

Horizon Technology Finance Corp  
Form 10-Q  
August 02, 2016

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

**<sup>b</sup> QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016**

**OR**

**<sup>o</sup> TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**FOR THE TRANSITION PERIOD FROM TO**

**COMMISSION FILE NUMBER: 814-00802**

**HORIZON TECHNOLOGY FINANCE CORPORATION**

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

**DELAWARE**

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

**27-2114934**

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

**312 Farmington Avenue  
Farmington, CT**

**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  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  Non-accelerated filer  Smaller Reporting Company   
(Do not check if a 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  .

As of August 2, 2016, the Registrant had 11,548,564 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)**

	<b>June 30, 2016</b>	December 31, 2015
<b>Assets</b>		
Non-affiliate investments at fair value (cost of \$243,221 and \$255,494, respectively) (Note 4)	\$ 233,266	\$ 250,267
Investments in money market funds	—	285
Cash	16,280	20,765
Restricted investments in money market funds	—	1,091
Interest receivable	8,114	6,258
Other assets	2,259	2,230
<b>Total assets</b>	<b>\$ 259,919</b>	<b>\$ 280,896</b>
<b>Liabilities</b>		
Borrowings (Note 6)	\$ 100,502	\$ 114,954
Distributions payable	3,984	3,980
Base management fee payable (Note 3)	406	385
Incentive fee payable (Note 3)	1,027	1,028
Other accrued expenses	770	798
<b>Total liabilities</b>	<b>106,689</b>	<b>121,145</b>
<b>Commitments and Contingencies (Note 7)</b>		
<b>Net assets</b>		
Preferred stock, par value \$0.001 per share, 1,000,000 shares authorized, zero shares issued and outstanding as of June 30, 2016 and December 31, 2015	—	—
Common stock, par value \$0.001 per share, 100,000,000 shares authorized, 11,661,531 and 11,648,594 shares issued and 11,548,149 and 11,535,212 shares	12	12

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outstanding as of June 30, 2016 and December 31, 2015, respectively

Paid-in capital in excess of par	179,833	179,707
Distributions in excess of net investment income	(1,063 )	(2,006 )
Net unrealized depreciation on investments	(9,955 )	(5,227 )
Net realized loss on investments	(15,597 )	(12,735 )
Total net assets	153,230	159,751
Total liabilities and net assets	\$259,919	\$ 280,896
Net asset value per common share	\$13.27	\$ 13.85

See Notes to Consolidated Financial Statements

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Investment income				
Interest income on non-affiliate investments	\$ 8,788	\$ 6,599	\$ 17,790	\$ 13,161
Prepayment fee income on non-affiliate investments	263	208	429	728
Fee income on non-affiliate investments	41	50	170	234
Total investment income	9,092	6,857	18,389	14,123
Expenses				
Interest expense	1,512	1,263	3,046	2,850
Base management fee (Note 3)	1,247	1,146	2,531	2,177
Performance based incentive fee (Note 3)	1,027	722	2,126	1,458
Administrative fee (Note 3)	275	309	556	577
Professional fees	343	287	844	718
General and administrative	261	299	462	559
Total expenses	4,665	4,026	9,565	8,339
Management and performance based incentive fees waived (Note 3)	—	(67)	—	(67)
Net expenses	4,665	3,959	9,565	8,272
Net investment income before excise tax	4,427	2,898	8,824	5,851
(Credit) provision for excise tax	(85)	10	(85)	20
Net investment income	4,512	2,888	8,909	5,831
Net realized and unrealized loss on investments				
Net realized loss on investments	(876)	(29)	(2,862)	(259)
Net unrealized (depreciation) appreciation on investments	(3,714)	(1,114)	(4,728)	18
Net realized and unrealized loss on investments	(4,590)	(1,143)	(7,590)	(241)
Net (decrease) increase in net assets resulting from operations	\$(78)	\$ 1,745	\$ 1,319	\$ 5,590
Net investment income per common share	\$ 0.39	\$ 0.25	\$ 0.77	\$ 0.54
Net (decrease) increase in net assets per common share	\$(0.01)	\$ 0.15	\$ 0.11	\$ 0.52
Distributions declared per share	\$ 0.345	\$ 0.345	\$ 0.69	\$ 0.69
Weighted average shares outstanding	11,544,412	11,632,724	11,541,208	10,725,004

See Notes to Consolidated Financial Statements



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

	Common Stock		Paid-In Capital in Excess of Par	Distributions in Excess of Net Investment Income	Net Unrealized Depreciation on Investments	Net Realized Loss on Investments	Total Net Assets
	Shares	Amount					
Balance at December 31, 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	26,657	—	—	—	26,659
Net increase in net assets resulting from operations	—	—	—	5,831	18	(259 )	5,590
Issuance of common stock under dividend reinvestment plan	7,356	—	102	—	—	—	102
Distributions declared	—	—	—	(7,797 )	—	—	(7,797 )
Reclassification of permanent tax differences (Note 2)	—	—	(971 )	893	—	78	—
Balance at June 30, 2015	11,635,480	\$ 12	\$ 181,028	\$ (2,175 )	\$ (4,719 )	\$ (11,344 )	\$ 162,802
Balance at December 31, 2015	11,535,212	\$ 12	\$ 179,707	\$ (2,006 )	\$ (5,227 )	\$ (12,735 )	\$ 159,751
Net increase in net assets resulting from operations	—	—	—	8,909	(4,728 )	(2,862 )	1,319
Issuance of common stock under dividend reinvestment plan	12,937	—	142	—	—	—	142
Repurchases of common stock	—	—	(16 )	—	—	—	(16 )
Distributions declared	—	—	—	(7,966 )	—	—	(7,966 )
Balance at June 30, 2016	11,548,149	\$ 12	\$ 179,833	\$ (1,063 )	\$ (9,955 )	\$ (15,597 )	\$ 153,230

See Notes to Consolidated Financial Statements



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

	For the Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$1,319	\$5,590
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Amortization of debt issuance costs	306	523
Net realized loss on investments	2,862	259
Net unrealized depreciation (appreciation) on investments	4,728	(18 )
Purchase of investments	(31,687)	(71,933)
Principal payments received on investments	40,466	36,577
Proceeds from sale of investments	935	—
Changes in assets and liabilities:		
Net decrease (increase) in investments in money market funds	285	(307 )
Net decrease in restricted investments in money market funds	1,091	1,064
Increase in interest receivable	(372 )	(194 )
Increase in end-of-term payments	(1,510 )	(673 )
(Decrease) increase in unearned income	(278 )	97
(Increase) decrease in other assets	(19 )	431
(Decrease) increase in other accrued expenses	(28 )	38
Increase in base management fee payable	21	11
Decrease in incentive fee payable	(1 )	(77 )
Net cash provided by (used in) operating activities	18,118	(28,612)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of offering costs	—	26,659
Repayment of Asset-Backed Notes	(14,546)	(14,191)
Advances on credit facility	—	26,000
Distributions paid	(7,820 )	(7,003 )
Repurchase of common stock	(16 )	—
Debt issuance costs	(221 )	—
Net cash (used in) provided by financing activities	(22,603)	31,465
Net (decrease) increase in cash	(4,485 )	2,853
Cash:		
Beginning of period	20,765	8,417
End of period	\$16,280	\$11,270

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Supplemental disclosure of cash flow information:

Cash paid for interest	\$2,722	\$2,317
Supplemental non-cash investing and financing activities:		
Warrant investments received and recorded as unearned income	\$149	\$485
Distributions payable	\$3,984	\$4,014
End-of-term payments receivable	\$6,570	\$4,458

See Notes to Consolidated Financial Statements

## Horizon Technology Finance Corporation and Subsidiaries

## Consolidated Schedule of Investments (Unaudited)

June 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 — 148.1% (8)					
Debt Investments — Life Science — 33.0% (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	\$ 4,953	\$4,953
		Term Loan (9.25% cash (Libor + 8.75%; Floor 9.25%; Ceiling 10.75%), 5.00% ETP, Due 3/1/19)	5,000	4,962	4,962
New Haven Pharmaceuticals, Inc. (2)(11)	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	1,988	1,988
		Term Loan (10.00% cash (Libor + 9.50%; Floor 10.00%), 4.00% ETP, Due 4/1/19)	6,265	6,198	6,198
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	4,950	4,950
		Term Loan (9.00% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 8/1/19)	5,000	4,946	4,946
Sample6, Inc. (2)	Biotechnology	Term Loan (9.50% cash (Libor + 9.00%; Floor	1,361	1,357	1,357

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		9.50%; Ceiling 11.00%), 4.00% ETP, Due 4/1/18)			
		Term Loan (9.50% cash (Libor + 9.00%; Floor	827	823	823
		9.50%; Ceiling 11.00%), 4.00% ETP, Due 4/1/18)			
		Term Loan (9.50% cash (Libor + 9.00%; Floor	2,500	2,485	2,485
		9.50%; Ceiling 11.00%), 4.00% ETP, Due 4/1/18)			
Lantos Technologies, Inc. (2)	Medical Device	Term Loan (11.50% cash (Libor + 10.50%; Floor	2,917	2,881	2,881
		11.50%), 5.00% ETP, Due 2/1/18)			
Mederi Therapeutics, Inc. (2)	Medical Device	Term Loan (12.29% cash (Libor + 11.82%), 4.00% ETP, Due 7/1/17)	2,121	2,105	2,105
		Term Loan (12.29% cash (Libor + 11.82%), 4.00% ETP, Due 7/1/17)	2,121	2,105	2,105
		9.50%; Ceiling 11.00%), 4.00% ETP, Due 4/1/18)			
NinePoint Medical, Inc. (2)	Medical Device	Term Loan (9.25% cash (Libor + 8.75%; Floor	5,000	4,952	4,952
		9.25%), 4.50% ETP, Due 3/1/19)			
		Term Loan (9.25% cash (Libor + 8.75%; Floor	2,500	2,470	2,470
		9.25%), 4.50% ETP, Due 3/1/19)			
Tryton Medical, Inc. (2)	Medical Device	Term Loan (10.66% cash (Prime + 7.16%), 2.50% ETP, Due 9/1/16)	1,688	1,685	1,685
Total Debt Investments — Life Science Debt Investments — Technology — 83.8% (8)				50,584	50,584
Ekahau, Inc. (2)	Communications	Term Loan (11.75% cash, 2.50% ETP, Due 2/1/17)	390	388	388
		Term Loan (11.75% cash, 2.50% ETP, Due 2/1/17)	130	130	130
mBlox, Inc. (2)	Communications	Term Loan (11.50% cash (Libor + 11.00%; Floor	4,464	4,446	4,446
		11.50%; Ceiling 13.00%), 3.40% ETP, Due 7/1/18)			
		Term Loan (11.50% cash (Libor + 11.00%; Floor	4,464	4,446	4,446
		11.50%; Ceiling 13.00%), 3.40% ETP, Due 7/1/18)			
Additech, Inc. (2)	Consumer-related Technologies	Term Loan (11.75% cash (Libor + 11.25%; Floor	2,083	2,060	2,060
		11.75%; Ceiling 13.25%), 4.00% ETP, Due 7/1/18)			
		Term Loan (11.75% cash (Libor + 11.25%; Floor	2,500	2,470	2,470

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		11.75%; Ceiling 13.25%), 4.00% ETP, Due 1/1/19)			
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)	1,067	1,051	1,051
		Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 2.00% ETP, Due 2/1/18)	633	620	620
		Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 2.00% ETP, Due 4/1/18)	700	689	689
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	7,306	7,306
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	2,952	2,952
		Term Loan (10.90% cash (Libor + 10.40%; Floor 10.90%), 3.00% ETP, Due 3/1/20)	2,000	1,960	1,960
MediaBrix, Inc. (2)	Internet and Media	Term Loan (11.50% cash (Libor + 11.00%; Floor 11.50%), 3.00% ETP, Due 1/1/20)	4,000	3,960	3,960
Zinio Holdings, LLC (2)	Internet and Media	Term Loan (11.75% cash (Libor + 11.25%; Floor 11.75%), 4.00% ETP, Due 2/1/20)	4,000	3,962	3,962

See Notes to Consolidated Financial Statements

## Horizon Technology Finance Corporation and Subsidiaries

## Consolidated Schedule of Investments (Unaudited)

June 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
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	4,928	4,928
		Term Loan (10.00% cash (Libor + 9.50%; Floor 10.00%), 5.00% ETP, Due 7/1/19)	2,500	2,464	2,464
		Term Loan (10.00% cash (Libor + 9.50%; Floor 10.00%), 5.00% ETP, Due 7/1/19)	2,500	2,458	2,458
Nanocomp Technologies, Inc. (2)	Networking	Term Loan (11.50% cash, 3.00% ETP, Due 11/1/17)	524	520	520
		Term Loan (11.50% cash (Libor + 11.00%; Floor 11.50%), 3.00% ETP, Due 4/1/20)	3,000	2,944	2,944
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	2,463	2,463
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)	1,044	1,041	1,041
		Term Loan (10.00% cash (Libor + 9.25%; Floor 10.00%; Ceiling 11.75%), 2.40% ETP, Due 10/1/18)	1,700	1,695	1,695
		Term Loan (10.00% cash (Libor + 9.25%; Floor 10.00%; Ceiling 11.75%), 2.00% ETP, Due 2/1/19)	1,905	1,867	1,867
InVisage Technologies, Inc. (2)	Semiconductors	Term Loan (12.00% cash (Libor + 11.50%; Floor	1,955	1,913	1,913

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		12.00%; Ceiling 14.00%), 2.50% ETP, Due 12/31/16)			
		Term Loan (12.00% cash (Libor + 11.50%; Floor 12.00%; Ceiling 14.00%), 2.50% ETP, Due 12/31/16)	822	811	811
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)	1,140	1,126	1,126
		Term Loan (10.25% cash (Libor + 9.75%; Floor 10.25%; Ceiling 12.25%), 13.00% ETP, Due 7/1/17)	636	634	634
		Term Loan (9.00% cash (Libor + 8.50%; Floor 9.00%), 4.50% ETP, Due 12/1/18)	833	829	829
		Term Loan (9.00% cash (Libor + 8.50%; Floor 9.00%), 4.50% ETP, Due 12/1/18)	833	828	828
		Term Loan (9.50% cash (Libor + 9.00%; Floor 9.50%), 4.50% ETP, Due 11/1/19)	2,000	1,989	1,989
Xtera Communications, Inc. (5)	Semiconductors	Term Loan (12.50% cash, 17.50% ETP, Due 7/31/16)	3,056	3,047	3,047
		Term Loan (12.50% cash, 17.50% ETP, Due 7/31/16)	849	847	847
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	3,971	3,971
		Term Loan (11.50% 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 (10.70% cash (Libor + 10.25%), 3.00% ETP, Due 7/1/20)	4,500	4,406	4,406
Crowdstar, Inc. (2)	Software	Term Loan (10.75% cash (Libor + 10.25%; Floor 10.75%), 3.00% ETP, Due 9/1/18)	1,636	1,616	1,616
Decisyon, Inc. (2)	Software	Term Loan (12.78% cash (Libor + 12.308%; Floor 12.50%), 6.50% ETP, Due 10/1/17)	1,523	1,520	1,434
		Term Loan (12.78% cash (Libor + 12.308%; Floor 12.50%), 6.50% ETP, Due 1/1/18)	833	703	663
Digital Signal Corporation	Software	Term Loan (10.72% cash (Libor + 10.25%; Floor 10.43%), 5.00% ETP, Due 7/1/19)	1,500	1,463	1,214
			1,500	1,463	1,214

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		Term Loan (10.72% cash (Libor + 10.25%; Floor 10.43%), 5.00% ETP, Due 7/1/19)			
Education Elements, Inc. (2)	Software	Term Loan (10.50% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 1/1/19)	2,000	1,973	1,973
		Term Loan (10.50% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 8/1/19)	1,500	1,474	1,474
Netuitive, Inc.	Software	Term Loan (12.72% cash (Libor + 12.25%; Floor 12.50%), 3.33% ETP, Due 9/1/17)	663	662	662
Nomi Corporation (11)	Software	Term Loan (10.62% cash (Libor + 10.15%; Floor 10.35%), 2.00% ETP, Due 1/1/20)	3,184	3,148	850
		Term Loan (10.62% cash (Libor + 10.15%; Floor 10.35%), 2.00% ETP, Due 1/1/20)	3,184	3,148	850
ScoreBig, Inc. (2)	Software	Term Loan (10.50% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 4/1/19)	3,403	3,327	3,327
		Term Loan (10.50% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 4/1/19)	3,403	3,357	3,357
		Term Loan (10.50% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 4/1/19)	2,000	1,948	1,948

See Notes to Consolidated Financial Statements



**Horizon Technology Finance Corporation and Subsidiaries****Consolidated Schedule of Investments (Unaudited)****June 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
SIGNiX, Inc. (2)	Software	Term Loan (10.50% cash (Libor + 4.00% ETP, Due 3/1/20) 11.00%; Floor 11.50%), Due 8/1/18)	2,600	2,524	2,235
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	7,445	7,445
Skyword, Inc.	Software	Term Loan (11.45% cash (Libor + 10.95%; Floor 11.45%), 3.00% ETP, Due 8/1/19)	4,000	3,934	3,934
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)	484	473	467
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)	4,000	3,976	3,976
		Term Loan (11.65% cash (Libor + 11.15%; Floor 11.65%; Ceiling 12.65%), 9.00% ETP, Due 5/1/18)	3,667	3,640	3,640
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)	1,300	1,291	1,291
Vidsys, Inc. (2)	Software	Term Loan (13.00% cash, 7.58% ETP, Due 12/1/17)	2,770	2,770	2,770
xTech Holdings, Inc. (2)	Software	Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%), 3.00% ETP, Due 4/1/19)	1,833	1,808	1,808

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		Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%), 3.00% ETP, Due 3/1/20)	2,000	1,966	1,966
Total Debt Investments — Technology				133,846	128,331
Debt Investments — Cleantech — 6.1% (8)					
Renmatix, Inc. (2)	Alternative Energy	Term Loan (10.25% cash, Due 10/1/16)	684	684	684
Rypos, Inc. (2)	Energy Efficiency	Term Loan (12.02% cash, 4.25% ETP, Due 6/1/17)	1,995	1,978	1,978
		Term Loan (12.02% cash, 4.25% ETP, Due 1/1/18)	852	841	841
Lehigh Technologies, Inc. (2)	Waste Recycling	Term Loan (10.19% cash (Libor + 9.72%), 6.75% ETP, Due 8/1/19)	3,000	2,964	2,964
		Term Loan (10.19% cash (Libor + 9.72%), 6.75% ETP, Due 8/1/19)	3,000	2,978	2,978
Total Debt Investments — Cleantech				9,445	9,445
Debt Investments — Healthcare information and services — 25.2% (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)	4,500	4,403	4,156
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)	1,800	1,775	1,775
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)	3,208	3,203	3,203
		Term Loan (10.00% cash (Libor + 9.50%; Floor 10.00%; Ceiling 11.00%); 4.00% ETP, Due 4/1/18)	3,208	3,203	3,203
		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
MedAvante, Inc. (2)	Software	Term Loan (9.75% cash (Libor + 9.25%; Floor 9.75%), 4.00% ETP, Due 1/1/19)	3,000	2,964	2,964
		Term Loan (9.75% cash (Libor + 9.25%; Floor 9.75%), 4.00% ETP, Due 1/1/19)	3,000	2,964	2,964
		Term Loan (9.75% cash (Libor + 9.25%; Floor 9.75%; Floor 9.25%); 4.00% ETP, Due 1/1/19)	4,000	3,943	3,943

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Medsphere Systems Corporation (2)	Software	9.75%), 4.00% ETP, Due 7/1/19) Term Loan (10.50% cash (Libor + 10.00%; Floor	5,000	4,933	4,933
		10.50%), 7.00% ETP, Due 7/1/19) Term Loan (10.50% cash (Libor + 10.00%; Floor	2,500	2,466	2,466
Recondo Technology, Inc. (2)	Software	10.50%), 7.00% ETP, Due 7/1/19) Term Loan (11.50% cash (Libor + 11.00%; Floor	1,038	1,035	1,035
		11.50%), 6.60% ETP, Due 12/1/17) Term Loan (11.00% cash (Libor + 10.50%; Floor	1,875	1,870	1,870
		11.00%), 4.50% ETP, Due 12/1/17) Term Loan (10.50% cash (Libor + 10.00%; Floor	1,875	1,872	1,872
		10.50%), 2.75% ETP, Due 12/1/17) Term Loan (10.50% cash (Libor + 10.00%; Floor	3,000	2,971	2,971
		10.50%), 2.50% ETP, Due 1/1/19)			
Total Debt Investments — Healthcare information and services				38,850	38,603
Total Debt Investments				232,725	226,963

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries****Consolidated Schedule of Investments (Unaudited)****June 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 — 3.3% (8)				
Warrants — Life Science — 0.2%				
(8)				
ACT Biotech Corporation	Biotechnology	1,521,820 Preferred Stock Warrants	83	—
Argos Therapeutics, Inc. (2)(5)	Biotechnology	33,112 Common Stock Warrants	33	4
Celsion Corporation (5)	Biotechnology	5,708 Common Stock Warrants	15	—
Inotek Pharmaceuticals Corporation (5)	Biotechnology	28,204 Common Stock Warrants	17	43
New Haven Pharmaceuticals, Inc. (2)	Biotechnology	103,982 Preferred Stock Warrants	88	1
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	—
Revanche Therapeutics, Inc. (5)	Biotechnology	34,377 Common Stock Warrants	68	47
Sample6, Inc. (2)	Biotechnology	351,018 Preferred Stock Warrants	45	30
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	12,302 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	25
Lantos Technologies, Inc. (2)	Medical Device	1,287,817 Preferred Stock Warrants	38	40
Mederi Therapeutics, Inc. (2)	Medical Device	248,736 Preferred Stock Warrants	26	38
Mitralign, Inc. (2)	Medical Device	641,909 Preferred Stock Warrants	52	36
NinePoint Medical, Inc. (2)	Medical Device	566,038 Preferred Stock Warrants	33	32
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	334
Warrants — Technology — 2.5% (8)				
Ekahau, Inc. (2)	Communications	978,261 Preferred Stock Warrants	33	19

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OpenPeak, Inc.	Communications	18,997 Common Stock Warrants	89	—
Additech, Inc. (2)	Consumer-related Technologies	150,000 Preferred Stock Warrants	33	26
Everyday Health, Inc. (5)	Consumer-related Technologies	43,783 Common Stock Warrants	69	8
Gwynnie Bee, Inc. (2)	Consumer-related Technologies	268,591 Preferred Stock Warrants	68	689
If(we), Inc.	Consumer-related Technologies	190,868 Preferred Stock Warrants	27	61
Rhapsody International Inc. (2)	Consumer-related Technologies	852,273 Common Stock Warrants	164	146
SavingStar, Inc. (2)	Consumer-related Technologies	98,860 Preferred Stock Warrants	59	57
XIOtech, Inc.	Data Storage	2,217,979 Preferred Stock Warrants	22	—
SimpleTuition, Inc.	Internet and media	189,573 Preferred Stock Warrants	63	64
The NanoSteel Company, Inc. (2)	Materials	147,424 Preferred Stock Warrants	93	88
IntelePeer, Inc.	Networking	141,549 Common Stock Warrants	39	26
Nanocomp Technologies, Inc. (2)	Networking	681,819 Preferred Stock Warrants	54	48
Aquion Energy, Inc.	Power Management	115,051 Preferred Stock Warrants	7	60
Powerhouse Dynamics, Inc. (2)	Power Management	290,698 Preferred Stock Warrants	28	27
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	43
Kaminario, Inc.	Semiconductors	1,087,203 Preferred Stock Warrants	59	61
Luxtera, Inc.(2)	Semiconductors	2,508,671 Preferred Stock Warrants	49	100
Soraa, Inc. (2)	Semiconductors	180,000 Preferred Stock Warrants	80	411
Xtera Communications, Inc. (5)	Semiconductors	37,831 Common Stock Warrants	205	—
Bolt Solutions Inc. (2)	Software	202,892 Preferred Stock Warrants	113	109
Bridge2 Solutions, Inc.	Software	75,458 Common Stock Warrants	18	333
Clarabridge, Inc.	Software	53,486 Preferred Stock Warrants	14	81
ControlScan, Inc. (2)	Software	2,295,918 Preferred Stock Warrants	19	19
Crowdstar, Inc. (2)	Software	75,428 Preferred Stock Warrants	14	11
Decisyon, Inc. (2)	Software	82,967 Common Stock Warrants	46	—
Digital Signal Corporation	Software	85,308 Common Stock Warrants	32	—
Education Elements, Inc. (2)	Software	238,122 Preferred Stock Warrants	28	22
Lotame Solutions, Inc. (2)	Software	288,115 Preferred Stock Warrants	22	267
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	45
SIGNiX, Inc. (2)	Software	72,166 Preferred Stock Warrants	88	85
Skyword, Inc.	Software	301,056 Preferred Stock Warrants	48	46
SpringCM, Inc. (2)	Software	2,385,686 Preferred Stock Warrants	55	118

See Notes to Consolidated Financial Statements



**Horizon Technology Finance Corporation and Subsidiaries****Consolidated Schedule of Investments (Unaudited)****June 30, 2016****(Dollars in thousands)**

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(9)(10)	Cost of Investments (6)	Fair Value
Sys-Tech Solutions, Inc.	Software	375,000 Preferred Stock Warrants	242	555
Vidsys, Inc.	Software	85,399 Preferred Stock Warrants	23	21
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			2,387	3,768
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	108
Lehigh Technologies, Inc. (2)	Waste Recycling	272,727 Preferred Stock Warrants	33	32
Total Warrants — Cleantech			270	181
Warrants — Healthcare information and services — 0.5% (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	2,492,523 Common Stock Warrants	112	88
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	293,632 Preferred Stock Warrants	44	44
Verity Solutions Group, Inc.	Other Healthcare	300,360 Preferred Stock Warrants	100	35
Watermark Medical, Inc. (2)	Other Healthcare	27,373 Preferred Stock Warrants	74	61
MedAvante, Inc. (2)	Software	114,285 Preferred Stock Warrants	66	64
Medsphere Systems Corporation (2)	Software	7,097,791 Preferred Stock Warrants	60	194
Recondo Technology, Inc. (2)	Software	556,796 Preferred Stock Warrants	95	193
Total Warrants — Healthcare information and services			1,192	743
Total Warrants			5,186	5,026

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Other Investments — 0.4% (8)				
ZetrOZ, Inc.	Medical Device	Royalty Agreement	375	400
Vette Technology, LLC	Data Storage	Royalty Agreement Due 4/18/2019	4,375	200
Total Other Investments			4,750	600
Equity — 0.4% (8)				
Insmed Incorporated (5)	Biotechnology	33,208 Common Stock	238	328
Revance Therapeutics, Inc.(5)	Biotechnology	4,861 Common Stock	73	66
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	78,493 Common Stock	83	43
SnagAJob.com, Inc.	Consumer-related Technologies	82,974 Common Stock	9	83
Decisyon, Inc.	Software	3,573,173 Common Stock	157	157
Total Equity			560	677
Total Portfolio Investment			\$ 243,221	\$ 233,266
Assets — 152.2%				

(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 June 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.

(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 June 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 June 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 9.50%; Ceiling 11.00%), 4.00% ETP, Due 4/1/18)	1,555	1,550	1,550

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		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 Debt Investments — Technology — 80.5% (8)				60,930	58,477
Ekahau, Inc. (2)	Communications	Term Loan (11.75% cash, 2.50% ETP, Due 2/1/17)	704	700	700
		Term Loan (11.75% cash, 2.50% ETP, Due 2/1/17)	235	233	233

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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
		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
Additech, Inc. (2)	Consumer-related Technologies				

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
		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
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
	Networking		701	693	693

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Nanocomp Technologies, Inc. (2)		Term Loan (11.50% cash, 3.00% ETP, Due 11/1/17)			
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

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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 12.50%), 6.50% ETP, Due 10/1/17)	1,603	1,599	1,514
		Term Loan (12.69% cash (Libor + 12.308%; Floor 12.50%), 6.50% ETP, Due 1/1/18)	853	847	802
Digital Signal Corporation	Software	Term Loan (10.54% cash (Libor + 10.25%; Floor 10.43%), 5.00% ETP, Due 7/1/19)	1,500	1,421	1,421
		Term Loan (10.54% cash (Libor + 10.25%; Floor 10.43%), 5.00% ETP, Due 7/1/19)	1,500	1,457	1,457
Education Elements, Inc. (2)	Software	Term Loan (10.50% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 1/1/19)	2,000	1,967	1,967
		Term Loan (10.50% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 8/1/19)	1,500	1,470	1,470
Netuitive, Inc. (2)	Software	Term Loan (12.75% cash, Due 7/1/16)	1,000	998	998
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

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
		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	1,900	1,887	1,887



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		11.50%; Ceiling 13.50%), 5.00% ETP, Due 7/1/17)			
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 Debt Investments — Cleantech — 7.5% (8)				128,933	128,654
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 Debt Investments — Healthcare information and services — 27.0% (8)				12,012	12,012
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%;	1,250	1,248	1,248

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Innovatient Solutions, Inc. (2)	Software	Ceiling 11.00%); 4.00% ETP, Due 4/1/18)			
		Term Loan (11.00% cash (Libor + 10.50%; Floor	1,000	977	977
MedAvante, Inc. (2)	Software	11.00%, Ceiling 13.00%); 4.00% ETP, Due 7/1/18)			
		Term Loan (9.75% cash (Libor + 9.25%; Floor	3,000	2,957	2,957
		9.75%), 4.00% ETP, Due 1/1/19)			
		Term Loan (9.75% cash (Libor + 9.25%; Floor	3,000	2,957	2,957
Medsphere Systems Corporation (2)	Software	9.75%), 4.00% ETP, Due 1/1/19)			
		Term Loan (9.75% cash (Libor + 9.25%; Floor	4,000	3,934	3,934
		9.75%), 4.00% ETP, Due 7/1/19)			
		Term Loan (10.50% cash (Libor + 10.00%; Floor	5,000	4,921	4,921
Recondo Technology, Inc. (2)	Software	10.50%), 7.00% ETP, Due 7/1/19)			
		Term Loan (10.50% cash (Libor + 10.00%; Floor	2,500	2,461	2,461
		10.50%), 7.00% ETP, Due 7/1/19)			
		Term Loan (11.50% cash (Libor + 11.00%; Floor	1,384	1,380	1,380
		11.50%), 6.60% ETP, Due 12/1/17)			
		Term Loan (11.00% cash (Libor + 10.50%; Floor	2,500	2,494	2,494
		11.00%), 4.50% ETP, Due 12/1/17)			

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
		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

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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 Warrants — Technology — 2.6% (8)			1,361	1,331
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

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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

**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
Lytix, 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 Warrants — Cleantech — 0.2% (8)			2,316	4,181
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 Warrants — Healthcare information and services — 0.6% (8)			269	266
Accumetrics, Inc.	Diagnostics	100,928 Preferred Stock Warrants	108	63
BioScale, Inc. (2)	Diagnostics	315,618 Common Stock Warrants	54	—

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Candescent Health, Inc. (2)	Diagnostics	519,992 Preferred Stock Warrants	378	—
Helomics Corporation	Diagnostics	13,461 Common Stock Warrants	73	—
Interleukin Genetics, Inc. (2)(5)	Diagnostics	2,492,523 Common Stock Warrants	112	2
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			\$ 255,494	\$ 250,267
Assets — 156.7% (8)				
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.

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 (10) 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”).

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 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 June 30, 2016, there were two debt investments on non-accrual status with a cost of \$16.2 million and a fair value of \$11.6 million. For the three and six months ended June 30, 2015, the Company recognized interest income payments of \$0.05 million and \$0.1 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 June 30, 2016 and 2015 was 7.7% and 7.4%, respectively. The proportion of the Company's total investment income that resulted from the portion of ETPs not received in cash for the six months ended June 30, 2016 and 2015 was 14.2% and 7.4%, 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.

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

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

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

Debt issuance costs are fees and other direct incremental costs incurred by the Company in obtaining debt financing from its lenders and issuing debt securities. The unamortized balance of debt issuance costs as of June 30, 2016 and December 31, 2015 was \$1.8 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 June 30, 2016 and December 31, 2015 were \$4.2 million and \$3.9 million, respectively. The amortization expense for the three months ended June 30, 2016 and 2015 was \$0.2 million. The amortization expense for the six months ended June 30, 2016 and 2015 was \$0.3 million and \$0.5 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 six months ended June 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 six months ended June 30, 2016, there was no U.S. federal excise tax accrual recorded. For the six months ended June 30, 2015, a \$0.02 million accrual was recorded for U.S. federal excise tax.

The Company evaluates tax positions taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority in accordance with ASC Topic 740, as modified by ASC Topic 946. Tax benefits of positions not deemed to meet the more-likely-than-not threshold, or uncertain tax positions, would be recorded as a tax expense in the current year. It is the Company's policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax expense. The Company had no material uncertain tax positions at June 30, 2016 and December 31, 2015. The 2014, 2013 and 2012 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.

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

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

#### ***Stock Repurchase Program***

On September 28, 2015, the Board authorized a 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 September 30, 2016 or the repurchase of \$5.0 million of the Company's common stock. During the three and six months ended June 30, 2016, the Company did not complete any repurchases of its common stock. Since the inception of the stock repurchase program, the Company has repurchased 113,382 shares of its common stock at an average price of \$11.53 on the open market at a total cost of \$1.3 million. On July 29, 2016, the Board extended the stock repurchase program until the earlier of June 30, 2017 or the repurchase of \$5.0 million of the Company's common stock.

#### ***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.

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

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

#### **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 months ended June 30, 2015, the Advisor waived base management fees of \$0.1 million, which the Advisor would have otherwise earned on the proceeds raised in the 2015 Offering. The base management fee payable

at June 30, 2016 and December 31, 2015 was \$0.4 million. After giving effect of the waiver, the base management fee expense was \$1.2 million and \$1.1 million for the three months ended June 30, 2016 and 2015, respectively. After giving effect of the waiver, the base management fee expense was \$2.5 million and \$2.1 million for the six months ended June 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.

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements

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

Commencing with the calendar quarter beginning July 1, 2014, the incentive fee on Pre-Incentive Fee Net Investment Income is subject to a fee cap and deferral mechanism which is determined based upon a look-back period of up to three years and is expensed when incurred. For this purpose, the look-back period for the incentive fee based on Pre-Incentive Fee Net Investment Income (the "Incentive Fee Look-back Period") commenced on July 1, 2014 and 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.

The performance based incentive fee expense was \$1.0 million and \$0.7 million for the three months ended June 30, 2016 and 2015, respectively. The performance based incentive fee expense was \$2.1 million and \$1.5 million for the six months ended June 30, 2016 and 2015, respectively. The performance based incentive fee expense was subject to the Incentive Fee Cap and Deferral Mechanism for the three months ended June 30, 2016, which resulted in \$0.1 million of reduced expense resulting in \$0.1 million of additional net investment income. The performance based incentive fee payable as of June 30, 2016 and December 31, 2015 was \$1.0 million. The entire incentive fee payable as of June 30, 2016 and December 31, 2015 represented part one of the incentive fee.

**Horizon Technology Finance Corporation and Subsidiaries****Notes to Consolidated Financial Statements*****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 \$0.3 million for the three months ended June 30, 2016 and 2015. The administrative fee expense was \$0.6 million for the six months ended June 30, 2016 and 2015.

**Note 4. Investments**

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

	June 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	\$232,725	\$226,963	\$244,899	\$242,167
Warrants	5,186	5,026	5,173	6,645
Other	4,750	600	4,422	300
Equity	560	677	1,000	1,155
Total non-affiliate investments	\$243,221	\$233,266	\$255,494	\$250,267

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



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	June 30, 2016		December 31, 2015	
	Cost	Fair Value	Cost	Fair Value
	(In thousands)			
Life Science				
Biotechnology	\$35,313	\$34,948	\$36,932	\$37,911
Medical Device	17,377	16,807	25,753	22,736
Technology				
Communications	9,532	9,429	20,170	19,916
Consumer-Related	19,537	20,178	18,699	19,421
Data Storage	4,397	200	4,444	319
Internet and Media	7,985	7,986	63	69
Materials	9,943	9,938	9,918	9,920
Networking	3,557	3,538	757	740
Power Management	2,498	2,550	2,490	2,541
Semiconductors	17,194	17,311	18,944	18,628
Software	66,131	61,409	60,792	61,897
Cleantech				
Alternative Energy	777	704	2,942	2,938
Energy Efficiency	2,963	2,948	3,371	3,370
Waste Recycling	5,975	5,974	5,968	5,970
Healthcare Information and Services				
Diagnostics	6,931	6,083	8,001	7,336
Other	7,872	7,794	8,453	8,504
Software	25,239	25,469	27,797	28,051
Total non-affiliate investments	\$243,221	\$233,266	\$255,494	\$250,267

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements

#### 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.

**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.

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements

*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 June 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.

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.

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements

*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 June 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.

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

June 30, 2016					
Investment Type	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range	Weighted Average
(Dollars in thousands, except per share data)					
Debt investments	\$215,352			11% – 25%	13%

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		Discounted Expected Future Cash Flows	Hypothetical Market Yield		
	11,611	Liquidation Scenario	Probability Weighting	10% – 75%	36%
Warrant investments	4,835	Black-Scholes Valuation Model	Price Per Share	\$0.00 – \$63.98	\$3.82
			Average Industry Volatility	18%	18%
			Marketability Discount	20%	20%
			Estimated Time to Exit	1 to 5 years	3 years
Other investments	600	Multiple Probability Weighted Cash Flow Model	Discount Rate	25%	25%
			Probability Weighting	0% – 100%	33%
Equity investments	240	Last Equity Financing	Price Per Share	\$0.04 – \$1.00	\$0.37
Total Level 3 investments	\$232,638				

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

The following table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to the Company's fair value measurements as of December 31, 2015:

December 31, 2015					
Investment Type (Dollars in thousands, except per share data)	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range	Weighted Average
Debt investments	\$241,667	Discounted Expected Future Cash Flows	Hypothetical Market Yield	11% – 25%	13%
	500	Liquidation Scenario	Discount Rate Probability Weighting	25% 0% – 100%	25% 30%
Warrant investments	5,407	Black-Scholes Valuation Model	Price Per Share	\$0.00 – \$615.46	\$81.27
			Average Industry Volatility	18%	18%
			Marketability Discount Estimated Time to Exit	20% 1 to 5 years	20% 3 years
Other investments	386	Expected Acquisition Settlement	Price Per Share	\$2.09	\$2.09
	300	Multiple Probability Weighted Cash Flow Model	Discount Rate Probability Weighting	25% 100%	25% 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 June 30, 2016, the closing price of the 2019 Notes on the New York Stock Exchange was \$25.57 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.

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

The following tables detail the assets that are carried at fair value and measured at fair value on a recurring basis as of June 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:

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt investments	\$226,963	\$ —	\$ —	\$226,963
Warrant investments	\$5,026	\$ —	\$ 191	\$4,835
Other investments	\$600	\$ —	\$ —	\$600
Equity investments	\$677	\$ 437	\$ —	\$240

  

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Money market funds	\$285	\$ —	\$ 285	\$—
Restricted investments in money market funds	\$1,901	\$ —	\$1,901	\$—
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 June 30, 2016:

	Three Months Ended June 30, 2016				
	Debt	Warrant	Equity	Other	Total
	Investments	Investments	Investments	Investments	
	(In thousands)				
Level 3 assets, beginning of period	\$238,426	\$ 4,897	\$ 229	\$ 700	\$244,252
Purchase of investments	15,187	—	—	—	15,187
	—	68	11	—	79

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Warrants and equity received and classified as  
Level 3

Principal payments received on investments	(22,400 )	—	—	(32 )	(22,432 )
Proceeds from sale of investments	—	(97 )	(2 )	—	(99 )
Net realized (loss) gain on investments	(936 )	64	2	—	(870 )
Unrealized depreciation included in earnings	(3,395 )	(97 )	—	(68 )	(3,560 )
Other	81	—	—	—	81
Level 3 assets, end of period	\$226,963	\$ 4,835	\$ 240	\$ 600	\$232,638

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

**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 three months ended June 30, 2015:

	Three Months Ended June 30, 2015				Total
	Debt	Warrant	Equity	Other	
	Investments	Investments	Investments	Investments	
	(In thousands)				
Level 3 assets, beginning of period	\$ 197,610	\$ 4,264	\$ 222	\$ 300	\$ 202,396
Purchase of investments	48,000	—	—	—	48,000
Warrants and equity received and classified as Level 3	—	329	—	—	329
Principal payments received on investments	(10,745 )	—	—	(42 )	(10,787 )
Unrealized (depreciation) appreciation included in earnings	(1,856 )	(37 )	—	42	(1,851 )
Other	(581 )	—	—	—	(581 )
Level 3 assets, end of period	\$ 232,428	\$ 4,556	\$ 222	\$ 300	\$ 237,506

The Company's transfers between levels are recognized at the end of each reporting period. During the three months ended June 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 six months ended June 30, 2016:

	Six Months Ended June 30, 2016				Total
	Debt	Warrant	Equity	Other	
	Investments	Investments	Investments	Investments	
	(In thousands)				
Level 3 assets, beginning of period	\$ 242,167	\$ 5,793	\$ 316	\$ 300	\$ 248,576
Purchase of investments	31,687	—	—	—	31,687
	—	149	56	—	205

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Warrants and equity received and classified as  
Level 3

Principal payments received on investments	(40,460 )	—	—	(55 )	(40,515 )
Proceeds from sale of investments	—	(806 )	(129 )	—	(935 )
Net realized (loss) gain on investments	(3,093 )	672	(367 )	—	(2,788 )
Unrealized (depreciation) appreciation included in earnings	(3,029 )	(973 )	364	(28 )	(3,666 )
Transfer from debt investments to other investments	(383 )	—	—	383	—
Other	74	—	—	—	74
Level 3 assets, end of period	\$226,936	\$ 4,835	\$ 240	\$ 600	\$232,638

The Company's transfers between levels are recognized at the end of each reporting period. During the six months ended June 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 June 30, 2016 includes \$5.2 million in unrealized depreciation on debt and other investments, \$0.6 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 six months ended June 30, 2015:

	Six Months Ended June 30, 2015				Total
	Debt	Warrant	Equity	Other	
	<b>Investments</b>	<b>Investments</b>	<b>Investments</b>	<b>Investments</b>	
	(In thousands)				
Level 3 assets, beginning of period	\$199,180	\$ 3,966	\$ 222	\$ 300	\$203,668
Purchase of investments	71,933	—	—	—	71,933
Warrants and equity received and classified as Level 3	—	480	—	—	480
Principal payments received on investments	(36,465 )	—	—	(112 )	(36,577 )
Net realized loss on investments	—	(230 )	—	—	(230 )
Unrealized (depreciation) appreciation included in earnings	(1,637 )	355	—	112	(1,170 )
Transfer out of Level 3	—	(15 )	—	—	(15 )
Other	(583 )	—	—	—	(583 )
Level 3 assets, end of period	\$232,428	\$ 4,556	\$ 222	\$ 300	\$237,506

The Company's transfers between levels are recognized at the end of each reporting period. During the six months ended June 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 June 30, 2015 includes \$1.5 million in unrealized depreciation for debt and other investments and \$0.1 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 June 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.

**Horizon Technology Finance Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 6. Borrowings**

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