Horizon Technology Finance Corp
Form 10-Q
November 01, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

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)*

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

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 þ No ¨ ..

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer þ	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller Reporting Company ¨

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

As of November 1, 2016, the Registrant had 11,553,657 shares of common stock, $0.001 par value, outstanding.

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)

	September 30, 2016	**December 31, 2015**
Assets		
Non-affiliate investments at fair value (cost of $228,156 and $255,494, respectively) (Note 4)	$ 208,177	$ 250,267
Investments in money market funds	—	285
Cash	26,170	20,765
Restricted investments in money market funds	—	1,091
Interest receivable	7,781	6,258
Other assets	2,017	2,230
Total assets	$ 244,145	$ 280,896
Liabilities		
Borrowings (Note 6)	$ 95,550	$ 114,954
Distributions payable	3,985	3,980
Base management fee payable (Note 3)	363	385
Incentive fee payable (Note 3)	—	1,028
Other accrued expenses	578	798
Total liabilities	100,476	121,145
Commitments and Contingencies (Note 7)		
Net assets		
Preferred stock, par value $0.001 per share, 1,000,000 shares authorized, zero shares issued and outstanding as of September 30, 2016 and December 31, 2015	—	—
	12	12

Common stock, par value $0.001 per share, 100,000,000 shares authorized, 11,666,642 and 11,648,594 shares issued and 11,551,941 and 11,535,212 shares outstanding as of September 30, 2016 and December 31, 2015, respectively		
Paid-in capital in excess of par	179,902	179,707
Distributions in excess of net investment income	(674)	(2,006)
Net unrealized depreciation on investments	(19,979)	(5,227)
Net realized loss on investments	(15,592)	(12,735)
Total net assets	143,669	159,751
Total liabilities and net assets	$ 244,145	$ 280,896
Net asset value per common share	$ 12.44	$ 13.85

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 September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Investment income				
Interest income on non-affiliate investments	$6,819	$7,705	$24,610	$20,865
Fee income on non-affiliate investments	789	722	1,387	1,684
Total investment income	7,608	8,427	25,997	22,549
Expenses				
Interest expense	1,420	1,441	4,466	4,291
Base management fee (Note 3)	1,135	1,279	3,666	3,456
Performance based incentive fee (Note 3)	—	1,015	2,126	2,473
Administrative fee (Note 3)	197	300	753	877
Professional fees	315	273	1,159	991
General and administrative	218	218	681	776
Total expenses	3,285	4,526	12,851	12,864
Management and performance based incentive fees waived (Note 3)	—	(140)	—	(207)
Net expenses	3,285	4,386	12,851	12,657
Net investment income before excise tax	4,323	4,041	13,146	9,892
Credit for excise tax	(52)	(20)	(138)	—
Net investment income	4,375	4,061	13,284	9,892
Net realized and unrealized loss on investments				
Net realized gain (loss) on investments	5	(1,463)	(2,857)	(1,723)
Net unrealized (depreciation) appreciation on investments	(10,023)	940	(14,752)	958
Net realized and unrealized loss on investments	(10,018)	(523)	(17,609)	(765)
Net (decrease) increase in net assets resulting from operations	$(5,643)	$3,538	$(4,325)	$9,127
Net investment income per common share	$0.38	$0.35	$1.15	$0.90
Net (decrease) increase in net assets per common share	$(0.49)	$0.30	$(0.37)	$0.83
Distributions declared per share	$0.345	$0.345	$1.035	$1.035
Weighted average shares outstanding	11,549,508	11,638,925	11,543,995	11,032,992

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 Par	Distributions in Excess of Net Investment Income	Net Unrealized Depreciation on Investments	Net Realized Loss on Investments	Total Net Assets
	Shares	Amount					
Balance at December 31, 2014	9,628,124	$ 10	$ 155,240	$ (1,102)	$ (4,737)	$ (11,163)	$ 138,248
Issuance of common stock, net of offering costs	2,000,000	2	26,504	—	—	—	26,506
Net increase in net assets resulting from operations	—	—	—	9,892	958	(1,723)	9,127
Issuance of common stock under dividend reinvestment plan	14,398	—	181	—	—	—	181
Distributions declared	—	—	—	(11,815)	—	—	(11,815)
Reclassification of permanent tax differences (Note 2)	—	—	(971)	893	—	78	—
Balance at September 30, 2015	11,642,522	$ 12	$ 180,954	$ (2,132)	$ (3,779)	$ (12,808)	$ 162,247
Balance at December 31, 2015	11,535,212	$ 12	$ 179,707	$ (2,006)	$ (5,227)	$ (12,735)	$ 159,751
Net decrease in net assets resulting from operations	—	—	—	13,284	(14,752)	(2,857)	(4,325)
Issuance of common stock under dividend reinvestment plan	18,048	—	211	—	—	—	211
Repurchases of common stock	(1,319)	—	(16)	—	—	—	(16)
Distributions declared	—	—	—	(11,952)	—	—	(11,952)
Balance at September 30, 2016	11,551,941	$ 12	$ 179,902	$ (674)	$ (19,979)	$ (15,592)	$ 143,669

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	For the Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net (decrease) increase in net assets resulting from operations	$ (4,325)	$ 9,127
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Amortization of debt issuance costs	434	733
Net realized loss on investments	2,857	1,723
Net unrealized depreciation (appreciation) on investments	14,752	(958)
Purchase of investments	(45,223)	(104,781)
Principal payments received on investments	69,266	58,593
Proceeds from sale of investments	939	1,078
Changes in assets and liabilities:		
Net decrease (increase) in investments in money market funds	285	(248)
Net decrease in restricted investments in money market funds	1,091	1,458
Increase in interest receivable	(1,749)	(399)
Decrease (increase) in end-of-term payments	200	(827)
Decrease in unearned income	(476)	(56)
Decrease in other assets	143	773
Decrease in other accrued expenses	(220)	(15)
(Decrease) increase in base management fee payable	(22)	29
(Decrease) increase in incentive fee payable	(1,028)	216
Net cash provided by (used in) operating activities	36,924	(33,554)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of offering costs	—	26,506
Repayment of Asset-Backed Notes	(14,546)	(19,451)
Advances on credit facility	10,000	42,000
Repayment of credit facility	(15,000)	—
Distributions paid	(11,736)	(10,939)
Repurchase of common stock	(16)	—
Debt issuance costs	(221)	(420)
Net cash (used in) provided by financing activities	(31,519)	37,696
Net increase in cash	5,405	4,142
Cash:		
Beginning of period	20,765	8,417
End of period	$ 26,170	$ 12,559

Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 4,051	$ 3,474
Supplemental non-cash investing and financing activities:		
Warrant investments received and recorded as unearned income	$ 446	$ 778
Distributions payable	$ 3,985	$ 4,017
End-of-term payments receivable	$ 4,859	$ 4,611
Receivable resulting from sale of investment	$ —	$ 499

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

September 30, 2016

(Dollars in thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
Debt Investments — 140.0% (8)					
Debt Investments — Life Science — 30.5% (8)					
Argos Therapeutics, Inc. (2)(5)	Biotechnology	Term Loan (9.27% cash (Libor + 8.75%; Floor 9.25%; Ceiling 10.75%), 5.00% ETP, Due 10/1/18)	$ 5,000	$ 4,959	$4,959
		Term Loan (9.27% cash (Libor + 8.75%; Floor 9.25%; Ceiling 10.75%), 5.00% ETP, Due 3/1/19)	5,000	4,965	4,965
New Haven Pharmaceuticals, Inc. (11)	Biotechnology	Term Loan (11.52% cash (Libor + 11.00%; Floor 11.50%), 11.42% ETP, Due 3/1/19)	1,282	1,275	675
		Term Loan (11.52% cash (Libor + 11.00%; Floor 11.50%), 11.42% ETP, Due 3/1/19)	427	424	225
		Term Loan (10.52% cash (Libor + 10.00%; Floor 10.50%), 6.10% ETP, Due 3/1/19)	1,973	1,961	1,040
		Term Loan (10.02% cash (Libor + 9.50%; Floor 10.00%), 4.00% ETP, Due 4/1/19)	6,185	6,118	3,243
		Term Loan (10.04% cash (Libor + 9.50%; Floor 10.00%), Due 10/31/16)	409	409	217
Palatin Technologies, Inc. (2)(5)	Biotechnology	Term Loan (9.02% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 1/1/19)	4,500	4,455	4,455
		Term Loan (9.02% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 8/1/19)	5,000	4,951	4,951

Sample6, Inc. (2)	Biotechnology	Term Loan (9.52% cash (Libor + 9.00%; Floor 9.50%; Ceiling 11.00%), 4.00% ETP, Due 4/1/18)	1,166	1,163	1,163
		Term Loan (9.52% cash (Libor + 9.00%; Floor 9.50%; Ceiling 11.00%), 4.00% ETP, Due 4/1/18)	709	705	705
		Term Loan (9.52% cash (Libor + 9.00%; Floor 9.50%; Ceiling 11.00%), 4.00% ETP, Due 4/1/18)	2,500	2,487	2,487
Lantos Technologies, Inc. (2)	Medical Device	Term Loan (11.50% cash (Libor + 10.50%; Floor 11.50%), 5.00% ETP, Due 2/1/18)	2,479	2,450	2,414
Mederi Therapeutics, Inc. (2)	Medical Device	Term Loan (12.34% cash (Libor + 11.82%), 4.00% ETP, Due 7/1/17)	1,742	1,729	1,729
		Term Loan (12.34% cash (Libor + 11.82%), 4.00% ETP, Due 7/1/17)	1,742	1,729	1,729
NinePoint Medical, Inc. (2)	Medical Device	Term Loan (9.27% cash (Libor + 8.75%; Floor 9.25%), 4.50% ETP, Due 3/1/19)	5,000	4,957	4,957
		Term Loan (9.27% cash (Libor + 8.75%; Floor 9.25%), 4.50% ETP, Due 3/1/19)	2,500	2,473	2,473
Tryton Medical, Inc. (2)	Medical Device	Term Loan (10.66% cash (Prime + 7.16%), 2.50% ETP, Due 3/1/17)	1,500	1,491	1,491
Total Debt Investments — Life Science				48,701	43,878
Debt Investments — Technology — 83.9% (8)					
Ekahau, Inc. (2)	Communications	Term Loan (11.75% cash, 2.50% ETP, Due 2/1/17)	226	226	226
		Term Loan (11.75% cash, 2.50% ETP, Due 2/1/17)	75	75	75
Additech, Inc. (2)	Consumer-related Technologies	Term Loan (11.77% cash (Libor + 11.25%; Floor 11.75%; Ceiling 13.25%), 4.00% ETP, Due 7/1/18)	1,833	1,813	1,813
		Term Loan (11.77% cash (Libor + 11.25%; Floor 11.75%; Ceiling 13.25%), 4.00% ETP, Due 1/1/19)	2,333	2,306	2,306
Gwynnie Bee, Inc. (2)	Consumer-related Technologies	Term Loan (11.02% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 2.00% ETP, Due 11/1/17)	867	854	854
		Term Loan (11.02% cash (Libor + 10.50%; Floor	533	522	522

		11.00%; Ceiling 12.50%), 2.00% ETP, Due 2/1/18)			
		Term Loan (11.02% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 2.00% ETP, Due 4/1/18)	600	591	591
Le Tote, Inc. (2)	Consumer-related Technologies	Term Loan (10.17% cash (Libor + 9.65%; Floor 10.15%), 5.00% ETP, Due 3/1/20)	4,000	3,936	3,936
		Term Loan (10.19% cash (Libor + 9.65%; Floor 10.15%), 5.00% ETP, Due 3/1/20)	3,000	2,951	2,951
Rhapsody International, Inc. (2)	Consumer-related Technologies	Term Loan (11.02% cash (Libor + 10.50%; Floor 11.00%), 3.00% ETP, Due 10/1/19)	7,500	7,321	7,321
SavingStar, Inc. (2)	Consumer-related Technologies	Term Loan (10.92% cash (Libor + 10.40%; Floor 10.90%), 3.00% ETP, Due 6/1/19)	3,000	2,956	2,956
		Term Loan (10.92% cash (Libor + 10.40%; Floor 10.90%), 3.00% ETP, Due 3/1/20)	2,000	1,963	1,963
MediaBrix, Inc. (2)	Internet and Media	Term Loan (11.52% cash (Libor + 11.00%; Floor 11.50%), 3.00% ETP, Due 1/1/20)	4,000	3,963	3,963

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

September 30, 2016

(Dollars in thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
Zinio Holdings, LLC (2)	Internet and Media	Term Loan (11.77% cash (Libor + 11.25%; Floor 11.75%), 4.00% ETP, Due 2/1/20)	4,000	3,964	3,964
The NanoSteel Company, Inc. (2)	Materials	Term Loan (10.02% cash (Libor + 9.50%; Floor 10.00%), 5.00% ETP, Due 7/1/19)	5,000	4,934	4,934
		Term Loan (10.02% cash (Libor + 9.50%; Floor 10.00%), 5.00% ETP, Due 7/1/19)	2,500	2,467	2,467
		Term Loan (10.02% cash (Libor + 9.50%; Floor 10.00%), 5.00% ETP, Due 1/1/20)	2,500	2,460	2,460
Nanocomp Technologies, Inc. (2)	Networking	Term Loan (11.50% cash, 3.00% ETP, Due 11/1/17)	432	429	429
		Term Loan (11.52% cash (Libor + 11.00%; Floor 11.50%), 3.00% ETP, Due 4/1/20)	3,000	2,948	2,948
Powerhouse Dynamics, Inc. (2)	Power Management	Term Loan (11.22% cash (Libor + 10.70%; Floor 11.20%), 3.00% ETP, Due 3/1/19)	2,500	2,466	2,466
Avalanche Technology, Inc. (2)	Semiconductors	Term Loan (10.00% cash (Libor + 9.25%; Floor 10.00%; Ceiling 11.75%), 2.40% ETP, Due 4/1/17)	730	729	729
		Term Loan (10.00% cash (Libor + 9.25%; Floor 10.00%; Ceiling 11.75%), 2.40% ETP, Due 10/1/18)	1,518	1,513	1,513
		Term Loan (10.00% cash (Libor + 9.25%; Floor 10.00%; Ceiling 11.75%), 2.00% ETP, Due 2/1/19)	1,726	1,692	1,692

InVisage Technologies, Inc. (2)	Semiconductors	Term Loan (12.02% cash (Libor + 11.50%; Floor 12.00%; Ceiling 14.00%), 4.71% ETP, Due 12/31/16)	1,955	1,934	1,934
		Term Loan (12.02% cash (Libor + 11.50%; Floor 12.00%; Ceiling 14.00%), 4.71% ETP, Due 12/31/16)	822	816	816
Luxtera, Inc. (2)	Semiconductors	Term Loan (10.27% cash (Libor + 9.75%; Floor 10.25%; Ceiling 12.25%), 13.00% ETP, Due 7/1/17)	877	866	866
		Term Loan (10.27% cash (Libor + 9.75%; Floor 10.25%; Ceiling 12.25%), 13.00% ETP, Due 7/1/17)	490	488	488
		Term Loan (9.02% cash (Libor + 8.50%; Floor 9.00%), 4.50% ETP, Due 12/1/18)	750	746	746
		Term Loan (9.02% cash (Libor + 8.50%; Floor 9.00%), 4.50% ETP, Due 12/1/18)	750	745	745
		Term Loan (9.52% cash (Libor + 9.00%; Floor 9.50%), 4.50% ETP, Due 11/1/19)	2,000	1,990	1,990
Xtera Communications, Inc. (5)(11)	Semiconductors	Term Loan (12.50% cash, 22.92% ETP, Due 10/1/16)	3,024	3,015	2,207
		Term Loan (12.50% cash, 22.92% ETP, Due 10/1/16)	840	838	614
Bridge2 Solutions, Inc.	Software	Term Loan (11.52% cash (Libor + 11.00%; Floor 11.50%; Ceiling 14.50%), 2.00% ETP, Due 7/1/19)	4,000	3,973	3,973
		Term Loan (11.52% cash (Libor + 11.00%; Floor 11.50%; Ceiling 14.50%), 2.00% ETP, Due 1/1/20)	1,000	996	996
ControlScan, Inc. (2)	Software	Term Loan (10.77% cash (Libor + 10.25%), 3.00% ETP, Due 7/1/20)	4,500	4,409	4,409
Crowdstar, Inc. (2)	Software	Term Loan (10.77% cash (Libor + 10.25%; Floor 10.75%), 3.00% ETP, Due 9/1/18)	1,394	1,376	1,376
Decisyon, Inc.	Software	Term Loan (12.83% cash (Libor + 12.308%; Floor 12.50%), 6.50% ETP, Due 6/1/18)	1,523	1,521	1,500
		Term Loan (12.83% cash (Libor + 12.308%; Floor 12.50%), 6.50% ETP, Due 6/1/18)	833	714	704
Digital Signal Corporation	Software	Term Loan (10.77% cash (Libor + 10.25%; Floor	1,500	1,466	1,246

		10.43%), 5.00% ETP, Due 7/1/19)			
		Term Loan (10.77% cash (Libor + 10.25%; Floor	1,500	1,466	1,246
		10.43%), 5.00% ETP, Due 7/1/19)			
Education Elements, Inc. (2)	Software	Term Loan (10.52% cash (Libor + 10.00%; Floor	1,800	1,776	1,776
		10.50%), 4.00% ETP, Due 1/1/19)			
		Term Loan (10.52% cash (Libor + 10.00%; Floor	1,500	1,477	1,477
		10.50%), 4.00% ETP, Due 8/1/19)			
Netuitive, Inc.	Software	Term Loan (12.77% cash (Libor + 12.25%; Floor	564	563	563
		12.50%), 3.33% ETP, Due 9/1/17)			
Nomi Corporation (11)	Software	Term Loan (10.67% cash (Libor + 10.15%; Floor	2,489	2,454	150
		10.35%), 2.00% ETP, Due 1/1/20)			
		Term Loan (10.67% cash (Libor + 10.15%; Floor	2,489	2,454	150
		10.35%), 2.00% ETP, Due 1/1/20)			

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

September 30, 2016

(Dollars in thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
ScoreBig, Inc. (2)(11)	Software	Term Loan (10.52% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 4/1/19)	3,403	3,332	1,330
		Term Loan (10.52% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 4/1/19)	3,403	3,360	1,341
		Term Loan (10.52% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 3/1/20)	2,000	1,950	778
		Term Loan (10.54% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 10/31/16)	127	127	51
ShopKeep.com, Inc. (2)	Software	Term Loan (10.47% cash (Libor + 9.95%; Floor 10.45%), 3.00% ETP, Due 4/1/20)	6,000	5,802	5,802
SIGNiX, Inc.	Software	Term Loan (11.52% cash (Libor + 11.00%; Floor 11.50%), Due 10/1/18)	2,500	2,356	2,349
SilkRoad Technology, Inc. (2)	Software	Term Loan (10.87% cash (Libor + 10.35%; Floor 10.85%; Ceiling 12.85%), 3.00% ETP, Due 6/1/19)	7,500	7,450	7,450
Skyword, Inc.	Software	Term Loan (11.47% cash (Libor + 10.95%; Floor 11.45%), 3.00% ETP, Due 8/1/19)	4,000	3,939	3,849
Social Intelligence Corp. (2)	Software	Term Loan (11.02% cash (Libor + 10.50%; Floor 11.00%; Ceiling 13.00%), 3.50% ETP, Due 12/1/17)	404	394	394
Sys-Tech Solutions, Inc. (2)	Software	Term Loan (11.67% cash (Libor + 11.15%; Floor	3,600	3,579	3,579

		11.65%; Ceiling 12.65%), 4.50% ETP, Due 3/1/18)			
		Term Loan (11.67% cash (Libor + 11.15%; Floor 11.65%; Ceiling 12.65%), 9.00% ETP, Due 5/1/18)	3,333	3,311	3,311
VBrick Systems, Inc. (2)	Software	Term Loan (11.52% cash (Libor + 11.00%; Floor 11.50%; Ceiling 13.50%), 5.00% ETP, Due 7/1/17)	1,000	994	994
Vidsys, Inc. (2)	Software	Term Loan (13.00% cash, 12.58% ETP, Due 12/1/17)	2,610	2,610	2,610
xTech Holdings, Inc. (2)	Software	Term Loan (11.02% cash (Libor + 10.50%; Floor 11.00%), 3.00% ETP, Due 4/1/19)	1,667	1,643	1,643
		Term Loan (11.02% cash (Libor + 10.50%; Floor 11.00%), 3.00% ETP, Due 3/1/20)	2,000	1,968	1,968
Total Debt Investments — Technology				131,977	120,500
Debt Investments — Cleantech — 5.9% (8)					
Rypos, Inc. (2)	Energy Efficiency	Term Loan (12.07% cash (Libor + 11.55%; Floor 11.80%), 4.25% ETP, Due 6/1/17)	1,740	1,728	1,728
		Term Loan (12.07% cash (Libor + 11.55%; Floor 11.80%), 4.25% ETP, Due 1/1/18)	777	768	768
Lehigh Technologies, Inc. (2)	Waste Recycling	Term Loan (10.24% cash (Libor + 9.72%), 6.75% ETP, Due 8/1/19)	3,000	2,980	2,980
		Term Loan (10.24% cash (Libor + 9.72%), 6.75% ETP, Due 8/1/19)	3,000	2,980	2,980
Total Debt Investments — Cleantech				8,456	8,456
Debt Investments — Healthcare information and services — 19.7% (8)					
Interleukin Genetics, Inc. (2)(5)	Diagnostics	Term Loan (11.02% cash (Libor + 10.50%; Floor 11.00%), 6.50% ETP, Due 10/1/18)	4,335	4,171	4,171
Watermark Medical, Inc. (2)	Other Healthcare	Term Loan (10.02% cash (Libor + 9.50%; Floor 10.00%; Ceiling 11.00%); 4.00% ETP, Due 4/1/18)	2,771	2,767	2,767
		Term Loan (10.02% cash (Libor + 9.50%; Floor 10.00%; Ceiling 11.00%); 4.00% ETP, Due 4/1/18)	2,771	2,767	2,767
			1,250	1,248	1,248

		Term Loan (10.02% cash (Libor + 9.50%; Floor 10.00%; Ceiling 11.00%); 4.00% ETP, Due 4/1/18)			
MedAvante, Inc. (2)	Software	Term Loan (9.77% cash (Libor + 9.25%; Floor 9.75%), 4.00% ETP, Due 1/1/19)	3,000	2,968	2,968
		Term Loan (9.77% cash (Libor + 9.25%; Floor 9.75%), 4.00% ETP, Due 1/1/19)	3,000	2,968	2,968
		Term Loan (9.77% cash (Libor + 9.25%; Floor 9.75%), 4.00% ETP, Due 7/1/19)	4,000	3,948	3,948
Medsphere Systems Corporation (2)	Software	Term Loan (10.52% cash (Libor + 10.00%; Floor 10.50%), 7.00% ETP, Due 7/1/19)	5,000	4,938	4,938
		Term Loan (10.52% cash (Libor + 10.00%; Floor 10.50%), 7.00% ETP, Due 7/1/19)	2,500	2,469	2,469
Total Debt Investments — Healthcare information and services				28,244	28,244
Total Debt Investments				217,378	201,078

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

September 30, 2016

(Dollars in thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(9)(10)	Cost of Investments (6)	Fair Value
Warrant Investments — 4.0% (8)				
Warrants — Life Science — 0.3% (8)				
ACT Biotech Corporation	Biotechnology	1,521,820 Preferred Stock Warrants	83	—
Argos Therapeutics, Inc. (2)(5)	Biotechnology	33,112 Common Stock Warrants	33	1
Celsion Corporation (5)	Biotechnology	5,708 Common Stock Warrants	15	—
Inotek Pharmaceuticals Corporation (5)	Biotechnology	28,204 Common Stock Warrants	17	96
New Haven Pharmaceuticals, Inc.	Biotechnology	103,982 Preferred Stock Warrants	88	—
Nivalis Therapeutics, Inc. (5)	Biotechnology	18,534 Common Stock Warrants	122	—
Ocera Therapeutics, Inc. (2)(5)	Biotechnology	6,491 Common Stock Warrants	6	—
Palatin Technologies, Inc. (2)(5)	Biotechnology	608,058 Common Stock Warrants	51	11
Revance Therapeutics, Inc. (5)	Biotechnology	34,377 Common Stock Warrants	68	101
Sample6, Inc. (2)	Biotechnology	494,018 Preferred Stock Warrants	45	13
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	2,050 Common Stock Warrants	5	—
AccuVein Inc. (2)	Medical Device	75,769 Preferred Stock Warrants	24	28
Direct Flow Medical, Inc.	Medical Device	176,922 Preferred Stock Warrants	144	—
EnteroMedics, Inc. (5)	Medical Device	9,402 Common Stock Warrants	347	—
IntegenX, Inc. (2)	Medical Device	170,646 Preferred Stock Warrants	34	26
Lantos Technologies, Inc. (2)	Medical Device	66,665,256 Preferred Stock Warrants	38	40
Mederi Therapeutics, Inc. (2)	Medical Device	248,736 Preferred Stock Warrants	26	39
Mitralign, Inc. (2)	Medical Device	641,909 Preferred Stock Warrants	52	36
NinePoint Medical, Inc. (2)	Medical Device	566,038 Preferred Stock Warrants	33	33
OraMetrix, Inc. (2)	Medical Device	812,348 Preferred Stock Warrants	78	—
Tryton Medical, Inc. (2)	Medical Device	122,362 Preferred Stock Warrants	15	10
ViOptix, Inc.	Medical Device	375,763 Preferred Stock Warrants	13	—
Total Warrants — Life Science			1,337	434
Warrants — Technology — 2.7% (8)				
Ekahau, Inc. (2)	Communications	978,261 Preferred Stock Warrants	33	20
OpenPeak, Inc.	Communications	18,997 Common Stock Warrants	89	—
Additech, Inc. (2)		150,000 Preferred Stock Warrants	33	27

	Consumer-related Technologies			
Everyday Health, Inc. (5)	Consumer-related Technologies	43,783 Common Stock Warrants	69	7
Gwynnie Bee, Inc. (2)	Consumer-related Technologies	268,591 Preferred Stock Warrants	68	691
If(we), Inc.	Consumer-related Technologies	190,868 Preferred Stock Warrants	27	45
Le Tote, Inc. (2)	Consumer-related Technologies	202,974 Preferred Stock Warrants	63	63
Rhapsody International Inc. (2)	Consumer-related Technologies	852,273 Common Stock Warrants	164	132
SavingStar, Inc. (2)	Consumer-related Technologies	98,860 Preferred Stock Warrants	59	58
XIOtech, Inc.	Data Storage	2,217,979 Preferred Stock Warrants	22	—
SimpleTuition, Inc.	Internet and media	189,573 Preferred Stock Warrants	63	37
The NanoSteel Company, Inc. (2)	Materials	147,424 Preferred Stock Warrants	93	90
IntelePeer, Inc.	Networking	141,549 Common Stock Warrants	39	26
Nanocomp Technologies, Inc. (2)	Networking	681,819 Preferred Stock Warrants	54	49
Aquion Energy, Inc.	Power Management	115,051 Preferred Stock Warrants	7	60
Powerhouse Dynamics, Inc. (2)	Power Management	290,698 Preferred Stock Warrants	28	22
Avalanche Technology, Inc. (2)	Semiconductors	202,602 Preferred Stock Warrants	101	41
eASIC Corporation (2)	Semiconductors	40,445 Preferred Stock Warrants	25	27
InVisage Technologies, Inc. (2)	Semiconductors	395,009 Preferred Stock Warrants	48	37
Kaminario, Inc.	Semiconductors	1,087,203 Preferred Stock Warrants	59	62
Luxtera, Inc.(2)	Semiconductors	2,508,671 Preferred Stock Warrants	49	195
Soraa, Inc. (2)	Semiconductors	203,616 Preferred Stock Warrants	80	414
Xtera Communications, Inc. (5)	Semiconductors	37,831 Common Stock Warrants	206	—
Bolt Solutions Inc. (2)	Software	202,892 Preferred Stock Warrants	113	111
Bridge2 Solutions, Inc.	Software	75,458 Common Stock Warrants	18	335
Clarabridge, Inc.	Software	53,486 Preferred Stock Warrants	14	81
ControlScan, Inc. (2)	Software	2,295,918 Preferred Stock Warrants	19	22
Crowdstar, Inc. (2)	Software	75,428 Preferred Stock Warrants	14	11
Decisyon, Inc.	Software	82,967 Common Stock Warrants	46	—
Digital Signal Corporation	Software	113,744 Common Stock Warrants	32	—
Education Elements, Inc. (2)	Software	238,122 Preferred Stock Warrants	28	23
Lotame Solutions, Inc. (2)	Software	288,115 Preferred Stock Warrants	22	268
Netuitive, Inc.	Software	41,569 Common Stock Warrants	48	—
Nomi Corporation	Software	2,535,864 Preferred Stock Warrants	—	—
Riv Data Corp. (2)	Software	237,361 Preferred Stock Warrants	12	10
ScoreBig, Inc. (2)	Software	879,014 Preferred Stock Warrants	88	—
ShopKeep.com, Inc. (2)	Software	165,779 Preferred Stock Warrants	98	98
SIGNiX, Inc.	Software	89,767 Preferred Stock Warrants	168	166

See Notes to Consolidated Financial Statements

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

September 30, 2016

(Dollars in thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(9)(10)	Cost of Investments (6)	Fair Value
Skyword, Inc.	Software	301,056 Preferred Stock Warrants	48	46
SpringCM, Inc. (2)	Software	2,385,686 Preferred Stock Warrants	55	119
Sys-Tech Solutions, Inc.	Software	375,000 Preferred Stock Warrants	241	374
Vidsys, Inc.	Software	85,399 Preferred Stock Warrants	23	10
Visage Mobile, Inc.	Software	1,692,047 Preferred Stock Warrants	19	—
xTech Holdings, Inc. (2)	Software	158,730 Preferred Stock Warrants	43	43
Total Warrants — Technology			2,628	3,820
Warrants — Cleantech — 0.1% (8)				
Renmatix, Inc.	Alternative Energy	53,022 Preferred Stock Warrants	68	—
Semprius, Inc.	Alternative Energy	519,981 Preferred Stock Warrants	25	20
Rypos, Inc. (2)	Energy Efficiency	5,627 Preferred Stock Warrants	44	21
Tigo Energy, Inc. (2)	Energy Efficiency	804,604 Preferred Stock Warrants	100	109
Lehigh Technologies, Inc. (2)	Waste Recycling	272,727 Preferred Stock Warrants	33	33
Total Warrants — Cleantech			270	183
Warrants — Healthcare information and services — 0.9% (8)				
Accumetrics, Inc.	Diagnostics	100,928 Preferred Stock Warrants	107	63
Candescent Health, Inc. (2)	Diagnostics	519,991 Preferred Stock Warrants	378	—
Helomics Corporation	Diagnostics	13,461 Common Stock Warrants	73	—
Interleukin Genetics, Inc. (2)(5)	Diagnostics	7,662,100 Common Stock Warrants	168	632
LifePrint Group, Inc. (2)	Diagnostics	49,000 Preferred Stock Warrants	29	1
ProterixBio, Inc. (2)	Diagnostics	3,156 Common Stock Warrants	54	—
Singulex, Inc.	Other Healthcare	294,231 Preferred Stock Warrants	44	44
Verity Solutions Group, Inc.	Other Healthcare	300,360 Preferred Stock Warrants	100	36
Watermark Medical, Inc. (2)	Other Healthcare	27,373 Preferred Stock Warrants	74	62
MedAvante, Inc. (2)	Software	114,285 Preferred Stock Warrants	66	65
Medsphere Systems Corporation (2)	Software	7,097,791 Preferred Stock Warrants	60	196

Recondo Technology, Inc. (2)	Software	556,796 Preferred Stock Warrants	95	194
Total Warrants — Healthcare information and services			1,248	1,293
Total Warrants			5,483	5,730
Other Investments — 0.4% (8)				
ZetrOZ, Inc.	Medical Device	Royalty Agreement	365	300
Vette Technology, LLC	Data Storage	Royalty Agreement Due 4/18/2019	4,359	200
Total Other Investments			4,724	500
Equity — 0.6% (8)				
Insmed Incorporated (5)	Biotechnology	33,208 Common Stock	238	482
Revance Therapeutics, Inc.(5)	Biotechnology	4,861 Common Stock	73	79
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	78,493 Common Stock	83	57
SnagAJob.com, Inc.	Consumer-related Technologies	82,974 Common Stock	9	83
Decisyon, Inc.	Software	3,808,584 Common Stock	168	168
Total Equity			571	869
Total Portfolio Investment Assets — 145.0% (8)			$ 228,156	$ J08,177

(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 investments are less than 5% ownership of the class and ownership of the portfolio company.

(4) All interest is payable in cash due monthly in arrears, unless otherwise indicated, and applies only to the Company's debt investments. Interest rate is the annual interest rate on the debt investment and does not include end-of-term payments ("ETPs") and any additional fees related to the investments, such as deferred interest, commitment fees or prepayment fees. All debt investments are at fixed rates for the term of the debt investment, unless otherwise indicated. Debt investments based on LIBOR are based on one-month LIBOR. For each debt investment, the current interest rate in effect as of September 30, 2016 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.

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

September 30, 2016

(Dollars in thousands)

(9) The Company did not have any non-qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended (the "1940 Act"), as of September 30, 2016. Under the 1940 Act, the Company may not acquire any non-qualifying assets unless, at the time the acquisition is made, qualifying assets represent at least 70% of the Company's total assets.

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

(11) Debt investment is on non-accrual status at September 30, 2016.

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

December 31, 2015

(Dollars in thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
Debt Investments — 151.6 % (8)					
Debt Investments — Life Science — 36.6% (8)					
Argos Therapeutics, Inc. (2)(5)	Biotechnology	Term Loan (9.25% cash (Libor + 8.75%; Floor 9.25%; Ceiling 10.75%), 5.00% ETP, Due 10/1/18)	$ 5,000	$ 4,944	$4,944
		Term Loan (9.25% cash (Libor + 8.75%; Floor 9.25%; Ceiling 10.75%), 5.00% ETP, Due 3/1/19)	5,000	4,954	4,954
New Haven Pharmaceuticals, Inc. (2)	Biotechnology	Term Loan (11.50% cash (Libor + 11.00%; Floor 11.50%), 11.42% ETP, Due 3/1/19)	1,301	1,293	1,293
		Term Loan (11.50% cash (Libor + 11.00%; Floor 11.50%), 11.42% ETP, Due 3/1/19)	434	431	431
		Term Loan (10.50% cash (Libor + 10.00%; Floor 10.50%), 6.10% ETP, Due 3/1/19)	2,000	1,987	1,987
		Term Loan (10.00% cash (Libor + 9.50%; Floor 10.00%), 4.00% ETP, Due 4/1/19)	6,265	6,190	6,190
Palatin Technologies, Inc. (2)(5)	Biotechnology	Term Loan (9.00% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 1/1/19)	5,000	4,939	4,939
		Term Loan (9.00% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 8/1/19)	5,000	4,937	4,937
Sample6, Inc. (2)	Biotechnology	Term Loan (9.50% cash (Libor + 9.00%; Floor	1,555	1,550	1,550

		9.50%; Ceiling 11.00%), 4.00% ETP, Due 4/1/18)			
		Term Loan (9.50% cash (Libor + 9.00%; Floor 9.50%; Ceiling 11.00%), 4.00% ETP, Due 4/1/18)	945	940	940
		Term Loan (9.50% cash (Libor + 9.00%; Floor 9.50%; Ceiling 11.00%), 4.00% ETP, Due 4/1/18)	2,500	2,481	2,481
Sunesis Pharmaceuticals, Inc. (2)(5)	Biotechnology	Term Loan (8.95% cash, 4.65% ETP, Due 10/1/16)	545	544	544
		Term Loan (9.00% cash, 4.65% ETP, Due 10/1/16)	818	815	815
IntegenX Inc. (2)	Medical Device	Term Loan (10.75% cash (Libor + 10.25%; Floor 10.75%; Ceiling 12.75%), 3.50% ETP, Due 7/1/18)	3,750	3,703	3,703
Lantos Technologies, Inc. (2)	Medical Device	Term Loan (11.50% cash (Libor + 10.50%; Floor 11.50%), 5.00% ETP, Due 2/1/18)	3,500	3,454	3,333
Mederi Therapeutics, Inc. (2)	Medical Device	Term Loan (12.06% cash (Libor + 11.82%), 4.00% ETP, Due 7/1/17)	2,850	2,826	2,738
		Term Loan (12.06% cash (Libor + 11.82%), 4.00% ETP, Due 7/1/17)	2,850	2,826	2,738
NinePoint Medical, Inc. (2)	Medical Device	Term Loan (9.25% cash (Libor + 8.75%; Floor 9.25%), 4.50% ETP, Due 3/1/19)	5,000	4,943	4,943
		Term Loan (9.25% cash (Libor + 8.75%; Floor 9.25%), 4.50% ETP, Due 3/1/19)	2,500	2,464	2,464
Tryton Medical, Inc. (2)	Medical Device	Term Loan (10.41% cash (Prime + 7.16%), 2.50% ETP, Due 9/1/16)	2,063	2,053	2,053
ZetrOZ, Inc. (2)(11)	Medical Device	Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 3.00% ETP, Due 4/1/18)	1,350	1,330	250
		Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 3.00% ETP, Due 4/1/18)	1,350	1,326	250
Total Debt Investments — Life Science				60,930	58,477
Debt Investments — Technology — 80.5% (8)					
Ekahau, Inc. (2)	Communications	Term Loan (11.75% cash, 2.50% ETP, Due 2/1/17)	704	700	700
			235	233	233

		Term Loan (11.75% cash, 2.50% ETP, Due 2/1/17)			
mBlox, Inc. (2)	Communications	Term Loan (11.50% cash (Libor + 11.00%; Floor 11.50%; Ceiling 13.00%), 3.40% ETP, Due 7/1/18)	5,000	4,977	4,977
		Term Loan (11.50% cash (Libor + 11.00%; Floor 11.50%; Ceiling 13.00%), 3.40% ETP, Due 7/1/18)	5,000	4,977	4,977
		Term Loan (12.00% cash, 100.00% ETP, Due 7/1/16)	1,000	1,000	1,000
		Term Loan (12.00% cash, 100.00% ETP, Due 7/1/16)	500	500	500
Overture Networks, Inc. (2)	Communications	Term Loan (10.75% cash, (Libor + 10.25%; Floor 10.75%), 5.75% ETP, Due 12/1/17)	4,104	4,089	4,089
		Term Loan (10.75% cash (Libor + 10.25%; Floor 10.75%), 5.75% ETP, Due 12/1/17)	2,052	2,043	2,043
		Term Loan (10.75% cash (Libor + 10.25%; Floor 10.75%), 5.00% ETP, Due 11/1/18)	1,000	992	992
Additech, Inc. (2)	Consumer-related Technologies	Term Loan (11.75% cash (Libor + 11.25%; Floor 11.75%; Ceiling 13.25%), 4.00% ETP, Due 7/1/18)	2,500	2,470	2,470
		Term Loan (11.75% cash (Libor + 11.25%; Floor 11.75%; Ceiling 13.25%), 4.00% ETP, Due 1/1/19)	2,500	2,464	2,464

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

December 31, 2015

(Dollars in thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
Gwynnie Bee, Inc. (2)	Consumer-related Technologies	Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 2.00% ETP, Due 11/1/17)	1,467	1,445	1,445
		Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 2.00% ETP, Due 2/1/18)	833	816	816
		Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 2.00% ETP, Due 4/1/18)	900	886	886
Rhapsody International, Inc. (2)	Consumer-related Technologies	Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%), 3.00% ETP, Due 10/1/19)	7,500	7,276	7,276
SavingStar, Inc. (2)	Consumer-related Technologies	Term Loan (10.90% cash (Libor + 10.40%; Floor 10.90%), 3.00% ETP, Due 6/1/19)	3,000	2,911	2,911
The NanoSteel Company, Inc. (2)	Materials	Term Loan (10.00% cash (Libor + 9.50%; Floor 10.00%), 5.00% ETP, Due 7/1/19)	5,000	4,915	4,915
		Term Loan (10.00% cash (Libor + 9.50%; Floor 10.00%), 5.00% ETP, Due 7/1/19)	2,500	2,458	2,458
		Term Loan (10.00% cash (Libor + 9.50%; Floor 10.00%), 5.00% ETP, Due 1/1/20)	2,500	2,452	2,452
Nanocomp Technologies, Inc. (2)	Networking	Term Loan (11.50% cash, 3.00% ETP, Due 11/1/17)	701	693	693
Powerhouse Dynamics, Inc. (2)	Power Management	Term Loan (11.20% cash (Libor + 10.70%; Floor 11.20%), 3.00% ETP, Due 3/1/19)	2,500	2,456	2,456

Avalanche Technology, Inc. (2)	Semiconductors	Term Loan (10.00% cash (Libor + 9.25%; Floor 10.00%; Ceiling 11.75%), 2.40% ETP, Due 4/1/17)	1,565	1,561	1,561
		Term Loan (10.00% cash (Libor + 9.25%; Floor 10.00%; Ceiling 11.75%), 2.40% ETP, Due 10/1/18)	2,003	1,997	1,997
		Term Loan (10.00% cash (Libor + 9.25%; Floor 10.00%; Ceiling 11.75%), 2.00% ETP, Due 2/1/19)	2,202	2,157	2,157
InVisage Technologies, Inc. (2)	Semiconductors	Term Loan (12.00% cash (Libor + 11.50%; Floor 12.00%; Ceiling 14.00%), 2.00% ETP, Due 4/1/18)	2,380	2,345	2,242
		Term Loan (12.00% cash (Libor + 11.50%; Floor 12.00%; Ceiling 14.00%), 2.00% ETP, Due 10/1/18)	850	835	798
Luxtera, Inc. (2)	Semiconductors	Term Loan (10.25% cash (Libor + 9.75%; Floor 10.25%; Ceiling 12.25%), 13.00% ETP, Due 7/1/17)	1,646	1,645	1,645
		Term Loan (10.25% cash (Libor + 9.75%; Floor 10.25%; Ceiling 12.25%), 13.00% ETP, Due 7/1/17)	951	926	926
		Term Loan (9.00% cash (Libor + 8.50%; Floor 9.00%), 4.50% ETP, Due 12/1/18)	833	828	828
		Term Loan (9.00% cash (Libor + 8.50%; Floor 9.00%), 4.50% ETP, Due 12/1/18)	833	827	827
Xtera Communications, Inc. (2)(5)	Semiconductors	Term Loan (12.50% cash, 15.65% ETP, Due 12/31/16)	4,157	4,114	4,114
		Term Loan (12.50% cash, 21.75% ETP, Due 12/31/16)	1,155	1,142	1,142
Bridge2 Solutions, Inc.	Software	Term Loan (11.50% cash (Libor + 11.00%; Floor 11.50%; Ceiling 14.50%), 2.00% ETP, Due 7/1/19)	4,000	3,966	3,966
		Term Loan (11.50% cash (Libor + 11.00%; Floor 11.50%; Ceiling 14.50%), 2.00% ETP, Due 1/1/20)	1,000	995	995
Crowdstar, Inc. (2)	Software	Term Loan (10.75% cash (Libor + 10.25%; Floor 10.75%), 3.00% ETP, Due 9/1/18)	1,939	1,915	1,915
Decisyon, Inc. (2)	Software	Term Loan (12.69% cash (Libor + 12.308%; Floor	1,603	1,599	1,514

		12.50%), 6.50% ETP, Due 10/1/17)			
		Term Loan (12.69% cash (Libor + 12.308%; Floor	853	847	802
		12.50%), 6.50% ETP, Due 1/1/18)			
Digital Signal Corporation	Software	Term Loan (10.54% cash (Libor + 10.25%; Floor	1,500	1,421	1,421
		10.43%), 5.00% ETP, Due 7/1/19)			
		Term Loan (10.54% cash (Libor + 10.25%; Floor	1,500	1,457	1,457
		10.43%), 5.00% ETP, Due 7/1/19)			
Education Elements, Inc. (2)	Software	Term Loan (10.50% cash (Libor + 10.00%; Floor	2,000	1,967	1,967
		10.50%), 4.00% ETP, Due 1/1/19)			
		Term Loan (10.50% cash (Libor + 10.00%; Floor	1,500	1,470	1,470
		10.50%), 4.00% ETP, Due 8/1/19)			
Netuitive, Inc. (2)	Software	Term Loan (12.75% cash, Due 7/1/16)	1,000	998	998

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

December 31, 2015

(Dollars in thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
ScoreBig, Inc. (2)	Software	Term Loan (10.50% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 4/1/19)	3,500	3,449	3,449
		Term Loan (10.50% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 4/1/19)	3,500	3,449	3,449
SIGNiX, Inc. (2)	Software	Term Loan (11.50% cash (Libor + 11.00%; Floor 11.50%), Due 7/1/18)	3,000	2,953	2,953
SilkRoad Technology, Inc. (2)	Software	Term Loan (10.85% cash (Libor + 10.35%; Floor 10.85%; Ceiling 12.85%), 3.00% ETP, Due 6/1/19)	7,500	7,436	7,436
Skyword, Inc.	Software	Term Loan (11.45% cash (Libor + 10.95%; Floor 11.45%), 3.00% ETP, Due 8/1/19)	4,000	3,900	3,900
Social Intelligence Corp. (2)	Software	Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%; Ceiling 13.00%), 3.50% ETP, Due 12/1/17)	1,091	1,076	1,067
SpringCM, Inc. (2)	Software	Term Loan (11.50% cash (Libor + 11.00%; Floor 11.50%; Ceiling 13.00%), 2.00% ETP, Due 1/1/18)	4,500	4,450	4,450
Sys-Tech Solutions, Inc. (2)	Software	Term Loan (11.65% cash (Libor + 11.15%; Floor 11.65%; Ceiling 12.65%), 4.50% ETP, Due 3/1/18)	5,200	5,168	5,168
		Term Loan (11.65% cash (Libor + 11.15%; Floor 11.65%; Ceiling 12.65%), 9.00% ETP, Due 5/1/18)	4,667	4,633	4,633

VBrick Systems, Inc. (2)	Software	Term Loan (11.50% cash (Libor + 11.00%; Floor 11.50%; Ceiling 13.50%), 5.00% ETP, Due 7/1/17)	1,900	1,887	1,887
Vidsys, Inc. (2)	Software	Term Loan (13.00% cash, 7.58% ETP, Due 12/1/17)	2,810	2,810	2,810
xTech Holdings, Inc. (2)	Software	Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%), 3.00% ETP, Due 4/1/19)	2,000	1,957	1,957
Total Debt Investments — Technology				128,933	128,654
Debt Investments — Cleantech — 7.5% (8)					
Renmatix, Inc. (2)	Alternative Energy	Term Loan (10.25% cash, 3.00% ETP, Due 2/1/16)	173	173	173
		Term Loan (10.25% cash, 3.00% ETP, Due 2/1/16)	173	173	173
		Term Loan (10.25% cash, Due 10/1/16)	1,667	1,663	1,663
Semprius, Inc. (2)	Alternative Energy	Term Loan (10.25% cash, 5.00% ETP, Due 6/1/16)	860	840	840
Rypos, Inc. (2)	Energy Efficiency	Term Loan (11.80% cash, 4.25% ETP, Due 6/1/17)	2,430	2,314	2,314
		Term Loan (11.80% cash, 4.25% ETP, Due 1/1/18)	947	913	913
Lehigh Technologies, Inc. (2)	Waste Recycling	Term Loan (9.96% cash (Libor + 9.72%), 6.75% ETP, Due 8/1/19)	3,000	2,961	2,961
		Term Loan (9.96% cash (Libor + 9.72%), 6.75% ETP, Due 8/1/19)	3,000	2,975	2,975
Total Debt Investments — Cleantech				12,012	12,012
Debt Investments — Healthcare information and services — 27.0% (8)					
Interleukin Genetics, Inc. (2)(5)	Diagnostics	Term Loan (9.00% cash (Libor + 8.50%; Floor 9.00%) 4.50% ETP, Due 10/1/18)	5,000	4,881	4,881
LifePrint Group, Inc. (2)	Diagnostics	Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 3.00% ETP, Due 1/1/18)	2,400	2,366	2,366
Watermark Medical, Inc. (2)	Other Healthcare	Term Loan (10.00% cash (Libor + 9.50%; Floor 10.00%; Ceiling 11.00%); 4.00% ETP, Due 4/1/18)	3,500	3,494	3,494
		Term Loan (10.00% cash (Libor + 9.50%; Floor 10.00%; Ceiling 11.00%); 4.00% ETP, Due 4/1/18)	3,500	3,494	3,494
		Term Loan (10.00% cash (Libor + 9.50%; Floor 10.00%; Ceiling 11.00%); 4.00% ETP, Due 4/1/18)	1,250	1,248	1,248

Innovatient Solutions, Inc. (2)	Software	Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%, Ceiling 13.00%); 4.00% ETP, Due 7/1/18)	1,000	977	977
MedAvante, Inc. (2)	Software	Term Loan (9.75% cash (Libor + 9.25%; Floor 9.75%), 4.00% ETP, Due 1/1/19)	3,000	2,957	2,957
		Term Loan (9.75% cash (Libor + 9.25%; Floor 9.75%), 4.00% ETP, Due 1/1/19)	3,000	2,957	2,957
		Term Loan (9.75% cash (Libor + 9.25%; Floor 9.75%), 4.00% ETP, Due 7/1/19)	4,000	3,934	3,934
Medsphere Systems Corporation (2)	Software	Term Loan (10.50% cash (Libor + 10.00%; Floor 10.50%), 7.00% ETP, Due 7/1/19)	5,000	4,921	4,921
		Term Loan (10.50% cash (Libor + 10.00%; Floor 10.50%), 7.00% ETP, Due 7/1/19)	2,500	2,461	2,461

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

December 31, 2015

(Dollars in thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
Recondo Technology, Inc. (2)	Software	Term Loan (11.50% cash (Libor + 11.00%; Floor 11.50%), 6.60% ETP, Due 12/1/17)	1,384	1,380	1,380
		Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%), 4.50% ETP, Due 12/1/17)	2,500	2,494	2,494
		Term Loan (10.50% cash (Libor + 10.00%; Floor 10.50%), 2.75% ETP, Due 12/1/17)	2,500	2,495	2,495
		Term Loan (10.50% cash (Libor + 10.00%; Floor 10.50%), 2.50% ETP, Due 1/1/19)	3,000	2,965	2,965
Total Debt Investments — Healthcare information and services				43,024	43,024
Total Debt Investments				244,899	242,167
Warrant Investments — 4.2% (8)					
Warrants — Life Science — 0.8% (8)					
ACT Biotech Corporation	Biotechnology	1,521,820 Preferred Stock Warrants		83	—
Argos Therapeutics, Inc. (2)(5)	Biotechnology	33,112 Common Stock Warrants		33	—
Celsion Corporation (5)	Biotechnology	5,708 Common Stock Warrants		15	—
Inotek Pharmaceuticals Corporation (5)	Biotechnology	28,204 Preferred Stock Warrants		17	149
New Haven Pharmaceuticals, Inc. (2)	Biotechnology	103,982 Preferred Stock Warrants		88	178
Nivalis Therapeutics, Inc. (5)	Biotechnology	18,534 Common Stock Warrants		122	—
Ocera Therapeutics, Inc. (2)(5)	Biotechnology	6,460 Common Stock Warrants		6	—
Palatin Technologies, Inc. (2)(5)	Biotechnology	608,058 Common Stock Warrants		51	16
Revance Therapeutics, Inc. (5)	Biotechnology	34,377 Common Stock Warrants		68	684
Sample6, Inc. (2)	Biotechnology	351,018 Preferred Stock Warrants		45	40
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	12,302 Common Stock Warrants		5	—
AccuVein Inc. (2)	Medical Device	75,769 Preferred Stock Warrants		24	30
Direct Flow Medical, Inc.	Medical Device	176,922 Preferred Stock Warrants		144	41
EnteroMedics, Inc. (5)	Medical Device	141,025 Common Stock Warrants		347	—

IntegenX, Inc. (2)	Medical Device	158,006 Preferred Stock Warrants	33	25
Lantos Technologies, Inc. (2)	Medical Device	1,287,817 Preferred Stock Warrants	38	43
Mederi Therapeutics, Inc. (2)	Medical Device	248,736 Preferred Stock Warrants	26	41
Mitralign, Inc. (2)	Medical Device	641,909 Preferred Stock Warrants	52	38
NinePoint Medical, Inc. (2)	Medical Device	566,038 Preferred Stock Warrants	33	34
OraMetrix, Inc. (2)	Medical Device	812,348 Preferred Stock Warrants	78	—
Tryton Medical, Inc. (2)	Medical Device	122,362 Preferred Stock Warrants	15	12
ViOptix, Inc.	Medical Device	375,763 Preferred Stock Warrants	13	—
ZetrOZ, Inc. (2)	Medical Device	475,561 Preferred Stock Warrants	25	—
Total Warrants — Life Science			1,361	1,331
Warrants — Technology — 2.6% (8)				
Ekahau, Inc. (2)	Communications	978,261 Preferred Stock Warrants	33	19
OpenPeak, Inc.	Communications	18,997 Common Stock Warrants	89	—
Overture Networks, Inc.	Communications	385,617 Preferred Stock Warrants	55	386
Additech, Inc. (2)	Consumer-related Technologies	150,000 Preferred Stock Warrants	32	27
Everyday Health, Inc. (5)	Consumer-related Technologies	43,783 Common Stock Warrants	69	1
Gwynnie Bee, Inc. (2)	Consumer-related Technologies	268,591 Preferred Stock Warrants	68	634
If(we), Inc.	Consumer-related Technologies	190,868 Preferred Stock Warrants	27	62
Rhapsody International Inc. (2)	Consumer-related Technologies	852,273 Common Stock Warrants	164	165
SavingStar, Inc. (2)	Consumer-related Technologies	79,088 Preferred Stock Warrants	48	49
XIOtech, Inc.	Data Storage	2,217,979 Preferred Stock Warrants	22	19
SimpleTuition, Inc.	Internet and media	189,573 Preferred Stock Warrants	63	69
The NanoSteel Company, Inc. (2)	Materials	147,424 Preferred Stock Warrants	93	95
IntelePeer, Inc.	Networking	141,549 Common Stock Warrants	39	27
Nanocomp Technologies, Inc. (2)	Networking	272,728 Preferred Stock Warrants	25	20
Aquion Energy, Inc.	Power Management	115,051 Preferred Stock Warrants	7	57
Powerhouse Dynamics, Inc. (2)	Power Management	290,698 Preferred Stock Warrants	27	28
Avalanche Technology, Inc. (2)	Semiconductors	202,602 Preferred Stock Warrants	101	45
eASIC Corporation (2)	Semiconductors	40,445 Preferred Stock Warrants	25	29
InVisage Technologies, Inc. (2)	Semiconductors	185,790 Preferred Stock Warrants	48	47
Kaminario, Inc.	Semiconductors	1,087,203 Preferred Stock Warrants	59	65
Luxtera, Inc.(2)	Semiconductors	2,304,667 Preferred Stock Warrants	48	103
Soraa, Inc. (2)	Semiconductors	180,000 Preferred Stock Warrants	80	102
Xtera Communications, Inc. (5)	Semiconductors	37,831 Preferred Stock Warrants	206	—
Bolt Solutions Inc. (2)	Software	202,892 Preferred Stock Warrants	113	119
Bridge2 Solutions, Inc.	Software	1,769 Common Stock Warrants	18	688

See Notes to Consolidated Financial Statements

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

December 31, 2015

(Dollars in thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(9)(10)	Cost of Investments (6)	Fair Value
Clarabridge, Inc.	Software	53,486 Preferred Stock Warrants	14	82
Crowdstar, Inc. (2)	Software	75,428 Preferred Stock Warrants	14	14
Decisyon, Inc. (2)	Software	2,526,909 Common Stock Warrants	46	—
Digital Signal Corporation	Software	85,308 Common Stock Warrants	32	32
Education Elements, Inc. (2)	Software	238,122 Preferred Stock Warrants	28	29
Lotame Solutions, Inc. (2)	Software	288,115 Preferred Stock Warrants	22	271
Lytx, Inc.	Software	71,639 Preferred Stock Warrants	20	121
Netuitive, Inc.	Software	41,569 Common Stock Warrants	48	—
Riv Data Corp. (2)	Software	237,361 Preferred Stock Warrants	13	12
ScoreBig, Inc. (2)	Software	481,198 Preferred Stock Warrants	55	57
SIGNiX, Inc. (2)	Software	63,365 Preferred Stock Warrants	48	49
Skyword, Inc.	Software	301,056 Preferred Stock Warrants	48	48
SpringCM, Inc. (2)	Software	2,385,686 Preferred Stock Warrants	55	54
Sys-Tech Solutions, Inc.	Software	375,000 Preferred Stock Warrants	242	524
Vidsys, Inc.	Software	37,346 Preferred Stock Warrants	23	—
Visage Mobile, Inc.	Software	1,692,047 Preferred Stock Warrants	19	—
xTech Holdings, Inc. (2)	Software	111,111 Preferred Stock Warrants	30	32
Total Warrants — Technology			2,316	4,181
Warrants — Cleantech — 0.2% (8)				
Renmatix, Inc.	Alternative Energy	53,022 Preferred Stock Warrants	68	68
Semprius, Inc.	Alternative Energy	519,981 Preferred Stock Warrants	25	21
Rypos, Inc. (2)	Energy Efficiency	5,627 Preferred Stock Warrants	44	32
Tigo Energy, Inc. (2)	Energy Efficiency	804,604 Preferred Stock Warrants	100	111
Lehigh Technologies, Inc. (2)	Waste Recycling	272,727 Preferred Stock Warrants	32	34
Total Warrants — Cleantech			269	266
Warrants — Healthcare information and services — 0.6% (8)				
Accumetrics, Inc.	Diagnostics	100,928 Preferred Stock Warrants	108	63
BioScale, Inc. (2)	Diagnostics	315,618 Common Stock Warrants	54	—
Candescent Health, Inc. (2)	Diagnostics	519,992 Preferred Stock Warrants	378	—
Helomics Corporation	Diagnostics	13,461Common Stock Warrants	73	—
	Diagnostics	2,492,523 Common Stock Warrants	112	2

Interleukin Genetics, Inc. (2)(5)				
LifePrint Group, Inc. (2)	Diagnostics	49,000 Preferred Stock Warrants	29	24
Singulex, Inc.	Other Healthcare	293,632 Preferred Stock Warrants	43	167
Verity Solutions Group, Inc.	Other Healthcare	300,360 Preferred Stock Warrants	100	36
Watermark Medical, Inc. (2)	Other Healthcare	27,373 Preferred Stock Warrants	74	65
Innovatient Solutions, Inc. (2)	Software	157,895 Preferred Stock Warrants	35	35
MedAvante, Inc. (2)	Software	114,285 Preferred Stock Warrants	66	68
Medsphere Systems Corporation (2)	Software	7,097,791 Preferred Stock Warrants	60	210
Recondo Technology, Inc. (2)	Software	556,796 Preferred Stock Warrants	95	197
Total Warrants — Healthcare information and services			1,227	867
Total Warrants			5,173	6,645
Other Investments — 0.2% (8)				
Vette Technology, LLC	Data Storage	Royalty Agreement Due 4/18/2019	4,422	300
Total Other Investments			4,422	300
Equity — 0.7% (8)				
Insmed Incorporated (5)	Biotechnology	33,208 Common Stock	238	603
Revance Therapeutics, Inc.(5)	Biotechnology	4,861 Common Stock	73	166
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	78,493 Common Stock	83	70
Overture Networks Inc.	Communications	772,382 Common Stock	482	—
SnagAJob.com, Inc.	Consumer-related Technologies	151,655 Common Stock	23	215
Decisyon, Inc.	Technology	2,301,717 Common Stock	101	101
Total Equity			1,000	1,155
Total Portfolio Investment Assets — 156.7% (8)			$ 255,494	$250,267
Short Term Investments — Money Market Funds — 0.2% (8)				
US Bank Money Market Deposit Account			$ 285	$285
Total Short Term Investments — Money Market Funds			$ 285	$285

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

December 31, 2015

(Dollars in thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(9)(10)	Cost of Investments (6)	Fair Value
Short Term Investments — Restricted Investments— 0.7% (8)				
US Bank Money Market Deposit Account (2)			$ 1,091	$1,091
Total Short Term Investments — Restricted Investments			$ 1,091	$1,091

(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 or the 2013-1 Securitization.

(3) All investments are less than 5% ownership of the class and ownership of the portfolio company.

(4) All interest is payable in cash due monthly in arrears, unless otherwise indicated, and applies only to the Company's debt investments. Interest rate is the annual interest rate on the debt investment and does not include end-of-term payments ("ETPs") and any additional fees related to the investments, such as deferred interest, commitment fees or prepayment fees. All debt investments are at fixed rates for the term of the debt investment, unless otherwise indicated. 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, 2015 is provided.

(5) Portfolio company is a public company.

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

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

(8) Value as a percent of net assets.

(9) The Company did not have any non-qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended (the "1940 Act"), as of December 31, 2015. Under the 1940 Act, the Company may not acquire any non-qualifying assets unless, at the time the acquisition is made, qualifying assets represent at least 70% of the Company's total assets.

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

(11) Debt investment is on non-accrual status at December 31, 2015.

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 and 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.

Longview SBIC GP LLC and Longview SBIC LP (collectively, "Horizon SBIC") were formed as a Delaware limited liability company and Delaware limited partnership, respectively, on February 11, 2011. Horizon SBIC are wholly owned subsidiaries of the Company and were formed in anticipation of obtaining a license to operate a small business investment company from the U. S. Small Business Administration. There has been no activity in Horizon SBIC since its inception.

The Company formed Horizon Funding 2013-1 LLC ("2013-1 LLC") as a Delaware limited liability company on June 7, 2013 and Horizon Funding Trust 2013-1 ("2013-1 Trust" and, together with 2013-1 LLC, the "2013-1 Entities") as a Delaware trust on June 18, 2013. The 2013-1 Entities are special purpose bankruptcy remote entities and are separate legal entities from the Company. The Company formed the 2013-1 Entities for purposes of securitizing $189.3 million of secured loans (the "2013-1 Securitization") and issuing fixed-rate asset-backed notes in an aggregate principal amount of $90 million (the "Asset-Backed Notes"). 2013-1 LLC and 2013-1 Trust have been dissolved as of September 30, 2016.

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 24, 2015, the Company completed a public offering of 2,000,000 shares of its common stock at a public offering price of $13.95 per share, for total net proceeds to the Company of $26.5 million, after deducting underwriting commission and discounts and other offering expenses (the "2015 Offering").

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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. Certain prior period amounts have been reclassified to conform to the current period presentation. 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, 2015.

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.

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 5. 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 5 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.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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 September 30, 2016, there were four debt investments on non-accrual status with a cost of $27.7 million and a fair value of $12.0 million. For the three and nine months ended September 30, 2015, the Company recognized interest income payments of $0.04 million and $0.2 million, respectively, received from one portfolio company whose debt investment was on non-accrual status. As of December 31, 2015, there was one investment on non-accrual status with a cost of $2.7 million and a fair value of $0.5 million.

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 September 30, 2016 and 2015 was 7.1% and 6.5%, respectively. The proportion of the Company's total investment income that resulted from the portion of ETPs not received in cash for the nine months ended September 30, 2016 and 2015 was 12.1% and 7.1%, 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 also recorded as unearned income on the grant date. The unearned income is recognized as interest income over the contractual life of the related debt investment in accordance with the Company's income recognition policy. Subsequent to debt investment origination, the fair value of the warrants is determined using the Black-Scholes valuation model. Any adjustment to fair value is recorded through earnings as net unrealized appreciation or depreciation on investments. Gains and losses from the disposition of the warrants or stock acquired from the exercise of warrants are recognized as realized gains and losses on investments.

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

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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 September 30, 2016 and December 31, 2015 was $1.7 million and $1.9 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 September 30, 2016 and December 31, 2015 were $4.3 million and $3.9 million, respectively. The amortization expense for the three months ended September 30, 2016 and 2015 was $0.1 million and $0.2 million, respectively. The amortization expense for the nine months ended September 30, 2016 and 2015 was $0.4 million and $0.7 million, respectively.

Income taxes

As a BDC, the Company has elected to be treated as a RIC under Subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC and to avoid corporate-level U.S. federal income tax on the 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, 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 Paragraph 946-205-45-3 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 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 nine months ended September 30, 2015, the Company reclassified $1.0 million to paid-in capital from distributions in excess of net investment income of $0.9 million and net realized loss on investments of $0.1 million, which related to excise taxes paid in prior years.

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 pay 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 nine months ended September 30, 2016 and 2015, there was no U.S. federal excise tax accrual 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, 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 September 30, 2016 and December 31, 2015. The 2015, 2014 and 2013 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 long-term capital gains, if any, are distributed at least annually, although the Company may decide to retain such capital 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.

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Stock Repurchase Program

On July 29, 2016, 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, and any applicable requirements of the 1940 Act. Unless extended by the Board, the repurchase program will terminate on the earlier of June 30, 2017 or the repurchase of $5.0 million of the Company's common stock. During the three and nine months ended September 30, 2016, the Company repurchased 1,319 shares of its common stock at an average price of $11.54 on the open market at a total cost of $0.02 million. From the inception of the stock repurchase program through September 30, 2016, the Company repurchased 114,701 shares of its common stock at an average price of $11.53 on the open market at a total cost of $1.3 million.

Transfers of financial assets

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

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

Recently adopted accounting pronouncement

In April 2015, the FASB issued Accounting Standards Update ("ASU") 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"), as clarified by ASU 2015-15, *Interest—Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* ("ASU 2015-15"), containing guidance that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, instead of being recorded as a separate asset. ASU 2015-15 allows an entity to defer and present debt issuance costs for line-of-credit arrangements as an asset and subsequently amortize these deferred costs over the term of the line-of-credit arrangement. The Company has adopted ASU 2015-03, as clarified by ASU 2015-15, which did not have a material impact on the Company's consolidated financial statements other than corresponding reductions to total assets and total liabilities on the consolidated statements of assets and liabilities. Prior to adoption, the Company recorded debt issuance costs in other assets as an asset on the consolidated statements of assets and liabilities. Upon adoption, the Company reclassified these costs as unamortized debt issuance costs that reduce debt in the liabilities on the consolidated statements of assets and liabilities and retrospectively reclassified the debt issuance costs that were previously presented in other assets as an asset as of December 31, 2015, as discussed further in Note 6.

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Note 3. Related party transactions

Investment Management Agreement

The Investment Management Agreement was reapproved by the Board on July 29, 2016. Under the terms of the Investment Management Agreement, the Advisor determines the composition of the Company's investment portfolio, the nature and timing of the changes to the investment portfolio and the manner of implementing such changes; identifies, evaluates and negotiates the structure of the investments the Company makes (including performing due diligence on the Company's prospective portfolio companies); and closes, monitors and administers the investments the Company makes, including the exercise of any voting or consent rights.

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

The base management fee under the Investment Management Agreement is calculated at an annual rate of 2.00% of (i) the Company's gross assets, less (ii) assets consisting of cash and cash equivalents, and is payable monthly in arrears. For purposes of calculating the base management fee, the term "gross assets" includes any assets acquired with the proceeds of leverage. In addition, the Advisor agreed to waive its base management fee relating to the proceeds raised in the 2015 Offering, to the extent such fee is not otherwise waived and regardless of the application of the proceeds raised, until the earlier to occur of (i) March 31, 2016 or (ii) the last day of the second consecutive calendar quarter in which the Company's net investment income exceeds distributions declared on its shares of common stock for the applicable quarter. As of December 31, 2015, the Company met condition (ii) above as net investment income exceeded distributions declared for the quarters ended September 30, 2015 and December 31, 2015.

During the three and nine months ended September 30, 2015, the Advisor waived base management fees of $0.1 million and $0.2 million, respectively, which the Advisor would have otherwise earned on the proceeds raised in the

2015 Offering. The base management fee payable at September 30, 2016 and December 31, 2015 was $0.4 million. After giving effect of the waiver, the base management fee expense was $1.1 million for the three months ended September 30, 2016 and 2015. After giving effect of the waiver, the base management fee expense was $3.7 million and $3.2 million for the nine months ended September 30, 2016 and 2015, respectively.

The incentive fee has two parts, as follows:

The first part, which is subject to the Incentive Fee Cap and Deferral Mechanism, as defined below, is calculated and payable quarterly in arrears based on the Company's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, "Pre-Incentive Fee Net Investment Income" means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees received from portfolio companies) accrued during the calendar quarter, minus expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement (as defined below), and any interest expense and any dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment-in-kind interest and zero coupon securities), accrued income the Company has not yet received in cash. The incentive fee with respect to the Pre-Incentive Fee Net Investment Income is 20.00% of the amount, if any, by which the Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter exceeds a 1.75% (which is 7.00% annualized) hurdle rate and 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.

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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 increases 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 will include the relevant calendar quarter and the 11 preceding full calendar quarters. Each quarterly incentive fee payable on Pre-Incentive Fee Net Investment Income is subject to a cap (the "Incentive Fee Cap") and a deferral mechanism through which the Advisor may recoup a portion of such deferred incentive fees (collectively, the "Incentive Fee Cap and Deferral Mechanism"). The Incentive Fee Cap is equal to (a) 20.00% of Cumulative Pre-Incentive Fee Net Return (as defined below) during the Incentive Fee Look-back Period less (b) cumulative incentive fees of any kind paid to the Advisor during the Incentive Fee Look-back Period. To the extent the Incentive Fee Cap is zero or a negative value in any calendar quarter, the Company will not pay an incentive fee on Pre-Incentive Fee Net Investment Income to the Advisor in that quarter. To the extent that the payment of incentive fees on Pre-Incentive Fee Net Investment Income is limited by the Incentive Fee Cap, the payment of such fees will be deferred and paid in subsequent calendar quarters up to three years after their date of deferment, subject to certain limitations, which are set forth in the Investment Management Agreement. The Company only pays incentive fees on Pre-Incentive Fee Net Investment Income to the extent allowed by the Incentive Fee Cap and Deferral Mechanism. "Cumulative Pre-Incentive Fee Net Return" during any Incentive Fee Look-back Period means the sum of (a) Pre-Incentive Fee Net Investment Income and the base management fee for each calendar quarter during the Incentive Fee Look-back Period and (b) the sum of cumulative realized capital gains and losses, cumulative unrealized capital appreciation and cumulative unrealized capital depreciation during the applicable Incentive Fee Look-back Period.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or, upon termination of the Investment Management Agreement, as of the termination date), and equals 20.00% of the Company's realized capital gains, if any, on a cumulative basis from the date of the election to be a BDC through the

end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis through the end of such year, less all previous amounts paid in respect of the capital gain incentive fee. However, in accordance with GAAP, the Company is required to include the aggregate unrealized capital appreciation on investments in the calculation and accrue a capital gain incentive fee on a quarterly basis, as if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Management Agreement.

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The performance based incentive fee expense was $1.0 million for the three months ended September 30, 2015. The performance based incentive fee expense was $2.1 million and $2.5 million for the nine months ended September 30, 2016 and 2015, respectively. The incentive fee on Pre-Incentive Fee Net Investment Income was subject to the Incentive Fee Cap and Deferral Mechanism for the three and nine months ended September 30, 2016, which resulted in $0.9 million of reduced expense and additional net investment income. There was no performance based incentive fee payable as of September 30, 2016 as the incentive fee on Pre-Incentive Fee Net Investment Income was subject to the Incentive Fee Cap and Deferral Mechanism. The performance based incentive fee payable as of December 31, 2015 was $1.0 million. The entire incentive fee payable as of December 31, 2015 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 and $0.3 million for the three months ended September 30, 2016 and 2015, respectively. The administrative fee expense was $0.8 million and $0.9 million for the nine months ended September 30, 2016 and 2015, respectively.

Note 4. Investments

The following table shows the Company's investments as of September 30, 2016 and December 31, 2015:

	September 30, 2016		December 31, 2015	
	Cost	Fair Value	Cost	Fair Value

		(In thousands)		
Money market funds	$—	$—	$285	$285
Restricted investments in money market funds	$—	$—	$1,091	$1,091
Non-affiliate investments				
Debt	$217,378	$201,078	$244,899	$242,167
Warrants	5,483	5,730	5,173	6,645
Other	4,724	500	4,422	300
Equity	571	869	1,000	1,155
Total non-affiliate investments	$228,156	$208,177	$255,494	$250,267

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The following table shows the Company's non-affiliate investments by industry sector as of September 30, 2016 and December 31, 2015:

	September 30, 2016		December 31, 2015	
	Cost	Fair Value	Cost	Fair Value
		(In thousands)		
Life Science				
Biotechnology	$34,799	$29,925	$36,932	$37,911
Medical Device	15,998	15,305	25,753	22,736
Technology				
Communications	423	321	20,170	19,916
Consumer-Related	25,705	26,319	18,699	19,421
Data Storage	4,381	200	4,444	319
Internet and Media	7,990	7,964	63	69
Materials	9,954	9,951	9,918	9,920
Networking	3,470	3,452	757	740
Power Management	2,501	2,548	2,490	2,541
Semiconductors	15,940	15,116	18,944	18,628
Software	68,777	58,900	60,792	61,897
Cleantech				
Alternative Energy	93	20	2,942	2,938
Energy Efficiency	2,640	2,626	3,371	3,370
Waste Recycling	5,993	5,993	5,968	5,970
Healthcare Information and Services				
Diagnostics	4,980	4,867	8,001	7,336
Other	7,000	6,924	8,453	8,504
Software	17,512	17,746	27,797	28,051
Total non-affiliate investments	$228,156	$208,177	$255,494	$250,267

Note 5. 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.

The Company’s fair value measurements are classified into a fair value hierarchy 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.

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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 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.

Money market funds: The carrying amounts are valued at their net asset value as of the close of business on the day of valuation. These financial instruments are recorded at fair value on a recurring basis and are categorized as Level 2 within the fair value hierarchy described above as these funds can be redeemed daily.

Debt investments: For variable rate debt investments which re-price frequently and have no significant change in credit risk, carrying values are a reasonable estimate of fair values. The fair value of fixed rate 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 September 30, 2016 and December 31, 2015, 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.

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.

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- 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 IPOs, 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 agreement. The Company currently values one contractual agreement 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 this other investment as Level 3 within the fair value hierarchy described above. This asset is recorded at fair value on a recurring basis.

The following tables provide a summary of quantitative information about the Company's Level 3 fair value measurements of its investments as of September 30, 2016 and December 31, 2015. In addition to the techniques and inputs noted in the table below, according to the Company's valuation policy, the Company may also use other valuation techniques and methodologies when determining its fair value measurements.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

The following table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to the Company's fair value measurements as of September 30, 2016:

September 30, 2016					
Investment Type	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range	Weighted Average
(Dollars in thousands, except per share data)					
Debt investments	$189,057	Discounted Expected Future Cash Flows	Hypothetical Market Yield	11% – 25%	13%
	12,021	Liquidation Scenario	Probability Weighting	10% – 100%	40%
Warrant investments	4,882	Black-Scholes Valuation Model	Price Per Share	$0.00 – $63.98	$3.89
			Average Industry Volatility	18%	18%
			Marketability Discount	20%	20%
			Estimated Time to Exit	1 to 5 years	3 years
Other investments	500	Multiple Probability Weighted Cash Flow Model	Discount Rate	25%	25%
			Probability Weighting	10% – 100%	43%
Equity investments	251	Last Equity Financing	Price Per Share	$0. 04 – $1.00	$0.36
Total Level 3 investments	$206,711				

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, 2015:

December 31, 2015

Investment Type	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range	Weighted Average
(Dollars in thousands, except per share data)					
Debt investments	$241,667	Discounted Expected Future Cash Flows	Hypothetical Market Yield	11% – 25%	13%
	500	Liquidation Scenario	Discount Rate	25%	25%
			Probability Weighting	0% – 100%	30%
Warrant investments	5,407	Black-Scholes Valuation Model	Price Per Share	$0.00 – $615.46	$81.27
			Average Industry Volatility Volatility	18%	18%
			Marketability Discount	20%	20%
			Estimated Time to Exit	1 to 5 years	3 years
	386	Expected Acquisition Settlement	Price Per Share	$2.09	$2.09
Other investments	300	Multiple Probability Weighted Cash Flow Model	Discount Rate	25%	25%
			Probability Weighting	100%	100%
Equity investments	101	Last Equity Financing	Price Per Share	$0.04	$0.04
	215	Expected Settlement	Price Per Share	$0.00 – $1.41	$1.41
Total Level 3 investments	$248,576				

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 2019 Notes (as defined in Note 6) is based on the closing public share price on the date of measurement. On September 30, 2016, the closing price of the 2019 Notes on the New York Stock Exchange was $25.64 per note, or $33.8 million. Therefore, the Company has categorized this borrowing as Level 1 within the fair value hierarchy described above.

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

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The following tables detail the assets that are carried at fair value and measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	September 30, 2016			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt investments	$201,078	$—	$—	$201,078
Warrant investments	$5,730	$—	$848	$4,882
Other investments	$500	$—	$—	$500
Equity investments	$869	$618	$—	$251

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Money market funds	$285	$—	$285	$—
Restricted investments in money market funds	$1,091	$—	$1,091	$—
Debt investments	$242,167	$—	$—	$242,167
Warrant investments	$6,645	$—	$852	$5,793
Other investments	$300	$—	$—	$300
Equity investments	$1,155	$839	$—	$316

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 September 30, 2016:

	Three Months Ended September 30, 2016				
	Debt Investments	**Warrant Investments**	**Equity Investments**	**Other Investments**	Total
	(In thousands)				
Level 3 assets, beginning of period	$226,963	$ 4,835	$ 240	$ 600	$232,638

Purchase of investments	13,536	—	—	—	13,536
Warrants and equity received and classified as Level 3	—	240	11	—	251
Principal payments received on investments	(28,775)	—	—	(25)	(28,800)
Proceeds from sale of investments	—	(5)	—	—	(5)
Net realized gain on investments	—	5	—	—	5
Unrealized depreciation included in earnings	(10,537)	(193)	—	(75)	(10,805)
Other	(109)	—	—	—	(109)
Level 3 assets, end of period	$201,078	$ 4,882	$ 251	$ 500	$206,711

The Company’s transfers between levels are recognized at the end of each reporting period. During the three months ended September 30, 2016, there were no transfers between levels.

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Notes to Consolidated Financial Statements

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the three months ended September 30, 2015:

	Three Months Ended September 30, 2015				
	Debt Investments	**Warrant Investments**	**Equity Investments**	**Other Investments**	Total
	(In thousands)				
Level 3 assets, beginning of period	$232,428	$ 4,556	$ 222	$ 300	$237,506
Purchase of investments	32,848	—	—	—	32,848
Warrants and equity received and classified as Level 3	—	272	—	—	272
Principal payments received on investments	(21,991)	—	—	(25)	(22,016)
Proceeds from sale of investments	(1,000)	(78)	—	—	(1,078)
Net realized loss on investments	(1,832)	(36)	—	—	(1,868)
Unrealized appreciation included in earnings	1,411	432	—	25	1,868
Other	(139)	—	—	—	(139)
Level 3 assets, end of period	$241,725	$ 5,146	$ 222	$ 300	$247,393

The Company's transfers between levels are recognized at the end of each reporting period. During the three months ended September 30, 2015, there were no transfers between levels.

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the nine months ended September 30, 2016:

	Nine Months Ended September 30, 2016				
	Debt Investments	**Warrant Investments**	**Equity Investments**	**Other Investments**	Total
	(In thousands)				
Level 3 assets, beginning of period	$242,167	$ 5,793	$ 316	$ 300	$248,576
Purchase of investments	45,223	—	—	—	45,223

Warrants and equity received and classified as Level 3	—	389	67	—	456
Principal payments received on investments	(69,235)	—	—	(80)	(69,315)
Proceeds from sale of investments	—	(810)	(129)	—	(939)
Net realized (loss) gain on investments	(3,093)	677	(367)	—	(2,783)
Unrealized (depreciation) appreciation included in earnings	(13,566)	(1,167)	364	(103)	(14,472)
Transfer from debt investments to other investments	(383)	—	—	383	—
Other	(35)	—	—	—	(35)
Level 3 assets, end of period	$201,078	$ 4,882	$ 251	$ 500	$206,711

The Company's transfers between levels are recognized at the end of each reporting period. During the nine months ended September 30, 2016, there were no transfers between levels.

The change in unrealized depreciation included in the consolidated statement of operations attributable to Level 3 investments still held at September 30, 2016 includes $15.8 million in unrealized depreciation on debt and other investments, $0.8 million in unrealized depreciation on warrant investments and $0.1 million in unrealized appreciation on equity investments.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the nine months ended September 30, 2015:

	Nine Months Ended September 30, 2015				
	Debt Investments	**Warrant Investments**	**Equity Investments**	**Other Investments**	Total
	(In thousands)				
Level 3 assets, beginning of period	$199,180	$ 3,966	$ 222	$ 300	$203,668
Purchase of investments	104,781	—	—	—	104,781
Warrants and equity received and classified as Level 3	—	752	—	—	752
Principal payments received on investments	(58,456)	—	—	(137)	(58,593)
Proceeds from sale of investments	(1,000)	(78)	—	—	(1,078)
Net realized loss on investments	(1,832)	(266)	—	—	(2,098)
Unrealized (depreciation) appreciation included in earnings	(226)	787	—	137	698
Transfer out of Level 3	—	(15)	—	—	(15)
Other	(722)	—	—	—	(722)
Level 3 assets, end of period	$241,725	$ 5,146	$ 222	$ 300	$247,393

The Company's transfers between levels are recognized at the end of each reporting period. During the nine months ended September 30, 2015, there were no transfers between Level 1 and Level 2. The transfer out of Level 3 relates to warrants held in two portfolio companies, with an aggregate fair value of $0.02 million, that were transferred into Level 2 upon the portfolio companies becoming public companies during the period.

The change in unrealized appreciation included in the consolidated statement of operations attributable to Level 3 investments still held at September 30, 2015 includes $0.1 million in unrealized depreciation for debt and other investments and $0.6 million in unrealized appreciation on warrants.

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 for 2016 and 2015 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 September 30, 2016 and December 31, 2015, the recorded balances equaled fair values of all the Company's financial instruments, except for the Company's 2019 Notes, as previously described.

Off-balance-sheet instruments

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

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Notes to Consolidated Financial Statements

Note 6. Borrowings

The following table shows the Company's borrowings as of September 30, 2016 and December 31, 2015:

	September 30, 2016			December 31, 2015		
	Total Commitment	**Balance Outstanding**	**Unused Commitment**	**Total Commitment**	**Balance Outstanding**	**Unused Commitment**
	(In thousands)					
Asset-Backed Notes	$—	$ —	$—	$14,546	$ 14,546	$ —
Key Facility	95,000	63,000	32,000	70,000	68,000	2,000
2019 Notes	33,000	33,000	—	33,000	33,000	—
Total before debt issuance costs	128,000	96,000	32,000	117,546	115,546	2,000
Unamortized debt issuance costs attributable to term borrowings	—	(450)	—	—	(592)	—
Total borrowings outstanding, net	$128,000	$ 95,550	$32,000	$117,546	$ 114,954	$ 2,000

In accordance with the 1940 Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that the Company's asset coverage, as defined in the 1940 Act, is at least 200% after such borrowings. As of September 30, 2016, the asset coverage for borrowed amounts was 250%.

On August 12, 2015, the Company amended the Key Facility to (1) add a $20 million commitment to the existing $50 million commitment and (2) extend the term of the Key Facility. On April 27, 2016, the Company added a $25 million commitment to the existing $70 million commitment. The Key Facility has an accordion feature which allows for an increase in the total loan commitment to $150 million from the current $95 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 three-year revolving period followed by a two-year amortization period and matures on August 12, 2020. The interest rate is based upon the one-month London Interbank Offered Rate ("LIBOR"), plus a spread of 3.25%, with a LIBOR floor of 0.75%. Based on a LIBOR rate of 0.53% and 0.43% on September 30,

2016 and December 31, 2015, respectively, the interest rate was 4.00% as of September 30, 2016 and December 31, 2015. The average rate for the three and nine months ended September 30, 2016 and 2015 was 4.00%. As of September 30, 2016, the Company had borrowing capacity of $32.0 million, of which $10.6 million was available, subject to existing terms and advance rates. As of December 31, 2015, the Company had available borrowing capacity of $2.0 million, subject to existing terms and advance rates.

On March 23, 2012, the Company issued and sold an aggregate principal amount of $30 million of 7.375% senior unsecured notes due in 2019 and on April 18, 2012, pursuant to the underwriters' 30 day option to purchase additional notes, the Company sold an additional $3 million of such notes (collectively, the "2019 Notes"). The 2019 Notes will mature on March 15, 2019 and may be redeemed in whole or in part at the Company's option at any time or from time to time at a redemption price of $25 per security plus accrued and unpaid interest. The 2019 Notes bear interest at a rate of 7.375% per year payable quarterly on March 15, June 15, September 15 and December 15 of each year. The 2019 Notes are the Company's direct unsecured obligations and (i) rank equally in right of payment with the Company's 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 2019 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 September 30, 2016, the Company was in material compliance with the terms of the 2019 Notes. The 2019 Notes are listed on the New York Stock Exchange under the symbol "HTF".

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On June 28, 2013, the Company completed the 2013-1 Securitization. In connection with the 2013-1 Securitization, 2013-1 Trust, a wholly owned subsidiary of the Company, issued $90 million in the Asset-Backed Notes, which were rated A1(sf) by Moody's Investors Service, Inc. The Asset-Backed Notes were issued by 2013-1 Trust and were backed by a pool of loans made to certain portfolio companies of the Company and secured by certain assets of such portfolio companies. The Asset-Backed Notes were secured obligations of 2013-1 Trust and non-recourse to the Company. In connection with the issuance and sale of the Asset-Backed Notes, the Company made customary representations, warranties and covenants. The Asset-Backed Notes bore interest at a fixed rate of 3.00% per annum and had a stated maturity of May 15, 2018. As of September 30, 2016 the Asset-Backed Notes were repaid in full.

Under the terms of the Asset-Backed Notes, the Company was required to maintain a reserve cash balance, funded through principal collections from the underlying securitized debt portfolio, which may be used to make monthly interest and principal payments on the Asset-Backed Notes. The Company had segregated these funds and classified them as restricted investments in money market funds on the consolidated statements of assets and liabilities. The balance of restricted investments in money market funds was $1.1 million as of December 31, 2015.

Note 7. 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 $7.0 million and $10.0 million as of September 30, 2016 and December 31, 2015, respectively. Commitments to extend credit consist principally of the unused portions of commitments that obligate the Company to extend credit, such as revolving credit arrangements or similar transactions. These commitments are often subject to financial or non-financial milestones and other conditions to borrow that must be achieved before the commitment can be drawn. In addition, the commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The following table provides the Company's unfunded commitments by portfolio company as of September 30, 2016:

	Principal Balance	Unfunded Commitment	Fair Value of Unfunded Commitment Liability
	(In thousands)		
ControlScan, Inc.	$3,000	$	35
ShopKeep.com, Inc.	4,000		79
Total	$7,000	$	114

The table above also provides the fair value of the Company's unfunded commitment liability as of September 30, 2016 totaling $0.1 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 8. 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.

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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 23% and 21% of total debt investments outstanding as of September 30, 2016 and December 31, 2015, respectively. No single debt investment represented more than 10% of the total debt investments as of September 30, 2016 and December 31, 2015. 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 18% of total interest and fee income on investments for the three months ended September 30, 2016 and 2015. Interest income from the five largest debt investments accounted for 18% of total interest and fee income on investments for the nine months ended September 30, 2016 and 2015.

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Notes to Consolidated Financial Statements

Note 9. Distributions

The Company's distributions are recorded on the declaration date. The following table summarizes the Company's distribution activity for the nine months ended September 30, 2016 and for the years ended December 31, 2015 and 2014:

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)			
Nine Months Ended September 30, 2016						
7/29/16	11/18/16	12/15/16	$0.115	$ —	—	$ —
7/29/16	10/20/16	11/15/16	0.115	—	—	—
7/29/16	9/20/16	10/17/16	0.115	1,305	1,706	23
4/28/16	8/19/16	9/15/16	0.115	1,307	1,535	21
4/28/16	7/20/16	8/15/16	0.115	1,302	1,842	25
4/28/16	6/20/16	7/15/16	0.115	1,305	1,734	23
3/3/16	5/19/16	6/15/16	0.115	1,305	1,898	23
3/3/16	4/20/16	5/16/16	0.115	1,283	3,821	44
3/3/16	3/18/16	4/15/16	0.115	1,306	1,840	21
			$1.035	$ 9,113	14,376	$ 180
Year Ended December 31, 2015						
10/30/15	2/22/16	3/15/16	$0.115	$ 1,309	1,606	$ 18
10/30/15	1/21/16	2/17/16	0.115	1,308	1,931	18
10/30/15	12/18/15	1/15/16	0.115	1,311	1,841	18
7/29/15	11/19/15	12/15/15	0.115	1,317	1,687	20
7/29/15	10/20/15	11/16/15	0.115	1,317	1,967	22
7/29/15	9/18/15	10/15/15	0.115	1,315	2,418	24
5/1/15	8/19/15	9/15/15	0.115	1,312	2,577	26
5/1/15	7/20/15	8/14/15	0.115	1,312	2,420	27
5/1/15	6/18/15	7/15/15	0.115	1,312	2,045	26
3/6/15	5/20/15	6/15/15	0.115	1,311	2,036	28

3/6/15	4/20/15	5/15/15	0.115	1,311	1,950	28
3/6/15	3/20/15	4/15/15	0.115	1,095	877	12
			$1.380	$ 15,530	23,355	$ 267
Year Ended December 31, 2014						
10/31/14	2/19/15	3/16/15	$0.115	$ 1,096	751	$ 11
10/31/14	1/20/15	2/13/15	0.115	1,094	956	12
10/31/14	12/17/14	1/15/15	0.115	1,096	786	11
8/1/14	11/19/14	12/15/14	0.115	1,093	1,099	15
8/1/14	10/20/14	11/17/14	0.115	1,095	850	12
8/1/14	9/18/14	10/15/14	0.115	1,095	901	12
5/1/14	8/19/14	9/15/14	0.115	1,095	812	12
5/1/14	7/21/14	8/15/14	0.115	1,080	2,042	29
5/1/14	6/18/14	7/17/14	0.115	1,093	784	11
3/6/14	5/20/14	6/16/14	0.115	1,091	1,128	15
3/6/14	4/17/14	5/15/14	0.115	1,090	1,174	16
3/6/14	3/19/14	4/15/14	0.115	1,097	644	8
			$1.380	$ 13,115	11,927	$ 164

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On October 28, 2016, the Board declared three monthly distributions of $0.10 per share, a reduction from the prior rate of $0.115 per month, payable as set forth in the following table:

Ex-Dividend Date	Record Date	Payment Date	Distributions Declared
February 17, 2017	February 22, 2017	March 15, 2017	$ 0.10
January 17, 2017	January 19, 2017	February 15, 2017	$ 0.10
December 16, 2016	December 20, 2016	January 13, 2017	$ 0.10

After paying distributions of $0.345 per share and earning $0.38 per share for the quarter, the Company's undistributed spillover income as of September 30, 2016 was $0.22 per share. Spillover income includes any ordinary income and net capital gains from the preceding tax years that were not distributed during such tax years.

Note 10. Financial highlights

The following table shows financial highlights for the Company:

	Nine Months Ended September 30,	
	2016	2015
	(In thousands, except share and per share data)	
Per share data:		
Net asset value at beginning of period	$ 13.85	$ 14.36
Net investment income	1.15	0.90
Realized loss on investments	(0.25)	(0.16)
Unrealized (depreciation) appreciation on investments	(1.27)	0.09
Net (decrease) increase in net assets resulting from operations	(0.37)	0.83
Net dilution from issuance of common stock	—	(0.18)
Distributions declared[(1)]	(1.04)	(1.04)
From net investment income	(1.04)	(1.04)
From net realized gain on investments	—	—
Return of capital	—	—

Other[2]	—		(0.03	)
Net asset value at end of period	$ 12.44		$ 13.94	
Per share market value, beginning of period	$ 11.73		$ 13.99	
Per share market value, end of period	$ 13.56		$ 9.05	
Total return based on a market value[3]	24.4	%	(27.9	)%
Shares outstanding at end of period	11,551,941		11,642,522	
Ratios to average net assets:				
Expenses without incentive fees	9.3	%[4]	8.6	%[4]
Incentive fees	1.9	%[4]	2.1	%[4]
Net expenses	11.2	%[4]	10.7	%[4]
Net investment income with incentive fees	11.5	%[4]	8.4	%[4]
Ratios, without waivers, to average net assets:				
Expenses without incentive fees[5]	9.3	%[4]	8.8	%[4]
Incentive fees[5]	1.9	%[4]	2.1	%[4]
Net expenses[5]	11.2	%[4]	10.9	%[4]
Net investment income with incentive fees[5]	11.5	%[4]	8.2	%[4]
Net assets at the end of the period	$ 143,669		$ 162,247	
Average net asset value	$ 153,467		$ 157,077	
Average debt per share	$ 9.11		$ 7.54	
Portfolio turnover ratio	19.7	%	49.1	%

(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.

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(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 nine months ended September 30, 2015, the Advisor waived $0.2 million of base management fee.

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

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

Forward-looking statements

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

- our future operating results, including the performance of our existing debt investments and warrants;
- 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;
- our contractual arrangements and relationships with third parties;
- our ability to access capital and any future financings by us;
- the ability of our Advisor to attract and retain highly talented professionals; and

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

We use words such as “anticipates,” “believes,” “expects,” “intends,” “seeks” and similar expressions to identify forward-looki statements. Undue influence should not be placed on the forward looking statements as our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors in “Risk Factors” and elsewhere in our annual report on Form 10-K for the year ended December 31, 2015, 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 revolving line of credit, or Senior Term Loans. As of September 30, 2016, 97.5%, or $196.0 million, of our debt investment portfolio at fair value consisted of Senior Term Loans. Venture Lending is typically characterized by (1) the making of a secured debt investment after a venture capital or equity investment in the portfolio company has been made, which investment provides a source of cash to fund the portfolio company's debt service obligations under the Venture Loan, (2) the senior priority of the Venture Loan which requires repayment of the Venture Loan prior to the equity investors realizing a return on their capital, (3) the relatively rapid amortization of the Venture Loan and (4) the lender's receipt of warrants or other success fees with the making of the Venture Loan.

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the Investment Company Act of 1940, as amended, or the 1940 Act. In addition, for U.S. federal income tax purposes, we have elected to be treated as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code. As a BDC, we are required to comply with regulatory requirements, including limitations on our use of debt. We are permitted to, and expect to, finance our investments through borrowings. However, as a BDC, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. The amount of leverage that we employ depends on our assessment of market conditions and other factors at the time of any proposed borrowing. As a RIC, we generally do not have to pay corporate-level federal income taxes on our investment company taxable income and our net capital gain that we distribute 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 September 30, 2016 and December 31, 2015:

	September 30, 2016			December 31, 2015			
	Number of Investments	**Fair Value**	**Percentage of Total Portfolio**	**Number of Investments**	**Fair Value**	**Percentage of Total Portfolio**	
			(Dollars in thousands)				
Term loans	47	$201,078	96.6 %	52	$242,167	96.8	%
Warrants	82	5,730	2.8	83	6,645	2.6	
Other investments	2	500	0.2	1	300	0.1	
Equity	5	869	0.4	6	1,155	0.5	
Total		$208,177	100.0%		$250,267	100.0	%

The following table shows total portfolio investment activity as of and for the three and nine months ended September 30, 2016 and 2015:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Beginning portfolio	$ 233,266	$ 240,148	$ 250,267	$ 205,101
New debt investments	13,536	32,848	45,223	104,781
Principal payments received on investments	(11,839)	(5,820)	(35,625)	(18,975)
Early pay-offs	(16,961)	(16,196)	(33,690)	(39,618)
Accretion of debt investment fees	382	411	1,123	1,015
New debt investment fees	(195)	(258)	(714)	(959)
New equity	11	—	67	—
Sale of investments	(5)	(1,578)	(939)	(1,578)
Net realized gain (loss) on investments	5	(1,462)	(2,783)	(1,692)
Net unrealized (depreciation) appreciation on investments	(10,023)	940	(14,752)	958
Ending portfolio	$ 208,177	$ 249,033	$ 208,177	$ 249,033

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 September 30, 2016 and December 31, 2015:

	September 30, 2016		December 31, 2015	
	Debt Investments at Fair Value	**Percentage of Total Portfolio**	Debt Investments at Fair Value	**Percentage of Total Portfolio**
	(Dollars in thousands)			
Life Science				
Biotechnology	$ 29,085	14.5 %	$ 36,005	14.9 %
Medical Device	14,793	7.4	22,472	9.2
Technology				
Communications	301	0.2	19,511	8.1
Consumer-Related	25,213	12.5	18,268	7.5
Internet and Media	7,927	3.9	—	—

Materials	9,861	4.9	9,825	4.1	
Networking	3,377	1.7	693	0.3	
Power Management	2,466	1.2	2,456	1.0	
Semiconductors	14,340	7.1	18,237	7.5	
Software	57,015	28.4	59,664	24.6	
Cleantech					
Alternative Energy	—	—	2,849	1.2	
Energy Efficiency	2,496	1.2	3,227	1.3	
Waste Recycling	5,960	2.9	5,936	2.5	
Healthcare Information and Services					
Diagnostics	4,171	2.1	7,247	3.0	
Other	6,782	3.4	8,236	3.4	
Software	17,291	8.6	27,541	11.4	
Total	$ 201,078	100.0 %	$ 242,167	100.0	%

The largest debt investments in our portfolio may vary from year to year as new debt investments are originated and existing debt investments are repaid. Our five largest debt investments represented 23% and 21% of total debt investments outstanding as of September 30, 2016 and December 31, 2015, respectively. No single debt investment represented more than 10% of our total debt investments as of September 30, 2016 and December 31, 2015.

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 September 30, 2016 and December 31, 2015, our debt investments had a weighted average credit rating of 2.9 and 3.0, respectively. The following table shows the classification of our debt investment portfolio by credit rating as of September 30, 2016 and December 31, 2015:

	September 30, 2016			December 31, 2015		
	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	7	$ 32,068	15.9 %	7	$ 23,603	9.8 %
3	28	137,220	68.3	37	199,185	82.2
2	8	19,769	9.8	7	18,879	7.8
1	4	12,021	6.0	1	500	0.2
Total	47	$ 201,078	100.0 %	52	$ 242,167	100.0 %

As of September 30, 2016, there were four debt investments with an internal credit rating of 1, with a cost of $27.7 million and a fair value of $12.0 million. As of December 31, 2015, there was one debt investment with an internal credit rating of 1, with a cost of $2.7 million and a fair value of $0.5 million.

Consolidated results of operations

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

Comparison of the three months ended September 30, 2016 and 2015

The following table shows consolidated results of operations for the three months ended September 30, 2016 and 2015:

	For the Three Months Ended September 30,	
	2016	2015
	(In thousands)	
Total investment income	$ 7,608	$ 8,427
Total net expenses	3,285	4,386
Net investment income before excise tax	4,323	4,041
Credit for excise tax	(52)	(20)
Net investment income	4,375	4,061
Net realized gain (loss) on investments	5	(1,463)
Net unrealized (depreciation) appreciation on investments	(10,023)	940
Net (decrease) increase in net assets resulting from operations	$ (5,643)	$ 3,538
Average debt investments, at fair value	$ 214,358	$ 237,400
Average borrowings outstanding	$ 96,543	$ 98,090

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 decreased by $0.8 million, or 9.7%, to $7.6 million for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. For the three months ended September 30, 2016, total investment income consisted primarily of $6.8 million in interest income from investments, which included $1.4 million in income from the accretion of origination fees and end-of-term payments, or ETPs, and $0.8 million in fee income. For the three months ended September 30, 2015, total investment income consisted primarily of $7.7 million in interest income from investments, which included $1.1 million in income from the accretion of origination fees and ETPs and $0.7 million in fee income. Interest income on investments decreased by $0.9 million, or 11.5%, for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. Interest income on investments decreased primarily due to a decrease of $23.0 million, or 9.7%, in the average size of our investment portfolio. Fee income, which includes success fee and prepayment fee income on debt investments, increased by $0.1 million, or 9.3%, to $0.8 million primarily due to fees earned on higher principal prepayments received during the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

For the three months ended September 30, 2016 and 2015, our dollar-weighted annualized yield on average debt investments was 14.2%. We calculate 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 dollar-weighted annualized yield represents the portfolio yield and will be higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors.

Investment income, consisting of interest income and fees on debt investments, can fluctuate significantly upon repayment of large debt investments. Interest income from the five largest debt investments in the aggregate accounted for 18% of investment income for the three months ended September 30, 2016 and 2015.

Expenses

Total net expenses decreased by $1.1 million, or 25.1%, to $3.3 million for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. 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 decreased by $0.02 million, or 1.5%, to $1.4 million for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. Interest expense, which includes the amortization of debt issuance costs, decreased primarily due to a decrease in average borrowings of $1.5 million, or 1.6%, for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015.

Base management fee expense remained flat at $1.1 million for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015, after giving effect to a waiver of $0.1 million for the three months ended September 30, 2015. Base management fee was flat primarily due to a decrease of $23.0 million, or 9.7%, in the average size of our investment portfolio, offset by the waiver of $0.1 million of base management fee for the three months ended September 30, 2015.

For the three months ended September 30, 2016, the incentive fee expense was effectively zero as the incentive fee on pre-incentive fee net investment income was subject to the incentive fee cap and deferral mechanism under our Investment Management Agreement which resulted in $0.9 million of reduced expense and additional net investment income. The incentive fee on pre-incentive fee net investment income was subject to the incentive fee cap and deferral mechanism due to net realized and unrealized losses in the portfolio during the three months ended September 30, 2016 totaling $10.0 million. Performance based incentive fee expense was $1.0 million for the three months ended September 30, 2015.

Administrative fee expense decreased by $0.1 million, or 34.3%, to $0.2 million for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. Administrative fee expense decreased primarily due to a decrease in expenses incurred by the Advisor on our behalf for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015.

Professional fees and general and administrative expenses primarily include legal and audit fees and insurance premiums. These expenses, in the aggregate, remained flat at $0.5 million for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015.

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 September 30, 2016, we realized net gains totaling less than $0.01 million. During the three months ended September 30, 2015, we realized net losses totaling $1.5 million primarily due to the resolution of one debt investment partially offset by realized gains on the sale of warrants. The debt investment was settled for a net cash payment of $4.9 million, which resulted in a realized loss of $1.8 million and unrealized appreciation of $1.8 million as the fair value of the debt investment was adjusted on June 30, 2015 to reflect the outcome of this resolution.

During the three months ended September 30, 2016, net unrealized depreciation on investments totaled $10.0 million which was primarily due to the unrealized depreciation on three debt investments. During the three months ended September 30, 2015, net unrealized appreciation on investments totaled $0.9 million which was primarily due to the reversal of previously recorded unrealized depreciation on one debt investment that was settled during the period, described above, partially offset by changes in fair values of our investment portfolio.

Comparison of the nine months ended September 30, 2016 and 2015

The following table shows consolidated results of operations for the nine months ended September 30, 2016 and 2015:

	For the Nine Months Ended September 30,	
	2016	2015
	(In thousands)	
Total investment income	$ 25,997	$ 22,549
Total net expenses	12,851	12,657
Net investment income before excise tax	13,146	9,892
Credit for excise tax	(138)	—
Net investment income	13,284	9,892
Net realized loss on investments	(2,857)	(1,723)
Net unrealized (depreciation) appreciation on investments	(14,752)	958
Net (decrease) increase in net assets resulting from operations	$ (4,325)	$ 9,127
Average debt investments, at fair value	$ 229,069	$ 213,249
Average borrowings outstanding	$ 105,183	$ 83,211

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 $3.4 million, or 15.3%, to $26.0 million for the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. For the nine months ended September 30, 2016, total investment income consisted primarily of $24.6 million in interest income from investments, which included $6.6 million in income from the accretion of origination fees and ETPs and $1.4 million in fee income. For the nine months ended September 30, 2015, total investment income consisted primarily of $20.9 million in interest income from investments, which included $3.3 million in income from the accretion of origination fees and ETPs and $1.7 million in fee income. Interest income on investments increased by $3.7 million, or 17.9%, for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. Interest income on investments increased primarily due to an increase of $15.8 million, or 7.4%, in the average size of our investment portfolio and a larger amount of ETPs earned during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. Fee income, which includes success fee and prepayment fee income on debt investments, decreased by $0.3 million, or 17.6%, primarily due to seven prepayments during the nine months ended September 30, 2016 compared to 11 prepayments during the nine months ended September 30, 2015.

For the nine months ended September 30, 2016 and 2015, our dollar-weighted annualized yield on average debt investments was 15.1% and 14.1%, respectively. We calculate 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 dollar-weighted annualized yield represents the portfolio yield and will be higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors.

Investment income, consisting of interest income and fees on debt investments, can fluctuate significantly upon repayment of large debt investments. Interest income from the five largest debt investments in the aggregate accounted for 18% of investment income for the nine months ended September 30, 2016 and 2015.

Expenses

Total net expenses increased by $0.2 million, or 1.5%, to $12.9 million for the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. Total expenses for each period consisted of interest expense, base management fee, incentive and administrative fees, professional fees and general and administrative expenses.

Interest expense increased by $0.2 million, or 4.1%, to $4.5 million for the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. Interest expense, which includes the amortization of debt issuance costs, increased primarily due to an increase in average borrowings of $22.0 million, or 26.4%, which was partially offset by a decrease in our effective cost of debt for the nine months ended September 30, 2016.

Base management fee expense increased by $0.4 million, or 12.8%, to $3.7 million for the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015, after giving effect to a waiver of $0.2 million for the nine months ended September 30, 2015, which increase was primarily due to an increase of $15.8 million, or 7.4%, in the average size of our investment portfolio.

Performance based incentive fee expense decreased by $0.3 million, or 14.0%, to $2.1 million for the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. Performance based incentive fee expense decreased because the incentive fee expense for the three months ended September 30, 2016 was effectively zero due to the incentive fee cap and deferral mechanism under our Investment Management Agreement. This resulted in $0.9 million of reduced expense and additional net investment income for the nine months ended September 30, 2016. The incentive fee on pre-incentive fee net investment income was subject to the incentive fee cap and deferral mechanism due to net realized and unrealized losses in the portfolio during the nine months ended September 30, 2016 totaling $17.6 million.

Administrative fee expense decreased by $0.1 million, or 14.1%, to $0.8 million for the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. Administrative fee expense decreased primarily due to a decrease in expenses incurred by the Advisor on our behalf for the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015.

Professional fees and general and administrative expenses primarily include legal and audit fees and insurance premiums. These expenses were unchanged at $1.8 million for the nine months ended September 30, 2016 and 2015.

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 nine months ended September 30, 2016, we realized net losses totaling $2.9 million primarily due to the resolution of two debt investments partially offset by realized gains on the sale of equity received upon the exercise of warrants. One debt investment was settled for net cash proceeds of $0.1 million and a royalty and sale agreement fair valued at $0.4 million, which resulted in a realized loss and unrealized appreciation of $2.2 million. The other debt investment was settled for cash proceeds which resulted in a realized loss of $1.0 million and unrealized appreciation of $0.7 million. During the nine months ended September 30, 2015, we realized net losses totaling $1.7 million primarily due to the resolution of one debt investment partially offset by realized gains on the sale of warrants. The debt investment was settled for a net cash payment of $4.9 million, which resulted in a realized loss of $1.8 million and unrealized appreciation of $1.8 million as the fair value of the debt investment was adjusted on June 30, 2015 to reflect the outcome of this resolution.

During the nine months ended September 30, 2016, net unrealized depreciation on investments totaled $14.8 million which was primarily due to the unrealized depreciation on four debt investments. During the nine months ended September 30, 2015, net unrealized appreciation on investments totaled $1.0 million which was primarily due to the reversal of previously recorded unrealized depreciation on one debt investment that was settled during the period, as described above, partially offset by changes in fair values of our investment portfolio.

Liquidity and capital resources

As of September 30, 2016 and December 31, 2015, we had cash and investments in money market funds of $26.2 million and $21.1 million, respectively. Cash and investments in money market funds are available to fund new investments, reduce borrowings, pay expenses, repurchase common stock and pay distributions. In addition, as of December 31, 2015, we had $1.1 million of restricted investments in money market funds. Restricted investments in

money market funds were primarily used to make monthly interest and principal payments on our asset-backed notes, or the Asset-Backed Notes. Our primary sources of capital have been from our public and private equity offerings, use of our revolving credit facilities and issuance of our 7.375% notes due 2019, or the 2019 Notes, and the Asset-Backed Notes.

On March 24, 2015, we completed a public offering of 2.0 million shares of common stock for net proceeds of $26.5 million, after deducting underwriting commission and discounts and other offering expenses. We generally used the net proceeds from this offering to make investments, to repurchase or pay down liabilities and for general corporate purposes.

On July 29, 2016, our Board extended a previously authorized stock repurchase program which allows us to repurchase up to $5.0 million of our common stock at prices below our net asset value per share as reported in our most recent consolidated financial statements. Under the repurchase program, we may, but are not obligated to, repurchase shares of our outstanding common stock in the open market or in privately negotiated transactions from time to time. Any repurchases by us will comply with the requirements of Rule 10b-18 under the Exchange Act and any applicable requirements of the 1940 Act. Unless extended by our Board, the repurchase program will terminate on the earlier of June 30, 2017 or the repurchase of $5.0 million of our common stock. During the three and nine months ended September 30, 2016, we repurchased 1,319 shares of our common stock at an average price of $11.54 on the open market at a total cost of $0.02 million. From the inception of the stock repurchase program through September 30, 2016, we repurchased 114,704 shares of our common stock at an average price of $11.53 on the open market at a total cost of $1.3 million.

At September 30, 2016 and December 31, 2015, the outstanding principal balance under our revolving credit facility, or the Key Facility, with KeyBank National Association, or Key, was $63.0 million and $68.0 million, respectively. At September 30, 2016, we had borrowing capacity under the Key Facility of $32.0 million, of which $10.6 million was available, subject to existing terms and advance rates. At December 31, 2015, we had available borrowing capacity under the Key Facility of $2.0 million, subject to existing terms and advance rates.

Our operating activities provided cash of $36.9 million for the nine months ended September 30, 2016, and our financing activities used cash of $31.5 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 off our Asset-Backed Notes and pay distributions to our stockholders.

Our operating activities used cash of $33.6 million for the nine months ended September 30, 2015, and our financing activities provided cash of $37.7 million for the same period. Our operating activities, in such period, used cash primarily for investments made in portfolio companies, partially offset by principal payments received on our debt investments. Our financing activities, in such period, provided cash primarily from the completion of a follow-on public offering of 2.0 million shares of common stock for net proceeds of $26.5 million, after deducting underwriting commission and discounts and other offering expenses, and advances on our Key Facility of $42.0 million, which was partially offset by cash used to pay down our Asset-Backed Notes and pay distributions to our stockholders.

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

In order to satisfy the Code requirements applicable to 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 200%. 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 September 30, 2016 and December 31, 2015:

	September 30, 2016			December 31, 2015		
	Total Commitment	Balance Outstanding	Unused Commitment	Total Commitment	Balance Outstanding	Unused Commitment
	(In thousands)					

Asset-Backed Notes	$—	$ —	$—	$14,546	$ 14,546	$ —
Key Facility	95,000	63,000	32,000	70,000	68,000	2,000
2019 Notes	33,000	33,000	—	33,000	33,000	—
Total before debt issuance costs	128,000	96,000	32,000	117,546	115,546	2,000
Unamortized debt issuance costs attributable to term borrowings	—	(450)	—	—	(592)	—
Total borrowings outstanding, net	$128,000	$ 95,550	$32,000	$117,546	$ 114,954	$ 2,000

On August 12, 2015, we amended the Key Facility to (1) add a $20 million commitment to the existing $50 million commitment and (2) extend the term of the Key Facility. On April 27, 2016, we further added a $25 million commitment to our existing $70 million commitment. The interest rate on the Key Facility is based upon the one-month London Interbank Offered Rate, or LIBOR, plus a spread of 3.25%, with a LIBOR floor of 0.75%. Based on a LIBOR rate of 0.53% and 0.43% on September 30, 2016 and December 31, 2015, respectively, the interest rate was 4.00% as of September 30, 2016 and December 31, 2015.

The Key Facility has an accordion feature which allows for an increase in the total loan commitment to $150 million. The Key Facility is collateralized by debt investments held by 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. We may request advances under the Key Facility through August 12, 2018, or the Revolving Period. 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. All outstanding advances under the Key Facility are due and payable on August 12, 2020.

On March 23, 2012, we issued and sold an aggregate principal amount of $30 million 2019 Notes, and on April 18, 2012, pursuant to the underwriters' 30-day option to purchase additional notes, we sold an additional $3 million of the 2019 Notes. The 2019 Notes will mature on March 15, 2019 and may be redeemed in whole or in part at our option at any time or from time to time at a redemption price of $25 per security plus accrued and unpaid interest. The 2019 Notes bear interest at a rate of 7.375% per year payable quarterly on March 15, June 15, September 15 and December 15 of each year. The 2019 Notes are our direct, unsecured obligations and (1) rank equally in right of payment with our future unsecured indebtedness; (2) are senior in right of payment to any of our future indebtedness that expressly provides it is subordinated to the 2019 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 September 30, 2016, we were in material compliance with the terms of the 2019 Notes. The 2019 Notes are listed on the New York Stock Exchange under the symbol "HTF".

On June 28, 2013, we completed the 2013-1 Securitization. In connection with the 2013-1 Securitization, 2013-1 Trust, a wholly owned subsidiary of ours, issued $90 million in the Asset-Backed Notes, which were rated A1(sf) by Moody's Investors Service, Inc. The Asset-Backed Notes were issued by 2013-1 Trust and were backed by a pool of loans made to certain portfolio companies of ours and secured by certain assets of such portfolio companies. The Asset-Backed Notes were secured obligations of 2013-1 Trust and non-recourse to us. In connection with the issuance and sale of the Asset-Backed Notes, we made customary representations, warranties and covenants. The Asset-Backed Notes bore interest at a fixed rate of 3.00% per annum and had a stated maturity of May 15, 2018. As of September 30, 2016 the Asset-Backed Notes were repaid in full.

Under the terms of the Asset-Backed Notes, we were required to maintain a reserve cash balance, funded through principal collections from the underlying securitized debt portfolio, which could have been used to make monthly interest and principal payments on the Asset-Backed Notes.

As of September 30, 2016 and December 31, 2015, other assets were $2.0 million and $2.2 million, respectively, which were 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 September 30, 2016:

	Payments due by period				
	Total	**Less than 1 year**	**1 – 3 Years**	**3 – 5 Years**	**After 5 years**
	(In thousands)				
Borrowings	$96,000	$ 13,270	$80,257	$2,473	$ —
Unfunded commitments	7,000	7,000	—	—	—
Total	$103,000	$ 20,270	$80,257	$2,473	$ —

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 September 30, 2016, we had unfunded commitments of $7.0 million. These commitments are subject to the same underwriting and ongoing portfolio maintenance requirements as are the financial instruments that we hold on our balance sheet. In addition, these commitments are often subject to financial or non-financial milestones and other conditions to borrowing that must be achieved before the commitment can be drawn. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. We regularly monitor our unfunded commitments and anticipated refinancings, maturities and capital raising, to ensure that we have sufficient liquidity to fund such unfunded commitments. As of September 30, 2016, 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

On October 28, 2016, the Board declared monthly cash distributions of $0.10 per share payable in each of January, February and March 2017, representing a reduction from the prior rate of $0.115 per month.

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 eligible for the special tax treatment accorded to RICs and to avoid corporate level tax on the income and gains we distribute to our stockholders in any tax year, we are required under the Code to annually distribute as dividends to our stockholders out of assets legally available for distribution an amount generally at least equal to 90% 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 paid no 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, pay 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 for a fiscal year fall below the total amount of our distributions for that fiscal 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 read 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 September 30, 2016 and 2015, we paid the Advisor $1.1 million and $2.2 million, respectively, pursuant to the Investment Management Agreement. During the nine months ended September 30, 2016 and 2015, we paid the Advisor $5.8 million and $5.7 million, respectively, pursuant to the Investment Management Agreement.

Our Advisor is 60% owned by HTF Holdings LLC, which is 100% owned by Horizon Technology Finance, LLC. By virtue of their ownership interest in Horizon Technology Finance, LLC, our Chief Executive Officer, Robert D. Pomeroy, Jr. and our President, Gerald A. Michaud, may be deemed to control our Advisor.

We have also entered into the Administration Agreement with the Administrator. Under the Administration Agreement, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator 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 Administrator provides us with the office facilities and administrative services necessary to conduct our day-to-day operations. During the three months ended September 30, 2016 and 2015, we paid the Advisor $0.2 million and $0.3 million, respectively, pursuant to the Administration Agreement. During the nine months ended September 30, 2016 and 2015, we paid the Advisor $0.8 million and $0.9 million, respectively, 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 such investments. Accordingly, we may apply for exemptive relief which would permit us to co-invest subject to certain conditions, including, without limitation, approval of such investments by both a majority of our directors who have no financial interest in such transaction and a majority of directors who are not interested persons of us as defined in the 1940 Act.

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, or GAAP. 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 GAAP, which establishes a framework used to measure fair value and requires disclosures for fair value measurements. We have categorized our investments carried at fair value, based on the priority of the valuation technique, into a three-level fair value hierarchy. Fair value is a market-based measure considered from the perspective of the market participant who holds the financial instrument rather than an entity specific measure. Therefore, when market assumptions are not readily available, our own assumptions are set to reflect those that management believes market participants would use in pricing the financial instrument at the measurement date.

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

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

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

Income recognition

Interest on debt investments is accrued and included in income based on contractual rates applied to principal amounts outstanding. Interest income is determined using a method that results in a level rate of return on principal amounts outstanding. Generally, when a debt investment becomes 90 days or more past due, or if we otherwise do not expect to receive interest and principal repayments, the debt investment is placed on non-accrual status and the recognition of interest income may be discontinued. Interest payments received on non-accrual debt investments may be recognized as income, on a cash basis, or applied to principal depending upon management’s judgment at the time the debt investment is placed on non-accrual status. For the three and nine months ended September 30, 2015, we recognized as interest income interest payments of $0.04 million and $0.2 million, respectively, received from one portfolio company whose debt investment was on non-accrual status.

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

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

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

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

Income taxes

We have elected to be treated as a RIC under Subchapter M of the Code and operate in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC and to avoid corporate-level U.S. federal income tax on the income distributed to 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 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, for each tax year. We, among other things, have made and intend to continue to make the requisite distributions to our stockholders, which will generally relieve us from 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 pay 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 Topic 740, as modified by Topic 946, of the Financial Accounting Standards Board’s, or FASB’s, Accounting Standards Codification, as amended. 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 September 30, 2016 and December 31, 2015.

Recently adopted accounting pronouncement

In April 2015, the FASB issued Accounting Standards Update ("ASU") 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs,* or ASU 2015-03, as clarified by ASU 2015-15, *Interest—Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*, or ASU 2015-15, containing guidance that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, instead of being recorded as a separate asset. ASU 2015-15 allows an entity to defer and present debt issuance costs for line-of-credit arrangements as an asset and subsequently amortize these deferred costs over the term of the line-of-credit arrangement. We have adopted ASU 2015-03, as clarified by ASU 2015-15, which did not have a material impact on our consolidated financial statements other than corresponding reductions to total assets and total liabilities on the consolidated statements of assets and liabilities. Prior to adoption, we recorded debt issuance costs in other assets as an asset on the consolidated statements of assets and liabilities. Upon adoption, we reclassified these costs as unamortized debt issuance costs that reduce debt in the liabilities on the consolidated statements of assets and liabilities and retrospectively reclassified the debt issuance costs that were previously presented in other assets as an asset as of December 31, 2015.

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 September 30, 2016 and December 31, 2015, 97% and 93%, respectively, 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 September 30, 2016 consolidated statement of assets and liabilities (without adjustment for potential changes in the credit market, credit quality, size and composition of assets on the consolidated statement of assets and liabilities or other business developments that could affect net income), the following table shows the annual impact on the change in net assets resulting from operations of changes in interest rates, which assumes no changes in our investments and borrowings:

	Interest Income	Interest Expense	**Change in Net Assets[(1)]**
Change in basis points	(In thousands)		
Up 300 basis points	$4,532	$ 1,769	$ 2,763
Up 200 basis points	$3,217	$ 1,131	$ 2,086
Up 100 basis points	$1,637	$ 492	$ 1,145
Down 300 basis points	$(417)	$ —	$ (417)
Down 200 basis points	$(358)	$ —	$ (358)
Down 100 basis points	$(298)	$ —	$ (298)

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

While our 2019 Notes bear interest at a fixed rate, our Key Facility has a floating interest rate provision, subject to a floor of 0.75%, based on a LIBOR index which resets daily, 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 would increase, which could reduce our net investment income.

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

(a) Evaluation of disclosure controls and procedures

As of September 30, 2016, we, including our Chief Executive Officer and Vice President of Finance and Interim 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 Vice President of Finance and Interim 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 Vice President of Finance and Interim 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 "Risk Factors" discussed in our annual report on Form 10-K for the year ended December 31, 2015, 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 nine months ended September 30, 2016 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, 2015.

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

The following table provides information regarding our purchases of our common stock for each month in the three month period ended September 30, 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
	(In thousands, except share and per share data)			
July 1, 2016 through July 31, 2016	1,319	$ 11.54	1,319	$ 3,678
August 1, 2016 through August 31, 2016	—	—	—	$ 3,678
September 1, 2016 through September 30, 2016	—	—	—	$ 3,678

Total	1,319	$ 11.54	1,319

(1) On September 28, 2015, we announced a share repurchase plan which allows us to repurchase up to $5.0 million of our outstanding common stock. The plan was extended by the Board on July 29, 2016 and will expire on the earlier of June 30, 2017 and the repurchase of $5.0 million of common stock.

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

*Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, 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: November 1, 2016 By: /s/ Robert D. Pomeroy, Jr.
Name: Robert D. Pomeroy, Jr.
Title: Chief Executive Officer and Chairman of the Board

Date: November 1, 2016 By: /s/ Daniel R. Trolio
Name: Daniel R. Trolio
Title: Vice President of Finance and Interim Chief Financial Officer