Horizon Technology Finance Corp
Form 10-Q
October 30, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

OR

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

FOR THE TRANSITION PERIOD FROM ____________ TO

COMMISSION FILE NUMBER: 814-00802

HORIZON TECHNOLOGY FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

The number of shares of the registrant's common stock, $0.001 par value per share, outstanding as of October 30, 2018 was 11,532,652.

HORIZON TECHNOLOGY FINANCE CORPORATION

FORM 10-Q

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PART I: FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Assets and Liabilities (Unaudited)

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

	September 30, 2018	December 31, 2017
Assets		
Non-affiliate investments at fair value (cost of $228,313 and $219,303, respectively)	$ 227,813	$ 218,600
Non-controlled affiliate investments at fair value (cost of $7,882 and $3,774, respectively) (Note 5)	7,531	3,499
Controlled affiliate investments at fair value (cost of $4,413 and $0, respectively) (Note 5)	4,413	—
Total investments at fair value (cost of $240,608 and $223,077, respectively) (Note 4)	239,757	222,099
Cash	5,909	6,594
Interest receivable	4,765	3,986
Other assets	1,731	1,467
Total assets	$ 252,162	$ 234,146
Liabilities		
Borrowings (Note 7)	$ 112,284	$ 94,075
Distributions payable	3,459	3,456
Base management fee payable (Note 3)	410	379
Incentive fee payable (Note 3)	851	541
Other accrued expenses	702	620
Total liabilities	117,706	99,071
Commitments and Contingencies (Note 8)		
Net assets		
Preferred stock, par value $0.001 per share, 1,000,000 shares authorized, zero shares issued and outstanding as of September 30, 2018 and December 31, 2017	—	—
	12	12

Common stock, par value $0.001 per share, 100,000,000 shares authorized, 11,698,864 and 11,687,871 shares issued and 11,531,399 and 11,520,406 shares outstanding as of September 30, 2018 and December 31, 2017, respectively		
Paid-in capital in excess of par	179,606	179,641
Distributions in excess of net investment income	(2,372)	(1,898)
Net unrealized depreciation on investments	(851)	(978)
Net realized loss on investments	(41,939)	(41,702)
Total net assets	134,456	135,075
Total liabilities and net assets	$ 252,162	$ 234,146
Net asset value per common share	$ 11.66	$ 11.72

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 September 30, 2018	2017	For the Nine Months Ended September 30, 2018	2017
Investment income				
Interest income on investments				
Interest income on non-affiliate investments	$7,094	$6,164	$20,385	$17,861
Interest income on non-controlled affiliate investments	193	81	528	81
Total interest income on investments	7,287	6,245	20,913	17,942
Fee income				
Prepayment fee income on non-affiliate investments	102	399	414	1,187
Fee income on non-affiliate investments	325	130	875	485
Total fee income	427	529	1,289	1,672
Dividend income				
Dividend income on affiliate investments	83	—	83	—
Total dividend income	83	—	83	—
Total investment income	7,797	6,774	22,285	19,614
Expenses				
Interest expense	1,681	1,140	4,616	3,540
Base management fee (Note 3)	1,197	921	3,399	2,783
Performance based incentive fee (Note 3)	1,297	258	2,823	1,094
Administrative fee (Note 3)	162	194	517	575
Professional fees	289	275	997	1,105
General and administrative	215	189	636	600
Total expenses	4,841	2,977	12,988	9,697
Performance based incentive fee waived (Note 3)	(446)	—	(605)	—
Net expenses	4,395	2,977	12,383	9,697
Net investment income	3,402	3,797	9,902	9,917
Net realized and unrealized gain (loss) on investments				
Net realized gain (loss) on non-affiliate investments	66	(429)	(237)	(11,098)
Net realized gain (loss) on investments	66	(429)	(237)	(11,098)
Net unrealized appreciation (depreciation) on non-affiliate investments	761	(640)	202	8,295
Net unrealized appreciation (depreciation) on non-controlled affiliate investments	30	(19)	(75)	(19)
Net unrealized appreciation (depreciation) on investments	791	(659)	127	8,276
Net realized and unrealized gain (loss) on investments	857	(1,088)	(110)	(2,822)
Net increase in net assets resulting from operations	$4,259	$2,709	$9,792	$7,095

Net investment income per common share	$ 0.30	$ 0.33	$ 0.86	$ 0.86
Net increase in net assets per common share	$ 0.37	$ 0.24	$ 0.85	$ 0.62
Distributions declared per share	$ 0.30	$ 0.30	$ 0.90	$ 0.90
Weighted average shares outstanding	11,529,611	11,518,552	11,525,906	11,516,246

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**	**Distributions in Excess of Net Investment**	**Net Unrealized Depreciation on**	**Net Realized Loss on**	Total Net
	Shares	Amount	Par	Income	Investments	Investments	Assets
Balance at December 31, 2016	11,510,424	$ 12	$ 179,551	$ (397)	$ (19,463)	$ (20,511)	$ 139,192
Net increase in net assets resulting from operations	—	—	—	9,917	8,276	(11,098)	7,095
Issuance of common stock under dividend reinvestment plan	12,278	—	134	—	—	—	134
Repurchases of common stock	(5,923)	—	(59)	—	—	—	(59)
Distributions declared	—	—	—	(10,366)	—	—	(10,366)
Balance at September 30, 2017	11,516,779	$ 12	$ 179,626	$ (846)	$ (11,187)	$ (31,609)	$ 135,996
Balance at December 31, 2017	11,520,406	$ 12	$ 179,641	$ (1,898)	$ (978)	$ (41,702)	$ 135,075
Net increase in net assets resulting from operations	—	—	—	9,902	127	(237)	9,792
Financing costs	—	—	(155)	—	—	—	(155)
Issuance of common stock under dividend reinvestment plan	10,993	—	120	—	—	—	120
Distributions declared	—	—	—	(10,376)	—	—	(10,376)
Balance at September 30, 2018	11,531,399	$ 12	$ 179,606	$ (2,372)	$ (851)	$ (41,939)	$ 134,456

See Notes to Consolidated Financial Statements

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	For the Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$ 9,792	$ 7,095
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used in) provided by operating activities:		
Amortization of debt issuance costs	420	383
Net realized loss on investments	237	11,098
Net unrealized appreciation on investments	(127)	(8,276)
Purchase of investments	(62,246)	(66,311)
Principal payments received on investments	46,503	80,062
Investments in controlled affiliate investments	(4,413)	—
Proceeds from sale of investments	3,360	1,572
Equity received in settlement of fee income	(299)	—
Warrants received in settlement of fee income	(161)	—
Changes in assets and liabilities:		
(Increase) decrease in interest receivable	(48)	253
(Increase) decrease in end-of-term payments	(731)	1,008
Decrease in unearned income	(512)	(437)
Decrease in other assets	72	423
Increase in other accrued expenses	82	22
Increase (decrease) in base management fee payable	31	(33)
Increase in incentive fee payable	310	258
Net cash (used in) provided by operating activities	(7,730)	27,117
Cash flows from financing activities:		
Proceeds from issuance of 2022 Notes	—	32,500
Advances on credit facility	28,000	34,000
Repayment of credit facility	(10,000)	(97,000)
Distributions paid	(10,253)	(10,230)
Repurchase of common stock	—	(59)
Debt issuance costs	(547)	(1,137)
Financing costs	(155)	—
Net cash provided by (used in) financing activities	7,045	(41,926)
Net decrease in cash	(685)	(14,809)
Cash:		
Beginning of period	6,594	37,135
End of period	$ 5,909	$ 22,326

Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 4,085	$ 3,242
Supplemental non-cash investing and financing activities:		
Warrant investments received and recorded as unearned income	$ 1,007	$ 1,482
Distributions payable	$ 3,459	$ 3,455
End-of-term payments receivable	$ 3,667	$ 3,657
Receivable resulting from sale of investment	$ 59	$ —

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

September 30, 2018

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
Non-Affiliate Investments — 169.4% (8)					
Non-Affiliate Debt Investments — 155.1% (8)					
Non-Affiliate Debt Investments — Life Science — 53.0% (8)					
Celsion Corporation (2)(5)(12)	Biotechnology	Term Loan (9.73% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	$ 2,500	$ 2,446	$ 2,446
		Term Loan (9.73% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	2,500	2,446	2,446
		Term Loan (9.73% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	2,500	2,446	2,446
		Term Loan (9.73% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	2,500	2,446	2,446
Espero BioPharma, Inc. (2)(12)	Biotechnology	Term Loan (12.00% cash (Libor + 9.9%; Floor 12.00%), 4.00% ETP, Due 6/30/19)	5,000	4,689	4,689
Palatin Technologies, Inc. (2)(5)(12)	Biotechnology	Term Loan (10.60% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 1/1/19)	500	495	495
		Term Loan (10.60% cash (Libor + 8.50%; Floor 9.00%), 3.44% ETP, Due 1/1/19)	500	500	500
		Term Loan (10.60% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 8/1/19)	1,667	1,652	1,652
		Term Loan (10.60% cash (Libor + 8.50%; Floor 9.00%), 3.27% ETP, Due 8/1/19)	1,667	1,667	1,667
vTv Therapeutics Inc. (2)(5)(12)	Biotechnology	Term Loan (12.10% cash (Libor + 10.00%; Floor	4,948	4,912	4,912

		10.50%), 6.00% ETP, Due 5/1/20)			
		Term Loan (12.10% cash (Libor + 10.00%; Floor 10.50%), 6.00% ETP, Due 10/1/20)	3,750	3,714	3,714
Titan Pharmaceuticals, Inc. (2)(5)(12)	Drug Delivery	Term Loan (10.50% cash (Libor + 8.40%; Floor 9.50%), 5.00% ETP, Due 6/1/21)	1,600	1,484	1,484
Aerin Medical, Inc. (2)(12)	Medical Device	Term Loan (9.55% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	4,000	3,887	3,887
		Term Loan (9.55% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	3,000	2,963	2,963
		Term Loan (9.55% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	3,000	2,963	2,963
Conventus Orthopaedics, Inc. (2)(12)	Medical Device	Term Loan (10.10% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,944	3,944
		Term Loan (10.10% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,944	3,944
		Term Loan (10.10% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,944	3,944
CSA Medical, Inc. (12)	Medical Device	Term Loan (10.14% cash (Libor + 7.93%; Floor 10.00%), 5.00% ETP, Due 10/1/22)	6,000	5,761	5,761
Lantos Technologies, Inc. (2)(12)	Medical Device	Term Loan (10.53% cash (Libor + 8.43%; Floor 10.00%), 6.00% ETP, Due 9/1/21)	4,000	3,522	3,522
MacuLogix, Inc. (2)(12)	Medical Device	Term Loan (9.78% cash (Libor + 7.68%; Floor 9.50%), 4.00% ETP, Due 8/1/22)	3,750	3,525	3,525
VERO Biotech LLC (2)(12)	Medical Device	Term Loan (10.10% cash (Libor + 8.00%; Floor 9.25%), 5.00% ETP, Due 1/1/22)	4,000	3,946	3,946
		Term Loan (10.10% cash (Libor + 8.00%; Floor 9.25%), 5.00% ETP, Due 1/1/22)	4,000	3,946	3,946
Total Non-Affiliate Debt Investments — Life Science				71,242	71,242
Non-Affiliate Debt Investments — Technology — 84.7% (8)					
Audacy Corporation (2)(12)	Communications	Term Loan (10.00% cash (Libor + 7.90%; Floor 9.50%), 5.00% ETP, Due 7/1/22)	4,000	3,932	3,932
Intelepeer Holdings, Inc. (2)(12)	Communications	Term Loan (12.05% cash (Libor + 9.95%; Floor	4,000	3,942	3,942

		11.25%), 2.50% ETP, Due 7/1/21)			
		Term Loan (12.05% cash (Libor + 9.95%; Floor 11.25%), 2.50% ETP, Due 7/1/21)	4,000	3,942	3,942
		Term Loan (12.05% cash (Libor + 9.95%; Floor 11.25%), 2.50% ETP, Due 7/1/21)	4,000	3,942	3,942
		Term Loan (12.05% cash (Libor + 9.95%; Floor 11.25%), 2.50% ETP, Due 2/1/22)	3,000	2,952	2,952
PebblePost, Inc. (2) (12)	Communications	Term Loan (11.36% cash (Libor + 9.26%; Floor 10.25%), 4.00% ETP, Due 7/1/21)	4,000	3,947	3,947

See Notes to Consolidated Financial Statements

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

September 30, 2018

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
		Term Loan (11.36% cash (Libor + 9.26%; Floor 10.25%), 4.00% ETP, Due 7/1/21)	4,000	3,947	3,947
IgnitionOne, Inc. (2)(12)	Internet and Media	Term Loan (12.33% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,861	2,861
		Term Loan (12.33% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,861	2,861
		Term Loan (12.33% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,861	2,861
		Term Loan (12.33% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,861	2,861
Jump Ramp Games, Inc. (2)(12)	Internet and Media	Term Loan (11.83% cash (Libor + 9.73%), 3.00% ETP, Due 4/1/21)	4,000	3,956	3,851
Kixeye, Inc. (2)(12)	Internet and Media	Term Loan (11.70% cash (Libor + 9.60%; Floor 10.75%), 2.00% ETP, Due 5/1/21)	2,750	2,658	2,658
		Term Loan (11.70% cash (Libor + 9.60%; Floor 10.75%), 2.00% ETP, Due 5/1/21)	2,750	2,707	2,707
Rocket Lawyer Incorporated (2)(12)	Internet and Media	Term Loan (11.50% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 7/1/21)	4,000	3,947	3,947
		Term Loan (11.50% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 7/1/21)	4,000	3,947	3,947
		Term Loan (11.50% cash (Libor + 9.40%; Floor	2,000	1,971	1,971

		10.50%), 3.00% ETP, Due 11/1/21)			
Verve Wireless, Inc. (2)(12)	Internet and Media	Term Loan (10.90% cash (Libor + 8.80%; Floor 10.80%), 3.33% ETP, Due 9/1/21)	3,600	3,460	3,460
Zinio Holdings, LLC (2)(12)	Internet and Media	Term Loan (13.35% cash (Libor + 11.25%; Floor 11.75%), 6.00% ETP, Due 2/1/20)	3,400	3,386	3,386
The NanoSteel Company, Inc. (2)(12)	Materials	Term Loan (11.60% cash (Libor + 9.50%; Floor 10.00%), 7.20% ETP, Due 5/1/20)	3,959	3,891	3,891
		Term Loan (11.60% cash (Libor + 9.50%; Floor 10.00%), 6.45% ETP, Due 5/1/20)	1,980	1,955	1,955
		Term Loan (11.60% cash (Libor + 9.50%; Floor 10.00%), 5.85% ETP, Due 7/1/20)	2,188	2,159	2,159
Powerhouse Dynamics, Inc. (2)(12)	Power Management	Term Loan (12.80% cash (Libor + 10.70%; Floor 11.20%), 3.32% ETP, Due 9/1/19)	700	682	682
Luxtera, Inc. (12)	Semiconductors	Term Loan (12.00% cash (Prime + 6.75%), Due 3/28/20)	2,000	1,934	1,934
		Term Loan (12.00% cash (Prime + 6.75%), Due 3/28/20)	1,500	1,462	1,462
Bridge2 Solutions, LLC. (2)(12)	Software	Term Loan (11.35% cash (Libor + 9.25%; Floor 10.50%), 2.00% ETP, Due 11/1/21)	5,000	4,821	4,821
		Term Loan (11.35% cash (Libor + 9.25%; Floor 10.50%), 2.00% ETP, Due 11/1/21)	5,000	4,821	4,821
Education Elements, Inc. (2)(12)	Software	Term Loan (12.10% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 1/1/19)	200	197	197
		Term Loan (12.10% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 8/1/19)	500	493	493
New Signature US, Inc. (2)(12)(13)	Software	Term Loan (10.60% cash (Libor + 8.50%; Floor 10.50%), 3.50% ETP, Due 7/1/22)	2,750	2,697	2,697
ShopKeep.com, Inc. (2)(12)	Software	Term Loan (12.05% cash (Libor + 9.95%; Floor 10.45%), 4.08% ETP, Due 10/1/20)	4,900	4,825	4,825
		Term Loan (12.05% cash (Libor + 9.95%; Floor 10.45%), 3.55% ETP, Due 2/1/21)	3,600	3,542	3,542
SIGNiX, Inc. (12)	Software		1,995	1,927	1,605

		Term Loan (13.10% cash (Libor + 11.00%; Floor 11.50%), 6.17% ETP, Due 2/1/20)			
xAd, Inc. (2)(12)	Software	Term Loan (10.80% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	5,000	4,916	4,916
		Term Loan (10.80% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	5,000	4,916	4,916
		Term Loan (10.80% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	3,000	2,950	2,950
		Term Loan (10.80% cash (Libor + 8.70%; Floor	2,000	1,966	1,966

See Notes to Consolidated Financial Statements

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

September 30, 2018

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
		10.00%), 4.75% ETP, Due 11/1/21)			
Total Non-Affiliate Debt Investments — Technology				114,234	113,807
Non-Affiliate Debt Investments — Healthcare information and services — 17.4% (8)					
Catasys, Inc. (2)(5)(12)	Software	Term Loan (9.85% cash (Libor + 7.75%; Floor 9.75%), 6.00% ETP, Due 3/1/22)	2,500	2,477	2,477
		Term Loan (9.85% cash (Libor + 7.75%; Floor 9.75%), 6.00% ETP, Due 3/1/22)	2,500	2,477	2,477
		Term Loan (9.85% cash (Libor + 7.75%; Floor 9.75%), 6.00% ETP, Due 3/1/22)	2,500	2,476	2,476
HealthEdge Software, Inc. (2)(12)	Software	Term Loan (10.35% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 7/1/22)	5,000	4,905	4,905
		Term Loan (10.35% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 1/1/23)	3,750	3,701	3,701
		Term Loan (10.35% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 4/1/23)	3,750	3,698	3,698
		Term Loan (10.46% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 10/1/23)	3,750	3,696	3,696
Total Non-Affiliate Debt Investments — Healthcare information and services				23,430	23,430

Total Non- Affiliate Debt Investments			208,906	208,479
Non-Affiliate Warrant Investments — 7.7% (8)				
Non-Affiliate Warrants — Life Science — 1.7% (8)				
ACT Biotech Corporation	Biotechnology	130,872 Preferred Stock Warrants	12	—
Alpine Immune Sciences, Inc. (5)(12)	Biotechnology	4,634 Common Stock Warrants	122	—
Argos Therapeutics, Inc. (2)(5)(12)	Biotechnology	3,656 Common Stock Warrants	33	—
Celsion Corporation (2)(5)(12)	Biotechnology	190,522 Common Stock Warrants	145	107
Espero BioPharma, Inc. (2)(5)(12)	Biotechnology	833,792 Common Stock Warrants	184	184
Rocket Pharmaceuticals Corporation (5)(12)	Biotechnology	1,763 Common Stock Warrants	17	—
Palatin Technologies, Inc. (2)(5)(12)	Biotechnology	608,058 Common Stock Warrants	51	153
Revance Therapeutics, Inc. (5)(12)	Biotechnology	34,113 Common Stock Warrants	68	367
Sample6, Inc. (2)(12)	Biotechnology	661,956 Preferred Stock Warrants	53	26
Strongbridge U.S. Inc. (2)(5)(12)	Biotechnology	160,714 Common Stock Warrants	72	419
Sunesis Pharmaceuticals, Inc. (5)(12)	Biotechnology	2,050 Common Stock Warrants	5	—
vTv Therapeutics Inc. (2)(5)(12)	Biotechnology	95,293 Common Stock Warrants	44	—
Titan Pharmaceuticals, Inc. (2)(5)(12)	Drug Delivery	320,612 Common Stock Warrants	95	—
AccuVein Inc. (2)(12)	Medical Device	1,174,881 Preferred Stock Warrants	24	29
Aerin Medical, Inc. (2)(12)	Medical Device	1,818,182 Preferred Stock Warrants	66	71
Conventus Orthopaedics, Inc. (2)(12)	Medical Device	720,000 Preferred Stock Warrants	95	102
CSA Medical, Inc. (12)	Medical Device	1,569,577 Preferred Stock Warrants	89	89
Lantos Technologies, Inc. (2)(12)	Medical Device	1,715,926 Common Stock Warrants	253	285
MacuLogix, Inc. (2)(12)	Medical Device	158,451 Preferred Stock Warrants	156	156
Mitralign, Inc. (2)(12)	Medical Device	64,190 Common Stock Warrants	52	1
NinePoint Medical, Inc. (2)(12)	Medical Device	29,102 Preferred Stock Warrants	33	—
ReShape Lifesciences Inc. (5)(12)	Medical Device	134 Common Stock Warrants	347	—
Tryton Medical, Inc. (2)(12)	Medical Device	122,362 Preferred Stock Warrants	15	13
VERO Biotech LLC (2)(12)	Medical Device		53	334

ViOptix, Inc. (12)	Medical Device	800 Common Stock Warrants 375,763 Preferred Stock Warrants	13	—
Total Non-Affiliate Warrants — Life Science			2,097	2,336
Non-Affiliate Warrants — Technology — 5.4% (8)				
Audacy Corporation (2)(12)	Communications	1,017,173 Preferred Stock Warrants	194	195
Ekahau, Inc. (2)(12)	Communications	978,261 Preferred Stock Warrants	33	899
Intelepeer Holdings, Inc. (2)(12)	Communications	2,451,549 Preferred Stock Warrants	160	128
PebblePost, Inc. (2)(12)	Communications	598,850 Preferred Stock Warrants	92	163
Additech, Inc. (2)(12)	Consumer-related Technologies	150,000 Preferred Stock Warrants	32	—
Gwynnie Bee, Inc. (2)(12)	Consumer-related Technologies	268,591 Preferred Stock Warrants	68	823
Le Tote, Inc. (2)(12)	Consumer-related Technologies	202,974 Preferred Stock Warrants	63	373
Rhapsody International Inc. (2)(12)	Consumer-related Technologies	852,273 Common Stock Warrants	164	—
IgnitionOne, Inc. (2)(12)	Internet and Media	262,910 Preferred Stock Warrants	672	666
Jump Ramp Games, Inc. (2)(12)	Internet and Media	159,766 Preferred Stock Warrants	32	8
Kixeye, Inc. (2)(12)	Internet and Media	791,251 Preferred Stock Warrants	75	62
Rocket Lawyer Incorporated (2)(12)	Internet and Media	261,721 Preferred Stock Warrants	92	78
Verve Wireless, Inc. (2)(12)	Internet and Media	112,805 Common Stock Warrants	120	120

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

September 30, 2018

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
The NanoSteel Company, Inc. (2)(12)	Materials	379,360 Preferred Stock Warrants		187	528
Powerhouse Dynamics, Inc. (2)(12)	Power Management	348,838 Preferred Stock Warrants		33	34
Avalanche Technology, Inc. (2)(12)	Semiconductors	202,602 Preferred Stock Warrants		101	38
Kaminario, Inc. (12)	Semiconductors	4,800,000 Preferred Stock Warrants		59	97
Luxtera, Inc.(2)(12)	Semiconductors	3,546,553 Preferred Stock Warrants		213	401
Soraa, Inc. (2)(12)	Semiconductors	203,616 Preferred Stock Warrants		80	430
Bolt Solutions Inc. (2)(12)	Software	202,892 Preferred Stock Warrants		113	106
Bridge2 Solutions, Inc. (2)(12)	Software	125,458 Common Stock Warrants		432	767
BSI Platform Holdings, LLC (2)(12)(13)	Software	137,500 Preferred Stock Warrants		19	19
Clarabridge, Inc. (12)	Software	53,486 Preferred Stock Warrants		14	106
Education Elements, Inc. (2)(12)	Software	238,121 Preferred Stock Warrants		28	30
Lotame Solutions, Inc. (2)(12)	Software	288,115 Preferred Stock Warrants		22	289
Metricly, Inc. (12)	Software	41,569 Common Stock Warrants		48	—
Riv Data Corp. (2)(12)	Software	321,428 Preferred Stock Warrants		12	37
ShopKeep.com, Inc. (2)(12)	Software	193,962 Preferred Stock Warrants		118	117
SIGNiX, Inc. (12)	Software	133,560 Preferred Stock Warrants		225	36

Skyword, Inc. (12)	Software	301,056 Preferred Stock Warrants	48	3
Sys-Tech Solutions, Inc. (2)(12)	Software	375,000 Preferred Stock Warrants	242	444
Weblinc Corporation (2)(12)	Software	195,122 Preferred Stock Warrants	42	—
xAd, Inc. (2)(12)	Software	4,343,350 Preferred Stock Warrants	177	299
Total Non-Affiliate Warrants — Technology			4,010	7,296
Non-Affiliate Warrants — Cleantech — 0.1% (8)				
Renmatix, Inc. (2)(12)	Alternative Energy	53,022 Preferred Stock Warrants	68	—
Tigo Energy, Inc. (2)(12)	Energy Efficiency	804,604 Preferred Stock Warrants	100	113
Total Non-Affiliate Warrants — Cleantech			168	113
Non-Affiliate Warrants — Healthcare information and services — 0.5% (8)				
LifePrint Group, Inc. (2)(12)	Diagnostics	49,000 Preferred Stock Warrants	29	2
ProterixBio, Inc. (2)(12)	Diagnostics	2,676 Common Stock Warrants	42	—
Singulex, Inc. (12)	Other Healthcare	294,231 Preferred Stock Warrants	44	46
Verity Solutions Group, Inc. (12)	Other Healthcare	300,360 Preferred Stock Warrants	100	67
Watermark Medical, Inc. (2)(12)	Other Healthcare	27,373 Preferred Stock Warrants	74	63
HealthEdge Software, Inc. (2)(12)	Software	205,481 Preferred Stock Warrants	83	72
Medsphere Systems Corporation (2)(12)	Software	7,097,792 Preferred Stock Warrants	60	216
Recondo Technology, Inc. (2)(12)	Software	556,796 Preferred Stock Warrants	95	215
Total Non-Affiliate Warrants — Healthcare information and services			527	681
Total Non-Affiliate Warrants			6,802	10,426
Non-Affiliate Other Investments — 5.7% (8)				
Espero Pharmaceuticals, Inc. (12)	Biotechnology	Royalty Agreement	5,300	4,700
ZetrOZ, Inc. (12)	Medical Device	Royalty Agreement	179	700
Vette Technology, LLC (12)	Data Storage	Royalty Agreement Due 4/18/2019	4,183	60
Triple Double Holdings, LLC (12)	Software	License Agreement	2,200	2,200
Total Non-Affiliate Other Investments			11,862	7,660
Non-Affiliate Equity — 0.9% (8)				
Insmed Incorporated (5)	Biotechnology	33,208 Common Stock	238	671
Revance Therapeutics, Inc.(5)	Biotechnology	5,125 Common Stock	73	127
	Biotechnology	13,082 Common Stock	83	27

Sunesis Pharmaceuticals, Inc. (5)					
SnagAJob.com, Inc. (12)	Consumer-related Technologies	82,974 Common Stock		9	83
Verve Wireless, Inc. (2)(12)	Internet and Media	100,598 Preferred Stock		225	225
Formetrix, Inc. (2)(12)	Materials	74,286 Common Stock		74	74
TruSignal, Inc. (12)	Software	32,637 Common Stock		41	41
Total Non-Affiliate Equity				743	1,248
Total Non-Affiliate Portfolio Investment Assets				$ 228,313	$227,813
Non-controlled Affiliate Investments — 5.6% (8)					
Non-controlled Affiliate Debt Investments — Technology — 5.0% (8)					
Decisyon, Inc. (12)	Software	Term Loan (14.408% cash (Libor + 12.308%; Floor 12.50%), 8.00% ETP, Due 12/1/20)	$ 1,523	$ 1,522	$1,449
		Term Loan (14.408% cash (Libor + 12.308%; Floor 12.50%), 8.00% ETP, Due 12/1/20)	833	790	752
		Term Loan (12.02% cash, Due 12/31/19)	250	250	238

See Notes to Consolidated Financial Statements

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

September 30, 2018

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
		Term Loan (12.03% cash, Due 12/31/19)	250	250	238
		Term Loan (12.24% cash, Due 12/31/19)	750	750	714
		Term Loan (13.08% cash, Due 12/31/19)	300	300	286
		Term Loan (13.10% cash, Due 12/31/19)	200	200	190
StereoVision Imaging, Inc. (12)	Software	Term Loan (9.13% PIK (Libor + 7.03%; Floor 8.50%), 8.50% ETP, Due 9/1/21) (11)	3,200	2,798	2,798
Total Non-controlled Affiliate Debt Investments — Technology				6,860	6,665
Non-controlled Affiliate Warrants — Technology — 0.0% (8)					
Decisyon, Inc. (12)	Software	82,967 Common Stock Warrants		46	—
Total Non-controlled Affiliate Warrants — Technology				46	—
Non-controlled Affiliate Equity — Technology — 0.6% (8)					
Decisyon, Inc. (12)	Software	45,365,936 Common Stock		185	75
StereoVision Imaging, Inc. (12)	Software	1,943,572 Common Stock		791	791
Total Non-controlled Affiliate Equity				976	866
Total Non-controlled Affiliate Portfolio Investment Assets				$ 7,882	$7,531
Controlled Affiliate Investments — 3.3% (8)					
Controlled Affiliate Equity — Financial — 3.3% (8)					
Horizon Secured Loan Fund I LLC (12)(14)	Investment funds			$ 4,413	$4,413
				4,413	4,413

Total Controlled Affiliate Equity		
Total Controlled Affiliate Portfolio Investment Assets	$ 4,413	$4,413
Total Portfolio Investment Assets — 178.3%(8)	$ 240,608	$239,757

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

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

(3) All non-affiliate investments are investments in which the Company owns less than 5% of the voting securities of the portfolio company. All non-controlled affiliate investments are investments in which the Company owns 5% or more of the voting securities of the portfolio company but not more than 25% of the voting securities of the portfolio company. All controlled affiliate investments are investments in which the Company owns more than 25% of the portfolio company's outstanding voting securities or has the power to exercise control over management or policies of such portfolio company (including through a management agreement).

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

(5) Portfolio company is a public company.

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

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

(8) Value as a percent of net assets.

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

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

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

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

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

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

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

December 31, 2017

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
Non-Affiliate Investments — 161.8% (8)					
Non-Affiliate Debt Investments — 148.4% (8)					
Non-Affiliate Debt Investments — Life Science — 43.0% (8)					
Palatin Technologies, Inc. (2)(5)(14)	Biotechnology	Term Loan (9.87% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 1/1/19)	$ 2,000	$ 1,980	$ 1,980
		Term Loan (9.87% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 8/1/19)	3,167	3,139	3,139
vTv Therapeutics Inc. (2)(5)(14)	Biotechnology	Term Loan (11.37% cash (Libor + 10.00%; Floor 10.50%), 6.00% ETP, Due 5/1/20)	6,250	6,196	6,196
		Term Loan (11.37% cash (Libor + 10.00%; Floor 10.50%), 6.00% ETP, Due 10/1/20)	3,750	3,700	3,700
Titan Pharmaceuticals, Inc. (2)(5)(14)	Drug Delivery	Term Loan (9.77% cash (Libor + 8.40%; Floor 9.50%), 5.00% ETP, Due 6/1/21)	3,500	3,400	3,400
		Term Loan (9.77% cash (Libor + 8.40%; Floor 9.50%), 5.00% ETP, Due 6/1/21)	3,500	3,430	3,430
Aerin Medical, Inc. (2)(14)	Medical Device	Term Loan (8.85% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	4,000	3,876	3,876
		Term Loan (8.85% cash (Libor + 7.45%; Floor	3,000	2,954	2,954

		8.75%), 4.00% ETP, Due 1/1/22)			
		Term Loan (8.85% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	3,000	2,954	2,954
Conventus Orthopaedics, Inc. (2)(14)	Medical Device	Term Loan (9.49% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,928	3,928
		Term Loan (9.49% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,928	3,928
		Term Loan (9.49% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,928	3,928
Lantos Technologies, Inc. (2)(14)	Medical Device	Term Loan (11.87% PIK (Libor + 10.50%; Floor 11.50%), 8.91% ETP, Due 5/1/19) (13)	2,479	2,466	2,466
Mederi Therapeutics, Inc. (2)(14)	Medical Device	Term Loan (13.01% cash (Libor + 11.82%; Floor 12.00%), 6.00% ETP, Due 12/1/17)	173	173	163
		Term Loan (13.01% cash (Libor + 11.82%; Floor 12.00%), 6.00% ETP, Due 12/1/17)	173	173	163
NinePoint Medical, Inc. (2)(14)	Medical Device	Term Loan (10.12% cash (Libor + 8.75%; Floor 9.25%), 4.50% ETP, Due 3/1/19)	2,667	2,645	2,645
		Term Loan (10.12% cash (Libor + 8.75%; Floor 9.25%), 4.50% ETP, Due 3/1/19)	1,333	1,320	1,320
VERO Biotech LLC (2)(14)	Medical Device	Term Loan (9.33% cash (Libor + 8.00%; Floor 9.25%), 5.00% ETP, Due 1/1/22)	4,000	3,914	3,914
		Term Loan (9.33% cash (Libor + 8.00%; Floor 9.25%), 5.00% ETP, Due 1/1/22)	4,000	3,934	3,934
Total Non-Affiliate Debt Investments — Life Science				58,038	58,018
Non-Affiliate Debt Investments — Technology — 99.1% (8)					
Intelepeer Holdings, Inc. (14)	Communications	Term Loan (11.39% cash (Libor + 9.95%; Floor	4,000	3,888	3,888

		11.25%), 2.50% ETP, Due 7/1/21)			
		Term Loan (11.39% cash (Libor + 9.95%; Floor 11.25%), 2.50% ETP, Due 7/1/21)	4,000	3,927	3,927
		Term Loan (11.39% cash (Libor + 9.95%; Floor 11.25%), 2.50% ETP, Due 7/1/21)	4,000	3,927	3,927
PebblePost, Inc. (2)(14)	Communications	Term Loan (10.63% cash (Libor + 9.26%; Floor 10.25%), 4.00% ETP, Due 7/1/21)	4,000	3,874	3,874
		Term Loan (10.63% cash (Libor + 9.26%; Floor 10.25%), 4.00% ETP, Due 7/1/21)	4,000	3,933	3,933
Le Tote, Inc. (2)(14)	Consumer-related Technologies	Term Loan (11.02% cash (Libor + 9.65%; Floor 10.15%), 5.00% ETP, Due 3/1/20)	4,000	3,960	3,960
		Term Loan (11.02% cash (Libor + 9.65%; Floor 10.15%), 5.00% ETP, Due 3/1/20)	3,000	2,969	2,969
SavingStar, Inc. (2)(14)	Consumer-related Technologies	Term Loan (11.77% cash (Libor + 10.40%; Floor 10.90%), 4.25% ETP, Due 6/1/20)	2,167	2,140	2,140
		Term Loan (11.77% cash (Libor + 10.40%; Floor 10.90%), 3.80% ETP, Due 11/1/20)	1,911	1,849	1,849
IgnitionOne, Inc. (2)(14)	Internet and Media	Term Loan (11.60% cash (Libor + 10.23%; Floor	3,000	2,832	2,832

See Notes to Consolidated Financial Statements

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

December 31, 2017

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
		10.23%), 2.00% ETP, Due 4/1/22)			
		Term Loan (11.60% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,832	2,832
		Term Loan (11.60% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,832	2,832
		Term Loan (11.60% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,832	2,832
Jump Ramp Games, Inc. (2)(14)	Internet and Media	Term Loan (11.10% cash (Libor + 9.73%), 3.00% ETP, Due 4/1/21)	4,000	3,942	3,942
Kixeye, Inc. (2)(14)	Internet and Media	Term Loan (10.97% cash (Libor + 9.60%; Floor 10.75%), 2.00% ETP, Due 9/1/21)	3,000	2,900	2,900
		Term Loan (10.97% cash (Libor + 9.60%; Floor 10.75%), 2.00% ETP, Due 9/1/21)	3,000	2,945	2,945
MediaBrix, Inc. (2)(14)	Internet and Media	Term Loan (12.37% cash (Libor + 11.00%; Floor 11.50%), 3.00% ETP, Due 1/1/20)	4,000	3,977	3,977
Rocket Lawyer Incorporated (2)(14)	Internet and Media	Term Loan (10.77% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 7/1/21)	4,000	3,933	3,933
		Term Loan (10.77% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 7/1/21)	4,000	3,933	3,933
		Term Loan (10.77% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 11/1/21)	2,000	1,963	1,963
Zinio Holdings, LLC (2)(14)			4,000	3,978	3,978

	Internet and Media	Term Loan (12.62% cash (Libor + 11.25%; Floor 11.75%), 6.00% ETP, Due 2/1/20)			
The NanoSteel Company, Inc. (2)(14)	Materials	Term Loan (10.87% cash (Libor + 9.50%; Floor 10.00%), 7.20% ETP, Due 1/1/20)	4,653	4,578	4,578
		Term Loan (10.87% cash (Libor + 9.50%; Floor 10.00%), 6.45% ETP, Due 1/1/20)	2,327	2,289	2,289
		Term Loan (10.87% cash (Libor + 9.50%; Floor 10.00%), 5.85% ETP, Due 3/1/20)	2,500	2,457	2,457
Powerhouse Dynamics, Inc. (2)(14)	Power Management	Term Loan (12.07% cash (Libor + 10.70%; Floor 11.20%), 3.00% ETP, Due 3/1/19)	1,250	1,234	1,234
Luxtera, Inc. (14)	Semiconductors	Term Loan (11.25% cash (Prime + 6.75%), Due 3/28/20)	2,000	1,902	1,902
		Term Loan (11.25% cash (Prime + 6.75%), Due 3/28/20)	1,500	1,443	1,443
Bridge2 Solutions, LLC. (2)(14)	Software	Term Loan (10.62% cash (Libor + 9.25%; Floor 10.50%), 2.00% ETP, Due 11/1/21)	5,000	4,777	4,777
		Term Loan (10.62% cash (Libor + 9.25%; Floor 10.50%), 2.00% ETP, Due 11/1/21)	5,000	4,777	4,777
Digital Signal Corporation (11)(12)(14)	Software	Term Loan (11.62% cash (Libor + 10.25%; Floor 10.43%), 5.00% ETP, Due 7/1/19)	1,290	1,256	1,210
		Term Loan (11.62% cash (Libor + 10.25%; Floor 10.43%), 5.00% ETP, Due 7/1/19)	1,290	1,256	1,210
		Term Loan (10.00% cash, Due 12/31/17)	501	501	483
Education Elements, Inc. (2)(14)	Software	Term Loan (11.37% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 1/1/19)	800	789	789
		Term Loan (11.37% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 8/1/19)	950	937	937
Metricly, Inc. (14)	Software	Term Loan (13.62% cash (Libor + 12.25%; Floor 12.50%), 3.33% ETP, Due 9/1/18)	184	184	184
ShopKeep.com, Inc. (2)(14)	Software	Term Loan (11.32% cash (Libor + 9.95%; Floor 10.45%), 4.08% ETP, Due 10/1/20)	6,000	5,897	5,897
			4,000	3,924	3,924

		Term Loan (11.32% cash (Libor + 9.95%; Floor 10.45%), 3.55% ETP, Due 2/1/21)			
SIGNiX, Inc. (14)	Software	Term Loan (12.37% cash (Libor + 11.00%; Floor 11.50%), 5.33% ETP, Due 2/1/20)	2,180	2,073	1,930
SilkRoad Technology, Inc. (2)(14)	Software	Term Loan (11.72% cash (Libor + 10.35%; Floor 10.85%; Ceiling 12.85%), 5.00% ETP, Due 6/1/20)	7,000	6,904	6,904
Weblinc Corporation (2)(14)	Software	Term Loan (11.62% cash (Libor + 10.25%; Floor 11.25%), 3.00% ETP, Due 3/1/21)	3,000	2,913	2,913
xAd, Inc. (2)(14)	Software	Term Loan (10.07% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	5,000	4,895	4,895
		Term Loan (10.07% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	5,000	4,895	4,895

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

December 31, 2017

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
		Term Loan (10.07% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	3,000	2,937	2,937
		Term Loan (10.07% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	2,000	1,958	1,958
Total Non-Affiliate Debt Investments — Technology				134,142	133,889
Non-Affiliate Debt Investments — Healthcare information and services — 6.3% (8)					
HealthEdge Software, Inc. (2)(14)	Software	Term Loan (9.62% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 7/1/22)	5,000	4,819	4,819
		Term Loan (9.68% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 1/1/23)	3,750	3,693	3,693
Total Non-Affiliate Debt Investments — Healthcare information and services				8,512	8,512
Total Non- Affiliate Debt Investments				200,692	200,419
Non-Affiliate Warrant Investments — 6.7% (8)					
Non-Affiliate Warrants — Life Science — 1.6% (8)					
ACT Biotech Corporation (14)	Biotechnology	604,038 Preferred Stock Warrants		60	—
Alpine Immune Sciences, Inc. (5)(14)	Biotechnology	4,634 Common Stock Warrants		122	—
Argos Therapeutics, Inc. (2)(5)(14)	Biotechnology	73,112 Common Stock Warrants		33	—
Celsion Corporation (5)(14)	Biotechnology	408 Common Stock Warrants		15	—
Rocket Pharmaceuticals Corporation (5)(14)	Biotechnology	7,051 Common Stock Warrants		17	—

Palatin Technologies, Inc. (2)(5)(14)	Biotechnology	608,058 Common Stock Warrants	51	82
Revance Therapeutics, Inc. (5)(14)	Biotechnology	34,113 Common Stock Warrants	68	729
Sample6, Inc. (2)(14)	Biotechnology	661,956 Preferred Stock Warrants	53	25
Strongbridge U.S. Inc. (5)(14)	Biotechnology	160,714 Common Stock Warrants	72	794
Sunesis Pharmaceuticals, Inc. (5)(14)	Biotechnology	2,050 Common Stock Warrants	5	—
vTv Therapeutics Inc. (2)(5)(14)	Biotechnology	95,293 Common Stock Warrants	44	82
Titan Pharmaceuticals, Inc. (2)(5)(14)	Drug Delivery	280,612 Common Stock Warrants	88	30
AccuVein Inc. (2)(14)	Medical Device	75,769 Preferred Stock Warrants	24	27
Aerin Medical, Inc. (2)(14)	Medical Device	1,818,182 Preferred Stock Warrants	66	66
Conventus Orthopaedics, Inc. (2)(14)	Medical Device	720,000 Preferred Stock Warrants	95	95
IntegenX, Inc. (2)(14)	Medical Device	170,646 Preferred Stock Warrants	35	32
Lantos Technologies, Inc. (2)(14)	Medical Device	471,979 Common Stock Warrants	39	145
Mederi Therapeutics, Inc. (2)(14)	Medical Device	248,736 Preferred Stock Warrants	26	—
Mitralign, Inc. (2)(14)	Medical Device	64,190 Common Stock Warrants	52	1
NinePoint Medical, Inc. (2)(14)	Medical Device	29,102 Preferred Stock Warrants	33	2
OraMetrix, Inc. (2)(14)	Medical Device	812,348 Preferred Stock Warrants	78	—
ReShape Lifesciences Inc. (5)(14)	Medical Device	134 Common Stock Warrants	347	—
Tryton Medical, Inc. (2)(14)	Medical Device	122,362 Preferred Stock Warrants	15	12
VERO Biotech LLC (2)(14)	Medical Device	800,000 Common Stock Warrants	53	53
ViOptix, Inc. (14)	Medical Device	375,763 Preferred Stock Warrants	13	—
Total Non-Affiliate Warrants — Life Science			1,504	2,175
Non-Affiliate Warrants — Technology — 4.6% (8)				
Ekahau, Inc. (2)(14)	Communications	978,261 Preferred Stock Warrants	32	22
Intelepeer Holdings, Inc. (14)	Communications	2,256,549 Preferred Stock Warrants	149	110
PebblePost, Inc. (2)(14)	Communications	598,850 Preferred Stock Warrants	92	92
Additech, Inc. (2)(14)	Consumer-related Technologies	150,000 Preferred Stock Warrants	33	31
Gwynnie Bee, Inc. (2)(14)			68	816

	Consumer-related Technologies	268,591 Preferred Stock Warrants		
Le Tote, Inc. (2)(14)	Consumer-related Technologies	202,974 Preferred Stock Warrants	63	363
Rhapsody International Inc. (2)(14)	Consumer-related Technologies	852,273 Common Stock Warrants	164	—
SavingStar, Inc. (2)(14)	Consumer-related Technologies	850,439 Preferred Stock Warrants	104	103
IgnitionOne, Inc. (2)(14)	Internet and Media	262,910 Preferred Stock Warrants	672	668
Jump Ramp Games, Inc. (2)(14)	Internet and Media	159,766 Preferred Stock Warrants	31	31
Kixeye, Inc. (2)(14)	Internet and Media	791,251 Preferred Stock Warrants	75	74
Rocket Lawyer Incorporated (2)(14)	Internet and Media	261,721 Preferred Stock Warrants	91	91
The NanoSteel Company, Inc. (2)(14)	Materials	379,360 Preferred Stock Warrants	187	448
Nanocomp Technologies, Inc. (2)(14)	Networking	1,440,489 Preferred Stock Warrants	67	—
Powerhouse Dynamics, Inc. (2)(14)	Power Management	290,698 Preferred Stock Warrants	28	26
Avalanche Technology, Inc. (2)(14)	Semiconductors	202,602 Preferred Stock Warrants	101	40
eASIC Corporation (2)(14)	Semiconductors	40,445 Preferred Stock Warrants	25	28
Kaminario, Inc.(14)	Semiconductors	1,087,203 Preferred Stock Warrants	59	44
Luxtera, Inc.(2)(14)	Semiconductors	3,546,553 Preferred Stock Warrants	213	361

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December 31, 2017

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
Soraa, Inc. (2)(14)	Semiconductors	203,616 Preferred Stock Warrants		80	438
Bolt Solutions Inc. (2)(14)	Software	202,892 Preferred Stock Warrants		113	99
Bridge2 Solutions, Inc. (2)(14)	Software	125,458 Common Stock Warrants		433	760
Clarabridge, Inc. (14)	Software	53,486 Preferred Stock Warrants		14	82
Digital Signal Corporation (14)	Software	125,116 Common Stock Warrants		32	—
Education Elements, Inc. (2)(14)	Software	238,121 Preferred Stock Warrants		28	28
Lotame Solutions, Inc. (2)(14)	Software	288,115 Preferred Stock Warrants		22	281
Metricly, Inc. (14)	Software	41,569 Common Stock Warrants		48	—
Riv Data Corp. (2)(14)	Software	321,428 Preferred Stock Warrants		12	38
ShopKeep.com, Inc. (2)(14)	Software	193,962 Preferred Stock Warrants		118	138
SIGNiX, Inc. (14)	Software	133,560 Preferred Stock Warrants		225	109
Skyword, Inc. (14)	Software	301,056 Preferred Stock Warrants		48	32
SpringCM, Inc. (2)(14)	Software	2,385,686 Preferred Stock Warrants		55	132
Sys-Tech Solutions, Inc. (14)	Software	375,000 Preferred Stock Warrants		242	464
Visage Mobile, Inc. (14)	Software	1,692,047 Preferred Stock Warrants		19	2
Weblinc Corporation (2)(14)	Software	195,122 Preferred Stock Warrants		42	42
xAd, Inc. (2)(14)	Software			177	177

		4,343,350 Preferred Stock Warrants		
Total Non-Affiliate Warrants — Technology			3,962	6,170
Non-Affiliate Warrants — Cleantech — 0.1% (8)				
Renmatix, Inc. (14)	Alternative Energy	53,022 Preferred Stock Warrants	68	—
Tigo Energy, Inc. (2)(14)	Energy Efficiency	804,604 Preferred Stock Warrants	100	117
Total Non-Affiliate Warrants — Cleantech			168	117
Non-Affiliate Warrants — Healthcare information and services — 0.4% (8)				
LifePrint Group, Inc. (2)(14)	Diagnostics	49,000 Preferred Stock Warrants	29	2
ProterixBio, Inc. (2)(14)	Diagnostics	3,156 Common Stock Warrants	54	—
Singulex, Inc. (14)	Other Healthcare	294,231 Preferred Stock Warrants	44	44
Verity Solutions Group, Inc. (14)	Other Healthcare	300,360 Preferred Stock Warrants	100	62
Watermark Medical, Inc. (2)(14)	Other Healthcare	27,373 Preferred Stock Warrants	74	59
HealthEdge Software, Inc. (2)(14)	Software	110,644 Preferred Stock Warrants	46	46
Medsphere Systems Corporation (2)(14)	Software	7,097,792 Preferred Stock Warrants	60	208
Recondo Technology, Inc. (2)(14)	Software	556,796 Preferred Stock Warrants	95	207
Total Non-Affiliate Warrants — Healthcare information and services			502	628
Total Non-Affiliate Warrants			6,136	9,090
Non-Affiliate Other Investments — 5.7% (8)				
Espero Pharmaceuticals, Inc. (14)	Biotechnology	Royalty Agreement	5,300	4,700
ZetrOZ, Inc. (14)	Medical Device	Royalty Agreement	305	700
Vette Technology, LLC (14)	Data Storage	Royalty Agreement Due 4/18/2019	4,226	100
Triple Double Holdings, LLC (14)	Software	License Agreement	2,200	2,200
Total Non-Affiliate Other Investments			12,031	7,700
Non-Affiliate Equity — 1.0% (8)				
Insmed Incorporated (5)	Biotechnology	33,208 Common Stock	238	1,035
Revance Therapeutics, Inc.(5)	Biotechnology	5,125 Common Stock	73	183
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	13,082 Common Stock	83	49
SnagAJob.com, Inc. (14)	Consumer-related Technologies	82,974 Common Stock	9	83
TruSignal, Inc. (14)	Software	32,637 Common Stock	41	41

Total Non-Affiliate Equity				444	1,391
Total Non-Affiliate Portfolio Investment Assets				$ 219,303	$218,600
Affiliate Investments — 2.6% (8)					
Affiliate Debt Investments — Technology — 2.5% (8)					
Decisyon, Inc. (14)	Software	Term Loan (13.678% cash (Libor + 12.308%; Floor 12.50%), 8.00% ETP, Due 1/1/20)	$ 1,523	$ 1,522	$1,449
		Term Loan (13.678% cash (Libor + 12.308%; Floor 12.50%), 8.00% ETP, Due 1/1/20)	833	771	735
		Term Loan (12.02% PIK, Due 4/15/19) (13)	250	250	238
		Term Loan (12.03% PIK, Due 4/15/19) (13)	250	250	238
		Term Loan (12.24% PIK, Due 4/15/19) (13)	750	750	714
Total Affiliate Debt Investments — Technology				3,543	3,374

See Notes to Consolidated Financial Statements

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Horizon Technology Finance Corporation and Subsidiaries

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December 31, 2017

(Dollars in thousands)

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

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

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

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

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

(5) Portfolio company is a public company.

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

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

(8) Value as a percent of net assets.

(9) The Company did not have any non-qualifying assets under Section 55(a) of the 1940 Act as of December 31, 2017. Under the 1940 Act, the Company may not acquire any non-qualifying assets unless, at the time the acquisition is made, qualifying assets represent at least 70% of the Company's total assets.

(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 as of December 31, 2017.

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

(13) Debt investment has a PIK feature.

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

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Organization

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

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

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

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

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

Note 2. Basis of presentation and significant accounting policies

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

Principles of consolidation

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

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Use of estimates

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

Fair value

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

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

See Note 6 for additional information regarding fair value.

Segments

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

Investments

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

Interest on debt investments is accrued and included in income based on contractual rates applied to principal amounts outstanding. Interest income is determined using a method that results in a level rate of return on principal amounts outstanding. Generally, when a debt investment becomes 90 days or more past due, or if the Company otherwise does not expect to receive interest and principal repayments, the debt investment is placed on non-accrual status and the recognition of interest income may be discontinued. Interest payments received on non-accrual debt investments may be recognized as income, on a cash basis, or applied to principal depending upon management's judgment at the time the debt investment is placed on non-accrual status. As of September 30, 2018, there were no debt investments on non-accrual status. As of December 31, 2017, there was one investment on non-accrual status with a cost of $3.0 million and a fair value of $2.9 million. For the three and nine months ended September 30, 2018, the Company did not recognize any interest income from debt investments on non-accrual status. For the three and nine months ended September 30, 2017, the Company recognized $0.1 million in interest income from debt investments on non-accrual status.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

Certain debt investment agreements also require the borrower to make an ETP, that is accrued into interest receivable and taken into income over the life of the debt investment to the extent such amounts are expected to be collected. The Company will generally cease accruing the income if there is insufficient value to support the accrual or the Company does not expect the borrower to be able to pay the ETP when due. The proportion of the Company's total investment income that resulted from the portion of ETPs not received in cash for the three months ended September 30, 2018 and 2017 was 7.6% and 4.8%, respectively. The proportion of the Company's total investment income that resulted from the portion of ETPs not received in cash for the nine months ended September 30, 2018 and 2017 was 7.3% and 6.6%, respectively.

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

Distributions from HSLFI are evaluated at the time of distribution to determine if the distribution should be recorded as dividend income or a return of capital. Generally, the Company will not record distributions from HSLFI as dividend income unless there are sufficient accumulated tax-basis earnings and profit in HSLFI prior to distribution. Distributions that are classified as a return of capital are recorded as a reduction in the cost basis of the investment. For the three months ended September, 30, 2018, HSLFI distributed $0.1 million as dividend income to the Company.

For the period June 1, 2018 (the commencement of HSLFI's operations) through September 30, 2018, HSLFI distributed $0.1 million as dividend income to the Company.

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

Debt issuance costs

Debt issuance costs are fees and other direct incremental costs incurred by the Company in obtaining debt financing from its lenders and issuing debt securities. The unamortized balance of debt issuance costs as of September 30, 2018 and December 31, 2017 was $2.3 million and $2.1 million, respectively. These amounts are amortized and included in interest expense in the consolidated statements of operations over the life of the borrowings. The accumulated amortization balances as of September 30, 2018 and December 31, 2017 were $2.3 million and $1.8 million, respectively. The amortization expense for the three months ended September 30, 2018 and 2017 was $0.1 million. The amortization expense for the nine months ended September 30, 2018 and 2017 was $0.4 million.

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Notes to Consolidated Financial Statements

Income taxes

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

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

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

Company's income tax returns for the 2017, 2016 and 2015 tax years remain subject to examination by U.S. federal and state tax authorities.

Distributions

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

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

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Stock Repurchase Program

On April 27, 2018, the Board extended a previously authorized stock repurchase program which allows the Company to repurchase up to $5.0 million of its common stock at prices below the Company's net asset value per share as reported in its most recent consolidated financial statements. Under the repurchase program, the Company may, but is not obligated to, repurchase shares of its outstanding common stock in the open market or in privately negotiated transactions from time to time. Any repurchases by the Company will comply with the requirements of Rule 10b-18 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and any applicable requirements of the 1940 Act. Unless extended by the Board, the repurchase program will terminate on the earlier of June 30, 2019 or the repurchase of $5.0 million of the Company's common stock. During the three and nine months ended September 30, 2018, the Company did not make any repurchases of its common stock. During the three and nine months ended September 30, 2017, the Company repurchased 5,923 shares of its common stock at an average price of $9.97 on the open market at a total cost of $0.1 million. From the inception of the stock repurchase program through September 30, 2018, the Company repurchased 167,465 shares of its common stock at an average price of $11.22 on the open market at a total cost of $1.9 million.

Transfers of financial assets

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

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

Recently adopted accounting pronouncement

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

Note 3. Related party transactions

Investment Management Agreement

The Investment Management Agreement was reapproved by the Board on July 27, 2018. On October 30, 2018, the shareholders, at a special meeting of the stockholders, approved a new Investment Management Agreement to replace the existing Investment Management Agreement which was terminated due to a change of control of the Advisor. Under the terms of the Investment Management Agreement, the Advisor determines the composition of the Company’s investment portfolio, the nature and timing of the changes to the investment portfolio and the manner of implementing such changes; identifies, evaluates and negotiates the structure of the investments the Company makes (including performing due diligence on the Company’s prospective portfolio companies); and closes, monitors and administers the investments the Company makes, including the exercise of any voting or consent rights.

The Advisor’s services under the Investment Management Agreement are not exclusive to the Company, and the Advisor is free to furnish similar services to other entities so long as its services to the Company are not impaired. The Advisor is a registered investment adviser with the 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.

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

The base management fee payable at September 30, 2018 and December 31, 2017 was $0.4 million. The base management fee expense was $1.2 million and $0.9 million for the three months ended September 30, 2018 and 2017, respectively. The base management fee expense was $3.4 million and $2.8 million for the nine months ended September 30, 2018 and 2017, 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 hurdle rate of 1.75% (which is 7.00% annualized) of the Company's net assets at the end of the immediately preceding calendar quarter, subject to a "catch-up" provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, the Advisor receives no incentive fee until the Pre-Incentive Fee Net Investment Income equals the hurdle rate of 1.75%, but then receives, as a "catch-up," 100.00% of the Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.1875% quarterly (which is 8.75% annualized). The effect of this “catch-up” provision is that, if Pre-Incentive Fee Net Investment Income exceeds 2.1875% in any calendar quarter, the Advisor will receive 20.00% of the Pre-Incentive Fee Net Investment Income as if the hurdle rate did not apply.

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

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

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

On March 6, 2018, the Advisor irrevocably waived the receipt of incentive fees related to the amounts previously deferred that it may be entitled to receive under the Investment Management Agreement for the period commencing on January 1, 2018 and ending on December 31, 2018. Such waived incentive fees will not be subject to recoupment. During the three and nine months ended September 30, 2018, the Advisor waived performance based incentive fees of

$0.4 million and $0.6 million, respectively, which the Advisor would have otherwise earned.

The net performance based incentive fee expense was $0.9 million and $0.3 million for the three months ended September 30, 2018 and 2017, respectively. The incentive fee on Pre-Incentive Fee Net Investment Income was subject to the Incentive Fee Cap and Deferral Mechanism for the three months ended September 30, 2017, which resulted in $0.6 million of reduced expense and additional net investment income. The net performance based incentive fee expense was $2.2 million and $1.1 million for the nine months ended September 30, 2018 and 2017, respectively. The incentive fee on Pre-Incentive Fee Net Investment Income was subject to the Incentive Fee Cap and Deferral Mechanism for the nine months ended September 30, 2017, which resulted in $1.3 million of reduced expense and additional net investment income. The performance based incentive fee payable as of September 30, 2018 and December 31, 2017 was $0.9 million and $0.5 million, respectively. The entire incentive fee payable as of September 30, 2018 and December 31, 2017 represented part one of the incentive fee.

Administration Agreement

The Company entered into an administration agreement (the “Administration Agreement”) with the Advisor to provide administrative services to the Company. For providing these services, facilities and personnel, the Company reimburses the Advisor for the Company’s allocable portion of overhead and other expenses incurred by the Advisor in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions and the Company’s allocable portion of the costs of compensation and related expenses of the Company’s Chief Financial Officer and Chief Compliance Officer and their respective staffs. The administrative fee expense was $0.2 million for the three months ended September 30, 2018 and 2017. The administrative fee expense was $0.5 million and $0.6 million for the nine months ended September 30, 2018 and 2017, respectively.

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Note 4. Investments

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

	September 30, 2018		December 31, 2017	
	Cost	Fair Value	Cost	Fair Value
	(In thousands)			
Investments				
Debt	$215,766	$215,144	$204,235	$203,793
Warrants	6,848	10,426	6,182	9,090
Other	11,862	7,660	12,031	7,700
Equity	1,719	2,114	629	1,516
Equity interest in HSLFI	4,413	4,413	—	—
Total investments	$240,608	$239,757	$223,077	$222,099

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

	September 30, 2018		December 31, 2017	
	Cost	Fair Value	Cost	Fair Value
	(In thousands)			
Life Science				
Biotechnology	$33,913	$34,194	$21,249	$22,694
Drug Delivery	1,579	1,484	6,918	6,860
Medical Device	43,720	44,125	37,374	37,306
Technology				
Communications	27,083	27,989	19,823	19,773
Consumer-Related	336	1,279	11,359	12,314
Data Storage	4,183	60	4,226	100
Internet and Media	38,692	38,530	39,768	39,763
Materials	8,266	8,607	9,511	9,772
Networking	—	—	66	—
Power Management	715	716	1,262	1,260

Semiconductors	3,849	4,362	3,823	4,256
Software	49,734	49,774	58,516	58,744
Cleantech				
Alternative Energy	68	—	68	—
Energy Efficiency	100	113	100	117
Healthcare Information and Services				
Diagnostics	71	2	83	2
Other	218	176	218	165
Software	23,668	23,933	8,713	8,973
Investment funds				
HSLFI	4,413	4,413	—	—
Total investments	$240,608	$239,757	$223,077	$222,099

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Horizon Secured Loan Fund I LLC

On June, 1 2018, the Company and Arena formed a joint venture, HSLFI, to make investments, either directly or indirectly through subsidiaries, primarily in secured loans to development-stage companies in the technology, life science, healthcare information and services and cleantech industries. HSLFI was formed as a Delaware limited liability company and is not consolidated by either the Company or Arena for financial reporting purposes. Investments held by HSLFI are measured at fair value using the same valuation methodology as described in Note 6. As of September 30, 2018, HSLFI had total assets of $9.8 million. As of September 30, 2018, HSLFI had no investments on non-accrual status. As of September 30, 2018, HSLFI's portfolio consisted of debt investments in one portfolio company. HSLFI invests in portfolio companies in the same industries in which the Company may directly invest.

The Company provides capital (in the form of cash or securities in portfolio companies) to HSLFI in exchange for limited liability company equity interests in HSLFI. As of September 30, 2018, the Company and Arena each owned 50.0% of the equity interests of HSLFI. The Company's investment in HSLFI consisted of an equity contribution of $4.3 million as of September 30, 2018. As of September 30, 2018, the Company had commitments to fund equity interests in HSLFI of $25.0 million, of which $20.7 million was unfunded.

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

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

In addition, on June 1, 2018, HSLFI entered into a sale and servicing agreement with HFI, as Issuer, and the Company, as Servicer, pursuant to which HSLFI will sell or contribute to HFI certain secured loans made to certain portfolio companies. HFI entered into a Note Funding Agreement with several entities owned or affiliated with New York Life Insurance Company ("Noteholders") for an aggregate purchase price of up to $100.0 million, with an accordion feature of up to $200.0 million at the mutual discretion and agreement of HSLFI and the Noteholders. The Note Funding Agreement has an investment period that ends on June 1, 2020, if not extended, followed by a five year amortization period and a scheduled final payment date of June 10, 2025, subject to any extension of the investment period. Any notes issued by HFI will be collateralized by all investments held by HFI and permit an advance rate of up to 67% of the aggregate principal amount of eligible debt investments. The interest rate is based on the three year USD mid-market swap rate plus a margin of between 2.75% and 3.25% depending on the rating of the notes at the time the amount is borrowed. There were no advances made by the Noteholders as of September 30, 2018.

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The following table shows HSLFI's individual investments as of September 30, 2018:

Portfolio Company [1]	Sector	**Type of Investment** [2][3][4]	Principal Amount	Cost of **Investments**[5]	Fair **Value** [6]
		(Dollars in thousands)			
Debt Investments — Technology					
New Signature US, Inc. (7)	Software	Term Loan (10.60% cash (Libor + 8.50%; Floor 10.50%), 3.50% ETP, Due 7/1/21)	$ 8,250	$ 8,089	$ 8,089
Total Debt Investments — Technology				8,089	8,089
Warrant Investments — Technology					
BSI Platform Holdings, LLC (7)	Software	412,500 Preferred Stock Warrants		57	58
Total Warrant Investments — Technology				57	58
Total Portfolio Investment Assets				$ 8,146	$ 8,147

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

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

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

recognized as non-cash income until it is actually paid.

(4) Warrants are non-income producing.

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

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

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

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

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

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

	September 30, 2018 (In thousands)
Selected Statement of Assets and Liabilities Information	
Total investments at fair value (cost of $8,146)	$ 8,147
Cash and cash equivalents	236
Other assets	1,448
Total assets	$ 9,831
Other liabilities	$ 1,112
Total liabilities	1,112
Members' equity	8,719
Total liabilities and members' equity	$ 9,831

	For the three months ended, September 30, 2018	For the period June 1, 2018 through September 30, 2018
	(In thousands)	
Selected Statements of Operations Information		
Interest income on investments	$ 250	$ 255
Total expenses	$ 68	$ 90
Net investment income	$ 182	$ 165
Net unrealized appreciation on investments	$ 1	$ 1
Net increase in net assets resulting from operations	$ 183	$ 166

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Note 5. Transactions with affiliated companies

A non-controlled affiliated company is generally a portfolio company in which the Company owns 5% or more of such portfolio company's voting securities but not more than 25% of such portfolio company's voting securities. Transactions related to investments in non-controlled affiliated companies for the nine months ended September 30, 2018 were as follows:

	Nine months ended September 30, 2018								
Portfolio Company	Fair value at December 31, 2017	Purchases	Sales	Transfers in/(out) at fair value	Discount accretion	Net unrealized gain/(loss)	Fair value at September 30, 2018	Net realized gain/(loss)	Interest income
	(In thousands)								
Decisyon, Inc.	$1,449	$ —	$ —	$ —	$ —	$ —	$ 1,449	$ —	$ 203
	735	—	—	—	18	(1)	752	—	124
	238	—	—	—	—	—	238	—	27
	238	—	—	—	—	—	238	—	27
	714	—	—	—	—	—	714	—	80
	—	300	—	—	—	(14)	286	—	10
	—	200	—	—	—	(10)	190	—	2
	125	—	—	—	—	(50)	75	—	—
StereoVision, Inc.	—	2,798	—	—	—	—	2,798	—	55
	—	791	—	—	—	—	791	—	—
Total Non-controlled Affiliates	$3,499	$ 4,089	$ —	$ —	$ 18	$ (75)	$ 7,531	$ —	$ 528

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

	Year ended December 31, 2017	
	Purchases	Sales

Portfolio Company	Fair value at December 31, 2016 (In thousands)	Transfers in at fair value	Discount accretion	Net unrealized gain (loss)	Fair value at December 31, 2017	Net realized gain (loss)	Interest income
Decisyon, Inc. [1]	$—$ —	$ —$ 1,440	$ —	$ 9	$ 1,449	$ —	$ 122
	— —	— 715	16	4	735	—	63
	— —	— 237	—	1	238	—	8
	— —	— 237	—	1	238	—	8
	— 750	— —	—	(36)	714	—	24
	— —	— 125	—	—	125	—	—
Total Non-controlled Affiliates	$—$ 750	$ —$ 2,754	$ 16	$ (21)	$ 3,499	$ —	$ 225

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

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

	Nine months ended September 30, 2018								
Portfolio Company	Fair value at December 31, 2017	Purchases	Sales	Transfers in/(out) at fair value	Discount accretion	Net unrealized gain/(loss)	Fair value at September 30, 2018	Net realized gain/(loss)	Dividend income
	(In thousands)								
HSLFI[(1)]	$ —	$ 4,413	$ —	$ —	$ —	$ —	$ 4,413	$ —	$ 83
Total Controlled Affiliates	$ —	$ 4,413	$ —	$ —	$ —	$ —	$ 4,413	$ —	$ 83

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

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

Note 6. Fair value

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

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

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

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

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

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

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

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

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

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

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

- 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.

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

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

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

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

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

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

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

September 30, 2018

Investment Type	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range	Weighted Average
(Dollars in thousands, except per share data)					
Debt investments	$215,144	Discounted Expected Future Cash Flows	Hypothetical Market Yield	10% – 25%	13%
Warrant investments	8,481	Black-Scholes Valuation Model	Price Per Share	$0.00 – $980.00	$42.05
			Average Industry Volatility	20%	20%
			Marketability Discount	20%	20%
			Estimated Time to Exit	1 to 5 years	3 years
	899	Estimated Proceeds	Price Per Share	$0.92	$0.92
Other investments	7,660	Multiple Probability Weighted Cash Flow Model	Discount Rate	18% – 25%	18%
			Probability Weighting	0% – 100%	36%
Equity investments	1,289	Last Equity Financing	Price Per Share	$0.00 – $2.24	$0.80
Total Level 3 investments	$233,473				

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

December 31, 2017

Investment Type	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range	Weighted Average

(Dollars in thousands, except per share data)

Debt investments	$200,893	Discounted Expected Future Cash Flows	Hypothetical Market Yield	10% – 25%	13%
	2,900	Liquidation Scenario	Discount Rate	18%	18%
			Marketability Discount	20%	20%
			Uncertainty Discount	20%	20%
Warrant investments	7,371	Black-Scholes Valuation Model	Price Per Share	$0.00 – $22.38	$3.69
			Average Industry Volatility	20%	20%
			Marketability Discount	20%	20%
			Estimated Time to Exit	1 to 5 years	3 years
	2	Expected Proceeds	Price Per Share	$0.001	$0.001
Other investments	7,700	Multiple Probability Weighted Cash Flow Model	Discount Rate	18% – 25%	19%
			Probability Weighting	0% – 100%	36%
Equity investments	249	Last Equity Financing	Price Per Share	$0.00 – $1.26	$0.54
Total Level 3 investments	$219,115				

Borrowings: The carrying amount of borrowings under the Company’s revolving credit facility (the “Key Facility”) with KeyBank National Association (“Key”) approximates fair value due to the variable interest rate of the Key Facility and is categorized as Level 2 within the fair value hierarchy described above. Additionally, the Company considers its creditworthiness in determining the fair value of such borrowings. The fair value of the fixed-rate 2022 Notes (as defined in Note 7) is based on the closing public share price on the date of measurement. On September 30, 2018, the closing price of the 2022 Notes on the New York Stock Exchange was $25.52 per note, or $38.2 million. Therefore, the Company has categorized this borrowing as Level 1 within the fair value hierarchy described above.

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

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The following tables detail the assets that are carried at fair value and measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	September 30, 2018			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Debt investments	$—	$—	$215,144	$215,144
Warrant investments	—	1,046	9,380	10,426
Other investments	—	—	7,660	7,660
Equity investments	825	—	1,289	2,114
Equity interest in HSLFI[1]	—	—	—	4,413
Total investments	$825	$1,046	$233,473	$239,757

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

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Debt investments	$—	$—	$203,793	$203,793
Warrant investments	—	1,717	7,373	9,090
Other investments	—	—	7,700	7,700
Equity investments	1,267	—	249	1,516
Total investments	$1,267	$1,717	$219,115	$222,099

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the three months ended September 30, 2018:

Three Months Ended September 30, 2018

	Debt Investments (In thousands)	Warrant Investments	Equity Investments	Other Investments	Total
Level 3 assets, beginning of period	$203,459	$ 7,729	$ 1,215	$ 7,700	$220,103
Purchase of investments	24,200	—	—	—	24,200
Warrants and equity received and classified as Level 3	—	618	74	—	692
Principal payments received on investments	(12,168)	—	—	(33)	(12,201)
Proceeds from sale of investments	(3)	(291)	—	—	(294)
Net realized (loss) gain on investments	(17)	82	—	—	65
Unrealized (depreciation) appreciation included in earnings	(20)	1,242	—	(7)	1,215
Other	(307)	—	—	—	(307)
Level 3 assets, end of period	$215,144	$ 9,380	$ 1,289	$ 7,660	$233,473

The Company’s transfers between levels are recognized at the end of each reporting period. During the three months ended September 30 2018, there were no transfers between levels.

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The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the three months ended September 30, 2017:

	Three Months Ended September 30, 2017				
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	Total
	(In thousands)				
Level 3 assets, beginning of period	$164,895	$ 6,107	$ 208	$ 5,900	$177,110
Purchase of investments	18,321	—	—	—	18,321
Warrants and equity received and classified as Level 3	—	307	—	—	307
Principal payments received on investments	(19,778)	—	—	(24)	(19,802)
Net realized loss on investments	(3)	(426)	—	—	(429)
Unrealized (depreciation) appreciation included in earnings	(1,936)	726	—	24	(1,186)
Other	(207)	—	—	—	(207)
Level 3 assets, end of period	$161,292	$ 6,714	$ 208	$ 5,900	$174,114

The Company’s transfers between levels are recognized at the end of each reporting period. During the three months ended September 30, 2017, there were no transfers between levels.

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the nine months ended September 30, 2018:

	Nine Months Ended September 30, 2018				
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	Total
	(In thousands)				
Level 3 assets, beginning of period	$203,793	$ 7,373	$ 249	$ 7,700	$219,115
Purchase of investments	62,246	—	—	—	62,246
Warrants and equity received and classified as Level 3	—	1,030	1,090	—	2,120
Principal payments received on investments	(46,334)	—	—	(169)	(46,503)

Proceeds from sale of investments	(3,064)	(296)	—	—	(3,360)
Net realized loss on investments	(32)	(205)	—	—	(237)
Unrealized (depreciation) appreciation included in earnings	(180)	1,478	(50)	129	1,377
Other	(1,285)	—	—	—	(1,285)
Level 3 assets, end of period	$215,144	$ 9,380	$ 1,289	$ 7,660	$233,473

The Company’s transfers between levels are recognized at the end of each reporting period. During the nine months ended September 30 2018, there were no transfers between levels.

The change in unrealized appreciation included in the consolidated statement of operations attributable to Level 3 investments still held at September 30, 2018 includes $0.2 million in unrealized depreciation on debt and other investments, $1.3 million in unrealized appreciation on warrant investments and $0.05 million in unrealized depreciation on equity investments.

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The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the nine months ended September 30, 2017:

	Nine Months Ended September 30, 2017				
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	Total
	(In thousands)				
Level 3 assets, beginning of period	$186,186	$ 5,857	$ 268	$ 600	$192,911
Purchase of investments	66,311	—	—	—	66,311
Warrants and equity received and classified as Level 3	—	1,374	—	—	1,374
Principal payments received on investments	(79,961)	—	—	(101)	(80,062)
Proceeds from sale of investments	—	(1,537)	—	—	(1,537)
Net realized (loss) gain on investments	(11,162)	631	—	—	(10,531)
Unrealized appreciation (depreciation) included in earnings	6,249	389	(60)	101	6,679
Transfer from debt investments to other investments	(5,300)	—	—	5,300	—
Other	(1,031)	—	—	—	(1,031)
Level 3 assets, end of period	$161,292	$ 6,714	$ 208	$ 5,900	$174,114

The Company's transfers between levels are recognized at the end of each reporting period. During the nine months ended September 30, 2017, there were no transfers between levels.

The change in unrealized appreciation included in the consolidated statement of operations attributable to Level 3 investments still held at September 30, 2017 includes $4.5 million in unrealized depreciation on debt and other investments, $0.01 million in unrealized depreciation on warrant investments and $0.01 million in unrealized appreciation on equity investments.

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

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

As of September 30, 2018 and December 31, 2017, all of the balances of the Company’s financial instruments were recorded at fair value, except for the Company’s 2022 Notes, as previously described.

Off-balance-sheet instruments

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

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Note 7. Borrowings

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

	September 30, 2018			December 31, 2017		
	Total Commitment	Balance Outstanding	Unused Commitment	Total Commitment	Balance Outstanding	Unused Commitment
			(In thousands)			
Key Facility	$100,000	$ 76,000	$24,000	$95,000	$ 58,000	$ 37,000
2022 Notes	37,375	37,375	—	37,375	37,375	—
Total before debt issuance costs	137,375	113,375	24,000	132,375	95,375	37,000
Unamortized debt issuance costs attributable to term borrowings	—	(1,091)	—	—	(1,300)	—
Total borrowings outstanding, net	$137,375	$ 112,284	$24,000	$132,375	$ 94,075	$ 37,000

Currently, with certain limited exceptions, as a BDC, the Company is only allowed to borrow amounts such that the Company's asset coverage, as defined in the 1940 Act, is at least 200% after such borrowings. As of September 30, 2018, the Company's asset coverage for borrowed amounts was 219%.

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

The Company entered into the Key Facility with Key effective November 4, 2013. The Key Facility has an accordion feature which allows for an increase in the total loan commitment to $150 million from the $100 million commitment. The Key Facility is collateralized by all debt investments and warrants held by Credit II and permits an advance rate of up to 50% of eligible debt investments held by Credit II. The Key Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the debt investments securing the Key Facility to certain criteria for qualified debt investments and includes portfolio company concentration limits as defined in the related loan agreement. The Key Facility has a revolving period that extends to April 6, 2021, followed by a two-year amortization period and is scheduled to mature on April 6, 2023. The interest rate is based upon the one-month LIBOR, plus a spread of 3.25%, with a LIBOR floor of 0.75%. The LIBOR rate was 2.26% and 1.56% on September 30, 2018 and December 31, 2017, respectively. The average interest rate for the three months ended September 30, 2018 and 2017 was 5.34% and 4.48%, respectively. The average interest rate for the nine months ended September 30, 2018 and 2017 was 5.12% and 4.26%, respectively. The Key Facility requires the payment of an unused line fee in an amount equal to 0.50% of any unborrowed amount available under the facility annually. As of September 30, 2018 and December 31, 2017, the Company had borrowing capacity under the Key Facility of $24.0 million and $37.0 million, respectively. At September 30, 2018 and December 31, 2017, $14.2 million and $23.6 million, respectively, was available, subject to existing terms and advance rates.

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

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

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

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

The balance of unfunded commitments to extend credit was $35.0 million and $33.3 million as of September 30, 2018 and December 31, 2017, respectively. Commitments to extend credit consist principally of the unused portions of commitments that obligate the Company to extend credit, such as revolving credit arrangements or similar transactions. These commitments are often subject to financial or non-financial milestones and other conditions to borrow that must be achieved before the commitment can be drawn. In addition, the commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

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The following table provides the Company’s unfunded commitments by portfolio company as of September 30, 2018:

	September 30, 2018	
	Principal Balance	Fair Value of Unfunded Commitment Liability
	(In thousands)	
Aerin Medical, Inc.	$ 5,000	$ 63
CSA Medical, Inc.	9,000	104
Espero Biopharma, Inc.	10,000	100
HealthEdge Software, Inc.	3,750	37
MacuLogix, Inc.	3,750	90
New Signature US, Inc.(1)	2,500	