of-term payments (“ETPs”), and any additional fees related to the investments, such as deferred interest, commitment fees or prepayment fees. Debt investments are at variable rates for the term of the debt investment, unless otherwise indicated. All debt investments based on the London InterBank Offered Rate (“LIBOR”) are based on one-month LIBOR. For each debt investment, the current interest rate in effect as of March 31, 2019 is provided.

(5) Portfolio company is a public company.

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

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

(8) Value as a percent of net assets.

(9) As of March 31, 2019, 4.5% of the Company’s total assets 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.

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

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

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

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

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(Dollars in thousands)

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

(14) On June 1, 2018, the Company entered into an agreement with Arena Sunset SPV, LLC ("Arena") to co-invest through Horizon Secured Loan Fund I ("HSLFI"), a joint venture, which is expected to make investments, either directly or indirectly through subsidiaries, primarily in the form of secured loans to development-stage companies in the technology, life science, healthcare information and services and cleantech industries. All HSLFI investment decisions require unanimous approval of a quorum of HSLFI's board of managers. Although the Company owns more than 25% of the voting securities of HSLFI, the Company does not have sole control over significant actions of HSLFI for purposes of the 1940 Act or otherwise.

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Horizon Technology Finance Corporation and Subsidiaries

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December 31, 2018

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
Non-Affiliate Investments — 169.6% (8)					
Non-Affiliate Debt Investments — 156.3% (8)					
Non-Affiliate Debt Investments — Life Science — 49.9% (8)					
Celsion Corporation (2)(5)(12)	Biotechnology	Term Loan (9.98% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	$ 2,500	$ 2,450	$ 2,450
		Term Loan (9.98% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	2,500	2,450	2,450
Espero BioPharma, Inc. (2)(12)	Biotechnology	Term Loan (12.25% cash (Libor + 9.9%; Floor 12.00%), 4.00% ETP, Due 6/30/19)	5,000	4,760	4,760
Palatin Technologies, Inc. (2)(5)(12)	Biotechnology	Term Loan (10.85% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 8/1/19)	1,167	1,156	1,156
		Term Loan (10.85% cash (Libor + 8.50%; Floor 9.00%), 3.27% ETP, Due 8/1/19)	1,167	1,167	1,167
vTv Therapeutics Inc. (2)(5)(12)	Biotechnology	Term Loan (12.35% cash (Libor + 10.00%; Floor 10.50%), 6.00% ETP, Due 5/1/20)	4,167	4,136	4,136
		Term Loan (12.35% cash (Libor + 10.00%; Floor 10.50%), 6.00% ETP, Due 10/1/20)	3,281	3,250	3,250
Titan Pharmaceuticals, Inc. (2)(5)(12)	Drug Delivery	Term Loan (10.75% cash (Libor + 8.40%; Floor 9.50%), 5.00% ETP, Due 6/1/21)	1,600	1,495	1,495
Aerin Medical, Inc. (2)(12)	Medical Device	Term Loan (9.80% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	4,000	3,891	3,891

		Term Loan (9.80% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	3,000	2,966	2,966
		Term Loan (9.80% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	3,000	2,966	2,966
Conventus Orthopaedics, Inc. (2)(12)	Medical Device	Term Loan (10.35% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,949	3,949
		Term Loan (10.35% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,949	3,949
		Term Loan (10.35% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,949	3,949
CSA Medical, Inc. (2)(12)	Medical Device	Term Loan (10.28% cash (Libor + 7.93%; Floor 10.00%), 5.00% ETP, Due 10/1/22)	6,000	5,768	5,768
Lantos Technologies, Inc. (2)(12)	Medical Device	Term Loan (10.78% cash (Libor + 8.43%; Floor 10.00%), 6.00% ETP, Due 9/1/21)	4,000	3,563	3,563
MacuLogix, Inc. (2)(12)	Medical Device	Term Loan (10.02% cash (Libor + 7.68%; Floor 9.50%), 4.00% ETP, Due 8/1/22)	3,750	3,623	3,623
		Term Loan (10.14% cash (Libor + 7.68%; Floor 9.50%), 4.00% ETP, Due 8/1/22)	3,750	3,638	3,638
VERO Biotech LLC (2)(12)	Medical Device	Term Loan (10.35% cash (Libor + 8.00%; Floor 9.25%), 5.00% ETP, Due 1/1/22)	4,000	3,950	3,950
		Term Loan (10.35% cash (Libor + 8.00%; Floor 9.25%), 5.00% ETP, Due 1/1/22)	4,000	3,950	3,950
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 9.50%), 5.00% ETP, Due 7/1/22)	4,000	3,936	3,636
Intelepeer Holdings, Inc. (2)(12)	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 2/1/21)	3,000	2,955	2,955
Food52, Inc. (2)(12)	Consumer-related Technologies	Term Loan (10.90% cash (Libor + 8.40%; Floor 10.90%), 3.00% ETP, Due 1/1/23)	3,000	2,918	2,918
		Term Loan (10.90% cash (Libor + 8.40%; Floor 10.90%), 3.00% ETP, Due 1/1/23)	3,000	2,918	2,918

Mohawk Group Holdings, Inc. (2)(12)	Consumer-related Technologies	Term Loan (9.90% cash (Libor + 7.40%; Floor 9.90%), 4.00% ETP, Due 1/1/23)	5,000	4,885	4,885
		Term Loan (9.90% cash (Libor + 7.40%; Floor 9.90%), 4.00% ETP, Due 1/1/23)	5,000	4,885	4,885
		Term Loan (9.90% cash (Libor + 7.40%; Floor 9.90%), 4.00% ETP, Due 1/1/23)	5,000	4,885	4,885
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

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(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
		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
		Term Loan (11.95% cash (Libor + 9.60%; Floor 10.75%), 2.00% ETP, Due 5/1/21)	2,700	2,661	2,661
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 10.50%), 4.00% ETP, Due 8/1/19)	350	346	346
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		2,500	2,478	2,478

	Term Loan (10.10% cash (Libor + 7.75%; Floor 9.75%), 6.00% ETP, Due 3/1/22)			
	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

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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	—
Palatin Technologies, Inc. (2)(5)(12)	Biotechnology	608,058 Common Stock Warrants		51	34

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
Mohawk Group Holdings, Inc. (2)(12)	Consumer-related Technologies	300,000 Common Stock Warrants	195	195
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
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

See Notes to Consolidated Financial Statements

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

December 31, 2018

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
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				4,289	6,634
Non-Affiliate Warrants — Cleantech — 0.1% (8)					
Renmatix, Inc. (2)(12)	Alternative Energy	53,022 Preferred Stock Warrants		68	—
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
	Software			60	212

Medsphere Systems Corporation (2)(12)		7,097,792 Preferred Stock Warrants			
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)					
Insmed Incorporated (5)	Biotechnology	33,208 Common Stock		238	436
Revance 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	Term Loan (14.658% cash (Libor + 12.308%; Floor 12.50%), 8.00% ETP, Due 12/1/20)	$ 1,523	$ 1,522	$ 1,464
		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
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	—

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

December 31, 2018

(Dollars in thousands)

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

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

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

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

(4)

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

(5) Portfolio company is a public company.

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

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

(8) Value as a percent of net assets.

(9) As of December 31, 2018, 5.0% of the Company's total assets on a cost and fair value basis are in non-qualifying assets. Under the the 1940 Act, the Company may not acquire any non-qualifying assets unless, at the time the acquisition is made, qualifying assets represent at least 70% of the Company's total assets.

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

(11) Debt investment has a 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 to co-invest through HSLFI, a joint venture, which is expected to make investments, either directly or indirectly through subsidiaries, primarily in the form of secured loans to development-stage companies in the technology, life science, healthcare information and services and cleantech industries. All HSLFI investment decisions require unanimous approval of a quorum of HSLFI's board of managers. Although the Company owns more than 25% of the voting securities of HSLFI, the Company does not have sole control over significant actions of HSLFI for purposes of the 1940 Act or otherwise.

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Organization

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

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

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

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

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

On March 26, 2019, the Company completed a follow-on public offering of 2,000,000 shares of its common stock at a public offering price of $12.14 per share, for total net proceeds to the Company of $23.2 million, after deducting underwriting commission and discounts and other offering expenses.

Note 2. Basis of presentation and significant accounting policies

The consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and pursuant to the requirements for reporting on Form 10-Q and Articles 6 and 10 of Regulation S-X ("Regulation S-X") under the Securities Act of 1933, as amended (the "Securities Act"). In the opinion of management, the consolidated financial statements reflect all adjustments and reclassifications that are necessary for the fair presentation of financial results as of and for the periods presented. All intercompany balances and transactions have been eliminated. The current period's results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, the unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2018.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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. Although the Company owns more than 25% of the voting securities of HSLFI, the Company does not have sole control over significant actions of HSLFI for purposes of the 1940 Act or otherwise, and thus does not consolidate its interest.

Use of estimates

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

Fair value

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

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

See Note 6 for additional information regarding fair value.

Segments

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

Investments

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

Interest on debt investments is accrued and included in income based on contractual rates applied to principal amounts outstanding. Interest income is determined using a method that results in a level rate of return on principal amounts outstanding. Generally, when a debt investment becomes 90 days or more past due, or if the Company otherwise does not expect to receive interest and principal repayments, the debt investment is placed on non-accrual status and the recognition of interest income may be discontinued. Interest payments received on non-accrual debt investments may be recognized as income, on a cash basis, or applied to principal depending upon management's judgment at the time the debt investment is placed on non-accrual status. As of March 31, 2019 and December 31, 2018, there were no debt investments on non-accrual status. For the three months ended March 31, 2019 and 2018, the Company did not recognize any interest income from debt investments on non-accrual status.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

Certain debt investment agreements also require the borrower to make an ETP, that is accrued into interest receivable and taken into income over the life of the debt investment to the extent such amounts are expected to be collected. The Company will generally cease accruing the income if there is insufficient value to support the accrual or the Company does not expect the borrower to be able to pay the ETP when due. The proportion of the Company’s total investment income that resulted from the portion of ETPs not received in cash for the three months ended March 31, 2019 and 2018 was 8.1% and 7.5%, respectively.

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

Distributions from HSLFI are evaluated at the time of distribution to determine if the distribution should be recorded as dividend income or a return of capital. Generally, the Company will not record distributions from HSLFI as dividend income unless there are sufficient accumulated tax-basis earnings and profit in HSLFI prior to distribution. Distributions that are classified as a return of capital are recorded as a reduction in the cost basis of the investment. For the three months ended March 31, 2019, HSLFI distributed $0.2 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 March 31, 2019 and December 31, 2018 was $2.0 million and $2.2 million, respectively. These amounts are amortized and included in interest expense in the consolidated statements of operations over the life of the borrowings. The accumulated amortization balances as of March 31, 2019 and December 31, 2018 were $2.6 million and $2.4 million, respectively. The amortization expense for the three months ended March 31, 2019 and 2018 was $0.2 million.

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.

Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year distributions into the next tax year and incur a 4% U.S. federal excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year distributions, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. For the three months ended March 31, 2019 and 2018, there was no U.S. federal excise tax recorded.

The Company evaluates tax positions taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority in accordance with ASC Topic 740, *Income Taxes*, as modified by ASC Topic 946. Tax benefits of positions not deemed to meet the more-likely-than-not threshold, or uncertain tax positions, would be recorded as a tax expense in the current year. It is the Company's policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax expense. The Company had no material uncertain tax positions at March 31, 2019 and December 31, 2018. The Company's income tax returns for 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 26, 2019, 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, 2020 or the repurchase of $5.0 million of the Company's common stock. During the three months ended March 31, 2019 and 2018, the Company did not make any repurchases of its common stock. From the inception of the stock repurchase program through March 31, 2019, 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 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 Statements of Changes in Net Assets for the three months ended March 31, 2018.

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The following table provides a reconciliation of previously disclosed components of distributable earnings on the Consolidated Statement of Changes in Net Assets as of March 31, 2018 to currently disclosed total distributable earnings on the Consolidated Statement of Assets and Liabilities as of March 31, 2018:

	For the three months ended March 31, 2018			
	Accumulated Undistributed (Distributions in Excess of) Net Investment Income	Net Unrealized Depreciation on Investments	Net Realized Loss on Investments	Distributable Earnings
	(In thousands)			
Net investment income, net of excise tax	$ 3,210	$ —	$ —	$ 3,210
Net unrealized depreciation on investments	—	(458)	—	(458)
Net realized loss on investments	—	—	(149)	(149)
Net increase in net assets resulting from operations	$ 3,210	$ (458)	$ (149)	$ 2,603

Note 3. Related party transactions

Investment Management Agreement

On July 27, 2018, the Board approved the New Investment Management Agreement, which the shareholders, at a special meeting of the stockholders, approved October 30, 2018; the New Investment Management Agreement replaced the existing Investment Management Agreement and went 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.

Through October 30, 2018, the base management fee was 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 March 31, 2019 and December 31, 2018 was $0.4 million. The base management fee expense was $1.3 million and $1.1 million for the three months ended March 31, 2019 and 2018, respectively.

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The incentive fee has two parts, as follows:

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

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

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

On March 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. During the three months ended March 31, 2019, the Advisor waived performance based incentive fees of $1.1 million which the Advisor would have otherwise been paid by the Company.

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 three months ended March 31, 2018, the Advisor did not waive performance based incentive fees.

The net performance based incentive fee expense was $0.8 million and $0.5 million for the three months ended March 31, 2019 and 2018, respectively. The incentive fee on Pre-Incentive Fee Net Investment Income was subject to the Incentive Fee Cap and Deferral Mechanism for the three months ended March 31, 2018, which resulted in $0.2 million of reduced expense and additional net investment income. The performance based incentive fee payable as of March 31, 2019 and December 31, 2018 was $0.8 million and $1.0 million, respectively. The entire incentive fee payable as of March 31, 2019 and December 31, 2018 represented part one of the incentive fee.

Administration Agreement

The Company entered into an administration agreement (the "Administration Agreement") with the Advisor to provide administrative services to the Company. For providing these services, facilities and personnel, the Company reimburses the Advisor for the Company's allocable portion of overhead and other expenses incurred by the Advisor in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions and the Company's allocable portion of the costs of compensation and related expenses of the Company's Chief Financial Officer and Chief Compliance Officer and their respective staffs. The administrative fee expense was $0.2 million for the three months ended March 31, 2019 and 2018.

Note 4. Investments

The following table shows the Company's investments as of March 31, 2019 and December 31, 2018:

	March 31, 2019		December 31, 2018	
	Cost	Fair Value	Cost	Fair Value
		(In thousands)		
Investments				
Debt	$235,975	$235,268	$217,093	$216,401
Warrants	7,369	9,733	7,032	9,324
Other	11,808	6,420	11,815	7,640
Equity	1,480	1,386	1,719	1,833
Equity interest in HSLFI	13,360	13,345	13,262	13,243
Total investments	$269,992	$266,152	$250,921	$248,441

Additionally, as of March 31, 2019, the Company had commitments to fund undrawn revolvers to its portfolio companies totaling $5.0 million. As of December 31, 2018, the Company had no commitments to fund undrawn revolvers to its portfolio companies.

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The following table shows the Company's investments by industry sector as of March 31, 2019 and December 31, 2018:

	March 31, 2019		December 31, 2018	
	Cost	Fair Value	Cost	Fair Value
		(In thousands)		
Life Science				
Biotechnology	$38,173	$37,686	$25,770	$25,426
Drug Delivery	1,601	1,707	1,590	1,584
Medical Device	47,553	47,958	47,504	47,869
Technology				
Communications	11,423	10,654	11,219	10,754
Consumer-Related	29,496	30,471	21,094	22,061
Data Storage	24,050	19,939	14,132	10,036
Internet and Media	27,371	27,332	38,200	38,132
Materials	8,687	9,015	8,679	9,013
Power Management	433	450	545	512
Semiconductors	181	476	3,807	4,636
Software	41,402	40,779	40,942	40,912
Cleantech				
Alternative Energy	68	—	68	—
Energy Efficiency	100	111	100	112
Healthcare Information and Services				
Diagnostics	71	2	71	2
Other	218	170	218	172
Software	25,805	26,057	23,720	23,977
Investment funds				
HSLFI	13,360	13,345	13,262	13,243
Total investments	$269,992	$266,152	$250,921	$248,441

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 March 31, 2019 and December 31, 2018, HSLFI had total assets of $30.9 million and $26.4 million, respectively. HSLFI's portfolio consisted of debt investments in four portfolio companies as of March 31, 2019 and December 31, 2018. As of March 31, 2019, the largest investment in a single portfolio company in the HSLFI's portfolio in aggregate principal amount was $11.3 million, and the four largest investments in portfolio companies in the HSLFI totaled $29.2 million. 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 March 31, 2019 and 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.

The Company invests cash or securities in portfolio companies in HSLFI in exchange for limited liability company equity interests in HSLFI. As of March 31, 2019 and 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 March 31, 2019 and 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 March 31, 2019 and December 31, 2018.

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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 $4.2 million in advances made by the Noteholders as of March 31, 2019 at an interest rate of 5.29%. There were no advances made by the Noteholders as of December 31, 2018.

The following table shows HSLFI's individual investments as of March 31, 2019:

Portfolio Company (1) (Dollars in thousands)	Sector	**Type of Investment** (2)(3)(4)	Principal Amount	Cost of **Investments**(5)	Fair Value

Debt Investments — Life science					
Celsion Corporation (6)(7)(8)	Biotechnology	Term Loan (10.12% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	$ 2,500	$ 2,453	$ 2,453
		Term Loan (10.12% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	2,500	2,453	2,453
Total Debt Investments — Life science				4,906	4,906
Debt Investments — Technology					
Intelepeer Holdings, Inc. (6)(7)	Communications	Term Loan (12.44% cash (Libor + 9.95%; Floor 11.25%), 3.30% ETP, Due 1/1/22)	4,000	3,930	3,930
		Term Loan (12.44% cash (Libor + 9.95%; Floor 11.25%), 3.30% ETP, Due 1/1/22)	4,000	3,930	3,930
		Term Loan (12.45% cash (Libor + 9.95%; Floor 12.45%), 2.50% ETP, Due 10/1/22)	1,227	1,204	1,204
New Signature US, Inc. (6)(7)(9)	Software	Term Loan (10.99% cash (Libor + 8.50%; Floor 10.50%), 3.50% ETP, Due 7/1/22)	8,250	8,136	8,136
		Term Loan (10.99% cash (Libor + 8.50%; Floor 10.50%), 3.50% ETP, Due 2/1/23)	3,000	2,952	2,952
Total Debt Investments — Technology				20,152	20,152
Debt Investments — Healthcare information and services					
HealthEdge Software, Inc. (6)(7)	Software	Term Loan (10.74% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 10/1/23)	3,750	3,701	3,701
Total Debt Investments — Healthcare information and services				3,701	3,701
Total Debt Investments				28,759	28,759

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Portfolio Company [1]	Sector	**Type of Investment** [2][3][4]	Principal Amount	Cost of **Investments**[5]	Fair Value
(Dollars in thousands)					
Warrant Investments — Life science					
Celsion Corporation (6)(7)(8)	Biotechnology	95,057 Common Stock Warrants		58	11
Total Warrant Investments — Life science				58	11
Warrant Investments — Technology					
Intelepeer Holdings, Inc. (6)(7)	Communications	1,886,934 Preferred Stock Warrants		82	101
BSI Platform Holdings, LLC (6)(7)(9)	Software	562,500 Preferred Stock Warrants		77	75
Total Warrant Investments — Technology				159	176
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				233	203
Total Portfolio Investment Assets				$ 28,992	$28,962
Short Term Investments — Money Market Funds					
US Bank Money Market Deposit Account (6)				$ 317	$317
Total Short Term Investments — Money Market Funds				$ 317	$317
Short Term Investments — Restricted Money Market Funds					
US Bank Money Market Deposit Account (6)				$ 23	$23
Total Short Term Investments — Restricted Money Market Funds				$ 23	$23

(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 March 31, 2019 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.

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

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

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(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.

The following tables show certain summarized financial information for HSLFI as of March 31, 2019 and December 31, 2018 and for the three months ended March 31, 2019:

	March 31, 2019	December 31, 2018
	(In thousands)	
Selected Statement of Assets and Liabilities Information		
Total investments at fair value (cost of $28,992 and $24,771, respectively)	$28,962	$ 24,734
Investments in money market funds	317	74
Restricted investments in money market funds	23	—
Cash and cash equivalents	5	76
Interest receivable	340	252
Other assets	1,255	1,306
Total assets	$30,902	$ 26,442
Borrowings	$4,227	$ —
Other liabilities	110	81
Total liabilities	4,337	81

Members’ equity	26,565	26,361
Total liabilities and members’ equity	$30,902	$ 26,442

	For the three months ended March 31, 2019 (In thousands)
Selected Statements of Operations Information	
Interest income on investments	$ 849
Total expenses	$ 187
Net investment income	$ 662
Net unrealized appreciation on investments	$ 8
Net increase in net assets resulting from operations	$ 670

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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 three months ended March 31, 2019 were as follows:

	Three months ended March 31, 2019								
Portfolio Company	Fair value at December 31, 2018	Purchases	Principal Payments	Transfers in/(out) at fair value	**Discount accretion**	**Net unrealized gain/(loss)**	**Fair value at March 31, 2019**	Net realized gain/(loss)	Interest income
	(In thousands)								
Decisyon, Inc.	$1,464	$ —	$ 97	$ —	$ —	$ 56	$ 1,423	$ —	$ 59
	764	—	53	—	5	30	746	—	31
	240	—	—	—	—	10	250	—	8
	240	—	—	—	—	10	250	—	8
	721	—	—	—	—	27	748	—	24
	289	—	—	—	—	11	300	—	10
	192	—	—	—	—	8	200	—	7
	75	—	—	—	—	—	75	—	—
StereoVision, Inc.	2,798	—	—	—	—	—	2,798	—	76
	791	—	—	—	—	—	791	—	—
Total Non-controlled Affiliates	$7,574	$ —	$ 150	$ —	$ 5	$ 152	$ 7,581	$ —	$ 223

Transactions related to investments in 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	Principal Payments	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

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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 three months ended March 31, 2019 were as follows:

	Three months ended March 31, 2019								
Portfolio Company	Fair value at December 31, 2018	Purchases	Distributions	Transfers in/(out) at fair value	Dividends declared	**Net unrealized gain/(loss)**	**Fair value at March 31, 2019**	Net realized gain/(loss)	Dividend income
	(In thousands)								
HSLFI[(1)]	$13,243	$ —	$ (233)	$ —	$ 331	$ 4	$ 13,345	$ —	$ 331
Total controlled affiliates	$13,243	$ —	$ (233)	$ —	$ 331	$ 4	$ 13,345	$ —	$ 331

(1) The Company and Arena are the members of HSLFI, a joint venture formed as a Delaware limited liability company that is not consolidated by either member for financial reporting purposes. The members provide cash or securities in portfolio companies to HSLFI in exchange for limited liability company equity interests. All portfolio and other material decisions regarding HSLFI must be submitted to HSLFI's board of managers which is comprised of an equal number of managers appointed by each of the Company and Arena. Because management of HSLFI is shared equally between the Company and Arena, the Company does not have sole control over significant actions of HSLFI for purposes of the 1940 Act or otherwise.

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	Purchases	Distributions	Transfers in/(out) at fair	Dividends declared	**Net unrealized gain/(loss)**	Fair value at December 31, 2018	Net realized gain/(loss)	Dividend income

	31, 2017 (In thousands)			value					
HSLFI[1]	$—	$ 13,262	$ (255)	$ —	$ 255	$ (19)	$ 13,243	$ —	$ 255
Total controlled affiliates	$—	$ 13,262	$ (255)	$ —	$ 255	$ (19)	$ 13,243	$ —	$ 255

(1) The Company and Arena are the members of HSLFI, a joint venture formed as a Delaware limited liability company that is not consolidated by either member for financial reporting purposes. The members provide cash or securities in portfolio companies to HSLFI in exchange for limited liability company equity interests. All portfolio and other material decisions regarding HSLFI must be submitted to HSLFI's board of managers which is comprised of an equal number of managers appointed by each of the Company and Arena. Because management of HSLFI is shared equally between the Company and Arena, the Company does have sole control over significant actions of HSLFI for purposes of the 1940 Act or otherwise.

Note 6. Fair value

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

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

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

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

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

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

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

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

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

Debt investments: The fair value of debt investments is estimated by discounting the expected future cash flows using the period end rates at which similar debt investments would be made to borrowers with similar credit ratings and for the same remaining maturities. At March 31, 2019 and December 31, 2018, the hypothetical market yields used ranged from 11% to 25%. Significant increases (decreases) in this unobservable input would result in a significantly lower (higher) fair value measurement. These assets are recorded at fair value on a recurring basis and are categorized as Level 3 within the fair value hierarchy described above.

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

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

- Underlying asset value of the issuer is estimated based on information available, including any information regarding the most recent rounds of borrower funding. Significant increases (decreases) in this unobservable input would result in a significantly higher (lower) fair value measurement.
- Volatility, or the amount of uncertainty or risk about the size of the changes in the warrant price, is based on indices of publicly traded companies similar in nature to the underlying company issuing the warrant. A total of seven such indices are used. Significant increases (decreases) in this unobservable input would result in a significantly higher (lower) fair value measurement.
- The risk-free interest rates are derived from the U.S. Treasury yield curve. The risk-free interest rates are calculated based on a weighted average of the risk-free interest rates that correspond closest to the expected remaining life of the warrant.
- Other adjustments, including a marketability discount on private company warrants, are estimated based on management's judgment about the general industry environment.
- Historical portfolio experience on cancellations and exercises of the Company's warrants are utilized as the basis for determining the estimated time to exit of the warrants in each financial reporting period. Warrants may be exercised in the event of acquisitions, mergers or initial public offerings, and cancelled due to events such as bankruptcies, restructuring activities or additional financings. These events cause the expected remaining life assumption to be shorter than the contractual term of the warrants. Significant increases (decreases) in this unobservable input would result in significantly higher (lower) fair value measurement.

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

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

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

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

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The following tables provide a summary of quantitative information about the Company’s Level 3 fair value measurements of its investments as of March 31, 2019 and December 31, 2018. In addition to the techniques and inputs noted in the table below, according to the Company’s valuation policy, the Company may also use other valuation techniques and methodologies when determining its fair value measurements.

The following table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to the Company’s fair value measurements as of March 31, 2019:

March 31, 2019

Investment Type	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range	Weighted **Average**[(1)]
(Dollars in thousands, except per share data)					
Debt investments	$235,268	Discounted Expected Future Cash Flows	Hypothetical Market Yield	11% – 25%	13%
Warrant investments	8,475	Black-Scholes Valuation Model	Price Per Share	$0.00 – $980.00	$41.55
			Average Industry Volatility	20%	20%
			Marketability Discount	20%	20%
			Estimated Time to Exit	1 to 5 years	3 years
	50	Estimated Proceeds	Price Per Share	$0.14	$0.14
Other investments	6,420	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	$251,502				

(1) Weighted average is calculated by multiplying (a) the unobservable input for each investment in the investment 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, 2018:

December 31, 2018

Investment Type	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range	Weighted **Average**(1)
(Dollars in thousands, except per share data)					
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 Volatility	20%	20%
			Marketability Discount	20%	20%
			Estimated Time to Exit	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				

(1) Weighted average is calculated by multiplying (a) the unobservable input for each investment in the investment 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 March 31, 2019, the closing price of the 2022 Notes on the New York Stock Exchange was $25.61 per note, or $38.3 million. Therefore, the Company has categorized this borrowing as Level 1 within the fair value hierarchy described above.

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

The following tables detail the assets that are carried at fair value and measured at fair value on a recurring basis as of March 31, 2019 and December 31, 2018 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Debt investments	$—	$—	$235,268	$235,268
Warrant investments	—	1,208	8,525	9,733
Other investments	—	—	6,420	6,420
Equity investments	97	—	1,289	1,386
Equity interest in HSLFI[1]	—	—	—	13,345
Total investments	$97	$1,208	$251,502	$266,152

(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, 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.

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The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the three months ended March 31, 2019:

	Three Months Ended March 31, 2019				
	Debt Investments	**Warrant Investments**	**Equity Investments**	**Other Investments**	Total
	(In thousands)				
Level 3 assets, beginning of period	$216,401	$ 8,632	$ 1,289	$ 7,640	$233,962
Purchase of investments	38,082	—	—	—	38,082
Warrants and equity received and classified as Level 3	—	378	—	—	378
Principal payments received on investments	(18,605)	—	—	(8)	(18,613)
Proceeds from sale of investments	—	(783)	—	—	(783)
Net realized gain on investments	—	404	—	—	404
Unrealized depreciation included in earnings	(16)	(106)	—	(1,212)	(1,334)
Other	(594)	—	—	—	(594)
Level 3 assets, end of period	$235,268	$ 8,525	$ 1,289	$ 6,420	$251,502

During the three months ended March 31, 2019, there were no transfers in or out of Level 3.

The change in unrealized depreciation included in the consolidated statement of operations attributable to Level 3 investments still held at March 31, 2019 includes $1.2 million in unrealized depreciation on debt and other investments and $0.3 million in unrealized appreciation on warrant 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 three months ended March 31, 2018:

	Three Months Ended March 31, 2018				
	Debt	**Warrant**	**Equity**	**Other**	Total

	Investments	Investments	Investments	Investments	
	(In thousands)				
Level 3 assets, beginning of period	$203,793	$ 7,373	$ 249	$ 7,700	$219,115
Purchase of investments	8,562	—	—	—	8,562
Warrants and equity received and classified as Level 3	—	240	791	—	1,031
Principal payments received on investments	(15,452)	—	—	(88)	(15,540)
Proceeds from sale of investments	(2,715)	—	—	—	(2,715)
Net realized loss on investments	(15)	(134)	—	—	(149)
Unrealized (depreciation) appreciation included in earnings	(270)	(21)	(50)	88	(253)
Other	(933)	—	—	—	(933)
Level 3 assets, end of period	$192,970	$ 7,458	$ 990	$ 7,700	$209,118

During the three months ended March 31, 2018, there were no transfers in or out of Level 3.

The change in unrealized depreciation included in the consolidated statement of operations attributable to Level 3 investments still held at March 31, 2018 includes $0.3 million in unrealized depreciation on debt and other investments, $0.1 million in unrealized depreciation on warrant investments and $0.05 million in unrealized depreciation on equity investments.

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

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

As of March 31, 2019 and December 31, 2018, 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.

Note 7. Borrowings

The following table shows the Company’s borrowings as of March 31, 2019 and December 31, 2018:

	March 31, 2019			December 31, 2018		
	Total Commitment	Balance Outstanding	Unused Commitment	Total Commitment	Balance Outstanding	Unused Commitment
			(In thousands)			
Key Facility	$125,000	$ 95,500	$29,500	$125,000	$ 90,500	$ 34,500
2022 Notes	37,375	37,375	—	37,375	37,375	—
Total before debt issuance costs	162,375	132,875	29,500	162,375	127,875	34,500
Unamortized debt issuance costs attributable to term borrowings	—	(952)	—	—	(1,022)	—
Total borrowings outstanding, net	$162,375	$ 131,923	$29,500	$162,375	$ 126,853	$ 34,500

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.

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 March 31, 2019, the asset coverage for borrowed amounts was 218%.

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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 $125 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 2.49% and 2.50% on March 31, 2019 and December 31, 2018, respectively. The average interest rate for the three months ended March 31, 2019 and 2018 was 5.76% and 4.85%, respectively. The Key Facility requires the payment of an unused line fee in an amount equal to 0.50% of any unborrowed amount available under the facility annually. As of March 31, 2019 and December 31, 2018, the Company had borrowing capacity under the Key Facility of $29.5 million and $34.5 million, respectively. At March 31, 2019 and December 31, 2018, $4.3 million and $0.9 million, respectively, was available, subject to existing terms and advance rates.

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

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

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

The balance of unfunded commitments to extend credit was $39.5 million and $27.5 million as of March 31, 2019 and December 31, 2018, 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. This includes the undrawn revolver commitments discussed in Note 4.

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The following table provides the Company's unfunded commitments by portfolio company as of March 31, 2019:

	March 31, 2019	
	Principal Balance	Fair Value of Unfunded Commitment Liability
	(In thousands)	
Aerin Medical, Inc.	$ 5,000	$ 63
Betabrand Corporation	4,500	66
Catasys, Inc.	5,000	125
CSA Medical, Inc.	9,000	128
Espero Biopharma, Inc.	10,000	100
Mustang Bio, Inc.	5,000	97
StereoVision Imaging, Inc.	1,000	—
Total	$ 39,500	$ 579

The table above also provides the fair value of the Company's unfunded commitment liability as of March 31, 2019, which totaled $0.6 million. The fair value at inception of the delay draw credit agreements is equal to the fees and/or warrants received to enter into these agreements, taking into account the remaining terms of the agreements and the counterparties' credit profile. The unfunded commitment liability reflects the fair value of these future funding commitments and is included in the Company's consolidated statement of assets and liabilities.

Note 9. Concentrations of credit risk

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

The Company’s largest debt investments may vary from period to period as new debt investments are recorded and existing debt investments are repaid. The Company’s five largest debt investments, at cost, represented 30% and 32% of total debt investments outstanding as of March 31, 2019 and December 31, 2018, respectively. No single debt investment represented more than 10% of the total debt investments as of March 31, 2019 and December 31, 2018. 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 26% and 29% of total interest and fee income on investments for the three months ended March 31, 2019 and 2018, respectively.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. Distributions

The Company's distributions are recorded on the declaration date. The following table summarizes the Company's distribution activity for the three months ended March 31, 2019 and 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)			
Three Months Ended March 31, 2019						
3/1/19	5/17/19	6/17/19	$ 0.10	$ —	—	$ —
3/1/19	4/18/19	5/15/19	0.10	—	—	—
3/1/19	3/19/19	4/16/19	0.10	1,139	1,199	14
			$ 0.30	$ 1,139	1,199	$ 14
Year Ended December 31, 2018						
10/26/18	2/20/19	3/15/19	$ 0.10	$ 1,140	1,061	$ 14
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	$ 13,671	14,530	$ 166
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

On April 26, 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
June 18, 2019	June 19, 2019	July 16, 2019	$ 0.10
July 17, 2019	July 18, 2019	August 15, 2019	$ 0.10
August 16, 2019	August 19, 2019	September 17, 2019	$ 0.10

After paying distributions of $0.30 per share and earning taxable net investment income of $0.30 per share for the quarter, the Company’s undistributed spillover income as of March 31, 2019 was $0.10 per share. Spillover income includes any ordinary income and net capital gains from the preceding tax years that were not distributed during such tax years.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Financial highlights

The following table shows financial highlights for the Company:

	Three Months Ended March 31, 2019		2018	
	(In thousands, except share and per share data)			
Per share data:				
Net asset value at beginning of period	$ 11.64		$ 11.72	
Net investment income	0.28		0.28	
Realized gain (loss) on investments	0.10		(0.01	)
Unrealized depreciation on investments	(0.12	)	(0.04	)
Net increase in net assets resulting from operations	0.26		0.23	
Distributions declared[1]	(0.30	)	(0.30	)
From net investment income	(0.30	)	(0.30	)
From net realized gain on investments	—		—	
Return of capital	—		—	
Other[2]	(0.05	)	—	
Net asset value at end of period	$ 11.55		$ 11.65	
Per share market value, beginning of period	$ 11.25		$ 11.22	
Per share market value, end of period	$ 11.79		$ 10.39	
Total return based on a market value[3]	7.5	%	(4.7	)%
Shares outstanding at end of period	13,538,481		11,523,951	
Ratios, net of waiver, to average net assets:				
Expenses without incentive fees	11.7	%[4]	10.2	%[4]
Incentive fees	2.2	%[4]	1.6	%[4]
Net expenses	13.9	%[4]	11.8	%[4]
Net investment income with incentive fees	8.9	%[4]	9.5	%[4]
Ratios, without waiver, to average net assets:				
Expenses without incentive fees[5]	11.7	%[4]	10.2	%[4]
Incentive fees[5]	5.4	%[4]	1.6	%[4]
Net expenses[5]	17.1	%[4]	11.8	%[4]
Net investment income with incentive fees[5]	5.8	%[4]	9.5	%[4]
Net assets at the end of the period	$ 156,424		$ 134,261	
Average net asset value	$ 145,341		$ 134,668	

Average debt per share	$ 10.69	$ 8.28
Portfolio turnover ratio	17.2 %	4.3 %

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

(2) 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.

(3) 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.

(4) Annualized.

(5) During the three months ended March 31, 2019, the Advisor waived $1.1 million of performance based incentive fee.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 12. Subsequent Events

On April 1, 2019, the Company funded a $15.0 million loan to a new portfolio company, Encore Dermatology, Inc., a specialty pharmaceutical company focused on the U.S. dermatology market.

On April 1, 2019, Powerhouse Dynamics, Inc. (“Powerhouse”) prepaid its outstanding principal balance of $0.4 million on its venture loan, plus interest and prepayment fee. Powerhouse also completed a sale transaction from which the Company received proceeds of approximately $0.1 million in connection with the termination of the Company’s warrants in Powerhouse.

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

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

Forward-looking statements

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

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

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

We use words such as “anticipates,” “believes,” “expects,” “intends,” “seeks” and similar expressions to identify forward-looki statements. Undue influence should not be placed on the forward looking statements as our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors in “Risk Factors” and elsewhere in our annual report on Form 10-K for the year ended December 31, 2018, and elsewhere in this quarterly report on Form 10-Q.

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

Overview

We are a specialty finance company that lends to and invests in development-stage companies in the technology, life science, healthcare information and services and cleantech industries, which we refer to as our “Target Industries.” Our investment objective is to maximize our investment portfolio’s total return by generating current income from the debt investments we make and capital appreciation from the warrants we receive when making such debt investments. We are focused on making secured debt investments, which we refer to collectively as “Venture Loans,” to venture capital backed companies in our Target Industries, which we refer to as “Venture Lending.” We also selectively provide Venture Loans to publicly traded companies in our Target Industries. Our debt investments are typically secured by first liens or first liens behind a secured revolving line of credit, or Senior Term Loans. As of March 31, 2019, 100%, or $235.3 million, of our debt investment portfolio at fair value consisted of Senior Term Loans. Venture Lending is typically characterized by (1) the making of a secured debt investment after a venture capital or equity investment in the portfolio company has been made, which investment provides a source of cash to fund the portfolio company’s debt service obligations under the Venture Loan, (2) the senior priority of the Venture Loan which requires repayment of the Venture Loan prior to the equity investors realizing a return on their capital, (3) the relatively rapid amortization of the Venture Loan and (4) the lender’s receipt of warrants or other success fees with the making of the Venture Loan.

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the Investment Company Act of 1940, as amended, or the 1940 Act. In addition, for U.S. federal income tax purposes, we have elected to be treated as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code. As a BDC, we are required to comply with regulatory requirements, including limitations on our use of debt. We are permitted to, and expect to, finance our investments through borrowings. On March 23, 2018, the SBCAA amended Section 61(a) of the 1940 Act to add Section 61(a)(2) which enables BDCs to reduce their asset coverage requirements from 200% to 150%. This provision permits a BDC to double the maximum amount of leverage that it is permitted to incur. As defined in the 1940 Act, asset coverage of 150% means that for every $100 of net assets a BDC holds, it may raise up to $200 from borrowing and issuing senior securities. We received approval from our stockholders to reduce our asset coverage requirement from 200% to 150% on October 30, 2018. The amount of leverage that we may employ will depend on our assessment of market conditions and other factors at the time of any proposed borrowing. As a RIC, we generally are not subject to corporate-level income taxes on our investment company taxable income, determined without regard to any deductions for dividends paid, and our net capital gain that we distribute as dividends for U.S. federal income tax purposes to our stockholders as long as we meet certain source-of-income, distribution, asset diversification and other requirements.

Compass Horizon Funding Company LLC, or Compass Horizon, our predecessor company, commenced operations in March 2008. We were formed in March 2010 for the purpose of acquiring Compass Horizon and continuing its business as a public entity.

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

Portfolio composition and investment activity

The following table shows our portfolio by type of investment as of March 31, 2019 and December 31, 2018:

	March 31, 2019				December 31, 2018			
	Number of Investments	**Fair Value**	**Percentage of Total Portfolio**		**Number of Investments**	**Fair Value**	**Percentage of Total Portfolio**	
			(Dollars in thousands)					
Debt investments	35	$235,268	88.0	%	34	$216,401	87.1	%
Warrants	68	9,733	3.6		67	9,324	3.8	
Other investments	4	6,420	2.9		4	7,640	3.1	
Equity	8	1,386	0.5		9	1,833	0.7	
Equity interest in HSLFI	1	13,345	5.0		1	13,243	5.3	
Total		$266,152	100.0	%		$249,441	100.0	%

The following table shows total portfolio investment activity as of and for the three months ended March 31, 2019 and 2018:

	For the Three Months Ended March 31,	
	2019	2018
	(In thousands)	
Beginning portfolio	$ 248,441	$ 222,099
New debt investments	38,082	11,041
Less refinanced debt investments	—	(2,479)
Net new debt investments	38,082	8,562
Principal payments received on investments	(4,523)	(8,799)
Early pay-offs	(14,090)	(6,741)
Accretion of debt investment fees	658	510
New debt investment fees	(538)	(1,195)
New equity	—	791
Proceeds from sale of investments	(1,768)	(2,715)
Dividend income from controlled affiliate investments	331	—
Distributions from controlled affiliate investments	(233)	—
Net realized gain (loss) on investments	1,151	(149)
Net unrealized depreciation on investments	(1,359)	(458)
Ending portfolio	$ 266,152	$ 211,905

We receive payments on our debt investments based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our debt investments prior to their scheduled maturity date. The frequency or volume of these repayments may fluctuate significantly from period to period.

The following table shows our debt investments by industry sector as of March 31, 2019 and December 31, 2018:

	March 31, 2019		December 31, 2018	
	Debt Investments at Fair Value	**Percentage of Total Portfolio**	**Debt Investments at Fair Value**	**Percentage of Total Portfolio**
	(Dollars in thousands)			
Life Science				
Biotechnology	$31,823	13.5 %	$ 19,369	8.9 %
Drug Delivery	1,506	0.6	1,495	0.7
Medical Device	46,263	19.7	46,162	21.3
Technology				
Communications	10,415	4.4	10,539	4.9
Consumer-Related	28,792	12.2	20,491	9.5
Data Storage	19,518	8.3	9,835	4.5
Internet and Media	26,155	11.1	36,984	17.1
Materials	8,380	3.6	8,372	3.9
Power Management	400	0.2	512	0.2
Semiconductors	—	—	3,413	1.6
Software	36,598	15.6	35,747	16.5
Healthcare Information and Services				
Software	25,418	10.8	23,482	10.9
Total	$235,268	100.0 %	$ 216,401	100.0 %

The largest debt investments in our portfolio may vary from period to period as new debt investments are originated and existing debt investments are repaid. Our five largest debt investments represented 30% and 32% of total debt investments outstanding as of March 31, 2019 and December 31, 2018, respectively. No single debt investment represented more than 10% of our total debt investments as of March 31, 2019 and December 31, 2018.

Debt investment asset quality

We use an internal credit rating system which rates each debt investment on a scale of 4 to 1, with 4 being the highest credit quality rating and 3 being the rating for a standard level of risk. A rating of 2 represents an increased level of risk and, while no loss is currently anticipated for a 2-rated debt investment, there is potential for future loss of principal. A rating of 1 represents a deteriorating credit quality and a high degree of risk of loss of principal. Our internal credit rating system is not a national credit rating system. As of March 31, 2019 and December 31, 2018, our debt investments had a weighted average credit rating of 3.1. The following table shows the classification of our debt investment portfolio by credit rating as of March 31, 2019 and December 31, 2018:

	March 31, 2019			December 31, 2018		
	Number of Investments	**Debt Investments at Fair Value**	**Percentage of Debt Investments**	**Number of Investments**	**Debt Investments at Fair Value**	**Percentage of Debt Investments**
			(Dollars in thousands)			
Credit Rating						
4	4	$ 26,927	11.4 %	6	$ 41,677	19.3 %
3	27	197,634	84.0	23	155,439	71.8
2	4	10,707	4.6	5	19,285	8.9
1	—	—	—	—	—	—
Total	35	$ 235,268	100.0 %	34	$ 216,401	100.0 %

As of March 31, 2019 and December 31, 2018, there were no debt investments with an internal credit rating of 1.

Horizon Secured Loan Fund I LLC

On June 1, 2018, we and Arena Sunset SPV, LLC, or Arena, formed a joint venture, Horizon Secured Loan Fund I, or HSLFI, to make investments, either directly or indirectly through subsidiaries, primarily in the form of secured loans to development-stage companies in the technology, life science, healthcare information and services and cleantech industries. HSLFI was formed as a Delaware limited liability company and is not consolidated by either us or Arena for financial reporting purposes. Investments held by HSLFI are measured at fair value. As of March 31, 2019 and December 31, 2018, HSLFI had total assets of $30.9 million and $26.4 million, respectively. HSLFI's portfolio consisted of debt investments in four portfolio companies as of March 31, 2019 and December 31, 2018. As of March 31, 2019, the largest investment in a single portfolio company in the HSLFI's portfolio in aggregate principal amount was $11.3 million and the four largest investments in portfolio companies in the HSLFI totaled $29.2 million. 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 March 31, 2019 and December 31, 2018, HSLFI had no investments on non-accrual status. HSLFI invests in portfolio companies in the same industries in which we may directly invest.

We invest cash or securities in portfolio companies in HSLFI in exchange for limited liability company equity interests in HSLFI. As of March 31, 2019 and December 31, 2018, we and Arena each owned 50.0% of the equity interests of HSLFI. We had an original commitment to fund $25.0 million of equity interests in HSLFI. As of March 31, 2019 and December 31, 2018, $11.7 million was unfunded. Our investment in HSLFI consisted of an equity contribution of $13.3 million as of March 31, 2019 and December 31, 2018.

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

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

In addition, on June 1, 2018, HSLFI entered into a sale and servicing agreement with HFI, as Issuer, and us, as Servicer, pursuant to which HSLFI will sell or contribute to HFI certain secured loans made to certain portfolio companies. HFI entered into a Note Funding Agreement, or the NYL Facility, with several entities owned or affiliated with New York Life Insurance Company, or the 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 $4.2 million in advances made by the Noteholders as of March 31, 2019 at an interest rate of 5.29%. There were no advances made by the Noteholders as of December 31, 2018.

The following table shows a summary of HSLFI’s investment portfolio for the three months ended March 31, 2019:

	For the three months ended, March 31, 2019 (Dollars in thousands)
Total investments at fair value	$ 28,962
Dollar-weighted annualized yield on average debt investments[(1)]	12.5 %
Number of portfolio companies in HSLFI	4
Largest portfolio company investment at fair value	$ 11,163

(1) HSLFI calculates the yield on dollar-weighted average debt investments for any period measured as (1) total investment income during the period divided by (2) the average of the fair value of debt investments outstanding on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The yield on dollar-weighted average debt investments represents the portfolio yield and does not reflect HSLFI’s expenses.

The following table shows HSLFI’s total portfolio investment activity as of and for the three months ended March 31, 2019:

	For the Three Months Ended March 31, 2019 **(In thousands)**
Beginning portfolio	$24,734
New debt investments	4,227
Accretion of debt investment fees	32
New debt investment fees	(39)
Net unrealized appreciation on investments	8
Ending portfolio	$28,962

The following table shows HSLFI’s individual investments as of March 31, 2019:

	Principal	Cost of	Fair

Portfolio Company (1)	Sector	**Type of Investment** (2)(3)(4)	Amount	**Investments**(5)	Value
(Dollars in thousands)					
Debt Investments — Life science					
Celsion Corporation (6)(7)(8)	Biotechnology	Term Loan (10.12% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	$ 2,500	$ 2,453	$ 2,453
		Term Loan (10.12% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	2,500	2,453	2,453
Total Debt Investments — Life science				4,906	4,906
Debt Investments — Technology					
Intelepeer Holdings, Inc. (6)(7)	Communications	Term Loan (12.44% cash (Libor + 9.95%; Floor 11.25%), 3.30% ETP, Due 1/1/22)	4,000	3,930	3,930
		Term Loan (12.44% cash (Libor + 9.95%; Floor 11.25%), 3.30% ETP, Due 1/1/22)	4,000	3,930	3,930
		Term Loan (12.45% cash (Libor + 9.95%; Floor 12.45%), 2.50% ETP, Due 10/1/22)	1,227	1,204	1,204
New Signature US, Inc. (6)(7)(9)	Software	Term Loan (10.99% cash (Libor + 8.50%; Floor 10.50%), 3.50% ETP, Due 7/1/22)	8,250	8,136	8,136
		Term Loan (10.99% cash (Libor + 8.50%; Floor 10.50%), 3.50% ETP, Due 2/1/23)	3,000	2,952	2,952
Total Debt Investments — Technology				20,152	20,152

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Portfolio Company [1]	Sector	**Type of Investment** [2][3][4]	Principal Amount	Cost of **Investments**[5]	Fair Value
(Dollars in thousands)					
Debt Investments — Healthcare information and services					
HealthEdge Software, Inc. (6)(7)	Software	Term Loan (10.74% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 10/1/23)	3,750	3,701	3,701
Total Debt Investments — Healthcare information and services				3,701	3,701
Total Debt Investments				28,759	28,759
Warrant Investments — Life science					
Celsion Corporation (6)(7)(8)	Biotechnology	95,057 Common Stock Warrants		58	11
Total Warrant Investments — Life science				58	11
Warrant Investments — Technology					
Intelepeer Holdings, Inc. (6)(7)	Communications	1,886,934 Preferred Stock Warrants		82	101
BSI Platform Holdings, LLC (6)(7)(9)	Software	562,500 Preferred Stock Warrants		77	75
Total Warrant Investments — Technology				159	176
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				233	203
Total Portfolio Investment Assets				$ 28,992	$ 28,962
Short Term Investments — Money Market Funds					
US Bank Money Market Deposit Account (6)				$ 317	$ 317
				$ 317	$ 317

Total Short Term Investments — Money Market Funds		
Short Term Investments — Restricted Money Market Funds		
US Bank Money Market Deposit Account (6)	$ 23	$23
Total Short Term Investments — Restricted Money Market Funds	$ 23	$23

(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 end-of-term payments, or ETPs, and any additional fees related to the investments, such as deferred interest, commitment fees or prepayment fees. Debt investments are at variable rates for the term of the debt investment, unless otherwise indicated. All debt investments based on the London InterBank Offered Rate, or LIBOR, are based on one-month LIBOR. For each debt investment, the current interest rate in effect as of March 31, 2019 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.

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				
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.

The following tables show certain summarized financial information for HSLFI as of March 31, 2019 and December 31, 2018 and for the three months ended March 31, 2019:

	March 31, 2019	December 31, 2018
	(In thousands)	
Selected Statement of Assets and Liabilities Information		
Total investments at fair value (cost of $28,992 and $24,771, respectively)	$28,962	$ 24,734
Investments in money market funds	317	74
Restricted investments in money market funds	23	—
Cash and cash equivalents	5	76
Interest receivable	340	252
Other assets	1,255	1,306
Total assets	$30,902	$ 26,442
Borrowings	$4,227	$ —
Other liabilities	110	81
Total liabilities	4,337	81
Members' equity	26,565	26,361
Total liabilities and members' equity	$30,902	$ 26,442

	For the three months ended March 31, 2019 (In thousands)
Selected Statements of Operations Information	
Interest income on investments	$ 849
Total expenses	$ 187
Net investment income	$ 662
Net unrealized appreciation on investments	$ 8

Net increase in net assets resulting from operations	$	670

Consolidated results of operations

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

Comparison of the three months ended March 31, 2019 and 2018

The following table shows consolidated results of operations for the three months ended March 31, 2019 and 2018:

	For the Three Months Ended March 31,	
	2019	2018
	(In thousands)	
Total investment income	$ 8,306	$ 7,175
Total expenses	6,213	3,965
Performance based incentive fee waived	(1,140)	—
Net expenses	5,073	3,965
Net investment income	3,233	3,210
Net realized gain (loss) on investments	1,151	(149)
Net unrealized depreciation on investments	(1,359)	(458)
Net increase in net assets resulting from operations	$ 3,025	$ 2,603
Average debt investments, at fair value	$ 221,933	$ 199,728
Average borrowings outstanding	$ 124,697	$ 95,375

Net increase in net assets resulting from operations can vary substantially from period to period for various reasons, including the recognition of realized gains and losses and unrealized appreciation and depreciation on investments. As a result, quarterly comparisons of net increase in net assets resulting from operations may not be meaningful.

Investment income

Total investment income increased by $1.1 million, or 15.8%, to $8.3 million for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018. For the three months ended March 31, 2019, total investment income consisted primarily of $7.7 million in interest income from investments, which included $1.5 million in income from the accretion of origination fees and ETPs and $0.3 million in fee income. Interest income on debt investments increased by $0.9 million, or 13.4%, for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. Interest income on debt investments for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018 increased primarily due to an increase of $22.2 million, or 11.1%, in the average size of our debt investment portfolio and an increase in one-month LIBOR which is the base rate for most of our variable rate debt investments. Fee income, which includes success fee and prepayment fee income on debt investments, decreased by $0.1 million, or 24.6%, to $0.3 million for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 primarily due to a decrease in fees earned on lower principal prepayments received.

The following table shows our dollar-weighted annualized yield for the three months ended March 31, 2019 and 2018:

	For the three months ended March 31,			
Investment type:	2019		2018	
Debt investments(1)(2)	14.4	%	14.4	%
Debt investments and equity investment in HSLFI(1)(3)(4)	14.1	%	14.4	%
Equity investment in HSLFI(1)(4)(5)	10.0	%	—	
All investments(1)(6)	13.1	%	13.1	%

(1) We calculate the dollar-weighted annualized yield on average investment type for any period as (1) total related investment income during the period divided by (2) the average of the fair value of the investment type outstanding on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted annualized yield on average investment type is higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors

(2) Excludes any yield from warrants, equity, other investments and equity investment in HSLFI. Related investment income includes interest income and fee income from debt investments.
(3) Excludes any yield from warrants, equity and other investments. Related investment income includes interest income and fee income from debt investments and dividend income from equity investment in HSLFI.
(4) HSLFI was formed on June 1, 2018. There was no yield from equity investment in HSLFI for the three months ended March 31, 2018.
(5) Excludes any yield from debt investments, warrants, equity and other investments. Related investment income includes dividend income from equity investment in HSLFI.
(6) Includes any yield from debt investments, warrants, equity, other investments and equity investment in HSFLI. Related investment income includes interest income, fee income and dividend income.

Investment income, consisting of interest income and fees on debt investments, can fluctuate significantly upon repayment of large debt investments. Interest income from the five largest debt investments in the aggregate accounted for 26% and 29% of investment income for the three months ended March 31, 2019 and 2018, respectively.

Expenses

Net expenses increased by $1.1 million, or 27.9%, to $5.1 million for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018. Total expenses for each period consisted of interest expense, base management fee, incentive and administrative fees, professional fees and general and administrative expenses.

Interest expense increased by $0.6 million, or 38.0%, to $2.0 million for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018. Interest expense, which includes the amortization of debt issuance costs, increased primarily due to an increase in average borrowings of $29.3 million, or 30.7% and an increase in one-month LIBOR for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018.

Base management fee expense increased by $0.2 million, or 16.4%, to $1.3 million for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018. Base management fee increased primarily due to an increase of $22.2 million, or 11.1%, in the average size of our investment portfolio for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018.

On March 5, 2019, our Advisor irrevocably waived the receipt of incentive fees related to the amounts previously deferred that it may be entitled to receive under the Investment Management Agreement for the period commencing on January 1, 2019 and ending on December 31, 2019. Such waived incentive fees will not be subject to recoupment. During the three months ended March 31, 2019, our Advisor waived performance based incentive fees of $1.1 million which our Advisor would have otherwise been paid. This resulted in $1.1 million of reduced expense and additional net investment income for the three months ended March 31, 2019.

On March 6, 2018, our Advisor irrevocably waived the receipt of incentive fees related to the amounts previously deferred that it may be entitled to receive under the Investment Management Agreement for the period commencing on January 1, 2018 and ending on December 31, 2018. Such waived incentive fees are not subject to recoupment. During the three months ended March 31, 2018, our Advisor did not waive performance based incentive fees.

Performance based incentive fee expense, net of the waiver above, increased by $0.3 million, or 48.3%, to $0.8 million for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018. This increase was due to (i) an increase of $0.3 million, or 7.6%, in Pre-Incentive Fee Net Investment Income for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 and (ii) an increase in the Incentive Fee Cap calculated based on the incentive fee cap and deferral mechanism in our Investment Management Agreement for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. The incentive fee on pre-incentive fee net investment income was subject to the Incentive Fee Cap for the three months ended March 31, 2018 due to the cumulative incentive fees paid exceeding 20% of cumulative pre-incentive fee net return during the applicable quarter and the 11 preceding full calendar quarters.

Administrative fee expense, professional fees and general and administrative were $0.9 million and $0.8 million, respectively, for the three months ended March 31, 2019 compared to the three months ended March 31, 2018.

Net realized gains and losses and net unrealized appreciation and depreciation

Realized gains or losses on investments are measured by the difference between the net proceeds from the repayment or sale and the cost basis of our investments without regard to unrealized appreciation or depreciation previously recognized. Realized gains or losses on investments include investments charged off during the period, net of recoveries. The net change in unrealized appreciation or depreciation on investments primarily reflects the change in portfolio investment fair values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized.

During the three months ended March 31, 2019, we realized net gains totaling $1.2 million primarily from the sale of our equity investment in one portfolio company and from the consideration we received from the termination of warrants upon the sale of one portfolio company. During the three months ended March 31, 2018, we realized net losses totaling $0.1 million primarily from the write off of warrants in three portfolio companies.

During the three months ended March 31, 2019, net unrealized depreciation on investments totaled $1.4 million which was primarily due to the unrealized depreciation on one of our other investments. During the three months ended March 31, 2018, net unrealized depreciation on investments totaled $0.5 million which was primarily due to the unrealized depreciation on one debt investment and the unrealized depreciation on one public equity investment.

Liquidity and capital resources

As of March 31, 2019 and December 31, 2018, we had cash of $22.2 million and $12.6 million, respectively. Cash is available to fund new investments, reduce borrowings, pay expenses, repurchase common stock and pay distributions. Our primary sources of capital have been from our public and private equity offerings, use of our revolving credit facilities and issuance of our public debt offerings.

On April 26, 2019, our Board extended a previously authorized stock repurchase program which allows us to repurchase up to $5.0 million of our common stock at prices below our net asset value per share as reported in our most recent consolidated financial statements. Under the repurchase program, we may, but are not obligated to, repurchase shares of our outstanding common stock in the open market or in privately negotiated transactions from time to time. Any repurchases by us will comply with the requirements of Rule 10b-18 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and any applicable requirements of the 1940 Act. Unless extended by our Board, the repurchase program will terminate on the earlier of June 30, 2020 or the repurchase of $5.0 million of our common stock. During the three months ended March 31, 2019 and 2018, we did not make any repurchases of our common stock. From the inception of the stock repurchase program through March 31, 2019, we repurchased 167,465 shares of our common stock at an average price of $11.22 on the open market at a total cost of $1.9 million.

At March 31, 2019 and December 31, 2018, the outstanding principal balance under our revolving credit facility, or the Key Facility, with KeyBank National Association was $95.5 million and $90.5 million, respectively. As of March 31, 2019 and December 31, 2018, we had borrowing capacity under the Key Facility of $29.5 million and $34.5 million, respectively. At March 31, 2019 and December 31, 2018, $4.3 million and $0.9 million, respectively, was available, subject to existing terms and advance rates.

Our operating activities used cash of $15.2 million for the three months ended March 31, 2019, and our financing activities provided cash of $24.7 million for the same period. Our operating activities used cash primarily to purchase investments in portfolio companies partially offset by principal payments received on our debt investments. Our financing activities provided cash primarily from the completion of a follow-on public offering of 2.0 million shares of common stock for net proceeds of $23.2 million, after deducting underwriting commission and discounts and other offering expenses and advances on our Key Facility, partially offset by cash used to repay our Key Facility and pay distributions to our stockholders.

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

Our primary use of available funds is to make debt investments in portfolio companies and for general corporate purposes. We expect to raise additional equity and debt capital opportunistically as needed and, subject to market conditions, to support our future growth to the extent permitted by the 1940 Act.

In order to remain subject to taxation as a RIC, we intend to distribute to our stockholders all or substantially all of our investment company taxable income. In addition, as a BDC, we are required to maintain asset coverage of at least 150%. This requirement limits the amount that we may borrow.

We believe that our current cash, cash generated from operations, and funds available from our Key Facility will be sufficient to meet our working capital and capital expenditure commitments for at least the next 12 months.

Current borrowings

The following table shows our borrowings as of March 31, 2019 and December 31, 2018:

	March 31, 2019			December 31, 2018		
	Total Commitment	Balance Outstanding	Unused Commitment	Total Commitment	Balance Outstanding	Unused Commitment
			(In thousands)			
Key Facility	$125,000	$ 95,500	$29,500	$125,000	$ 90,500	$ 34,500
2022 Notes	37,375	37,375	—	37,375	37,375	—
Total before debt issuance costs	162,375	132,875	29,500	162,375	127,875	34,500
Unamortized debt issuance costs attributable to term borrowings	—	(952)	—	—	(1,022)	—
Total borrowings outstanding, net	$162,375	$ 131,923	$29,500	$162,375	$ 126,853	$ 34,500

We entered into the Key Facility effective November 4, 2013. The interest rate on the Key Facility is based upon the one-month LIBOR plus a spread of 3.25%, with a LIBOR floor of 0.75%. The LIBOR rate was 2.49% and 2.50% as of March 31, 2019 and December 31, 2018, respectively. The interest rates in effect were 5.74% and 5.60% as of March 31, 2019 and December 31, 2018, respectively. The Key Facility requires the payment of an unused line fee in an amount equal to 0.50% of any unborrowed amount available under the facility annually.

The Key Facility has an accordion feature which allows for an increase in the total loan commitment to $150 million. On December 28, 2018, we amended the Key Facility, increasing the aggregate commitments under the Key Facility by $25 million to $125 million. The Key Facility is collateralized by debt investments held by Horizon Credit II LLC, or Credit II, and permits an advance rate of up to fifty percent (50%) of eligible debt investments held by Credit II. The Key Facility contains covenants that, among other things, require us to maintain a minimum net worth, to restrict the debt investments securing the Key Facility to certain criteria for qualified debt investments and to comply with portfolio company concentration limits as defined in the related loan agreement. The period during which we may request advances under the Key Facility, or the Revolving Period, extends through April 6, 2021. After the Revolving Period, we may not request new advances, and we must repay the outstanding advances under the Key Facility as of such date, at such times and in such amounts as are necessary to maintain compliance with the terms and conditions of the Key Facility, particularly the condition that the principal balance of the Key Facility not exceed fifty percent (50%) of the aggregate principal balance of our eligible debt investments to our portfolio companies. The maturity of the Key Facility, the date on which all outstanding advances under the Key Facility are due and payable, is on April 6, 2023.

On September 29, 2017, we issued and sold an aggregate principal amount of $32.5 million of our 6.25% notes due 2022, or the 2022 Notes, and on October 11, 2017, pursuant to the underwriters' 30-day option to purchase additional notes, we sold an additional $4.9 million of the 2022 Notes. The 2022 Notes have a stated maturity of September 15, 2022 and may be redeemed in whole or in part at our option at any time or from time to time on or after September 15, 2019 at a redemption price of $25 per security plus accrued and unpaid interest. The 2022 Notes bear interest at a rate of 6.25% per year payable quarterly on March 15, June 15, September 15 and December 15 of each year. The 2022 Notes are our direct, unsecured obligations and (1) rank equally in right of payment with our current and future unsecured indebtedness; (2) are senior in right of payment to any of our future indebtedness that expressly provides it is subordinated to the 2022 Notes; (3) are effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness and (4) are structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries. As of March 31, 2019, we were in material compliance with the terms of the 2022 Notes. The 2022 Notes are listed on the New York Stock Exchange under the symbol "HTFA".

Other assets

As of March 31, 2019 and December 31, 2018, other assets were $1.6 million and $1.8 million, respectively, which is primarily comprised of debt issuance costs and prepaid expenses.

Contractual obligations and off-balance sheet arrangements

The following table shows our significant contractual payment obligations and off-balance sheet arrangements as of March 31, 2019:

	Payments due by period				
	Total	**Less than 1 year**	**1 – 3 Years**	**3 – 5 Years**	**After 5 years**
	(In thousands)				
Borrowings	$132,875	$ 8,920	$73,569	$50,386	$ —
Unfunded commitments	39,500	34,500	5,000	—	—
Total	$172,375	$ 43,420	$78,569	$50,386	$ —

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our unfunded commitments may be significant from time to time. As of March 31, 2019, we had such unfunded commitments of $39.5 million. This includes $5.0 million in undrawn revolver commitments. These commitments are subject to the same underwriting and ongoing portfolio maintenance requirements as are the financial instruments that we hold on our balance sheet. In addition, these commitments are often subject to financial or non-financial milestones and other conditions to borrowing that must be achieved before the commitment can be drawn. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. We regularly monitor our unfunded commitments and anticipated refinancings, maturities and capital raising, to ensure that we have sufficient liquidity to fund such unfunded commitments. As of March 31, 2019, we reasonably believed that our assets would provide adequate financial resources to satisfy all of our unfunded commitments.

In addition to the Key Facility, we have certain commitments pursuant to our Investment Management Agreement entered into with our Advisor. We have agreed to pay a fee for investment advisory and management services consisting of two components (1) a base management fee equal to a percentage of the value of our gross assets less cash or cash equivalents, and (2) a two-part incentive fee. We have also entered into a contract with our Advisor to serve as our administrator. Payments under the Administration Agreement are equal to an amount based upon our allocable portion of our Advisor's overhead in performing its obligations under the agreement, including rent, fees and other expenses inclusive of our allocable portion of the compensation of our Chief Financial Officer and Chief Compliance Officer and their respective staffs. See Note 3 to our consolidated financial statements for additional information regarding our Investment Management Agreement and our Administration Agreement.

Distributions

In order to qualify and be subject to tax as a RIC, we must meet certain source-of-income, asset diversification and annual distribution requirements. Generally, in order to qualify as a RIC, we must derive at least 90% of our gross income for each tax year from dividends, interest, payments with respect to certain securities, loans, gains from the sale or other disposition of stock, securities or foreign currencies, or other income derived with respect to its business of investing in stock or other securities. We must also meet certain asset diversification requirements at the end of each quarter of each tax year. Failure to meet these diversification requirements on the last day of a quarter may result in us having to dispose of certain investments quickly in order to prevent the loss of RIC status. Any such dispositions could be made at disadvantageous prices or times, and may cause us to incur substantial losses.

In addition, in order to be subject to tax as a RIC and to avoid the imposition of corporate-level tax on the income and gains we distribute to our stockholders in respect of any tax year, we are required under the Code to distribute as dividends to our stockholders out of assets legally available for distribution each tax year an amount generally at least equal to 90% of the sum of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any. Additionally, in order to avoid the imposition of a U.S. federal excise tax, we are required to distribute, in respect of each calendar year, dividends to our stockholders of an amount at least equal to the sum of 98% of our calendar year net ordinary income (taking into account certain deferrals and elections); 98.2% of our capital gain net income (adjusted for certain ordinary losses) for the one year period ending on October 31 of such calendar year; and any net ordinary income and capital gain net income for preceding calendar years that were not distributed during such calendar years and on which we previously did not incur any U.S. federal income tax. If we fail to qualify as a RIC for any reason and become subject to corporate tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. Such a failure would have a material adverse effect on us and our stockholders. In addition, we could be required to recognize unrealized gains, incur substantial taxes and interest and make substantial distributions in order to re-qualify as a RIC. We cannot assure stockholders that they will receive any distributions.

To the extent our taxable earnings in a tax year fall below the total amount of our distributions made to stockholders in respect of such tax year, a portion of those distributions may be deemed a return of capital to our stockholders for U.S. federal income tax purposes. Thus, the source of a distribution to our stockholders may be the original capital invested by the stockholder rather than our income or gains. Stockholders should review any written disclosure accompanying a distribution payment carefully and should not assume that the source of any distribution is our ordinary income or gains.

We have adopted an “opt out” dividend reinvestment plan, or DRIP, for our common stockholders. As a result, if we declare a distribution, then stockholders’ cash distributions will be automatically reinvested in additional shares of our common stock unless a stockholder specifically “opts out” of our DRIP. If a stockholder opts out, that stockholder will receive cash distributions. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state and local taxes, stockholders participating in our DRIP will not receive any corresponding cash distributions with which to pay any such applicable taxes. If our common stock is trading above net asset value, a stockholder receiving distributions in the form of additional shares of our common stock will be treated as receiving a distribution of an amount equal to the fair market value of such shares of our common stock. We may use newly issued shares to implement the DRIP, or we may purchase shares in the open market in connection with our obligations under the DRIP.

Related party transactions

We have entered into the Investment Management Agreement with the Advisor. The Advisor is registered as an investment adviser under the Investment Advisers Act of 1940, as amended. Our investment activities are managed by the Advisor and supervised by the Board, the majority of whom are independent directors. Under the Investment

Management Agreement, we have agreed to pay the Advisor a base management fee as well as an incentive fee. During the three months ended March 31, 2019 and 2018, we paid the Advisor $2.1 million and $1.7 million, respectively, pursuant to the Investment Management Agreement.

Our Advisor is wholly-owned by HTF Holdings LLC, which is wholly-owned by Horizon Technology Finance, LLC. By virtue of their ownership interest in Horizon Technology Finance, LLC, our Chief Executive Officer, Robert D. Pomeroy, Jr. and our President, Gerald A. Michaud, may be deemed to control our Advisor.

We have also entered into the Administration Agreement with the Advisor. Under the Administration Agreement, we have agreed to reimburse the Advisor for our allocable portion of overhead and other expenses incurred by the Advisor in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Financial Officer and Chief Compliance Officer and their respective staffs. In addition, pursuant to the terms of the Administration Agreement the Advisor provides us with the office facilities and administrative services necessary to conduct our day-to-day operations. During the three months ended March 31, 2019 and 2018, we paid the Advisor $0.2 million pursuant to the Administration Agreement.

The predecessor of the Advisor has granted the Company a non-exclusive, royalty-free license to use the name "Horizon Technology Finance."

We believe that we derive substantial benefits from our relationship with our Advisor. Our Advisor may manage other investment vehicles, or Advisor Funds, with the same investment strategy as us. The Advisor may provide us an opportunity to co-invest with the Advisor Funds. Under the 1940 Act, absent receipt of exemptive relief from the SEC, we and our affiliates are precluded from co-investing in negotiated investments. On November 27, 2017, we were granted exemptive relief from the SEC which permits us to co-invest with Advisor Funds, subject to certain conditions.

Critical accounting policies

The discussion of our financial condition and results of operation is based upon our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ. In addition to the discussion below, we describe our significant accounting policies in the notes to our consolidated financial statements.

We have identified the following items as critical accounting policies.

Valuation of investments

Investments are recorded at fair value. Our Board determines the fair value of our portfolio investments. We apply fair value to substantially all of our investments in accordance with Topic 820, *Fair Value Measurement*, of the Financial Accounting Standards Board's, or FASB's, Accounting Standards Codification as amended, or ASC, which establishes a framework used to measure fair value and requires disclosures for fair value measurements. We have categorized our investments carried at fair value, based on the priority of the valuation technique, into a three-level fair value hierarchy. Fair value is a market-based measure considered from the perspective of the market participant who holds the financial instrument rather than an entity specific measure. Therefore, when market assumptions are not readily available, our own assumptions are set to reflect those that management believes market participants would use in pricing the financial instrument at the measurement date.

The availability of observable inputs can vary depending on the financial instrument and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new, whether the product is traded on an active exchange or in the secondary market and the current market conditions. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. The three categories within the hierarchy are as follows:

Level 1	Quoted prices in active markets for identical assets and liabilities.
Level 2	Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active and model-based valuation techniques for which all significant inputs are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Our Board determines the fair value of investments in good faith, based on the input of management, the audit committee and independent valuation firms that have been engaged at the direction of our Board to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing twelve-month period under our valuation policy and a consistently applied valuation process. The Board conducts this valuation process at the end of each fiscal quarter, with 25% (based on fair value) of our valuation of portfolio companies that do not have a readily available market quotations subject to review by an independent valuation firm.

Income recognition

Interest on debt investments is accrued and included in income based on contractual rates applied to principal amounts outstanding. Interest income is determined using a method that results in a level rate of return on principal amounts outstanding. Generally, when a debt investment becomes 90 days or more past due, or if we otherwise do not expect to receive interest and principal repayments, the debt investment is placed on non-accrual status and the recognition of interest income may be discontinued. Interest payments received on non-accrual debt investments may be recognized as income, on a cash basis, or applied to principal depending upon management's judgment at the time the debt investment is placed on non-accrual status. For the three months ended March 31, 2019 and 2018, we did not recognize any interest income from debt investments on non-accrual status.

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

Certain debt investment agreements also require the borrower to make an ETP that is accrued into income over the life of the debt investment to the extent such amounts are expected to be collected. We will generally cease accruing the income if there is insufficient value to support the accrual or if we do not expect the borrower to be able to pay all principal and interest due.

In connection with substantially all lending arrangements, we receive warrants to purchase shares of stock from the borrower. We record the warrants as assets at estimated fair value on the grant date using the Black-Scholes valuation model. We consider the warrants as loan fees and record them as unearned income on the grant date. The unearned income is recognized as interest income over the contractual life of the related debt investment in accordance with our income recognition policy. Subsequent to origination, the warrants are also measured at fair value using the Black-Scholes valuation model. Any adjustment to fair value is recorded through earnings as net unrealized gain or loss on investments. Gains and losses from the disposition of the warrants or stock acquired from the exercise of warrants are recognized as realized gains and losses on investments.

Distributions from HSLFI are evaluated at the time of distribution to determine if the distribution should be recorded as dividend income or a return of capital. Generally, we will not record distributions from HSLFI as dividend income unless there are sufficient accumulated tax-basis earnings and profit in HSLFI prior to distribution. Distributions that are classified as a return of capital are recorded as a reduction in the cost basis of the investment. For the three months ended March 31, 2019, HSLFI distributed $0.2 million classified as dividend income to us.

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

Income taxes

We have elected to be treated as a RIC under Subchapter M of the Code and operate in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC and to avoid the imposition of corporate-level U.S. federal income tax on the amounts we distribute to our stockholders, among other things, we are required to meet certain source of income and asset diversification requirements, and we must timely distribute dividends to our stockholders out of assets legally available for distribution each tax year of an amount generally at least equal to 90% of our investment company taxable income, as defined by the Code and determined without regard to any deduction for dividends paid. We, among other things, have made and intend to continue to make the requisite distributions to our stockholders, which will generally relieve us from incurring any material liability for U.S. federal income taxes.

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and incur a 4% excise tax on such income, as required. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year distributions, we will accrue excise tax, if any, on estimated excess taxable income as taxable income is earned.

We evaluate tax positions taken in the course of preparing our tax returns to determine whether the tax positions are “more-likely-than-not” to be sustained by the applicable tax authority in accordance with ASC Topic 740, *Income Taxes*, as modified by ASC Topic 946, *Financial Services — Investment Companies*. Tax benefits of positions not deemed to meet the more-likely-than-not threshold, or uncertain tax positions, are recorded as a tax expense in the current year. It is our policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax expense. We had no material uncertain tax positions at March 31, 2019 and December 31, 2018.

Recently adopted accounting pronouncement

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

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

SEC Disclosure Update and Simplification

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, or 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, we adopted the SEC Release for the year ended December 31, 2018. The SEC Release required changes to the presentation of our Consolidated Statements of Assets and Liabilities and the Consolidated Statements of Changes in Net Assets. Prior to adoption, we 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, we present 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 Statements of Changes in Net Assets for the three months ended March 31, 2018.

Recent developments

On April 1, 2019, we funded a $15.0 million loan to a new portfolio company, Encore Dermatology, Inc., a specialty pharmaceutical company focused on the U.S. dermatology market.

On April 1, 2019, Powerhouse Dynamics, Inc., or Powerhouse, prepaid its outstanding principal balance of $0.4 million on its venture loan, plus interest and prepayment fee. Powerhouse also completed a sale transaction from which we received proceeds of approximately $0.1 million in connection with the termination of our warrants in Powerhouse.

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

We are subject to financial market risks, including changes in interest rates. During the periods covered by our financial statements, the interest rates on the debt investments within our portfolio were primarily at floating rates. We expect that our debt investments in the future will primarily have floating interest rates. As of March 31, 2019 and December 31, 2018, 99% of the outstanding principal amount of our debt investments bore interest at floating rates. The initial commitments to lend to our portfolio companies are usually based on a floating LIBOR index.

Based on our March 31, 2019 consolidated statement of assets and liabilities (without adjustment for potential changes in the credit market, credit quality, size and composition of assets on the consolidated statement of assets and liabilities or other business developments that could affect net income) and the base index rates at March 31, 2019, the following table shows the annual impact on the change in net assets resulting from operations of changes in interest rates, which assumes no changes in our investments and borrowings:

Change in basis points	Investment Income	Interest Expense	**Change in Net Assets(1)**
	(In thousands)		
Up 300 basis points	$7,634	$2,905	$ 4,729
Up 200 basis points	$5,088	$1,937	$ 3,151
Up 100 basis points	$2,541	$968	$ 1,573
Down 300 basis points	$(2,176)	$(1,684)	$ (492)
Down 200 basis points	$(2,098)	$(1,684)	$ (414)
Down 100 basis points	$(1,561)	$(968)	$ (593)

(1) Excludes the impact of incentive fees based on pre-incentive fee net investment income.

While our 2022 Notes bear interest at a fixed rate, our Key Facility has a floating interest rate provision, subject to a floor of 0.75% per annum, based on a LIBOR index which resets monthly, and any other credit facilities into which we enter in the future may have floating interest rate provisions. We have used hedging instruments in the past to protect us against interest rate fluctuations, and we may use them in the future. Such instruments may include caps, swaps, futures, options and forward contracts. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the investments in our portfolio with fixed interest rates.

Because we currently fund, and expect to continue to fund, our investments with borrowings, our net income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest the funds borrowed. Accordingly, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net income. In periods of rising interest rates, our cost of funds could increase, which would reduce our net investment income.

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

(a) Evaluation of disclosure controls and procedures

As of March 31, 2019, we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

(b) Changes in internal controls over financial reporting.

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

PART II

Item 1: Legal Proceedings.

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

Item 1A: Risk Factors.

In addition to other information set forth in this report, you should carefully consider the factors set forth below and in "Item 1A Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2018, which could materially affect our business, financial condition and/or operating results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results. There have been no material changes during the three months ended March 31, 2019 to the risk factors set forth in "Item 1A. Risk Factors" of our annual report on Form 10-K for the year ended December 31, 2018.

Recently passed legislation will allow us to incur additional leverage.

A BDC has historically been able to issue "senior securities," including borrowing money from banks or other financial institutions, only in amounts such that its asset coverage, as defined in Section 61(a)(2) of the 1940 Act, equals at least 200% after such incurrence or issuance. In March 2018, the Consolidated Appropriations Act of 2018 (which includes the SBCAA) was signed into law and amended the 1940 Act to decrease this percentage from 200% to 150% for a BDC that has received either stockholder approval or approval of a "required majority" (as defined in Section 57(o) of the 1940 Act) of its board of directors of the application of such lower asset coverage ratio to the BDC. As defined in the 1940 Act, asset coverage of 150% means that for every $100 of net assets a BDC holds, it may raise up to $200 from borrowing and issuing senior securities. We received approval from our stockholders to reduce our asset coverage requirement from 200% to 150% on October 30, 2018. In addition, since our base management fee is determined and payable based upon our average adjusted gross assets, which includes any borrowings for investment purposes, our base management fee expense may increase if we incur additional leverage.

Because we intend to distribute substantially all of our income to our stockholders to maintain our ability to be subject to tax as a RIC, we will need to raise additional capital to finance our growth. If funds are not available to

us, we may need to curtail new investments, and our common stock value could decline.

In order to satisfy the requirements to be treated as a RIC for federal income tax purposes, we intend to distribute to our stockholders substantially all of our investment company taxable income and net capital gains each taxable year. However, we may retain all or a portion of our net capital gains and pay applicable income taxes with respect thereto and elect to treat such retained net capital gains as deemed dividend distributions to our stockholders.

As a BDC, we are required to meet a 150% asset coverage ratio, subject to certain disclosure requirements of total assets to total senior securities, which includes all of our borrowings, and any preferred stock we may issue in the future. This requirement limits the amount we may borrow. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments or sell additional common stock and, depending on the nature of our leverage, to repay a portion of our indebtedness at a time when such sales and repayments may be disadvantageous. In addition, the issuance of additional securities could dilute the percentage ownership of our current stockholders in us.

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

None.

Item 3: Defaults Upon Senior Securities.

None.

Item 4: Mine Safety Disclosures.

Not applicable

Item 5: Other Information.

None.

Item 6: Exhibits.

EXHIBIT INDEX

Exhibit No.	**Description**
31.1*	Certifications by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended
31.2*	Certifications by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as

	adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended

*Filed herewith

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SIGNATURES

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

	Horizon Technology Finance Corporation	
Date: April 30, 2019	By:	/s/ Robert D. Pomeroy, Jr.
		Name: Robert D. Pomeroy, Jr.
		Title: Chief Executive Officer and Chairman of the Board
Date: April 30, 2019	By:	/s/ Daniel R. Trolio
		Name: Daniel R. Trolio
		Title: Chief Financial Officer