UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2020

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 ☒ 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	☒
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 ☒

The number of shares of the registrant’s common stock traded under the symbol “HRZN” on the Nasdaq Global Select Market, $0.001 par value per share, outstanding as of November 3, 2020 was 18,367,587.

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Ticker symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	HRZN	The Nasdaq Stock Market LLC
6.25% Notes due 2022	HTFA	The New York Stock Exchange

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

	September 30, 2020 (Unaudited)	December 31, 2019
Assets		
Non-affiliate investments at fair value (cost of $321,034 and $295,256, respectively)	$ 304,359	$ 294,304
Non-controlled affiliate investments at fair value (cost of $6,822 and $6,891, respectively) (Note 5)	7,391	8,597
Controlled affiliate investments at fair value (cost of $16,684) (Note 5)	—	16,650
Total investments at fair value (cost of $327,856 and $318,831, respectively) (Note 4)	311,750	319,551
Cash	34,130	6,465
Investments in money market funds	22,735	9,787
Restricted investments in money market funds	801	1,133
Interest receivable	6,229	5,530
Other assets	1,913	1,535
Total assets	$ 377,558	$ 344,001
Liabilities		
Borrowings (Note 7)	$ 163,689	$ 152,050
Distributions payable	5,510	4,669
Base management fee payable (Note 3)	510	519
Incentive fee payable (Note 3)	1,465	1,613
Other accrued expenses	1,213	1,095
Total liabilities	172,387	159,946
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, 2020 and December 31, 2019	—	—
Common stock, par value $0.001 per share, 100,000,000 shares authorized, 18,533,378 and 15,730,755 shares issued and 18,365,913 and 15,563,290 shares outstanding as of September 30, 2020 and December 31, 2019, respectively	19	16
Paid-in capital in excess of par	260,649	226,660
Distributable earnings	(55,497)	(42,621)
Total net assets	205,171	184,055
Total liabilities and net assets	$ 377,558	$ 344,001
Net asset value per common share	$ 11.17	$ 11.83

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Operations (Unaudited)
(Dollars in thousands, except share and per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Investment income				
Interest income on investments				
Interest income on non-affiliate investments	$ 10,974	$ 8,974	$ 32,286	$ 25,429
Interest income on affiliate investments	175	210	532	645
Total interest income on investments	11,149	9,184	32,818	26,074
Fee income				
Prepayment fee income on non-affiliate investments	1,156	639	1,911	1,373
Revenue based payments on non-affiliate investments(1)	—	1,050	—	1,080
Fee income on non-affiliate investments	23	37	1,112	382
Fee income on affiliate investments	3	4	10	18
Total fee income	1,182	1,730	3,033	2,853
Dividend income				
Dividend income on controlled affiliate investments	—	461	118	1,223
Total dividend income	—	461	118	1,223
Total investment income	12,331	11,375	35,969	30,150
Expenses				
Interest expense	2,607	2,046	7,331	6,209
Base management fee (Note 3)	1,616	1,394	4,865	4,055
Performance based incentive fee (Note 3)	1,465	1,443	4,212	5,352
Administrative fee (Note 3)	234	212	740	631
Professional fees	247	279	1,095	1,045
General and administrative	302	228	877	688
Total expenses	6,471	5,602	19,120	17,980
Performance based incentive fee waived (Note 3)	—	—	—	(1,848)
Net expenses	6,471	5,602	19,120	16,132
Net investment income	5,860	5,773	16,849	14,018
Net realized and unrealized loss on investments				
Net realized gain (loss) on non-affiliate investments	1,178	(424)	3,957	(3,871)
Net realized loss on controlled affiliate investments	—	—	(12)	—
Net realized gain (loss) on investments	1,178	(424)	3,945	(3,871)
Net unrealized (depreciation) appreciation on non-affiliate investments	(10,629)	(129)	(15,435)	620
Net unrealized appreciation (depreciation) on non-controlled affiliate investments	341	—	(1,134)	2,019
Net unrealized depreciation on controlled affiliate investments	—	(14)	(258)	(17)
Net unrealized (depreciation) appreciation on investments	(10,288)	(143)	(16,827)	2,622
Net realized and unrealized loss on investments	(9,110)	(567)	(12,882)	(1,249)
Net (decrease) increase in net assets resulting from operations	$ (3,250)	$ 5,206	$ 3,967	$ 12,769
Net investment income per common share	$ 0.34	$ 0.42	$ 0.98	$ 1.08
Net (decrease) increase in net assets per common share	$ (0.19)	$ 0.38	$ 0.23	$ 0.98
Distributions declared per share	$ 0.30	$ 0.30	$ 0.95	$ 0.90
Weighted average shares outstanding	17,245,662	13,816,082	17,111,359	13,016,839

(1) Revenue Based Payments consist of payments made to the Company by a portfolio company based upon a percentage of such portfolio company's revenue. Such payments were made in addition to the portfolio company's regularly scheduled payments of principal and interest.

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	Distributable	Total Net
	Shares	Amount	Par	Earnings	Assets
Balance at June 30, 2019	13,542,873	$ 14	$ 202,855	(45,733)	$ 157,136
Issuance of common stock, net of offering costs	865,728	1	10,106	—	10,107
Net increase in net assets resulting from operations, net of excise tax:					
Net investment income, net of excise tax	—	—	—	5,773	5,773
Net realized loss on investments	—	—	—	(424)	(424)
Net unrealized depreciation on investments	—	—	—	(143)	(143)
Issuance of common stock under dividend reinvestment plan	3,874	—	46	—	46
Distributions declared	—	—	—	(4,351)	(4,351)
Balance at September 30, 2019	14,412,475	15	213,007	(44,878)	168,144
Balance at June 30, 2020	17,291,770	17	247,924	(46,709)	201,232
Issuance of common stock, net of offering costs	1,069,259	2	12,666	—	12,668
Net decrease in net assets resulting from operations, net of excise tax:					
Net investment income, net of excise tax	—	—	—	5,860	5,860
Net realized gain on investments	—	—	—	1,178	1,178
Net unrealized depreciation on investments	—	—	—	(10,288)	(10,288)
Issuance of common stock under dividend reinvestment plan	4,884	—	59	—	59
Distributions declared	—	—	—	(5,538)	(5,538)
Balance at September 30, 2020	18,365,913	$ 19	$ 260,649	$ (55,497)	$ 205,171

	Common Stock		Paid-In Capital in Excess of	Distributable	Total Net
	Shares	Amount	Par	Earnings	Assets
Balance at December 31, 2018	11,535,129	$ 12	$ 179,616	$ (45,371)	$ 134,257
Issuance of common stock, net of offering costs	2,865,728	3	33,251	—	33,254
Net increase in net assets resulting from operations, net of excise tax:					
Net investment income, net of excise tax	—	—	—	14,018	14,018
Net realized loss on investments	—	—	—	(3,871)	(3,871)
Net unrealized appreciation on investments	—	—	—	2,622	2,622
Issuance of common stock under dividend reinvestment plan	11,618	—	140	—	140
Distributions declared	—	—	—	(12,276)	(12,276)
Balance at September 30, 2019	14,412,475	15	213,007	(44,878)	168,144
Balance at December 31, 2019	15,563,290	16	226,660	(42,621)	184,055
Issuance of common stock, net of offering costs	2,787,160	3	33,813	—	33,816
Net increase in net assets resulting from operations, net of excise tax:					
Net investment income, net of excise tax	—	—	—	16,849	16,849
Net realized gain on investments	—	—	—	3,945	3,945
Net unrealized depreciation on investments	—	—	—	(16,827)	(16,827)
Issuance of common stock under dividend reinvestment plan	15,463	—	176	—	176
Distributions declared	—	—	—	(16,843)	(16,843)
Balance at September 30, 2020	18,365,913	$ 19	$ 260,649	$ (55,497)	$ 205,171

See Notes to Consolidated Financial Statements

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

	For the nine months ended September 30,	
	2020	**2019**
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$ 3,967	$ 12,769
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Amortization of debt issuance costs	782	522
Net realized (gain) loss on investments	(3,945)	3,871
Net unrealized depreciation (appreciation) on investments	16,827	(2,622)
Purchase of investments	(121,648)	(135,284)
Principal payments received on investments	111,129	101,117
Proceeds from sale of investments	8,200	2,439
Investment in controlled affiliate investments	—	(589)
Distributions from controlled affiliate investment	—	715
Dividends from controlled affiliate investment	(118)	(1,223)
Warrants received in settlement of fee income	(978)	—
Changes in assets and liabilities:		
Decrease (increase) in interest receivable	519	(507)
Increase in end-of-term payments	(1,218)	(493)
Decrease in unearned income	(1,666)	(1,491)
Decrease (increase) in other assets	119	(516)
Increase (decrease) in other accrued expenses	118	(115)
(Decrease) increase in base management fee payable	(9)	48
(Decrease) increase in incentive fee payable	(148)	452
Net cash provided by (used in) operating activities	11,931	(20,907)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of offering costs	33,816	33,254
Proceeds from Asset- Backed Notes	—	100,000
Advances on credit facilities	58,250	49,500
Repayment of credit facilities	(47,000)	(125,000)
Debt issuance costs	(890)	(1,808)
Distributions paid	(15,826)	(11,272)
Net cash provided by financing activities	28,350	44,674
Net increase in cash, cash equivalents and restricted cash	40,281	23,767
Cash, cash equivalents and restricted cash:		
Beginning of period	17,385	12,591
End of period	$ 57,666	$ 36,358
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 6,296	$ 5,801
Supplemental non-cash investing and financing activities:		
Warrant investments received and recorded as unearned income	$ 893	$ 1,675
Distributions payable	$ 5,510	$ 4,324
Acquisition of controlled affiliate investment	$ 16,498	$ —
End-of-term payments receivable	$ 5,118	$ 3,508
Non-cash income	$ 4,701	$ 2,798
Receivable resulting from sale of investment	$ —	$ 500

	Nine months ended September 30,	
	2020	**2019**
Cash	$ 34,130	$ 16,958
Investments in money market funds	22,735	18,199
Restricted investments in money market funds	801	1,201
Total cash, cash equivalents and restricted cash	$ 57,666	$ 36,358

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)
September 30, 2020
(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 — 148.4% (8)					
Non-Affiliate Debt Investments — 142.9% (8)					
Non-Affiliate Debt Investments — Life Science — 72.0% (8)					
Castle Creek Pharmaceuticals Holdings, Inc.(2)(12)	Biotechnology	Term Loan (9.30% cash (Libor + 7.50%; Floor 9.30%), 5.00% ETP, Due 3/1/24)	$ 5,000	$ 4,879	$ 4,879
		Term Loan (9.30% cash (Libor + 7.50%; Floor 9.30%), 5.00% ETP, Due 3/1/24)	5,000	4,933	4,933
		Term Loan (9.30% cash (Libor + 7.50%; Floor 9.30%), 5.00% ETP, Due 3/1/24)	5,000	4,933	4,933
		Term Loan (9.30% cash (Libor + 7.50%; Floor 9.30%), 5.00% ETP, Due 3/1/24)	5,000	4,933	4,933
Celsion Corporation (2)(5)(12)	Biotechnology	Term Loan (9.63% cash (Libor + 7.63%; Floor 9.63%), 5.50% ETP, Due 4/1/23)	2,500	2,474	2,474
		Term Loan (9.63% cash (Libor + 7.63%; Floor 9.63%), 5.50% ETP, Due 4/1/23)	2,500	2,523	2,482
Emalex Biosciences, Inc. (2)(12)	Biotechnology	Term Loan (9.75% cash (Libor + 7.90%; Floor 9.75%), 5.00% ETP, Due 12/1/23)	2,500	2,350	2,350
		Term Loan (9.75% cash (Libor + 7.90%; Floor 9.75%), 5.00% ETP, Due 12/1/23)	2,500	2,453	2,453
Encore Dermatology, Inc. (2)(12)(13)	Biotechnology	Term Loan (10.00% cash (Libor + 7.50%; Floor 10.00%), 4.00% ETP, Due 4/1/23)	5,078	5,034	2,402
		Term Loan (10.00% cash (Libor + 7.50%; Floor 10.00%), 4.00% ETP, Due 4/1/23)	5,000	4,957	2,403
		Term Loan (10.00% cash (Libor + 7.50%; Floor 10.00%), 4.00% ETP, Due 4/1/23)	5,000	4,943	2,395
Espero BioPharma, Inc. (2)(12)(13)	Biotechnology	Term Loan (12.00% cash (Libor + 9.25%; Floor 12.00%), 5.10% ETP, Due 8/15/20) (11)	5,053	5,053	2,322
		Term Loan (12.00% cash (Libor + 9.25%; Floor 12.00%), 5.10% ETP, Due 8/15/20) (11)	4,914	4,914	2,257
		Term Loan (12.00% cash (Libor + 9.25%; Floor 12.00%), Due 8/15/20) (11)	200	200	91
		Term Loan (12.00% cash (Libor + 9.25%; Floor 12.00%), Due 8/15/20) (11)	100	100	46
		Term Loan (12.00% cash (Libor + 9.25%; Floor 12.00%), Due 8/15/20) (11)	100	100	46
		Term Loan (12.00% cash (Libor + 9.25%; Floor 12.00%), Due 8/15/20) (11)	100	100	46
		Term Loan (12.00% cash (Libor + 9.25%; Floor 12.00%), Due 8/15/20) (11)	150	150	69
		Term Loan (12.00% cash (Libor + 9.25%; Floor 12.00%), Due 8/15/20) (11)	100	100	46
		Term Loan (12.00% cash (Libor + 9.25%; Floor 12.00%), Due 8/15/20) (11)	50	50	22
		Term Loan (12.00% cash (Libor + 9.25%; Floor 12.00%), Due 8/15/20) (11)	485	485	223
		Term Loan (12.00% cash (Libor + 9.25%; Floor 12.00%), Due 10/31/20)	70	70	32
LogicBio, Inc.(2)(5)(12)	Biotechnology	Term Loan (8.75% cash (Libor + 6.25%; Floor 8.75%), 4.50% ETP, Due 6/1/24)	5,000	4,975	4,975
Provivi, Inc. (2)(12)	Biotechnology	Term Loan (9.50% cash (Libor + 8.50%; Floor 9.50%), 5.50% ETP, Due 12/1/24)	5,000	4,757	4,757
		Term Loan (9.50% cash (Libor + 8.50%; Floor 9.50%), 5.50% ETP, Due 12/1/24)	5,000	4,907	4,907
vTv Therapeutics Inc. (2)(5)(12)	Biotechnology	Term Loan (10.50% cash (Libor + 10.00%; Floor 10.50%), 10.17% ETP, Due 1/1/21)	656	653	653
Titan Pharmaceuticals, Inc. (2)(5)(12)	Drug Delivery	Term Loan (9.50% cash (Libor + 8.40%; Floor 9.50%), 5.00% ETP, Due 6/1/22)	1,600	1,554	1,400
Bardy Diagnostics, Inc. (2)(12)	Medical Device	Term Loan (8.90% cash (Libor + 7.00%; Floor 8.90%), 5.00% ETP, Due 9/1/24)	5,000	4,939	4,939
		Term Loan (8.90% cash (Libor + 7.00%; Floor 8.90%), 5.00% ETP, Due 9/1/24)	5,000	4,939	4,939
		Term Loan (8.90% cash (Libor + 7.00%; Floor 8.90%), 5.00% ETP, Due 9/1/24)	1,000	988	988
		Term Loan (8.90% cash (Libor + 7.00%; Floor 8.90%), 5.00% ETP, Due 9/1/24)	1,000	988	988
		Term Loan (8.90% cash (Libor + 7.00%; Floor 8.90%), 5.00% ETP, Due 9/1/24)	1,000	988	988
		Term Loan (8.90% cash (Libor + 7.00%; Floor 8.90%), 5.00% ETP, Due 9/1/24)	1,000	988	988
		Term Loan (8.90% cash (Libor + 7.00%; Floor 8.90%), 5.00% ETP, Due 9/1/24)	1,000	988	988

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)
September 30, 2020
(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
Ceribell, Inc. (2)(12)	Medical Device	Term Loan (8.25% cash (Libor + 6.70%; Floor 8.25%), 5.50% ETP, Due 10/1/24)	5,000	4,874	4,874
		Term Loan (8.25% cash (Libor + 6.70%; Floor 8.25%), 5.50% ETP, Due 10/1/24)	5,000	4,939	4,939
Conventus Orthopaedics, Inc. (2)(12)	Medical Device	Term Loan (9.25% cash (Libor + 8.00%; Floor 9.25%), 9.17% ETP, Due 7/1/25)	5,198	5,134	5,134
		Term Loan (9.25% cash (Libor + 8.00%; Floor 9.25%), 9.17% ETP, Due 7/1/25)	5,198	5,134	5,134
CSA Medical, Inc. (2)(12)	Medical Device	Term Loan (10.00% cash (Libor + 8.20%; Floor 10.00%), 5.00% ETP, Due 1/1/24)	3,750	3,701	3,701
		Term Loan (10.00% cash (Libor + 8.20%; Floor 10.00%), 5.00% ETP, Due 1/1/24)	250	247	247
		Term Loan (10.00% cash (Libor + 8.20%; Floor 10.00%), 5.00% ETP, Due 3/1/24)	4,000	3,952	3,952
CVRx, Inc. (2)(12)	Medical Device	Term Loan (10.00% cash (Libor + 7.80%; Floor 10.00%), 3.50% ETP, Due 10/1/24)	5,000	4,944	4,944
		Term Loan (10.00% cash (Libor + 7.80%; Floor 10.00%), 3.50% ETP, Due 10/1/24)	5,000	4,944	4,944
		Term Loan (10.00% cash (Libor + 7.80%; Floor 10.00%), 3.50% ETP, Due 10/1/24)	5,000	4,944	4,944
		Term Loan (10.00% cash (Libor + 7.80%; Floor 10.00%), 3.50% ETP, Due 10/1/24)	5,000	4,944	4,944
Lantos Technologies, Inc. (2)(12)(13)	Medical Device	Term Loan (10.00% cash (Libor + 8.43%; Floor 10.00%), 10.00% ETP, Due 9/30/20)	1,879	1,660	475
		Term Loan (10.00% cash (Libor + 8.43%; Floor 10.00%), Due 9/30/20)	436	436	125
MacuLogix, Inc. (2)(12)	Medical Device	Term Loan (10.08% cash (Libor + 7.68%; Floor 10.08%), 5.50% ETP, Due 10/1/23)	7,500	7,415	7,158
		Term Loan (10.08% cash (Libor + 7.68%; Floor 10.08%), 5.50% ETP, Due 10/1/23)	4,050	3,967	3,829
Magnolia Medical Technologies, Inc. (2)(12)	Medical Device	Term Loan (9.75% cash (Prime + 5.00%; Floor 9.75%), 4.00% ETP, Due 3/1/25)	5,000	4,862	4,862
		Term Loan (9.75% cash (Prime + 5.00%; Floor 9.75%), 4.00% ETP, Due 3/1/25)	5,000	4,934	4,934
VERO Biotech LLC (2)(12)	Medical Device	Term Loan (9.25% cash (Libor + 8.00%; Floor 9.25%), 5.00% ETP, Due 1/1/22)	2,667	2,646	2,646
		Term Loan (9.25% cash (Libor + 8.00%; Floor 9.25%), 5.00% ETP, Due 1/1/22)	2,667	2,646	2,646
Total Non-Affiliate Debt Investments — Life Science				163,721	147,779
Non-Affiliate Debt Investments — Technology — 63.7% (8)					
Betabrand Corporation (2)(12)	Consumer-related Technologies	Term Loan (10.05% cash (Libor + 7.50%; Floor 10.05%), 5.75% ETP, Due 9/1/23)	4,250	4,164	4,164
		Term Loan (10.05% cash (Libor + 7.50%; Floor 10.05%), 5.75% ETP, Due 9/1/23)	4,250	4,196	4,196
		Term Loan (10.05% cash (Libor + 7.50%; Floor 10.05%), 5.75% ETP, Due 9/1/23)	1,125	1,095	1,095
Mohawk Group Holdings, Inc. (2)(5)(12)	Consumer-related Technologies	Term Loan (9.90% cash (Libor + 7.40%; Floor 9.90%), 4.00% ETP, Due 1/1/23)	4,667	4,602	4,602
		Term Loan (9.90% cash (Libor + 7.40%; Floor 9.90%), 4.00% ETP, Due 1/1/23)	4,667	4,602	4,602
		Term Loan (9.90% cash (Libor + 7.40%; Floor 9.90%), 4.00% ETP, Due 1/1/23)	4,667	4,602	4,602
Updater, Inc.(2)(12)	Consumer-related Technologies	Term Loan (11.50% cash (Prime + 5.75%; Floor 11.50%, Ceiling 14.00%),0.56% ETP, Due 12/20/24)	5,000	4,945	4,945
		Term Loan (11.50% cash (Prime + 5.75%; Floor 11.50%, Ceiling 14.00%), 0.56% ETP, Due 12/20/24)	5,000	4,945	4,945
		Term Loan (11.50% cash (Prime + 5.75%; Floor 11.50%, Ceiling 14.00%), 0.56% ETP, Due 12/20/24)	10,000	9,890	9,890
Canara, Inc. (2)(12)	Data Storage	Term Loan (11.00% cash (Libor + 8.60%; Floor 11.00%), 2.00% ETP, Due 8/1/23)	5,000	4,900	4,900
		Term Loan (11.00% cash (Libor + 8.60%; Floor 11.00%), 2.00% ETP, Due 8/1/23)	5,000	4,899	4,899
Silk, Inc. (2)(12)	Data Storage	Term Loan (10.65% cash (Libor + 8.40%; Floor 10.65%), 4.00% ETP, Due 1/1/23)	4,667	4,620	4,620
		Term Loan (10.65% cash (Libor + 8.40%; Floor 10.65%), 4.00% ETP, Due 1/1/23)	4,667	4,620	4,620
		Term Loan (10.65% cash (Libor + 8.40%; Floor 10.65%), 4.00% ETP, Due 7/1/23)	5,000	4,874	4,874
IgnitionOne, Inc. (2)(12)(13)	Internet and Media	Term Loan (10.39% cash (Libor + 10.23%; Floor 10.23%), 6.00% ETP, Due 4/1/22)	1,874	1,789	1,789
		Term Loan (10.39% cash (Libor + 10.23%; Floor 10.23%), 6.00% ETP, Due 4/1/22)	1,874	1,789	1,789

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(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
		Term Loan (10.39% cash (Libor + 10.23%; Floor 10.23%), 6.00% ETP, Due 4/1/22)	1,987	1,708	1,708
		Term Loan (10.39% cash (Libor + 10.23%; Floor 10.23%), 6.00% ETP, Due 4/1/22)	1,874	1,789	1,789
The NanoSteel Company, Inc. (2)(12)	Materials	Term Loan (11.00% cash (Libor + 8.50%; Floor 11.00%), 14.88% ETP, Due 6/1/22)	4,250	4,210	2,500
		Term Loan (11.00% cash (Libor + 8.50%; Floor 11.00%), 14.88% ETP, Due 6/1/22)	4,250	4,210	2,500
BriteCore Holdings, Inc. (2)(12)	Software	Term Loan (10.50% cash (Prime + 7.25%; Floor 10.50%), 4.00% ETP, Due 10/1/24)	2,500	2,472	2,472
		Term Loan (10.50% cash (Prime + 7.25%; Floor 10.50%), 4.00% ETP, Due 10/1/24)	2,500	2,472	2,472
Keypath Education, LLC (2)(12)	Software	Term Loan (10.50% cash (Libor + 8.50%; Floor 10.50%), 2.50% ETP, Due 10/1/24)	3,750	3,579	3,579
		Term Loan (10.50% cash (Libor + 8.50%; Floor 10.50%), 2.50% ETP, Due 10/1/24)	3,750	3,681	3,681
		Term Loan (10.50% cash (Libor + 8.50%; Floor 10.50%), 2.50% ETP, Due 10/1/24)	2,500	2,454	2,454
OutboundEngine, Inc. (2)(12)	Software	Term Loan (11.15% cash (Libor + 8.40%; Floor 11.15%), 3.36% ETP, Due 7/1/23)	4,000	3,944	3,944
		Term Loan (11.15% cash (Libor + 8.40%; Floor 11.15%), 3.36% ETP, Due 7/1/23)	3,500	3,451	3,451
		Term Loan (11.15% cash (Libor + 8.40%; Floor 11.15%), 3.36% ETP, Due 7/1/23)	500	503	495
Revinate, Inc. (2)(12)	Software	Term Loan (9.50% cash (Libor + 7.00%; Floor 9.50%), 4.00% ETP, Due 11/1/23)	4,000	4,030	3,813
		Term Loan (9.50% cash (Libor + 7.00%; Floor 9.50%), 4.00% ETP, Due 11/1/23)	1,000	929	893
		Term Loan (9.50% cash (Libor + 7.00%; Floor 9.50%), 4.00% ETP, Due 11/1/23)	5,000	4,942	4,751
Topia Mobility, Inc. (2)(12)	Software	Term Loan (10.00% cash (Prime + 6.75%; Floor 10.00%), 4.00% ETP, Due 9/1/24)	5,000	4,817	4,817
		Term Loan (10.00% cash (Prime + 6.75%; Floor 10.00%), 4.00% ETP, Due 9/1/24)	5,000	4,895	4,895
xAd, Inc. (2)(12)	Software	Term Loan (10.00% cash (Libor + 8.70%; Floor 10.00%), 5.0% ETP, Due 1/1/22)	3,333	3,296	3,296
		Term Loan (10.00% cash (Libor + 8.70%; Floor 10.00%), 5.0% ETP, Due 1/1/22)	3,333	3,296	3,296
		Term Loan (10.00% cash (Libor + 8.70%; Floor 10.00%), 5.0% ETP, Due 1/1/22)	2,000	1,978	1,978
		Term Loan (10.00% cash (Libor + 8.70%; Floor 10.00%), 5.0% ETP, Due 1/1/22)	1,333	1,318	1,318
Total Non-Affiliate Debt Investments — Technology				134,506	130,634
Non-Affiliate Debt Investments — Healthcare information and services — 7.2% (8)					
Kate Farms, Inc. (2)(12)	Other Healthcare	Term Loan (9.75% cash (Libor + 7.45%; Floor 9.75%), 5.00% ETP, Due 10/1/23)	5,000	4,935	4,935
		Term Loan (9.75% cash (Libor + 7.45%; Floor 9.75%), 5.00% ETP, Due 10/1/23)	5,000	4,935	4,935
		Term Loan (9.75% cash (Libor + 7.45%; Floor 9.75%), 5.00% ETP, Due 10/1/23)	2,500	2,463	2,463
		Term Loan (9.75% cash (Libor + 7.45%; Floor 9.75%), 5.00% ETP, Due 10/1/23)	2,500	2,463	2,463
Total Non-Affiliate Debt Investments — Healthcare information and services				14,796	14,796
Total Non- Affiliate Debt Investments				313,023	293,209
Non-Affiliate Warrant Investments — 5.2% (8)					
Non-Affiliate Warrants — Life Science — 1.0% (8)					
Alpine Immune Sciences, Inc. (5)(12)	Biotechnology	4,632 Common Stock Warrants		122	—
Castle Creek Pharmaceuticals, Inc. (2)(12)	Biotechnology	2,428 Preferred Stock Warrants		144	142
Celsion Corporation (2)(5)(12)	Biotechnology	295,053 Common Stock Warrants		65	9
Corvium, Inc. (2)(12)	Biotechnology	661,956 Preferred Stock Warrants		53	19
Emalex Biosciences, Inc. (2)(12)	Biotechnology	73,602 Preferred Stock Warrants		107	107
Encore Dermatology, Inc. (2)(12)	Biotechnology	1,511 Preferred Stock Warrants		113	—
Espero BioPharma, Inc. (2)(12)	Biotechnology	1,507,917 Common Stock Warrants		184	—
LogicBio, Inc. (2)(5)(12)	Biotechnology	7,843 Common Stock Warrants		8	3
Mustang Bio, Inc. (2)(5)(12)	Biotechnology	252,161 Common Stock Warrants		146	91
Rocket Pharmaceuticals Corporation (5)(12)	Biotechnology	7,051 Common Stock Warrants		17	15
Provivi, Inc. (2)(12)	Biotechnology	123,457 Preferred Stock Warrants		147	336
Strongbridge U.S. Inc. (2)(5)(12)	Biotechnology	160,714 Common Stock Warrants		72	23

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Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Cost of Investments (6)	Fair Value
vTv Therapeutics Inc. (2)(5)(12)	Biotechnology	95,293 Common Stock Warrants	44	—
Titan Pharmaceuticals, Inc. (2)(5)(12)	Drug Delivery	373,333 Common Stock Warrants	95	—
AccuVein Inc. (2)(12)	Medical Device	1,174,881 Preferred Stock Warrants	21	25
Aerin Medical, Inc. (2)(12)	Medical Device	1,818,183 Preferred Stock Warrants	66	458
Bardy Diagnostics, Inc. (2)(12)	Medical Device	346,154 Preferred Stock Warrants	56	54
Ceribell, Inc. (2)(12)	Medical Device	117,521 Preferred Stock Warrants	50	50
Conventus Orthopaedics, Inc. (2)(12)	Medical Device	6,313,826 Preferred Stock Warrants	149	139
CSA Medical, Inc. (2)(12)	Medical Device	1,375,727 Preferred Stock Warrants	153	115
CVRx, Inc.(2)(12)	Medical Device	750,000 Preferred Stock Warrants	76	74
Lantos Technologies, Inc. (2)(12)	Medical Device	560,832 Preferred Stock Warrants	253	—
MacuLogix, Inc. (2)(12)	Medical Device	454,460 Preferred Stock Warrants	238	91
Magnolia Medical Technologies, Inc. (2)(12)	Medical Device	283,772 Preferred Stock Warrants	64	64
Meditrina, Inc. (2)(12)	Medical Device	221,510 Preferred Stock Warrants	83	78
VERO Biotech LLC (2)(12)	Medical Device	408 Common Stock Warrants	53	49
Total Non-Affiliate Warrants — Life Science			2,579	1,942
Non-Affiliate Warrants — Technology — 3.4% (8)				
Intelepeer Holdings, Inc. (2)(12)	Communications	3,078,084 Preferred Stock Warrants	178	147
PebblePost, Inc. (2)(12)	Communications	598,850 Preferred Stock Warrants	92	142
Betabrand Corporation (2)(12)	Consumer-related Technologies	261,198 Preferred Stock Warrants	106	79
Caastle, Inc. (2)(12)	Consumer-related Technologies	268,591 Preferred Stock Warrants	68	820
Mohawk Group Holdings, Inc. (2)(5)(12)	Consumer-related Technologies	76,923 Common Stock Warrants	192	13
Updater, Inc.(2)(12)	Consumer-related Technologies	108,333 Common Stock Warrants	34	35
Canara, Inc. (2)(12)	Data Storage	500,000 Preferred Stock Warrants	243	702
Silk, Inc. (2)(12)	Data Storage	26,816,363 Preferred Stock Warrants	234	216
Global Worldwide LLC (2)(12)	Internet and Media	245,810 Preferred Stock Warrants	75	7
Rocket Lawyer Incorporated (2)(12)	Internet and Media	261,721 Preferred Stock Warrants	90	70
Skillshare, Inc. (2)(12)	Internet and Media	139,073 Preferred Stock Warrants	162	2,406
The NanoSteel Company, Inc. (2)(12)	Materials	818,807 Preferred Stock Warrants	234	—
Kinestral, Inc. (2)(12)	Power Management	5,002,574 Preferred Stock Warrants	1,585	1,315
Avalanche Technology, Inc. (2)(12)	Semiconductors	6,753 Preferred Stock Warrants	101	—
Soraa, Inc. (2)(12)	Semiconductors	203,616 Preferred Stock Warrants	80	—
BriteCore Holdings, Inc. (2)(12)	Software	12,857 Preferred Stock Warrants	5	5
Education Elements, Inc. (2)(12)	Software	238,121 Preferred Stock Warrants	30	22
Keypath Education, Inc.(2)(12)	Software	900,000 Preferred Stock Warrants	160	157
Lotame Solutions, Inc. (2)(12)	Software	288,115 Preferred Stock Warrants	24	268
OutboundEngine, Inc. (2)(12)	Software	620,000 Preferred Stock Warrants	80	10
Revinate, Inc. (2)(12)	Software	615,475 Preferred Stock Warrants	44	42
Riv Data Corp. (2)(12)	Software	321,428 Preferred Stock Warrants	12	291
ShopKeep.com, Inc. (2)(12)	Software	193,962 Preferred Stock Warrants	118	105
SIGNiX, Inc. (12)	Software	133,560 Preferred Stock Warrants	225	—
Skyword, Inc. (12)	Software	301,055 Preferred Stock Warrants	48	3
Topia Mobility, Inc. (2)(12)	Software	3,049,607 Preferred Stock Warrants	138	138
Weblinc Corporation (2)(12)	Software	195,122 Preferred Stock Warrants	42	—
xAd, Inc. (2)(12)	Software	4,343,348 Preferred Stock Warrants	177	—
Total Non-Affiliate Warrants — Technology			4,577	6,993
Non-Affiliate Warrants — Sustainability — 0.0% (8)				
Tigo Energy, Inc. (2)(12)	Energy Efficiency	804,604 Preferred Stock Warrants	100	—
Total Non-Affiliate Warrants — Sustainability			100	—
Non-Affiliate Warrants — Healthcare information and services — 0.8% (8)				
ProterixBio, Inc. (2)(12)	Diagnostics	2,676 Common Stock Warrants	42	—
Kate Farms, Inc. (2)(12)	Other Healthcare	82,965 Preferred Stock Warrants	101	1,011
Watermark Medical, Inc. (2)(12)	Other Healthcare	27,373 Preferred Stock Warrants	74	—
Ontrak, Inc. (2)(5)(12)	Software	10,906 Common Stock Warrants	44	455
Medsphere Systems Corporation (2)(12)	Software	7,097,792 Preferred Stock Warrants	60	189
Total Non-Affiliate Warrants — Healthcare information and services			321	1,655
Total Non-Affiliate Warrants			7,577	10,590
Non-Affiliate Other Investments — 0.1% (8)				
ZetrOZ, Inc. (12)	Medical Device	Royalty Agreement	14	200
Total Non-Affiliate Other Investments			14	200

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(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
Non-Affiliate Equity — 0.2% (8)					
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	1,308 Common Stock		84	2
SnagAJob.com, Inc. (12)	Consumer-related Technologies	82,974 Common Stock		9	82
Zeta Global Holdings Corp. (2)(12)	Internet and Media	18,405 Common Stock		240	240
Formetrix, Inc. (2)(12)	Materials	74,286 Common Stock		74	—
Clarabridge, Inc. (12)	Software	17,142 Common Stock		13	36
Total Non-Affiliate Equity				420	360
Total Non-Affiliate Portfolio Investment Assets				$ 321,034	$ 304,359
Non-controlled Affiliate Investments — 3.6% (8)					
Non-controlled Affiliate Debt Investments — Technology — 2.8% (8)					
Decisyon, Inc. (12)	Software	Term Loan (12.50% cash (Libor + 12.308%; Floor 12.50%), 12.00% ETP, Due 6/1/21)	$ 1,182	$ 1,182	$ 1,139
		Term Loan (12.50% cash (Libor + 12.308%; Floor 12.50%), 12.00% ETP, Due 6/1/21)	646	636	614
		Term Loan (12.02% cash, Due 6/1/21)	227	227	219
		Term Loan (12.03% cash, Due 6/1/21)	227	227	219
		Term Loan (12.24% cash, Due 6/1/21)	685	685	661
		Term Loan (13.08% cash, Due 6/1/21)	277	277	266
		Term Loan (13.10% cash, Due 6/1/21)	184	184	177
StereoVision Imaging, Inc. (2)(12)	Software	Term Loan (8.50% Cash (Libor + 7.03%; Floor 8.50%), 14.06% ETP, Due 1/1/22)	2,783	2,382	2,382
Total Non-controlled Affiliate Debt Investments — Technology				5,800	5,677
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 — 0.8% (8)					
Decisyon, Inc. (12)	Software	45,365,936 Common Stock		185	75
StereoVision Imaging, Inc. (2)(12)	Software	1,943,572 Common Stock		791	1,639
Total Non-controlled Affiliate Equity				976	1,714
Total Non-controlled Affiliate Portfolio Investment Assets				$ 6,822	$ 7,391
Total Portfolio Investment Assets — 152.0% (8)				$ 327,856	$ 311,750
Short Term Investments — Unrestricted Investments — 11.1% (8)					
US Bank Money Market Deposit Account				$ 22,735	$ 22,735
Total Short Term Investments —Unrestricted Investments				$ 22,735	$ 22,735
Short Term Investments — Restricted Investments—0.4% (8)					
US Bank Money Market Deposit Account				$ 801	$ 801
Total Short Term Investments —Restricted Investments				$ 801	$ 801

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

(2) Has been pledged as collateral under the revolving credit facility (the “Key Facility”) with KeyBank National Association (“Key”), the Note Funding Agreement (the “NYL Facility”) with several entities owned or affiliated with New York Life Insurance Company (“Noteholders”) and/or the term debt securitization in connection with which an affiliate of the Company made an offering of $100.0 million in aggregate principal amount of fixed rate asset-backed notes that were issued in conjunction with the $160.0 million securitization of secured loans the Company completed on August 13, 2019 (“the Asset-Backed Notes”).

(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, 2020 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.

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(9) The Company did not have any non-qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended (the "1940 Act) as of September 30, 2020. 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 has a payment-in-kind ("PIK") feature.

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

(13) Debt investment is on non-accrual status as of September 30, 2020.

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments
December 31, 2019
(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
Non-Affiliate Investments — 160.0% (8)					
Non-Affiliate Debt Investments — 153.5% (8)					
Non-Affiliate Debt Investments — Life Science — 55.9% (8)					
Celsion Corporation (2)(5)(12)	Biotechnology	Term Loan (9.98% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	$ 2,500	$ 2,464	$ 2,464
		Term Loan (9.98% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	2,500	2,464	2,464
Encore Dermatology, Inc. (2)(12)	Biotechnology	Term Loan (10.00% cash (Libor + 7.50%; Floor 10.00%), 3.00% ETP, Due 4/1/23)	5,000	4,929	4,929
		Term Loan (10.00% cash (Libor + 7.50%; Floor 10.00%), 3.00% ETP, Due 4/1/23)	5,000	4,929	4,929
Espero BioPharma, Inc. (2)(12)	Biotechnology	Term Loan (12.00% cash (Libor + 9.25%; Floor 12.00%), 5.10% ETP, Due 3/31/20) (11)	5,053	5,053	5,053
		Term Loan (12.00% cash (Libor + 9.25%; Floor 12.00%), 5.10% ETP, Due 3/31/20) (11)	4,802	4,802	4,802
LogicBio, Inc.(2)(5)(12)	Biotechnology	Term Loan (8.75 % cash (Libor + 6.25%; Floor 8.75%), 4.50% ETP, Due 6/1/24	5,000	4,970	4,970
Mustang Bio, Inc. (2)(5)(12)	Biotechnology	Term Loan (9.00% cash (Libor + 6.50%; Floor 9.00%), 5.00% ETP, Due 10/1/22)	5,000	4,827	4,827
		Term Loan (9.00% cash (Libor + 6.50%; Floor 9.00%), 5.00% ETP, Due 10/1/22)	5,000	4,924	4,924
vTv Therapeutics Inc. (2)(5)(12)	Biotechnology	Term Loan (11.69% cash (Libor + 10.00%; Floor 10.50%), 6.00% ETP, Due 5/1/20)	1,042	1,034	1,034
		Term Loan (11.69% cash (Libor + 10.00%; Floor 10.50%), 6.00% ETP, Due 10/1/20)	1,406	1,393	1,393
Titan Pharmaceuticals, Inc. (2)(5)(12)	Drug Delivery	Term Loan (10.09% cash (Libor + 8.40%; Floor 9.50%), 5.00% ETP, Due 6/1/22)	1,600	1,533	1,533
Conventus Orthopaedics, Inc. (2)(12)	Medical Device	Term Loan (9.69% cash (Libor + 8.00%; Floor 9.25%), 8.33% ETP, Due 7/1/23)	5,311	5,233	5,233
		Term Loan (9.69% cash (Libor + 8.00%; Floor 9.25%), 8.33% ETP, Due 7/1/23)	5,311	5,233	5,233
CSA Medical, Inc. (2)(12)	Medical Device	Term Loan (10.00% cash (Libor + 8.20%; Floor 10.00%), 5.00% ETP, Due 1/1/24)	3,750	3,637	3,637
		Term Loan (10.00% cash (Libor + 8.20%; Floor 10.00%), 5.00% ETP, Due 1/1/24)	250	246	246
CVRx, Inc. (2)(12)	Medical Device	Term Loan (10.00% cash (Libor + 7.80%; Floor 10.00%), 3.50% ETP, Due 4/1/24)	5,000	4,934	4,934
		Term Loan (10.00% cash (Libor + 7.80%; Floor 10.00%), 3.50% ETP, Due 4/1/24)	5,000	4,934	4,934
		Term Loan (10.00% cash (Libor + 7.80%; Floor 10.00%), 3.50% ETP, Due 4/1/24)	5,000	4,934	4,934
		Term Loan (10.00% cash (Libor + 7.80%; Floor 10.00%), 3.50% ETP, Due 4/1/24)	5,000	4,934	4,934
Lantos Technologies, Inc. (2)(12)	Medical Device	Term Loan (10.12% cash (Libor + 8.43%; Floor 10.00%), 10.00% ETP, Due 4/1/21)	3,433	3,143	3,143
MacuLogix, Inc. (2)(12)	Medical Device	Term Loan (10.08% cash (Libor + 7.68%; Floor 10.08%), 4.00% ETP, Due 10/1/23)	7,500	7,356	7,356
		Term Loan (10.08% cash (Libor + 7.68%; Floor 10.08%), 4.00% ETP, Due 10/1/23)	4,050	3,993	3,993
Meditrina, Inc. (2)(12)	Medical Device	Term Loan (9.70% cash (Libor + 7.10%; Floor 9.70%), 4.00% ETP, Due 5/1/20)	3,000	2,966	2,966
VERO Biotech LLC (2)(12)	Medical Device	Term Loan (9.69% cash (Libor + 8.00%; Floor 9.25%), 5.00% ETP, Due 1/1/22)	4,000	3,967	3,967
		Term Loan (10.35% cash (Libor + 8.00%; Floor 9.25%), 5.00% ETP, Due 1/1/22)	4,000	3,967	3,967
Total Non-Affiliate Debt Investments — Life Science				102,799	102,799
Non-Affiliate Debt Investments — Technology — 84.8% (8)					
Audacy Corporation (2)(12)(15)	Communications	Term Loan (9.59% cash (Libor + 7.90%; Floor 9.50%), 5.00% ETP, Due 7/1/22)	3,641	3,580	1,300
		Term Loan (9.59% cash (Libor + 7.90%; Floor 9.50%), Due 2/1/20)	550	550	200
Betabrand Corporation (2)(12)	Consumer-related Technologies	Term Loan (10.05% cash (Libor + 7.50%; Floor 10.05%), 4.50% ETP, Due 9/1/23)	4,250	4,115	4,115
		Term Loan (10.05% cash (Libor + 7.50%; Floor 10.05%), 4.50% ETP, Due 9/1/23)	4,250	4,182	4,182
Mohawk Group Holdings, Inc. (2)(5)(12)	Consumer-related Technologies	Term Loan (9.90% cash (Libor + 7.40%; Floor 9.90%), 4.00% ETP, Due 1/1/23)	5,000	4,914	4,914
		Term Loan (9.90% cash (Libor + 7.40%; Floor 9.90%), 4.00% ETP, Due 1/1/23)	5,000	4,914	4,914
		Term Loan (9.90% cash (Libor + 7.40%; Floor 9.90%), 4.00% ETP, Due 1/1/23)	5,000	4,914	4,914
Updater, Inc.(2)(12)	Consumer-related Technologies	Term Loan (11.50% cash (Prime + 5.75%; Floor 11.50%, Ceiling 14.00%),0.56% ETP, Due 12/20/24)	5,000	4,935	4,935
		Term Loan (11.50% cash (Prime + 5.75%; Floor 11.50%, Ceiling 14.00%), 0.56% ETP, Due 12/20/24)	5,000	4,935	4,935

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Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
		Term Loan (11.50% cash (Prime + 5.75%; Floor 11.50%, Ceiling 14.00%), 0.56% ETP, Due 12/20/24)	10,000	9,870	9,870
Canara, Inc. (2)(12)	Data Storage	Term Loan (11.00% cash (Libor + 8.60%; Floor 11.00%), 1.00% ETP, Due 2/1/23)	5,000	4,868	4,868
		Term Loan (11.00% cash (Libor + 8.60%; Floor 11.00%), 1.00% ETP, Due 2/1/23)	5,000	4,868	4,868
Kaminario, Inc. (2)(12)	Data Storage	Term Loan (10.65% cash (Libor + 8.40%; Floor 10.65%), 3.00% ETP, Due 1/1/23)	5,000	4,938	4,938
		Term Loan (10.65% cash (Libor + 8.40%; Floor 10.65%), 3.00% ETP, Due 1/1/23)	5,000	4,938	4,938
		Term Loan (10.65% cash (Libor + 8.40%; Floor 10.65%), 3.00% ETP, Due 1/1/23)	5,000	4,840	4,840
IgnitionOne, Inc. (2)(12)	Internet and Media	Term Loan (11.92% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,911	2,911
		Term Loan (11.92% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,911	2,911
		Term Loan (11.92% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,812	2,812
		Term Loan (11.92% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,911	2,911
Skillshare, Inc.(2)(12)	Internet and Media	Term Loan (9.50% cash (Libor + 7.50%; Floor 9.50%), 5.00% ETP, Due 1/1/25)	3,000	2,747	2,747
		Term Loan (9.50% cash (Libor + 7.50%; Floor 9.50%), 5.00% ETP, Due 1/1/25)	3,000	2,946	2,946
		Term Loan (9.50% cash (Libor + 7.50%; Floor 9.50%), 5.00% ETP, Due 1/1/25)	3,000	2,946	2,946
Verve Wireless, Inc. (2)(12)	Internet and Media	Term Loan (15.80% cash (Libor + 8.80%; Floor 10.80%), 3.33% ETP, Due 9/1/21)	2,400	2,320	2,320
The NanoSteel Company, Inc. (2)(12)	Materials	Term Loan (11.00% cash (Libor + 8.50%; Floor 11.00%), 4.00% ETP, Due 6/1/22)	4,250	4,205	4,205
		Term Loan (11.00% cash (Libor + 8.50%; Floor 11.00%), 4.00% ETP, Due 6/1/22)	4,250	4,205	4,205
Kinestral Technologies, Inc.(2)(12)	Power Management	Term Loan (9.95% cash (Libor + 7.75%; Floor 9.95%), 5.00% ETP, Due 12/1/22)	6,000	5,442	5,442
		Term Loan (9.95% cash (Libor + 7.75%; Floor 9.95%), 5.00% ETP, Due 12/1/22)	6,000	5,765	5,765
Bridge2 Solutions, LLC. (2)(12)	Software	Term Loan (11.00% cash (Libor + 8.40%; Floor 11.00%), 2.00% ETP, Due 6/1/23)	6,250	6,120	6,120
		Term Loan (11.00% cash (Libor + 8.40%; Floor 11.00%), 2.00% ETP, Due 6/1/23)	6,250	6,120	6,120
		Term Loan (11.00% cash (Libor + 8.40%; Floor 11.00%), 2.00% ETP, Due 9/1/23)	2,000	1,926	1,926
New Signature US, Inc. (2)(12)(13)	Software	Term Loan (10.50% cash (Libor + 8.50%; Floor 10.50%), 3.50% ETP, Due 7/1/22)	2,750	2,721	2,721
		Term Loan (10.50% cash (Libor + 8.50%; Floor 10.50%), 3.50% ETP, Due 2/1/23)	1,000	987	987
OutboundEngine, Inc. (2)(12)	Software	Term Loan (11.15% cash (Libor + 8.40%; Floor 11.15%), 3.00% ETP, Due 7/1/23)	4,000	3,929	3,929
		Term Loan (11.15% cash (Libor + 8.40%; Floor 11.15%), 3.00% ETP, Due 7/1/23)	3,500	3,438	3,438
Revinate, Inc. (2)(12)	Software	Term Loan (9.50% cash (Libor + 7.00%; Floor 9.50%), 4.00% ETP, Due 6/1/23)	1,000	928	928
		Term Loan (9.50% cash (Libor + 7.00%; Floor 9.50%), 4.00% ETP, Due 11/1/23)	5,000	4,932	4,932
SIGNiX, Inc. (12)(15)	Software	Term Loan (12.69% cash (Libor + 11.00%; Floor 11.50%), 8.67% ETP, Due 2/1/20)	1,571	1,569	500
xAd, Inc. (2)(12)	Software	Term Loan (10.39% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	4,583	4,533	4,533
		Term Loan (10.39% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	4,583	4,533	4,533
		Term Loan (10.39% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	2,750	2,720	2,720
		Term Loan (10.39% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	1,833	1,813	1,813
Total Non-Affiliate Debt Investments — Technology				159,751	156,052
Non-Affiliate Debt Investments — Healthcare information and services — 12.8% (8)					
Kate Farms, Inc. (2)(12)	Other Healthcare	Term Loan (9.75% cash (Libor + 7.45%; Floor 9.75%), 5.00% ETP, Due 10/1/23)	5,000	4,852	4,852
		Term Loan (9.75% cash (Libor + 7.45%; Floor 9.75%), 5.00% ETP, Due 10/1/23)	5,000	4,919	4,919

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Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
HealthEdge Software, Inc. (2)(12)	Software	Term Loan (9.94% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 7/1/22)	3,571	3,533	3,533
		Term Loan (9.94% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 1/1/23)	3,214	3,180	3,180
		Term Loan (9.94% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 4/1/23)	3,482	3,444	3,444
		Term Loan (9.94% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 1/1/24)	3,750	3,707	3,707
Total Non-Affiliate Debt Investments — Healthcare information and services				23,635	23,635
Total Non- Affiliate Debt Investments				286,185	282,486
Non-Affiliate Warrant Investments — 5.9% (8)					
Non-Affiliate Warrants — Life Science — 0.7% (8)					
Alpine Immune Sciences, Inc. (5)(12)	Biotechnology	4,632 Common Stock Warrants		122	—
Celsion Corporation (2)(5)(12)	Biotechnology	95,057 Common Stock Warrants		65	6
Corvium, Inc. (2)(12)	Biotechnology	661,956 Preferred Stock Warrants		52	20
Encore Dermatology, Inc. (2)(12)	Biotechnology	1,510,878 Preferred Stock Warrants		113	—
Espero BioPharma, Inc. (2)(5)(12)	Biotechnology	1,507,917 Common Stock Warrants		184	—
LogicBio, Inc. (2)(5)(12)	Biotechnology	7,843 Common Stock Warrants		8	3
Mustang Bio, Inc. (2)(5)(12)	Biotechnology	216,138 Common Stock Warrants		140	222
Rocket Pharmaceuticals Corporation (5)(12)	Biotechnology	7,051 Common Stock Warrants		17	16
Palatin Technologies, Inc. (2)(5)(12)	Biotechnology	274,725 Common Stock Warrants		20	16
Revance Therapeutics, Inc. (5)(12)	Biotechnology	34,113 Common Stock Warrants		68	77
Strongbridge U.S. Inc. (2)(5)(12)	Biotechnology	160,714 Common Stock Warrants		72	25
Sunesis Pharmaceuticals, Inc. (5)(12)	Biotechnology	2,050 Common Stock Warrants		5	—
vTv Therapeutics Inc. (2)(5)(12)	Biotechnology	95,293 Common Stock Warrants		44	—
Titan Pharmaceuticals, Inc. (2)(5)(12)	Drug Delivery	373,333 Common Stock Warrants		95	—
AccuVein Inc. (2)(12)	Medical Device	1,174,881 Preferred Stock Warrants		24	29
Aerin Medical, Inc. (2)(12)	Medical Device	1,818,183 Preferred Stock Warrants		66	69
Conventus Orthopaedics, Inc. (2)(12)	Medical Device	1,145,000 Preferred Stock Warrants		149	158
CSA Medical, Inc. (12)	Medical Device	1,260,345 Preferred Stock Warrants		147	146
CVRx, Inc.(2)(12)	Medical Device	750,000 Preferred Stock Warrants		76	84
Lantos Technologies, Inc. (2)(12)	Medical Device	560,832 Preferred Stock Warrants		253	44
MacuLogix, Inc. (2)(12)	Medical Device	454,460 Preferred Stock Warrants		238	154
Meditrina, Inc. (2)(12)	Medical Device	221,510 Preferred Stock Warrants		83	85
NinePoint Medical, Inc. (2)(12)	Medical Device	29,102 Preferred Stock Warrants		33	6
VERO Biotech LLC (2)(12)	Medical Device	408 Common Stock Warrants		53	55
Total Non-Affiliate Warrants — Life Science				2,127	1,215
Non-Affiliate Warrants — Technology — 4.8% (8)					
Audacy Corporation (2)(12)	Communications	1,545,575 Preferred Stock Warrants		193	—
Intelepeer Holdings, Inc. (2)(12)	Communications	2,134,617 Preferred Stock Warrants		145	75
PebblePost, Inc. (2)(12)	Communications	598,850 Preferred Stock Warrants		93	159
Betabrand Corporation (2)(12)	Consumer-related Technologies	248,210 Preferred Stock Warrants		101	104
Caastle, Inc. (2)(12)	Consumer-related Technologies	268,591 Preferred Stock Warrants		67	832
Le Tote, Inc. (2)(12)	Consumer-related Technologies	202,974 Preferred Stock Warrants		63	361
Mohawk Group Holdings, Inc. (2)(12)	Consumer-related Technologies	76,923 Common Stock Warrants		195	2
Rhapsody International Inc. (2)(12)	Consumer-related Technologies	852,273 Common Stock Warrants		164	—
Updater, Inc.(2)(12)	Consumer-related Technologies	108,333 Common Stock Warrants		34	34
Canara, Inc. (2)(12)	Data Storage	500,000 Preferred Stock Warrants		242	288
Kaminario, Inc. (2)(12)	Data Storage	18,616,925 Preferred Stock Warrants		234	272
Global Worldwide LLC (2)(12)	Internet and Media	245,810 Preferred Stock Warrants		75	9
IgnitionOne, Inc. (2)(12)	Internet and Media	262,910 Preferred Stock Warrants		672	—
Rocket Lawyer Incorporated (2)(12)	Internet and Media	261,721 Preferred Stock Warrants		91	77
Skillshare, Inc. (2)(12)	Internet and Media	173,717 Preferred Stock Warrants		162	162
Verve Wireless, Inc. (2)(12)	Internet and Media	112,805 Common Stock Warrants		121	—
The NanoSteel Company, Inc. (2)(12)	Materials	467,277 Preferred Stock Warrants		233	7
Kinestral, Inc. (2)(12)	Power Management	3,454,774 Preferred Stock Warrants		606	606
Avalanche Technology, Inc. (2)(12)	Semiconductors	202,602 Preferred Stock Warrants		101	170
Soraa, Inc. (2)(12)	Semiconductors	203,616 Preferred Stock Warrants		80	—
Bridge2 Solutions, Inc. (2)(12)	Software	172,958 Common Stock Warrants		768	2,230
BSI Platform Holdings, LLC (2)(12)(13)	Software	187,500 Preferred Stock Warrants		26	20
Clarabridge, Inc. (12)	Software	53,486 Preferred Stock Warrants		17	106
Education Elements, Inc. (2)(12)	Software	238,121 Preferred Stock Warrants		28	23
Lotame Solutions, Inc. (2)(12)	Software	288,115 Preferred Stock Warrants		22	280
OutboundEngine, Inc. (2)(12)	Software	600,000 Preferred Stock Warrants		77	83
Revinate, Inc. (2)(12)	Software	459,770 Preferred Stock Warrants		36	38
Riv Data Corp. (2)(12)	Software	321,428 Preferred Stock Warrants		12	253

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Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value
ShopKeep.com, Inc. (2)(12)	Software	193,962 Preferred Stock Warrants		118	116
SIGNiX, Inc. (12)	Software	133,560 Preferred Stock Warrants		225	—
Skyword, Inc. (12)	Software	301,056 Preferred Stock Warrants		48	4
Sys-Tech Solutions, Inc. (2)(12)	Software	375,000 Preferred Stock Warrants		242	2,331
Weblinc Corporation (2)(12)	Software	195,122 Preferred Stock Warrants		42	—
xAd, Inc. (2)(12)	Software	4,343,348 Preferred Stock Warrants		177	249
Total Non-Affiliate Warrants — Technology				5,510	8,891
Non-Affiliate Warrants — Sustainability — 0.1% (8)					
Tigo Energy, Inc. (2)(12)	Energy Efficiency	804,604 Preferred Stock Warrants		100	—
Total Non-Affiliate Warrants — Sustainability				100	—
Non-Affiliate Warrants — Healthcare information and services — 0.4% (8)					
ProterixBio, Inc. (2)(12)	Diagnostics	2,676 Common Stock Warrants		42	—
Kate Farms, Inc. (2)(12)	Other Healthcare	69,137 Preferred Stock Warrants		86	86
Watermark Medical, Inc. (2)(12)	Other Healthcare	27,373 Preferred Stock Warrants		74	63
Catasys, Inc. (2)(5)(12)	Software	51,185 Common Stock Warrants		193	304
HealthEdge Software, Inc. (2)(12)	Software	205,481 Preferred Stock Warrants		84	73
Medsphere Systems Corporation (2)(12)	Software	7,097,792 Preferred Stock Warrants		60	197
Total Non-Affiliate Warrants — Healthcare information and services				539	723
Total Non-Affiliate Warrants				8,276	10,829
Non-Affiliate Other Investments — 0.3% (8)					
ZetrOZ, Inc. (12)	Medical Device	Royalty Agreement		61	500
Total Non-Affiliate Other Investments				61	500
Non-Affiliate Equity — 0.3% (8)					
Palatin Technologies, Inc. (2)(5)	Biotechnology	5,249 Common Stock		31	4
Revance Therapeutics, Inc.(5)	Biotechnology	5,125 Common Stock		73	83
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	13,082 Common Stock		83	4
SnagAJob.com, Inc. (12)	Consumer-related Technologies	82,974 Common Stock		9	84
Verve Wireless, Inc. (2)(12)	Internet and Media	100,598 Preferred Stock		224	—
Zeta Global Holdings Corp. (2)(12)	Internet and Media	18,405 Common Stock		240	240
Formetrix, Inc. (2)(12)	Materials	74,286 Common Stock		74	74
Total Non-Affiliate Equity				734	489
Total Non-Affiliate Portfolio Investment Assets				$ 295,256	$ 294,304
Non-controlled Affiliate Investments — 4.7% (8)					
Non-controlled Affiliate Debt Investments — Technology — 3.2% (8)					
Decisyon, Inc. (12)	Software	Term Loan (13.998% cash (Libor + 12.31%; Floor 12.50%), 12.00% ETP, Due 6/1/21)	$ 1,206	$ 1,206	$ 1,206
		Term Loan (14.41% cash (Libor + 12.31%; Floor 12.50%), 12.00% ETP, Due 6/1/21)	660	639	639
		Term Loan (12.02% cash, Due 6/1/21)	234	234	234
		Term Loan (12.03% cash, Due 6/1/21)	234	234	234
		Term Loan (12.24% cash, Due 6/1/21)	704	704	704
		Term Loan (13.08% cash, Due 6/1/21)	283	283	283
		Term Loan (13.10% cash, Due 6/1/21)	187	187	187
StereoVision Imaging, Inc. (12)	Software	Term Loan (8.72% Cash (Libor + 7.03%; Floor 8.50%), 8.50% ETP, Due 9/1/21) (11)	2,783	2,382	2,382
Total Non-controlled Affiliate Debt Investments — Technology				5,869	5,869
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 — 1.5% (8)					
Decisyon, Inc. (12)	Software	45,365,936 Common Stock		185	75
StereoVision Imaging, Inc. (12)	Software	1,943,572 Common Stock		791	2,653
Total Non-controlled Affiliate Equity				976	2,728
Total Non-controlled Affiliate Portfolio Investment Assets				$ 6,891	$ 8,597
Controlled Affiliate Investments — 9.0% (8)					
Controlled Affiliate Equity — Financial — 9.0% (8)					
Horizon Secured Loan Fund I LLC (12)(14)	Investment funds			$ 16,684	$ 16,650
Total Controlled Affiliate Equity				16,684	16,650
Total Controlled Affiliate Portfolio Investment Assets				$ 16,684	$ 16,650
Total Portfolio Investment Assets — 173.7% (8)				$ 318,831	$ 319,551

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Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Cost of Investments (6)	Fair Value
Short Term Investments — Unrestricted Investments — 5.3% (8)				
US Bank Money Market Deposit Account			$ 9,787	$ 9,787
Total Short Term Investments —Unrestricted Investments			$ 9,787	$ 9,787
Short Term Investments — Restricted Investments—0.6% (8)				
US Bank Money Market Deposit Account			$ 1,133	$ 1,133
Total Short Term Investments —Restricted Investments			$ 1,133	$ 1,133

(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 and/or the the Asset-Backed Notes.

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

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

(5) Portfolio company is a public company.

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

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

(8) Value as a percent of net assets.

(9) As of December 31, 2019, 4.9% and 4.8% of the Company's total assets on a cost and fair value basis, respectively, are in non-qualifying assets. 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 has a PIK feature.

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

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

(14) On June 1, 2018, the Company entered into an agreement with Arena Sunset SPV, LLC ("Arena") to co-invest through Horizon Secured Loan Fund I LLC ("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 sustainability industries. All HSLFI investment decisions require unanimous approval of a quorum of HSLFI's board of managers, which consists of two representatives of the Company and Arena. Although the Company owns more than 25% of the voting securities of HSLFI, the Company does not have sole control over significant actions of HSLFI for purposes of the 1940 Act or otherwise.

(15)Debt investment is on non-accrual status as of December 31, 2019.

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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 sustainability 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 formed Horizon Funding 2019-1 LLC (“2019-1 LLC”) as a Delaware limited liability company on May 2, 2019 and Horizon Funding Trust 2019-1 on May 15, 2019 (“2019-1 Trust” and, together with the 2019-1 LLC, the “2019-1 Entities”). The 2019-1 Entities are special purpose bankruptcy remote entities and are separate legal entities from the Company. The Company formed the 2019-1 Entities for purposes of securitizing the Asset-Backed Notes.

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

On April 21, 2020, the Company purchased all of the limited liability company interests of Arena in HSLFI, including, without limitation, undistributed amounts owed to Arena and interest accrued and unpaid on the debt investments of HSLFI through the date of purchase. As of April 21, 2020, HSLFI and its subsidiary, HFI, are consolidated by the Company.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, consisting soley of normal recurring accruals, that are necessary for the fair presentation of financial results as of and for the periods presented. All

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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, 2019.

Principles of consolidation

As required under GAAP and Regulation S-X, the Company will generally consolidate its investment in a company that is an investment company subsidiary or a controlled operating company whose business consists of providing services to the Company. Accordingly, the Company consolidated the results of the Company's wholly-owned subsidiaries in its consolidated financial statements. Although the Company owned more than 25% of the voting securities of HSLFI through April 21, 2020, the Company did not have sole control over significant actions of HSLFI for purposes of the 1940 Act or otherwise, and thus did not consolidate its interest prior to April 21, 2020.

Assets related to transactions that do not meet ASC Topic 860 requirements for accounting sale treatment are reflected in the Company's Consolidated Statements of Assets and Liabilites as investments. Those assets are owned by special purpose entities, including 2019-1 Entities, that are consolidated in the Company's consolidated 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 affiliate of the Company).

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

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sustainability 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, 2020, there were four debt investments on non-accrual status with a cost of $35.4 million and a fair value of $20.1 million. As of December 31, 2019, there were two investments on non-accrual status with a cost of $5.7 million and a fair value of $2.0 million. For the three and nine months ended September 30, 2020, the Company recognized, as interest income, payments of $0.03 million received from one portfolio company whose debt investment was on non-accrual status. For the three and nine months ended September 30, 2019, the Company did not recognize any interest income from debt investments on non-accrual status.

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

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, 2020 and 2019 was 4.9% and 4.5%, respectively. The proportion of the Company's total investment income that resulted from the portion of ETPs not received in cash for the nine months ended September 30, 2020 and 2019 was 5.9%.

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.

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Prior to consolidating the investment in HSLFI on and after April 21, 2020, distributions from HSLFI were 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 did not record distributions from HSLFI as dividend income unless there was sufficient accumulated tax-basis earnings and profit in HSLFI prior to distribution. Distributions that were classified as a return of capital were recorded as a reduction in the cost basis of the investment. For the period January 1, 2020 through April 21, 2020, HSLFI made no distributions classified as dividend income or a return of capital to the Company. For the three and nine months ended September 30, 2019, HSLFI distributed $0.2 million and $0.7 million, respectively, classified as dividend income to the Company.

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

Debt issuance costs

Debt issuance costs are fees and other direct incremental costs incurred by the Company in obtaining debt financing from its lenders and issuing debt securities. The unamortized balance of debt issuance costs as of September 30, 2020 and December 31, 2019 was $3.4 million and $3.3 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, 2020 and December 31, 2019 were $3.9 million and $3.1 million, respectively. The amortization expense for the three months ended September 30, 2020 and 2019 was $0.2 million. The amortization expense for the nine months ended September 30, 2020 and 2019 was $0.8 million and $0.5 million, respectively.

Income taxes

As a BDC, the Company has elected to be treated as a RIC under Subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC and to avoid 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*, as amended, 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, 2019, the Company reclassified $0.2 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, 2020 and 2019, 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, 2020 and December 31, 2019. The Company’s income tax returns for the 2018, 2017 and 2016 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 issue new shares or purchase shares in the open market to fulfill its obligations under the plan.

Stockholders’ Equity

On March 26, 2019, the Company completed a follow-on public offering of 2,000,000 shares of its common stock at a public offering price of $12.14 per share, for total net proceeds to the Company of $23.1 million, after deducting underwriting commission and discounts and other offering expenses

On August 2, 2019, the Company entered into an At-The-Market (“ATM”) sales agreement (the “Prior Equity Distribution Agreement”), with Goldman Sachs & Co. LLC and B. Riley FBR, Inc. (each a “Sales Agent” and, collectively, the “Sales Agents”). The Prior Equity Distribution Agreement provided that the Company may offer and sell its shares from time to time through the Sales Agents up to $50.0 million worth of its common stock, in amounts and at times to be determined by the Company.

On July 30, 2020, the Company terminated the Prior Equity Distribution Agreement and entered into a new ATM sales agreement (the “Equity Distribution Agreement”), with the Sales Agents. The remaining shares available under the Prior Equity Distribution Agreement are no longer available for issuance. The Equity Distribution Agreement provides that the Company may offer and sell its shares from time to time through the Sales Agents up to $100.0 million worth of its common stock, in amounts and at times to be determined by the Company. Sales of the Company’s common stock, if any, may be made in negotiated transactions or transactions that are deemed to be “at-the-market,” as defined in Rule 415 under the Securities Act, including sales made directly on the NASDAQ or similar securities exchange or sales made to or through a market maker other than on an exchange, at prices related to the prevailing market prices or at negotiated prices.

During the three months ended September 30, 2020, the Company sold 1,069,259 shares of common stock under the Equity Distribution Agreement. For the same period, the Company received total accumulated net proceeds of approximately $12.7 million, including $0.3 million of offering expenses, from these sales.

During the nine months ended September 30, 2020, the Company sold 2,787,160 shares of common stock under the Prior Equity Distribution Agreement and the Equity Distribution Agreement. For the same period, the Company received total accumulated net proceeds of approximately $33.8 million, including $0.8 million of offering expenses, from these sales.

The Company generally uses net proceeds from these offerings to make investments, to pay down liabilities and for general corporate purposes. As of September 30, 2020, shares representing approximately $87.0 million of its common stock remain available for issuance and sale under the Equity Distribution Agreement.

Stock Repurchase Program

On April 24, 2020, 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, 2021 or the repurchase of $5.0 million of the Company's common stock. During the three and nine months ended September 30, 2020 and 2019, the Company did not make any repurchases of its common stock. From the inception of the stock repurchase program through September 30, 2020, 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 issued accounting pronouncement

In March 2020, the FASB issued Accounting Standards Update No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting ("ASU 2020-04"). ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another rate that is expected to be discontinued. The amendments in ASU 2020-04 are effective for all entities as of March 12, 2020 through December 31, 2022. The Company is currently assessing the impact of ASU 2020-04 and the LIBOR transition on its consolidated financial statements.

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Note 3. Related party transactions

Investment Management Agreement

At a special meeting of the stockholders on October 30, 2018, the stockholders approved a new Investment Management Agreement which became effective on March 7, 2019. The new Investment Management Agreement replaced the previously effective Amended and Restated Investment Management Agreement dated as of October 28, 2010 and amended effective July 1, 2014. On October 26, 2020, the Board unanimously approved the renewal of the Investment Management Agreement. Under the terms of the Investment Management Agreement, the Advisor determines the composition of the Company's investment portfolio, the nature and timing of the changes to the investment portfolio and the manner of implementing such changes; identifies, evaluates and negotiates the structure of the investments the Company makes (including performing due diligence on the Company's prospective portfolio companies); and closes, monitors and administers the investments the Company makes, including the exercise of any voting or consent rights.

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

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

The base management fee payable at September 30, 2020 and December 31, 2019 was $0.5 million. The base management fee expense was $1.6 million and $1.4 million for the three months ended September 30, 2020 and 2019, respectively. The base management fee expense was $4.9 million and $4.1 million for the nine months ended September 30, 2020 and 2019, respectively.

The incentive fee has two parts, as follows:

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

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”) 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 5, 2019, the Advisor irrevocably waived the receipt of incentive fees related to the amounts previously deferred that it may be entitled to receive under the Investment Management Agreement for the period commencing on January 1, 2019 and ending on December 31, 2019. Such waived incentive fees will not be subject to recoupment. During the nine months ended September 30, 2019, the Advisor waived performance based incentive fees of $1.8 million, respectively, which the Advisor would have otherwise been paid by the Company.

The net performance based incentive fee expense was $1.5 million and $1.4 million, respectively, for the three months ended September 30, 2020 and 2019, respectively. The net performance based incentive fee expense was $4.2 million and $3.5 million for the nine months ended September 30, 2020 and 2019, respectively. The performance based incentive fee payable as of September 30, 2020 and December 31, 2019 was $1.5 million and $1.6 million, respectively. The entire incentive fee payable as of September 30, 2020 and December 31, 2019 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, 2020 and 2019, respectively. The administrative fee expense was $0.7 million and $0.6 million for the nine months ended September 30, 2020 and 2019, respectively.

Note 4. Investments

The following table shows the Company's investments as of September 30, 2020 and December 31, 2019:

	September 30, 2020		December 31, 2019	
	Cost	Fair Value	Cost	Fair Value
	(In thousands)			
Investments				
Debt	$ 318,823	$ 298,886	$ 292,054	$ 288,355
Warrants	7,623	10,590	8,322	10,829
Other	14	200	61	500
Equity	1,396	2,074	1,710	3,217
Equity interest in HSLFI	—	—	16,684	16,650
Total investments	$ 327,856	$ 311,750	$ 318,831	$ 319,551

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The following table shows the Company's investments by industry sector as of September 30, 2020 and December 31, 2019:

	September 30, 2020		December 31, 2019	
	Cost	Fair Value	Cost	Fair Value
	(In thousands)			
Life Science				
Biotechnology	$ 72,332	$ 57,876	$ 42,886	$ 42,265
Drug Delivery	1,649	1,400	1,628	1,533
Medical Device	92,417	90,647	60,660	60,807
Technology				
Communications	270	289	4,561	1,734
Consumer-Related	43,450	44,070	43,412	44,196
Data Storage	24,390	24,831	24,928	25,012
Internet and Media	7,642	9,798	24,089	22,992
Materials	8,728	5,000	8,717	8,491
Power Management	1,585	1,315	11,813	11,813
Semiconductors	181	—	181	170
Software	59,995	60,073	54,998	59,530
Sustainability				
Energy Efficiency	100	—	100	—
Healthcare Information and Services				
Diagnostics	42	—	42	—
Other	14,971	15,807	9,931	9,920
Software	104	644	14,201	14,438
Investment funds				
HSLFI	—	—	16,684	16,650
Total investments	$ 327,856	$ 311,750	$ 318,831	$ 319,551

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 sustainability industries. HSLFI was formed as a Delaware limited liability company and was not consolidated by either the Company or Arena for financial reporting purposes. On April 21, 2020, the Company purchased all of the limited liability company interests of Arena in HSLFI, including, without limitation, undistributed amounts owed to Arena and interest accrued and unpaid on the debt investments of HSLFI through the date of purchase, for $17.1 million. In addition, Arena received 50% of the warrants held by HSLFI or HFI at closing. HSLFI is now wholly-owned by the Company and in future reporting periods, the assets and liabilities of HSLFI and HFI will be consolidated with the assets and liabilities of the Company. The transaction is accounted for as an asset acquisition under GAAP.

Investments held by HSLFI were measured at fair value using the same valuation methodology as described in Note 6. As of December 31, 2019, HSLFI had total assets of $48.3 million. HSLFI's portfolio consisted of debt investments in eight portfolio companies as of December 31, 2019. As of December 31, 2019, the largest investment in a single portfolio company in the HSLFI's portfolio in aggregate principal amount was $11.3 million and the five largest investments in portfolio companies in the HSLFI totaled $30.3 million. As of December 31, 2019, HSLFI had no investments on non-accrual status. HSLFI invested in portfolio companies in the same industries in which the Company may directly invest.

The Company invested cash or securities in portfolio companies in HSLFI in exchange for limited liability company equity interests in HSLFI. As of December 31, 2019, the Company and Arena each owned 50.0% of the equity interests of HSLFI. The Company had an original commitment to fund $25.0 million of equity interests in HSLFI. As of December 31, 2019, $9.8 million was unfunded. The Company's investment in HSLFI consisted of an equity contribution of $15.2 million as of December 31, 2019. During the period January 1, 2020 through April 21, 2020, there were no distributions from HSLFI. During the three and nine months ended September 30, 2019, HSLFI distributed $0.4 million and $1.4 million, respectively.

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, required unanimous approval of a quorum of the board of managers. Quorum was 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.

HFI entered into the NYL Facility with the Noteholders for an aggregate purchase price of up to $100.0 million, with an accordion feature of up to $200.0 million at the mutual discretion and agreement of HSLFI and the Noteholders. The Note Funding Agreement's investment period has ended. On June 1, 2018, HSLFI sold or contributed to HFI certain secured loans made to certain portfolio companies pursuant to a sale and servicing agreement with HFI, as Issuer, and the Company, as Servicer (the "Sale and Servicing Agreement"), as amended by that certain Amendment No. 1 to the Sale and Servicing Agreement, dated June 19, 2019 (the "Amendment No. 1"). Any notes issued by HFI were collateralized by all investments held by HFI and permitted an advance rate of up to 67% of the aggregate principal amount of eligible debt investments. The notes were issued pursuant to that certain indenture by and between HFI and U.S. Bank National Association, dated as of June 1, 2018 (the "Indenture"). The interest rate on the notes issued under the NYL Facility was based on the three year USD mid-market swap rate plus a margin of between 2.75% and 3.25% depending on the rating of such notes at the time of issuance. There were $15.0 million in advances made by the Noteholders as of December 31, 2019 at an interest rate of 4.98%.

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

Portfolio Company (1)	Sector	Type of Investment (2)(3)(4)	Principal Amount	Cost of Investments(5)	Fair Value
		(Dollars in thousands)			
Debt Investments — Life science					
Celsion Corporation (6)(7)(8)	Biotechnology	Term Loan (9.63% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	$ 2,500	$ 2,464	$ 2,464
		Term Loan (9.63% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	2,500	2,464	2,464
Encore Dermatology, Inc. (6)(7)	Biotechnology	Term Loan (10.00% cash (Libor + 7.50%; Floor 10.00%), 3.00% ETP, Due 4/1/23)	5,000	4,929	4,929
Mustang Bio, Inc. (6)(7)(8)	Biotechnology	Term Loan (9.00% cash (Libor + 6.50%; Floor 9.00%), 5.00% ETP, Due 10/1/22)	5,000	4,924	4,924
Total Debt Investments — Life science				14,781	14,781
Debt Investments — Technology					
Bridge2 Solutions, LLC (6)(7)	Software	Term Loan (11.00% cash (Libor + 8.4%; Floor 11.00%), 2.00% ETP, Due 9/1/23)	500	481	481
New Signature US, Inc. (6)(7)(9)	Software	Term Loan (10.50% cash (Libor + 8.50%; Floor 10.50%), 3.50% ETP, Due 7/1/22)	8,250	8,163	8,163
		Term Loan (10.50% cash (Libor + 8.50%; Floor 10.50%), 3.50% ETP, Due 2/1/23)	3,000	2,961	2,961
OutboundEngine, Inc. (6)(7)	Software	Term Loan (11.15% cash (Libor + 8.40%; Floor 11.15%), 3.00% ETP, Due 7/1/23)	500	491	491
Revinate, Inc. (6)(7)	Software	Term Loan (9.50% cash (Libor + 7.00%; Floor 9.50%), 3.00% ETP, Due 6/1/23)	4,000	3,952	3,952
Total Debt Investments — Technology				16,048	16,048
Debt Investments — Healthcare information and services					
HealthEdge Software, Inc. (6)(7)	Software	Term Loan (9.94% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 10/1/23)	3,750	3,709	3,709
Total Debt Investments — Healthcare information and services				3,709	3,709
Total Debt Investments				34,538	34,538
Warrant Investments — Life science					
Celsion Corporation (6)(7)(8)	Biotechnology	95,057 Common Stock Warrants		58	6
Encore Dermatology, Inc. (6)(7)	Biotechnology	503,626 Preferred Stock Warrants		38	—
Mustang Bio, Inc. (6)(7)(8)	Biotechnology	72,046 Common Stock Warrants		45	74
CSA Medical, Inc. (6)(7)	Medical Device	17,751 Preferred Stock Warrants		2	2
Total Warrant Investments — Life science				143	82
Warrant Investments — Technology					
Intelepeer Holdings, Inc. (6)(7)	Communications	2,081,934 Preferred Stock Warrants		82	72
Bridge2 Solutions, LLC (6)(7)	Software	2,500 Common Stock Warrants		18	34
BSI Platform Holdings, LLC (6)(7)(9)	Software	562,500 Preferred Stock Warrants		77	62
OutboundEngine, Inc. (6)(7)	Software	40,000 Preferred Stock Warrants		5	6
Revinate Inc. (6)(7)	Software	216,362 Preferred Stock Warrants		16	18
Total Warrant Investments — Technology				198	192
Warrant Investments — Healthcare information and services					
HealthEdge Software, Inc. (6)(7)	Software	47,418 Preferred Stock Warrants		16	17
Total Warrant Investments — Healthcare information and services				16	17
Total Warrant Investments				357	291
Total Portfolio Investment Assets				$ 34,895	$ 34,829
Short Term Investments — Unrestricted Investments					
US Bank Money Market Deposit Account (6)				$ 11,201	$ 11,201
Total Short Term Investments — Unrestricted Investments				$ 11,201	$ 11,201
Short Term Investments — Restricted Money Market Funds					
US Bank Money Market Deposit Account (6)				$ 138	$ 138
Total Short Term Investments — Restricted Money Market Funds				$ 138	$ 138

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

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

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(3) ETPs are contractual fixed-interest payments due in cash at the maturity date of the applicable debt investment, including upon any prepayment, and are a fixed percentage of the original principal balance of the debt investments unless otherwise noted. Interest will accrue during the life of the debt investment on each ETP and will be recognized as non-cash income until it is actually paid.
(4) Warrants are non-income producing.
(5) For debt investments, represents principal balance less unearned income.
(6) Has been pledged as collateral under the NYL Facility.
(7) The fair value of the investment was valued using significant unobservable inputs.
(8) Portfolio company is a public company.
(9) New Signature US, Inc. is a subsidiary of BSI Platform Holdings, LLC.

The following tables show certain summarized financial information for HSLFI as of December 31, 2019, for the period January 1, 2020 through April 21, 2020 and for the three and nine months ended September 30, 2019:

	December 31, 2019
Selected Statement of Assets and Liabilities Information	
Total investments at fair value (cost of $34,895)	$ 34,829
Cash and cash equivalents	503
Investments in money market funds	11,201
Restricted investments in money market funds	138
Interest receivable	477
Other assets	1,109
Total assets	$ 48,257
Borrowings	$ 14,955
Other liabilities	126
Total liabilities	15,081
Members' equity	33,176
Total liabilities and members' equity	$ 48,257

	For the period January 1, 2020 through April 21, 2020	For the three months ended September 30, 2019 (In thousands)	For the nine months ended September 30, 2019
Selected Statements of Operations Information			
Interest income on investments	$ 1,353	$ 1,317	$ 3,314
Total investment income	$ 1,465	$ 1,317	$ 3,314
Total expenses	$ 1,229	$ 395	$ 869
Net investment income	$ 236	$ 922	$ 2,445
Net realized gain on investments	$ 120	—	$ —
Net unrealized depreciation on investments	$ (392)	$ (27)	$ (33)
Net (decrease) increase in net assets resulting from operations	$ (36)	$ 895	$ 2,412

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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, 2020 were as follows:

Portfolio Company	Fair value at December 31, 2019	Purchases	Principal Payments	Transfers in/(out) at fair value	Discount accretion	Net unrealized gain/(loss)	Fair value at September 30, 2020	Net realized gain/(loss)	Interest income
			Nine months ended September 30, 2020 (In thousands)						
Decisyon, Inc.	$ 1,206	$ —	$ (25)	$ —	$ —	$ (42)	$ 1,139	$ —	$ 129
	639	—	(14)	—	11	(22)	614	—	68
	234	—	(7)	—	—	(8)	219	—	22
	234	—	(7)	—	—	(8)	219	—	22
	704	—	(19)	—	—	(24)	661	—	65
	283	—	(7)	—	—	(10)	266	—	27
	187	—	(4)	—	—	(6)	177	—	18
	75	—	—	—	—	—	75	—	—
StereoVision, Inc.	2,382	—	—	—	—	—	2,382	—	181
	2,653	—	—	—	—	(1,014)	1,639	—	—
Total non-controlled affiliates	$ 8,597	$ —	$ (83)	$ —	$ 11	$ (1,134)	$ 7,391	$ —	$ 532

Transactions related to investments in non-controlled affiliated companies for the year ended December 31, 2019 were as follows:

Portfolio Company	Fair value at December 31, 2018	Purchases	Principal Payments	Transfers in/(out) at fair value	Discount accretion	Net unrealized gain/(loss)	Fair value at December 31, 2019	Net realized gain/(loss)	Interest income
			Year ended December 31, 2019 (In thousands)						
Decisyon, Inc.	$ 1,464	$ —	$ (316)	$ —	$ —	$ 58	$ 1,206	$ —	$ 212
	764	—	(173)	—	17	31	639	—	112
	240	—	(16)	—	—	10	234	—	31
	240	—	(16)	—	—	10	234	—	31
	721	—	(46)	—	—	29	704	—	93
	289	—	(17)	—	—	11	283	—	39
	192	—	(13)	—	—	8	187	—	26
	75	—	—	—	—	—	75	—	—
StereoVision, Inc.	2,798	—	(416)	—	—	—	2,382	—	295
	791	—	—	—	—	1,862	2,653	—	—
Total non-controlled affiliates	$ 7,574	$ —	$ (1,013)	$ —	$ 17	$ 2,019	$ 8,597	$ —	$ 839

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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, 2020 were as follows:

				Nine months ended September 30, 2020					
Portfolio Company	Fair value at December 31, 2019	Purchases	Distributions	Transfers in/(out) at fair value	Dividends declared	Net unrealized gain/(loss)	Net realized gain/(loss)	Fair value at September 30, 2020	Dividend income
					(In thousands)				
HSLFI[(1)]	$ 16,650	$ —	$ —	$ (16,498)	$ 118	$ (12)	$ (258)	$ —	$ 118
Total controlled affiliates	$ 16,650	$ —	$ —	$ (16,498)	$ 118	$ (12)	$ (258)	$ —	$ 118

(1) The Company and Arena were the members of HSLFI, a joint venture formed as a Delaware limited liability company that was not consolidated by either member for financial reporting purposes. The members provided cash or securities in portfolio companies to HSLFI in exchange for limited liability company equity interests. All HSLFI investment decisions required unanimous approval of a quorum of HSLFI's board of managers, which consisted of two representatives of the Company and Arena. Because management of HSLFI was shared equally between the Company and Arena, the Company did not have sole control over significant actions of HSLFI for purposes of the 1940 Act or otherwise. On April 21, 2020, the Company purchased all of the limited liability company interests of Arena in HSLFI. As of September 30, 2020, HLSFI is consolidated by the Company.

Transactions related to investments in controlled affiliated companies for the year ended December 31, 2019 were as follows:

				Year ended December 31, 2019					
Portfolio Company	Fair value at December 31, 2018	Purchases	Distributions	Transfers in/(out) at fair value	Dividends declared	Net unrealized gain/(loss)	Net realized gain/(loss)	Fair value at December 31, 2019	Dividend income
					(In thousands)				
HSLFI[(1)]	$ 13,243	$ 1,900	$ (715)	$ —	$ 2,236	$ (14)	$ —	$ 16,650	$ 2,236
Total controlled affiliates	$ 13,243	$ 1,900	$ (715)	$ —	$ 2,236	$ (14)	$ —	$ 16,650	$ 2,236

(1) The Company and Arena were the members of HSLFI, a joint venture formed as a Delaware limited liability company that was not consolidated by either member for financial reporting purposes. The members provided cash or securities in portfolio companies to HSLFI in exchange for limited liability company equity interests. All HSLFI investment decisions required unanimous approval of a quorum of HSLFI's board of managers, which consisted of two representatives of the Company and Arena. Because management of HSLFI was shared equally between the Company and Arena, the Company did not have sole control over significant actions of HSLFI for purposes of the 1940 Act or otherwise.

Note 6. Fair value

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

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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.

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.

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

Debt investments: 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

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same remaining maturities. At September 30, 2020 and December 31, 2019, the hypothetical market yields used ranged from 10% to 25% and 10% to 16%, respectively. Significant increases (decreases) in this unobservable input would result in a significantly lower (higher) fair value measurement. These assets are recorded at fair value on a recurring basis and are categorized as Level 3 within the fair value hierarchy described above.

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

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

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

- Volatility, or the amount of uncertainty or risk about the size of the changes in the warrant price, is based on indices of publicly traded companies similar in nature to the underlying company issuing the warrant. A total of seven such indices are used. Significant increases (decreases) in this unobservable input would result in a significantly higher (lower) fair value measurement.

- The risk-free interest rates are derived from the U.S. Treasury yield curve. The risk-free interest rates are calculated based on a weighted average of the risk-free interest rates that correspond closest to the expected remaining life of the warrant.

- Other adjustments, including a marketability discount on private company warrants, are estimated based on management's judgment about the general industry environment.

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

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

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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, 2020 and December 31, 2019. In addition to the techniques and inputs noted in the table below, according to the Company's valuation policy, the Company may also use other valuation techniques and methodologies when determining its fair value measurements.

The following table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to the Company's fair value measurements as of September 30, 2020:

September 30, 2020					
Investment Type	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range	Weighted Average(1)
(Dollars in thousands, except per share data)					
Debt investments	$ 272,411	Discounted Expected Future Cash Flows	Hypothetical Market Yield	10% – 25%	12 %
	9,075	Liquidation Scenario	Probability Weighting	100%	100 %
	17,400	Multiple Probability Weighted Cash Flow Model	Probability Weighting	17% – 67%	38 %
Warrant investments	9,981	Black-Scholes Valuation Model	Price Per Share	$0.00 – $980.00	$ 21.75
			Average Industry Volatility	22%	22 %
			Marketability Discount	20%	20 %
			Estimated Time to Exit	1 to 4 years	3 years
Other investments	200	Multiple Probability Weighted Cash Flow Model	Discount Rate	25%	25 %
			Probability Weighting	100%	100 %
Equity investments	2,072	Last Equity Financing	Price Per Share	$0.00 – $13.04	$ 2.54
Total Level 3 investments	$ 311,139				

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

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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 December 31, 2019:

December 31, 2019					
Investment Type	**Fair Value**	**Valuation Techniques/ Methodologies**	**Unobservable Input**	**Range**	**Weighted Average(1)**
	(Dollars in thousands, except per share data)				
Debt investments	$ 262,635	Discounted Expected Future Cash Flows	Hypothetical Market Yield	10% – 16%	12 %
	13,864	Liquidation Scenario	Probability Weighting	13% – 100%	50 %
	11,856	Multiple Probability Weighted Cash Flow Model	Probability Weighting	10% – 60%	38 %
Warrant investments	5,598	Black-Scholes Valuation Model	Price Per Share	$0.00 – $980.00	$ 12.42
			Average Industry Volatility	22%	22 %
			Marketability Discount	20%	20 %
			Estimated Time to Exit	1 to 4 years	3 years
			Price Per Share	$6.22 – $12.90	$ 9.48
	4,561	Estimated Proceeds	Discount Rate	0% – 20%	10 %
Other investments	500	Multiple Probability Weighted Cash Flow Model	Discount Rate	25%	25 %
			Probability Weighting	100%	100 %
Equity investments	3,125	Last Equity Financing	Price Per Share	$0.00 – $13.04	$ 2.71
Total Level 3 investments	$ 302,139				

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

Borrowings: The Key Facility 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. The fair value of the NYL Facility also approximates its carrying value and is categorized as Level 2. 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, 2020, the closing price of the 2022 Notes on the New York Stock Exchange was $25.06 per note, or $37.5 million. Therefore, the Company has categorized this borrowing as Level 1 within the fair value hierarchy described above. Based on market quotations on September 30, 2020, the Asset-Backed Notes (as defined in Note 7) were trading at par value, or $100.0 million, and are categorized as Level 3 within the fair value hierarchy described above. These borrowings are not recorded at fair value on a recurring basis.

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, 2020 and December 31, 2019 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	September 30, 2020			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Investments in money market funds	$ —	$ 22,735	$ —	$ 22,735
Restricted investments in money market funds	$ —	$ 801	$ —	$ 801
Debt investments	$ —	$ —	$ 298,886	$ 298,886
Warrant investments	—	609	9,981	10,590
Other investments	—	—	200	200
Equity investments	2	—	2,072	2,074
Total investments	$ 2	$ 609	$ 311,139	$ 311,750

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Investments in money market funds	$ —	$ 9,787	$ —	$ 9,787
Restricted investments in money market funds	$ —	$ 1,133	$ —	$ 1,133
Debt investments	$ —	$ —	$ 288,355	$ 288,355
Warrant investments	—	670	10,159	10,829
Other investments	—	—	500	500
Equity investments	92	—	3,125	3,217
Equity interest in HSLFI(1)	—	—	—	16,650
Total investments	$ 92	$ 670	$ 302,139	$ 319,551

(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.

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, 2020:

	Three months ended September 30, 2020				
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	Total
	(In thousands)				
Level 3 assets, beginning of period	$ 342,722	$ 9,325	$ 2,146	$ 500	$ 354,693
Purchase of investments	16,094	—	—	—	16,094
Warrants and equity received and classified as Level 3	—	143	—	—	143
Principal payments received on investments	(49,947)	—	—	(14)	(49,961)
Proceeds from sale of investments	—	(863)	—	—	(863)
Net realized (loss) gain on investments	(313)	583	—	—	270
Unrealized (depreciation) appreciation included in earnings	(10,319)	793	(74)	(286)	(9,886)
Transfer of investment	—	—	—	—	—
Other	649	—	—	—	649
Level 3 assets, end of period	$ 298,886	$ 9,981	$ 2,072	$ 200	$ 311,139

During the three months ended September 30, 2020, there were no transfers in or out of Level 3.

Horizon Technology Finance Corporation and Subsidiaries
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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, 2019:

	Three months ended September 30, 2019				
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	Total
			(In thousands)		
Level 3 assets, beginning of period	$ 242,287	$ 8,500	$ 3,110	$ 6,200	$ 260,097
Purchase of investments	42,147	—	—	—	42,147
Warrants and equity received and classified as Level 3	—	300	240	—	540
Principal payments received on investments	(35,913)	—	—	—	(35,913)
Proceeds from sale of investments	—	(506)	—	—	(506)
Net realized gain (loss) on investments	—	358	—	(800)	(442)
Unrealized (depreciation) appreciation included in earnings	(56)	498	(133)	(12)	297
Transfer of investment	4,500	—	—	(4,500)	—
Other	220	(16)	—	—	204
Level 3 assets, end of period	$ 253,185	$ 9,134	$ 3,217	$ 888	$ 266,424

During the three months ended September 30, 2019, there were no transfers in or out of Level 3.

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, 2020:

	Nine months ended September 30, 2020				
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	Total
			(In thousands)		
Level 3 assets, beginning of period	$ 288,355	$ 10,159	$ 3,125	$ 500	$ 302,139
Purchase of investments	138,146	—	—	—	138,146
Warrants and equity received and classified as Level 3	—	1,872	—	—	1,872
Principal payments received on investments	(111,087)	—	—	(42)	(111,129)
Proceeds from sale of investments	(36)	(6,661)	—	—	(6,697)
Net realized (loss) gain on investments	(1,244)	4,266	(225)	—	2,797
Unrealized (depreciation) appreciation included in earnings	(15,943)	287	(842)	(258)	(16,756)
Transfer of investment	—	(14)	14	—	—
Other	695	72	—	—	767
Level 3 assets, end of period	$ 298,886	$ 9,981	$ 2,072	$ 200	$ 311,139

During the nine months ended September 30, 2020, there were no transfers in or out of Level 3.

The change in unrealized depreciation included in the consolidated statement of operations attributable to Level 3 investments still held at September 30, 2020 includes $19.7 million in unrealized depreciation on debt and other investments, $3.0 million in unrealized appreciation on warrant investments and $1.0 million in unrealized depreciation on equity.

Horizon Technology Finance Corporation and Subsidiaries
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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, 2019:

	Nine months ended September 30, 2019				
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	Total
			(In thousands)		
Level 3 assets, beginning of period	$ 216,401	$ 8,632	$ 1,289	$ 7,640	$ 233,962
Purchase of investments	135,284	—	—	—	135,284
Warrants and equity received and classified as Level 3	—	1,288	240	—	1,528
Principal payments received on investments	(101,035)	—	—	(82)	(101,117)
Proceeds from sale of investments	—	(1,381)	(45)	—	(1,426)
Net realized gain (loss) on investments	—	634	4	(4,944)	(4,306)
Unrealized (depreciation) appreciation included in earnings	(1,602)	167	1,729	2,774	3,068
Transfer out of Level 3	—	(190)	—	—	(190)
Transfer of investment	4,500	—	—	(4,500)	—
Other	(363)	(16)	—	—	(379)
Level 3 assets, end of period	$ 253,185	$ 9,134	$ 3,217	$ 888	$ 266,424

During the nine months ended September 30, 2019, there was one transfer out of Level 3. The transfer out of Level 3 related to warrants held in one portfolio company with an aggregate fair value of $0.2 million that was transferred to Level 2 upon the portfolio company becoming a public company. During the nine months ended September 30, 2019, there were no transfers to Level 3.

The change in unrealized appreciation included in the consolidated statement of operations attributable to Level 3 investments still held at September 30, 2019 includes $3.8 million in unrealized depreciation on debt and other investments, $0.7 million in unrealized appreciation on warrant investments and $1.9 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, 2020 and December 31, 2019, all of the balances of all the Company's financial instruments were recorded at fair value, except for the Company's borrowings, as previously described.

Market risk

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

Horizon Technology Finance Corporation and Subsidiaries
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Note 7. Borrowings

The following table shows the Company's borrowings as of September 30, 2020 and December 31, 2019:

	September 30, 2020			December 31, 2019		
	Total Commitment	Balance Outstanding	Unused Commitment	Total Commitment	Balance Outstanding	Unused Commitment
	(In thousands)					
Key Facility	$ 125,000	$ 15,000	$ 110,000	$ 125,000	$ 17,000	$ 108,000
NYL Facility	100,000	13,250	86,750	—	—	—
Asset-Backed Notes	100,000	100,000	—	100,000	100,000	—
2022 Notes	37,375	37,375	—	37,375	37,375	—
Total before debt issuance costs	362,375	165,625	196,750	262,375	154,375	108,000
Unamortized debt issuance costs attributable to term borrowings	—	(1,936)	—	—	(2,325)	—
Total borrowings outstanding, net	$ 362,375	$ 163,689	$ 196,750	$ 262,375	$ 152,050	$ 108,000

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

As of September 30, 2020, with certain limited exceptions, as a BDC, the Company is only allowed to borrow amounts such that the Company's asset coverage, as defined in the 1940 Act, is at least 150% after such borrowings. As of September 30, 2020, the asset coverage for borrowed amounts was 224%.

The Company entered into the Key Facility with Key effective November 4, 2013. On June 29, 2020, the Company amended the Key Facility, among other things, to amend the LIBOR floor from 0.75% to 1.00% and to extend the revolving period to September 30, 2021. The Key Facility has an accordion feature which allows for an increase in the total loan commitment to $150 million from the $125 million commitment. The Key Facility is collateralized by all debt investments and warrants held by Credit II and permits an advance rate of up to 50% of eligible debt investments held by Credit II. The Key Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the debt investments securing the Key Facility to certain criteria for qualified debt investments and includes portfolio company concentration limits as defined in the related loan agreement. The Key Facility 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 1.00%. The LIBOR rate was 0.15% and 1.76% on September 30, 2020 and December 31, 2019, respectively. The average interest rate for the three months ended September 30, 2020 and 2019 was 4.25% and 5.49%, respectively. The average interest rate for the nine months ended September 30, 2020 and 2019 was 4.42% and 5.65%, respectively. The Key Facility requires the payment of an unused line fee in an amount up to 0.50% on an annualized basis of any unborrowed amount available under the facility. As of September 30, 2020 and December 31, 2019, the Company had borrowing capacity under the Key Facility of $110.0 million and $108.0 million, respectively. At September 30, 2020 and December 31, 2019, $45.1 million and $24.2 million, respectively, was available, subject to existing terms and advance rates.

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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, 2020, 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".

On August 13, 2019, the Company completed a term debt securitization in connection with which an affiliate of the Company made an offering of the Asset-Backed Notes. The Asset-Backed Notes were rated A+(sf) by Morningstar Credit Ratings, LLC on August 13, 2019. There has been no change in the rating since August 13, 2019.

The Asset-Backed Notes were issued by the 2019-1 Trust pursuant to a note purchase agreement, dated as of August 13, 2019, by and among the Company and Keybanc Capital Markets Inc. as Initial Purchaser, and are backed by a pool of loans made to certain portfolio companies of the Company and secured by certain assets of those portfolio companies and are to be serviced by the Company. Interest on the Asset-Backed Notes will be paid, to the extent of funds available, at a fixed rate of 4.21% per annum. The Asset-Backed Notes have a two-year reinvestment period and a stated maturity of September 15, 2027.

At September 30, 2020 and December 31, 2019, the Asset-Backed Notes had an outstanding principal balance of $100.0 million.

Under the terms of the Asset-Backed Notes, the Company is required to maintain a reserve cash balance, funded through proceeds from the sale of the Asset-Backed Notes, which may be used to pay monthly interest and principal payments on the Asset-Backed Notes. The Company has segregated these funds and classified them as restricted investments in money market funds. At September 30, 2020 and December 31, 2019, there was approximately $0.8 million and $1.1 million of restricted investments, respectively.

On April 21, 2020, the Company purchased all of the limited liability company interests of Arena in HSLFI, which is a party to the NYL Facility. HFI entered into the NYL Facility with the Noteholders for an aggregate purchase price of up to $100.0 million, with an accordion feature of up to $200.0 million at the mutual discretion and agreement of HSLFI and the Noteholders. On June 1, 2018, HSLFI sold or contributed to HFI certain secured loans made to certain portfolio companies pursuant to into the Sale and Servicing Agreement. Any notes issued by HFI are 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 notes were issued pursuant to the Indenture.

On June 5, 2020, the Company amended the NYL Facility to extend the investment period to June 5, 2022. The investment period will be followed by a five year amortization period. The stated final payment date was extended to June 15, 2027, subject to any extension of the investment period. The interest rate on the notes issued under the NYL Facility is based on the three year USD mid-market swap rate plus a margin of between 3.55% and 5.15% with an interest rate floor, depending on the rating of such notes at the time of issuance. Any obligation to make additional advances was conditioned on the occurrence of certain conditions, which were satisfied June 26, 2020. There were $13.3 million in advances made by the Noteholders as of September 30, 2020 at an interest rate of 4.60%. As of September 30, 2020, the

Company had borrowing capacity under the NYL Facility of $86.8 million. At September 30, 2020, $2.2 million was available, subject to existing terms and advance rates.

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 $80.9 million and $49.5 million as of September 30, 2020 and December 31, 2019, respectively. Commitments to extend credit consist principally of the unused portions of commitments that obligate the Company to extend credit, such as revolving credit arrangements or similar transactions. These commitments are often subject to financial or non-financial milestones and other conditions to borrow that must be achieved before the commitment can be drawn. In addition, the commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. This includes the undrawn revolver commitments discussed in Note 4.

The following table provides the Company's unfunded commitments by portfolio company as of September 30, 2020:

	September 30, 2020	
	Principal Balance	Fair Value of Unfunded Commitment Liability
	(In thousands)	
Betabrand Corporation	$ 1,125	$ 32
Ceribell, Inc.	10,000	64
Castle Creek Biosciences, Inc.	5,000	54
Emalex Biosciences, Inc.	10,000	104
Keypath Education Holdings, LLC	5,000	103
LogicBio, Inc.	5,000	—
Maculogix, Inc.	3,750	37
Magnolia Medical Technologies, Inc.	10,000	71
Provivi, Inc.	10,000	149
Revinate, Inc.	5,000	60
Skillshare, Inc.	11,000	199
Topia Mobility Inc.	5,000	78
Total	$ 80,875	$ 951

The table above also provides the fair value of the Company's unfunded commitment liability as of September 30, 2020, which totaled $1.0 million. The fair value at inception of the delay draw credit agreements is equal to the fees and/or warrants received to enter into these agreements, taking into account the remaining terms of the agreements and the counterparties' credit profile. The unfunded commitment liability reflects the fair value of these future funding commitments and is included in the Company's consolidated statement of assets and liabilities.

Note 9. Concentrations of credit risk

The Company's debt investments consist primarily of loans to development-stage companies at various stages of development in the technology, life science, healthcare information and services and sustainability industries. Many of these companies may have relatively limited operating histories and also may experience variation in operating results.

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Many of these companies conduct business in regulated industries and could be affected by changes in government regulations. Most of the Company's borrowers will need additional capital to satisfy their continuing working capital needs and other requirements, and in many instances, to service the interest and principal payments on the loans.

The Company's largest debt investments may vary from period to period as new debt investments are recorded and existing debt investments are repaid. The Company's five largest debt investments, at cost, represented 28% of total debt investments outstanding as of September 30, 2020 and December 31, 2019. No single debt investment represented more than 10% of the total debt investments as of September 30, 2020 and December 31, 2019. Investment income, consisting of interest and fees, can fluctuate significantly upon repayment of large debt investments. Interest income from the five largest debt investments accounted for 29% and 24% of total interest and fee income on investments for the three months ended September 30, 2020 and 2019, respectively. Interest income from the five largest debt investments accounted for 25% and 24% of total interest and fee income on investments for the nine months ended September 30, 2020 and 2019, respectively.

Note 10. Distributions

The Company's distributions are recorded on the declaration date. The following table summarizes the Company's distribution activity for the nine months ended September 30, 2020 and for the year ended December 31, 2019:

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Share Value
			(In thousands, except share and per share data)			
Nine Months Ended September 30, 2020						
7/24/20	11/18/20	12/15/20	$ 0.10	$ —	—	$ —
7/24/20	10/20/20	11/16/20	0.10	—	—	—
7/24/20	9/17/20	10/16/20	0.10	1,835	1,674	22
4/24/20	8/18/20	9/15/20	0.10	1,745	1,588	19
4/24/20	7/17/20	8/14/20	0.10	1,710	1,586	20
4/24/20	6/18/20	7/15/20	0.10	1,703	1,710	20
2/28/20	5/19/20	6/16/20	0.10	1,667	1,646	18
2/28/20	4/17/20	5/15/20	0.10	1,667	1,879	19
2/28/20	3/18/20	4/15/20	0.15	2,496	3,144	30
			$ 0.95	$ 12,823	13,227	$ 148
Year Ended December 31, 2019						
10/25/19	2/19/20	3/16/20	$ 0.10	$ 1,659	1,561	$ 18
10/25/19	1/17/20	2/14/20	0.10	1,660	1,234	17
10/25/19	12/18/19	1/15/20	0.10	1,519	1,115	15
7/26/19	11/19/19	12/16/19	0.10	1,467	1,215	15
7/26/19	10/18/19	11/15/19	0.10	1,442	1,226	16
7/26/19	9/19/19	10/16/19	0.10	1,412	1,258	15
4/26/19	8/19/19	9/17/19	0.10	1,366	1,274	15
4/26/19	7/18/19	8/15/19	0.10	1,339	1,261	15
4/26/19	6/19/19	7/16/19	0.10	1,338	1,339	16
3/1/19	5/17/19	6/17/19	0.10	1,339	1,308	15
3/1/19	4/18/19	5/15/19	0.10	1,332	1,885	22
3/1/19	3/19/19	4/16/19	0.10	1,139	1,199	15
			$ 1.20	$ 17,012	15,875	$ 194

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On October 26, 2020, the Board declared monthly distributions per share, payable as set forth in the following table:

Ex-Dividend Date	Record Date	Payment Date	Distributions Declared	
December 16, 2020	December 17, 2020	January 15, 2021	$	0.10
January 19, 2021	January 20, 2021	February 17, 2021	$	0.10
February 18, 2021	February 19, 2021	March 16, 2021	$	0.10

After paying distributions of $0.30 per share and earning net investment income of $0.34 per share for the quarter, the Company's undistributed spillover income as of September 30, 2020 was $0.45 per share. Spillover income includes any ordinary income and net capital gains from the preceding tax years that were not distributed during such tax years.

Note 11. Financial highlights

The following table shows financial highlights for the Company:

	Nine months ended September 30,			
	2020		2019	
	(In thousands, except share and per share data)			
Per share data:				
Net asset value at beginning of period	$	11.83	$	11.64
Net investment income		0.98		1.08
Realized gain (loss) on investments		0.23		(0.30)
Unrealized (depreciation) appreciation on investments		(0.98)		0.20
Net increase in net assets resulting from operations		0.23		0.98
Distributions declared[1]		(0.95)		(0.90)
From net investment income		(0.95)		(0.90)
From net realized gain on investments		—		—
Return of capital		—		—
Other [2]		0.06		(0.05)
Net asset value at end of period	$	11.17	$	11.67
Per share market value, beginning of period	$	12.93	$	11.25
Per share market value, end of period	$	12.28	$	11.83
Total return based on a market value [3]		2.3 %		13.2 %
Shares outstanding at end of period		18,365,913		14,412,475
Ratios, net of waivers, to average net assets:				
Expenses without incentive fees		10.1 %[4]		10.9 %[4]
Incentive fees		2.9 %[4]		3.0 %[4]
Net expenses		13.0 %[4]		13.9 %[4]
Net investment income with incentive fees		11.5 %[4]		12.1 %[4]
Ratios, without waivers, to average net assets:				
Expenses without incentive fees[4]		10.1 %[4]		10.9 %[4]
Incentive fees[4]		2.9 %[4]		4.6 %[4]
Net expenses[4]		13.0 %[4]		15.5 %[4]
Net investment income with incentive fees[4]		11.5 %[4]		10.5 %[4]
Net assets at the end of the period	$	205,171	$	168,144
Average net asset value	$	195,978	$	153,997
Average debt per share	$	10.39	$	10.39
Portfolio turnover ratio		29.9 %[6]		50.0 %[7]

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

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

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

(4) Annualized.

(5) During the nine months ended September 30, 2019, the Advisor waived $1.8 million of performance based incentive fee.

(6) Calculated by dividing the lesser of purchases or the sum of (1) principal prepayments and (2) maturities by the monthly average debt investment balance.

(7) Calculated by dividing net debt investment purchases by the monthly average debt investment balance.

Note 12. Subsequent Event

On July 8, 2020, Espero BioPharma, Inc. and its affiliates, Jacksonville Pharmaceuticals, Inc. and Espero Pharmaceuticals, Inc. (collectively, “Espero”) assigned substantially all of their assets to their respective assignment estates and respectively appointed PSE (ABC), LLC, PS PJAX (ABC), LLC, and PPSE (ABC), LLC (collectively, “Espero ABC”) to administer their respective estates and to facilitate the orderly sale and liquidation of their property and assets. On October 6, 2020, the Court of Chancery of the State of Delaware approved the transfer of the assets of Espero to the Company and Credit II or their designees in consideration for the Company and Credit II’s credit bid at auction of $7.0 million. On October 22, 2020, Espero ABC transferred the assets of Espero to HESP LLC, a Delaware limited liability company, wholly owned by the Company.

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

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

COVID-19

Governments around the world remain highly focused on mitigating the risk of further spread of COVID-19 and continue to manage their response to the crisis, which has included measures such as quarantines, travel restrictions and business curtailments. COVID-19 has created economic and financial disruptions that have adversely affected, and are likely to continue to adversely affect, our business, financial condition, liquidity and our portfolio companies' results of operations and by extension our operating results. The extent to which the COVID-19 pandemic will continue to affect our business, financial condition, liquidity, our portfolio companies' results of operations and by extension our operating results will depend on future developments, which are highly uncertain and cannot be predicteds as of the filing of this Form 10-Q.

Forward-looking statements

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

- our future operating results, including the performance of our existing debt investments, warrants and other investments;
- the introduction, withdrawal, success and timing of business initiatives and strategies;
- general economic and political trends and other external factors, including the current COVID-19 pandemic;
- the relative and absolute investment performance and operations of our investment advisor, Horizon Technology Finance Management LLC, or the Advisor;
- the impact of increased competition;
- the impact of investments we intend to make and future acquisitions and divestitures;
- the unfavorable resolution of legal proceedings;
- our business prospects and the prospects of our portfolio companies, including our and their ability to achieve our respective objectives as a result of the current COVID-19 pandemic;
- the impact, extent and timing of technological changes and the adequacy of intellectual property protection;
- our regulatory structure and tax status;
- our ability to qualify and maintain qualification as a regulated investment company, or RIC, and as a business development company, or BDC;

- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the impact of interest rate volatility on our results, particularly if we use leverage as part of our investment strategy;
- the ability of our portfolio companies to achieve their objective;
- the impact of legislative and regulatory actions and reforms and regulatory supervisory or enforcement actions of government agencies relating to us or our Advisor;
- the impact of the Small Business Credit Availability Act, or SBCAA, on our operations and the BDC industry;
- our contractual arrangements and relationships with third parties;
- our ability to access capital and any future financings by us;
- the ability of our Advisor to attract and retain highly talented professionals;
- the impact of changes to tax legislation and, generally, our tax position; and
- our ability to fund unfunded commitments.

We use words such as "anticipates," "believes," "expects," "intends," "seeks" and similar expressions to identify forward-looking statements. Undue influence should not be placed on the forward looking statements as our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors in "Risk Factors" and elsewhere in our annual report on Form 10-K for the year ended December 31, 2019, and elsewhere in this quarterly report on Form 10-Q.

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

Overview

We are a specialty finance company that lends to and invests in development-stage companies in the technology, life science, healthcare information and services and sustainability industries, which we refer to as our "Target Industries." Our investment objective is to maximize our investment portfolio's total return by generating current income from the debt investments we make and capital appreciation from the warrants we receive when making such debt investments. We are focused on making secured debt investments, which we refer to collectively as "Venture Loans," to venture capital and private equity backed companies and publicly traded companies in our Target Industries, which we refer to as "Venture Lending." Our debt investments are typically secured by first liens or first liens behind a secured revolving line of credit, or Senior Term Loans. As of September 30, 2020, 100%, or $298.9 million, of our debt investment portfolio at fair value consisted of Senior Term Loans. Venture Lending is typically characterized by (1) the making of a secured debt investment after a venture capital or equity investment in the portfolio company has been made, which investment provides a source of cash to fund the portfolio company's debt service obligations under the Venture Loan, (2) the senior priority of the Venture Loan which requires repayment of the Venture Loan prior to the equity investors realizing a return on their capital, (3) the relatively rapid amortization of the Venture Loan and (4) the lender's receipt of warrants or other success fees with the making of the Venture Loan.

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

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

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

Portfolio composition and investment activity

The following table shows our portfolio by type of investment as of September 30, 2020 and December 31, 2019:

	September 30, 2020			December 31, 2019		
	Number of Investments	Fair Value	Percentage of Total Portfolio	Number of Investments	Fair Value	Percentage of Total Portfolio
	(Dollars in thousands)					
Debt investments	34	$ 298,886	95.9 %	35	$ 288,355	90.2 %
Warrants	61	10,590	3.3	66	10,829	3.4
Other investments	1	200	0.1	1	500	0.2
Equity	7	2,074	0.7	9	3,217	1.0
Equity interest in HSLFI	—	—	—	1	16,650	5.2
Total		$ 311,750	100.0 %		$ 319,551	100.0 %

The following table shows total portfolio investment activity as of and for the three and nine months ended September 30, 2020 and 2019:

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Beginning portfolio	$ 355,880	$ 274,759	$ 319,551	$ 248,441
New debt investments	16,094	42,147	121,648	135,284
Less refinanced debt investments	—	(7,500)	—	(17,500)
Net new debt investments	16,094	34,647	121,648	117,784
Investment in controlled affiliate investment	—	589	—	589
Principal payments received on investments	(6,419)	(3,413)	(20,344)	(13,069)
Early pay-offs	(43,542)	(25,000)	(90,785)	(70,548)
Accretion of debt investment fees	795	1,131	3,080	2,879
New debt investment fees	(202)	(658)	(1,415)	(1,764)
New equity	—	240	—	240
Warrants received in settlement of fee income	—	—	978	—
Proceeds from sale of investments	(1,945)	(506)	(8,200)	(2,411)
Dividend income from controlled affiliate investment	—	461	118	1,223
Distributions from controlled affiliate investment	—	(185)	—	(715)
Net realized gain (loss) on investments	1,178	(444)	3,945	(3,891)
Net unrealized (depreciation) appreciation on investments	(10,288)	(143)	(16,827)	2,622
Other	199	41	1	139
Ending portfolio	$ 311,750	$ 281,519	$ 311,750	$ 281,519

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

The following table shows our debt investments by industry sector as of September 30, 2020 and December 31, 2019:

	September 30, 2020		December 31, 2019	
	Debt Investments at Fair Value	Percentage of Total Portfolio	Debt Investments at Fair Value	Percentage of Total Portfolio
	(Dollars in thousands)			
Life Science				
Biotechnology	$ 57,129	19.1 %	$ 41,789	14.5 %
Drug Delivery	1,400	0.5	1,533	0.6
Medical Device	89,250	29.8	59,477	20.6
Technology				
Communications	—	—	1,500	0.5
Consumer-Related	43,041	14.4	42,779	14.8
Data Storage	23,913	8.0	24,452	8.5
Internet and Media	7,075	2.4	22,504	7.8
Materials	5,000	1.7	8,410	2.9
Power Management	—	—	11,207	3.9
Software	57,282	19.1	51,069	17.7
Healthcare Information and Services				
Other Healthcare	14,796	5.0	9,771	3.4
Software	—	—	13,864	4.8
Total	$ 298,886	100.0 %	$ 288,355	100.0 %

The largest debt investments in our portfolio may vary from period to period as new debt investments are originated and existing debt investments are repaid. Our five largest debt investments represented 28% of total debt investments outstanding as of September 30, 2020 and December 31, 2019. No single debt investment represented more than 10% of our total debt investments as of September 30, 2020 and December 31, 2019.

Debt investment asset quality

We use an internal credit rating system which rates each debt investment on a scale of 4 to 1, with 4 being the highest credit quality rating and 3 being the rating for a standard level of risk. A rating of 2 represents an increased level of risk and, while no loss is currently anticipated for a 2-rated debt investment, there is potential for future loss of principal. A rating of 1 represents a deteriorating credit quality and a high degree of risk of loss of principal. Our internal credit rating system is not a national credit rating system. As of September 30, 2020 and December 31, 2019, our debt investments had a weighted average credit rating of 3.1. The following table shows the classification of our debt investment portfolio by credit rating as of September 30, 2020 and December 31, 2019:

	September 30, 2020			December 31, 2019		
	Number of Investments	Debt Investments at Fair Value	Percentage of Debt Investments	Number of Investments	Debt Investments at Fair Value	Percentage of Debt Investments
			(Dollars in thousands)			
Credit Rating						
4	5	$ 67,893	22.7 %	4	$ 45,339	15.7 %
3	21	198,841	66.5	26	216,128	75.0
2	3	12,752	4.3	3	24,888	8.6
1	5	19,400	6.5	2	2,000	0.7
Total	34	$ 298,886	100.0 %	35	$ 288,355	100.0 %

As of September 30, 2020, there were five debt investments with an internal credit rating of 1, with a cost of $38.3 million and a fair value of $19.4 million. As of December 31, 2019, there were two debt investments with an internal credit rating of 1, with an aggregate cost of $5.7 million and an aggregate fair value of $2.0 million.

Horizon Secured Loan Fund I LLC

On June 1, 2018, we and Arena Sunset SPV, LLC, or Arena, formed a joint venture, Horizon Secured Loan Fund I, or HSLFI, to make investments, either directly or indirectly through subsidiaries, primarily in the form of secured loans to development-stage companies in the technology, life science, healthcare information and services and sustainability industries. HSLFI was formed as a Delaware limited liability company and was not consolidated by either us or Arena for financial reporting purposes. On April 21, 2020, we purchased all of the limited liability company interests of Arena in HSLFI, including, without limitation, undistributed amounts owed to Arena and interest accrued and unpaid on the debt investments of HSLFI through the date of purchase, for $17.1 million. In addition, Arena received 50% of the warrants held by HSLFI or Horizon Funding I, LLC, or HFI, at closing. HSLFI is now wholly-owned by us and in future reporting periods, the assets and liabilities of HSLFI and HFI will be consolidated with the assets and liabilities by us.

Investments held by HSLFI were measured at fair value. As of December 31, 2019, HSLFI had total assets of $48.3 million. HSLFI's portfolio consisted of debt investments in eight portfolio companies as of December 31, 2019. As of December 31, 2019, the largest investment in a single portfolio company in the HSLFI's portfolio in aggregate principal amount was $11.3 million and the five largest investments in portfolio companies in the HSLFI totaled $30.3 million. As of December 31, 2019, HSLFI had no investments on non-accrual status. HSLFI invested in portfolio companies in the same industries in which we may directly invest.

We invested cash or securities in portfolio companies in HSLFI in exchange for limited liability company equity interests in HSLFI. As of December 31, 2019, we and Arena each owned 50.0% of the equity interests of HSLFI. We had an original commitment to fund $25.0 million of equity interests in HSLFI. As of December 31, 2019, $9.8 million was unfunded. Our investment in HSLFI consisted of an equity contribution of $15.2 million as of December 31, 2019. During the period January 1, 2020 through April 21, 2020, there were no distributions from HSLFI. For the three and nine months ended September 30, 2019, HSLFI distributed $0.4 million and $1.4 million, respectively.

We and Arena each appointed two members to HSLFI's four-person board of managers. All material decisions with respect to HSLFI, including those involving its investment portfolio, required unanimous approval of a quorum of the board of managers. Quorum wass 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.

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

In addition, on June 1, 2018, HSLFI entered into the Sale and Servicing Agreement. HFI entered into a Note Funding Agreement, or the NYL Facility, with several entities owned or affiliated with New York Life Insurance Company, or the Noteholders, for an aggregate purchase price of up to $100.0 million, with an accordion feature of up to $200.0 million at the mutual discretion and agreement of HSLFI and the Noteholders. The Note Funding Agreement's investment period has ended. Any notes issued by HFI was collateralized by all investments held by HFI and permitted an advance rate of up to 67% of the aggregate principal amount of eligible debt investments. The notes were issued pursuant to the Indenture. The interest rate on the notes issued under the NYL Facility was based on the three year USD mid-market swap rate plus a margin of between 2.75% and 3.25% depending on the rating of such notes at the time of issuance. There were $15.0 million in advances made by the Noteholders as of December 31, 2019 at an interest rate of 4.98%.

The following table shows a summary of HSLFI's investment portfolio for the period January 1, 2020 through April 21, 2020 and the three and nine months ended September 30, 2019:

	For the period January 1, 2020 through April 21, 2020	For the three months ended September 30, 2019	For the nine months ended September 30, 2019
	(Dollars in thousands)		
Total investments at fair value	$ —	$ 42,882	$ 42,882
Dollar-weighted annualized yield on average debt investments(1)	14.3 %	12.7 %	12.7 %
Number of portfolio companies in HSLFI	—	7	7
Largest portfolio company investment at fair value	$ —	$ 11,158	$ 11,158

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

The following table shows HSLFI's total portfolio investment activity as of and for the three and nine months ended September 30, 2019:

	For the three months ended September 30, 2019	For the nine months ended September 30, 2019
Beginning portfolio	$ 38,896	$ 24,734
New debt investments	4,000	18,227
Accretion of debt investment fees	52	129
New debt investment fees	(39)	(175)
Net unrealized depreciation on investments	(27)	(33)
Ending portfolio	$ 42,882	$ 42,882

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

Portfolio Company (1)	Sector	Type of Investment (2)(3)(4)	Principal Amount	Cost of Investments(5)	Fair Value
		(Dollars in thousands)			
Debt Investments — Life science					
Celsion Corporation (6)(7)(8)	Biotechnology	Term Loan (9.63% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	$ 2,500	$ 2,464	$ 2,464
		Term Loan (9.63% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	2,500	2,464	2,464
Encore Dermatology, Inc. (6)(7)	Biotechnology	Term Loan (10.00% cash (Libor + 7.50%; Floor 10.00%), 3.00% ETP, Due 4/1/23)	5,000	4,929	4,929
Mustang Bio, Inc. (6)(7)(8)	Biotechnology	Term Loan (9.00% cash (Libor + 6.50%; Floor 9.00%), 5.00% ETP, Due 10/1/22)	5,000	4,924	4,924
Total Debt Investments — Life science				14,781	14,781
Debt Investments — Technology					
Bridge2 Solutions, LLC (6)(7)	Software	Term Loan (11.00% cash (Libor + 8.4%; Floor 11.00%), 2.00% ETP, Due 9/1/23)	500	481	481
New Signature US, Inc. (6)(7)(9)	Software	Term Loan (10.50% cash (Libor + 8.50%; Floor 10.50%), 3.50% ETP, Due 7/1/22)	8,250	8,163	8,163
		Term Loan (10.50% cash (Libor + 8.50%; Floor 10.50%), 3.50% ETP, Due 2/1/23)	3,000	2,961	2,961
OutboundEngine, Inc. (6)(7)	Software	Term Loan (11.15% cash (Libor + 8.40%; Floor 11.15%), 3.00% ETP, Due 7/1/23)	500	491	491
Revinate, Inc. (6)(7)	Software	Term Loan (9.50% cash (Libor + 7.00%; Floor 9.50%), 3.00% ETP, Due 6/1/23)	4,000	3,952	3,952
Total Debt Investments — Technology				16,048	16,048
Debt Investments — Healthcare information and services					
HealthEdge Software, Inc. (6)(7)	Software	Term Loan (9.94% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 10/1/23)	3,750	3,709	3,709
Total Debt Investments — Healthcare information and services				3,709	3,709
Total Debt Investments				34,538	34,538
Warrant Investments — Life science					
Celsion Corporation (6)(7)(8)	Biotechnology	95,057 Common Stock Warrants		58	6
Encore Dermatology, Inc. (6)(7)	Biotechnology	503,626 Preferred Stock Warrants		38	—
Mustang Bio, Inc. (6)(7)(8)	Biotechnology	72,046 Common Stock Warrants		45	74
CSA Medical, Inc. (6)(7)	Medical Device	17,751 Preferred Stock Warrants		2	2
Total Warrant Investments — Life science				143	82
Warrant Investments — Technology					
Intelepeer Holdings, Inc. (6)(7)	Communications	2,081,934 Preferred Stock Warrants		82	72
Bridge2 Solutions, LLC (6)(7)	Software	2,500 Common Stock Warrants		18	34
BSI Platform Holdings, LLC (6)(7)(9)	Software	562,500 Preferred Stock Warrants		77	62
OutboundEngine, Inc. (6)(7)	Software	40,000 Preferred Stock Warrants		5	6
Revinate Inc. (6)(7)	Software	216,362 Preferred Stock Warrants		16	18
Total Warrant Investments — Technology				198	192
Warrant Investments — Healthcare information and services					
HealthEdge Software, Inc. (6)(7)	Software	47,418 Preferred Stock Warrants		16	17
Total Warrant Investments — Healthcare information and services				16	17
Total Warrant Investments				357	291
Total Portfolio Investment Assets				$ 34,895	$ 34,829
Short Term Investments — Unrestricted Investments					
US Bank Money Market Deposit Account (6)				$ 11,201	$ 11,201

Total Short Term Investments — Unrestricted Investments	$	11,201	$	11,201
Short Term Investments — Restricted Money Market Funds				
US Bank Money Market Deposit Account (6)	$	138	$	138
Total Short Term Investments — Restricted Money Market Funds	$	138	$	138

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

(2) All interest is payable in cash due monthly in arrears, unless otherwise indicated, and applies only to HSLFI's debt investments. Interest rate is the annual interest rate on the debt investment and does not include ETPs and any additional fees related to the investments, such as deferred interest, commitment fees or prepayment fees. Debt investments are at variable rates for the term of the debt investment, unless otherwise indicated. All debt investments based on LIBOR are based on one-month LIBOR. For each debt investment, the current interest rate in effect as of December 31, 2019 is provided.

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

(4) Warrants are non-income producing.

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

(6) Has been pledged as collateral under the NYL Facility.

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

(8) Portfolio company is a public company.

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

The following tables show certain summarized financial information for HSLFI as of December 31, 2019, for the period January 1, 2020 through April 21, 2020 and the three and nine months ended September 30, 2019:

		December 31, 2019
Selected Statement of Assets and Liabilities Information		
Total investments at fair value (cost of $34,895)	$	34,829
Cash and cash equivalents		503
Investments in money market funds		11,201
Restricted investments in money market funds		138
Interest receivable		477
Other assets		1,109
Total assets	$	48,257
Borrowings	$	14,955
Other liabilities		126
Total liabilities		15,081
Members' equity		33,176
Total liabilities and members' equity	$	48,257

Selected Statements of Operations Information	For the period January 1, 2020 through April 21, 2020	For the three months ended September 30, 2019 (In thousands)	For the nine months ended September 30, 2019
Interest income on investments	$ 1,353	$ 1,317	$ 3,314
Total investment income	$ 1,465	$ 1,317	$ 3,314
Total expenses	$ 1,229	$ 395	$ 869
Net investment income	$ 236	$ 922	$ 2,445
Net realized gain on investments	$ 120	—	$ —
Net unrealized depreciation on investments	$ (392)	$ (27)	$ (33)
Net (decrease) increase in net assets resulting from operations	$ (36)	$ 895	$ 2,412

Consolidated results of operations

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

Comparison of the three months ended September 30, 2020 and 2019

The following table shows consolidated results of operations for the three months ended September 30, 2020 and 2019:

	For the three months ended September 30,	
	2020	2019
	(In thousands)	
Total investment income	$ 12,331	$ 11,375
Total expenses	6,471	5,602
Net investment income	5,860	5,773
Net realized gain (loss) on investments	1,178	(424)
Net unrealized depreciation on investments	(10,288)	(143)
Net (decrease) increase in net assets resulting from operations	$ (3,250)	$ 5,206
Average debt investments, at fair value	$ 325,809	$ 246,648
Average borrowings outstanding	$ 194,973	$ 135,232

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

Investment income

Total investment income increased by $1.0 million, or 8.4%, to $12.3 million for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019. For the three months ended September 30, 2020, total investment income consisted primarily of $11.1 million in interest income from investments, which included $2.9 million in income from the accretion of origination fees and ETPs and $1.2 million in fee income. Interest income on debt investments increased by $2.0 million, or 21.4%, to $11.1 million for the three months ended September 30, 2020 compared to the three months ended September 30, 2019. Interest income on debt investments for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019 increased primarily due to an increase of $79.2 million, or 32.1%, in the average size of our debt investment portfolio, partially offset by a decrease in one-month LIBOR which is the base rate for most of our variable rate debt investments. Fee income, which includes success fee, other fee and prepayment fee income on debt investments, decreased by $0.5 million, or 31.7%, to

$1.2 million for the three months ended September 30, 2020 compared to the three months ended September 30, 2019 primarily due to lower fee income earned on prepayments.

The following table shows our dollar-weighted annualized yield for the three months ended September 30, 2020 and 2019:

Investment type:	For the three months ended September 30, 2020	2019
Debt investments[1][2]	15.1 %	17.7 %
Equity interest in HSLFI and debt investments[1][3]	— %	17.5 %
Equity interest in HSLFI[1][4]	— %	13.5
All investments[1][5]	14.6 %	16.4 %

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

(2) Excludes any yield from warrants, equity, other investments and equity interest in HSLFI. Related investment income includes interest income and fee income from debt investments.

(3) Excludes any yield from warrants, equity and other investments. Related investment income includes interest income and fee income from debt investments and dividend income from equity interest in HSLFI. There was no equity interest in HSLFI for the three months ended September 30, 2020.

(4) Excludes any yield from debt investments, warrants, equity and other investments. Related investment income includes dividend income from equity interest in HSLFI. There was no equity interest in HSLFI for the three months ended September 30, 2020.

(5) Includes any yield from debt investments, warrants, equity, other investments and equity interest in HSFLI. Related investment income includes interest income, fee income and dividend income.

Investment income, consisting of interest income and fees on debt investments, can fluctuate significantly upon repayment of large debt investments. Interest income from the five largest debt investments in the aggregate accounted for 29% and 24% of investment income for the three months ended September 30, 2020 and 2019, respectively.

Expenses

Net expenses increased by $0.9 million, or 15.5%, to $6.5 million for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019. Total expenses for each period consisted of interest expense, base management fee, incentive and administrative fees, professional fees and general and administrative expenses.

Interest expense increased by $0.6 million, or 27.4%, to $2.6 million for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019. Interest expense, which includes the amortization of debt issuance costs, increased primarily due to an increase in average borrowings of $59.7 million, or 44.2%, offset by a reduction in our effective cost of debt, for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019.

Base management fee expense increased by $0.2 million, or 15.9%, to $1.6 million for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019. Base management fee increased primarily due to an increase of $79.2 million, or 32.1%, in the average size of our investment portfolio for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019, offset by the reduced management fee rate on which the base management fee is calculated for assets in excess of $250 million.

On March 5, 2019, our Advisor irrevocably waived the receipt of incentive fees related to the amounts previously deferred that it may be entitled to receive under the Investment Management Agreement for the period commencing on January 1, 2019 and ending on December 31, 2019. Such waived incentive fees will not be subject to recoupment. During the three months ended September 30, 2019, our Advisor did not waive performance based incentive fees as the total amount previously deferred had been completely earned and waived by our Advisor.

Performance based incentive fee expense, net of the waiver above, increased by $0.02 million, or 1.5%, to $1.5 million for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019. This increase was due to an increase of $0.1 million, or 1.5%, in Pre-Incentive Fee Net Investment Income for the three months ended September 30, 2020 compared to the three months ended September 30, 2019.

Administrative fee expense, professional fees and general and administrative were $0.8 million and $0.7 million for the three months ended September 30, 2020 and 2019, respectively.

Net realized gains and losses and net unrealized appreciation and depreciation

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

During the three months ended September 30, 2020, we realized net gains totaling $1.2 million primarily due to the realized gain from the exercise and sale of one of our warrant investments and the termination of another warrant investment. During the three months ended September 30, 2019, we realized net losses totaling $0.4 million primarily due to the sale of one of our royalty agreements which was included in other investments and partially offset by a realized gain from the sale of one of our warrant investments.

During the three months ended September 30, 2020, net unrealized depreciation on investments totaled $10.3 million which was primarily due to the unrealized depreciation on two of our debt investments. During the three months ended September 30, 2019, net unrealized depreciation on investments totaled $0.1 million which was primarily due to (1) a reversal of previously recorded unrealized depreciation on one of our royalty agreements which was included in other investments and (2) unrealized depreciation on one of our other investments.

Comparison of the nine months ended September 30, 2020 and 2019

The following table shows consolidated results of operations for the nine months ended September 30, 2020 and 2019:

	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
	(In thousands)	
Total investment income	35,969	$ 30,150
Total expenses	19,120	17,980
Performance based incentive fee waived	—	(1,848)
Net expenses	19,120	16,132
Net investment income	16,849	14,018
Net realized gain (loss) on investments	3,945	(3,871)
Net unrealized (depreciation) appreciation on investments	(16,827)	2,622
Net increase in net assets resulting from operations	$ 3,967	$ 12,769
Average debt investments, at fair value	$ 313,633	$ 235,391
Average borrowings outstanding	$ 177,708	$ 129,661

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

Investment income

Total investment income increased by $5.8 million, or 19.3%, to $36.0 million for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019. For the nine months ended September 30, 2020, total investment income consisted primarily of $32.8 million in interest income from investments, which included $8.3 million in income from the accretion of origination fees and ETPs, $3.0 million in fee income and $0.1 million in dividend income. Interest income on debt investments increased by $6.7 million, or 25.9%, to $32.8 million for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. Interest income on debt investments for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019 increased primarily due to an increase of $78.2 million, or 33.2%, in the average size of our debt investment portfolio, partially offset by a decrease in one-month LIBOR which is the base rate for most of our variable rate debt investments. Fee income, which includes success fee, other fee and prepayment fee income on debt investments, increased by $0.2 million, or 6.3%, to $3.0 million for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 primarily due to an increase in fees earned on higher principal prepayments received.

The following table shows our dollar-weighted annualized yield for the nine months ended September 30, 2020 and 2019:

Investment type:	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
Debt investments(1)(2)	15.2 %	16.4 %
Equity interest in HSLFI and debt investments(1)(3)	15.0 %	16.2 %
Equity interest in HSLFI(1)(4)	— %	12.2 %
All investments(1)(5)	14.4 %	15.1 %

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

(2) Excludes any yield from warrants, equity, other investments and equity interest in HSLFI. Related investment income includes interest income and fee income from debt investments.

(3) Excludes any yield from warrants, equity and other investments. Related investment income includes interest income and fee income from debt investments and dividend income from equity interest in HSLFI.

(4) Excludes any yield from debt investments, warrants, equity and other investments. Related investment income includes dividend income from equity interest in HSLFI.

(5) Includes any yield from debt investments, warrants, equity, other investments and equity interest in HSFLI. Related investment income includes interest income, fee income and dividend income.

Investment income, consisting of interest income and fees on debt investments, can fluctuate significantly upon repayment of large debt investments. Interest income from the five largest debt investments in the aggregate accounted for 25% and 24% of investment income for the nine months ended September 30, 2020 and 2019, respectively.

Expenses

Net expenses increased by $3.0 million, or 18.5%, to $19.1 million for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019. Total expenses for each period consisted of interest expense, base management fee, incentive and administrative fees, professional fees and general and administrative expenses.

Interest expense increased by $1.1 million, or 18.1%, to $7.3 million for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019. Interest expense, which includes the amortization of debt issuance costs, increased primarily due to an increase in average borrowings of $48.0 million, or 37.1%, offset by a reduction in our effective cost of debt, for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019.

Base management fee expense increased by $0.8 million, or 20.0%, to $4.9 million for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019. Base management fee increased primarily due to an increase of $78.2 million, or 33.2%, in the average size of our investment portfolio for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019, offset by the reduced management fee rate on which the base management fee is calculated for assets in excess of $250 million.

On March 5, 2019, our Advisor irrevocably waived the receipt of incentive fees related to the amounts previously deferred that it may be entitled to receive under the Investment Management Agreement for the period commencing on January 1, 2019 and ending on December 31, 2019. Such waived incentive fees will not be subject to recoupment. During the nine months ended September 30, 2019, our Advisor waived performance based incentive fees of $1.8 million which our Advisor would have otherwise been paid. This resulted in $1.8 million of reduced expense and additional net investment income for the nine months ended September 30, 2019.

Performance based incentive fee expense, net of the waiver above, increased by $0.7 million, or 20.2%, to $4.2 million for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019 . This increase was due to an increase of $3.5 million, or 20.2%, in Pre-Incentive Fee Net Investment Income for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019.

Administrative fee expense, professional fees and general and administrative were $2.7 million and $2.4 million for the nine months ended September 30, 2020 and 2019, respectively.

Net realized gains and losses and net unrealized appreciation and depreciation

Realized gains or losses on investments are measured by the difference between the net proceeds from the repayment or sale and the cost basis of our investments without regard to unrealized appreciation or depreciation previously recognized. Realized gains or losses on investments include investments charged off during the period, net of recoveries.

The net change in unrealized appreciation or depreciation on investments primarily reflects the change in portfolio investment fair values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized.

During the nine months ended September 30, 2020, we realized net gains totaling $3.9 million primarily due to the realized gain from the consideration we received from the exercise and sale of warrants in five portfolio companies offset by the realized loss on the settlement of one of our debt investmetns. During the nine months ended September 30, 2019, we realized net losses totaling $3.9 million primarily due to the expiration of one of our royalty agreements which was included in other investments which was partially offset by a gain on the sale of our equity investment in one portfolio company and from the consideration we received from the termination of warrants upon the sale of two portfolio companies.

During the nine months ended September 30, 2020, net unrealized depreciation on investments totaled $16.8 million which was primarily due to the unrealized depreciation on four of our debt investments. During the nine months ended September 30, 2019, net unrealized appreciation on investments totaled $2.7 million which was primarily due to the net unrealized appreciation on two of our royalty agreements which were included in other investments and the unrealized appreciation on one of our equity investments, partially offset by the unrealized depreciation on one of our debt investments.

Liquidity and capital resources

As of September 30, 2020 and December 31, 2019, we had cash and investments in money market funds of $56.9 million and $16.3 million, respectively. Cash is available to fund new investments, reduce borrowings, pay expenses, repurchase common stock and pay distributions. In addition, as of September 30, 2020 and December 31, 2019, we had $0.8 million and $1.1 million, respectively, of restricted investments in money market funds. Restricted investments in money market funds may be used to make monthly interest and principal payments on our Asset-Backed Notes. Our primary sources of capital have been from our public and private equity offerings, use of our revolving credit facilities and issuance of our public debt offerings.

On March 26, 2019, we completed a follow-on public offering of 2,000,000 shares of our common stock at a public offering price of $12.14 per share, for total net proceeds to us of $23.1 million, after deducting underwriting commission and discounts and other offering expenses.

On August 2, 2019 we entered into an At-The-Market, or ATM, sales agreement, or the Prior Equity Distribution Agreement, with Goldman Sachs & Co. LLC and B. Riley FBR, Inc., each a Sales Agent and, collectively, the Sales Agents. The Prior Equity Distribution Agreement provided that we may offer and sell shares of common stock from time to time through the Sales Agents representing up to $50.0 million worth of our common stock, in amounts and at times to be determined by us.

On July 30, 2020, we terminated the Prior Equity Distribution Agreement and entered into a new ATM sales agreement, or the Equity Distribution Agreement, with the Sales Agents. The remaining shares available under the Prior Equity Distribution Agreement are no longer available for issuance. The Equity Distribution Agreement provides that we may offer and sell our shares from time to time through the Sales Agents up to $100.0 million worth of its common stock, in amounts and at times to be determined by us. Sales of our common stock, if any, may be made in negotiated transactions or transactions that are deemed to be "at-the-market," as defined in Rule 415 under the Securities Act, including sales made directly on the NASDAQ or similar securities exchange or sales made to or through a market maker other than on an exchange, at prices related to the prevailing market prices or at negotiated prices

During the three months ended September 30, 2020, we sold 1,069,259 shares of common stock under the Equity Distribution Agreement. For the same period, we received total accumulated net proceeds of approximately $12.7 million, including $0.3 million of offering expenses, from these sales.

During the nine months ended September 30, 2020, we sold 2,787,160 shares of common stock under the Prior Equity Distribution Agreement and the Equity Distribution Agreement. For the same period, we received total accumulated net proceeds of approximately $33.8 million, including $0.8 million of offering expenses, from these sales.

On April 24, 2020, our Board extended a previously authorized stock repurchase program which allows us to repurchase up to $5.0 million of our common stock at prices below our net asset value per share as reported in our most recent consolidated financial statements. Under the repurchase program, we may, but are not obligated to, repurchase shares of our outstanding common stock in the open market or in privately negotiated transactions from time to time. Any repurchases by us will comply with the requirements of Rule 10b-18 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and any applicable requirements of the 1940 Act. Unless extended by our Board, the repurchase program will terminate on the earlier of June 30, 2021 or the repurchase of $5.0 million of our common stock. During the three and nine months ended September 30, 2020 and 2019, we did not make any repurchases of our common stock. From the inception of the stock repurchase program through September 30, 2020, we repurchased 167,465 shares of our common stock at an average price of $11.22 on the open market at a total cost of $1.9 million.

At September 30, 2020 and December 31, 2019, the outstanding principal balance under our revolving credit facility, or the Key Facility, with KeyBank National Association was $15.0 million and $17.0 million, respectively. As of September 30, 2020 and December 31, 2019, we had borrowing capacity under the Key Facility of $110.0 million and $108.0 million, respectively. At September 30, 2020 and December 31, 2019, $45.1 million and $24.2 million, respectively, were available, subject to existing terms and advance rates.

At September 30, 2020, the outstanding principal balance under the NYL Facility was $13.3 million. As of September 30, 2020, we had borrowing capacity under the NYL Facility of $86.8 million. At September 30, 2020, $2.2 million was available, subject to existing terms and advance rates.

Our operating activities provided cash of $11.9 million for the nine months ended September 30, 2020, and our financing activities provided cash of $28.4 million for the same period. Our operating activities provided cash primarily from principal payments received on our debt investments and proceeds from the sales of investments offset by purchases of investments in portfolio companies. Our financing activities provided cash primarily from advances on our credit facilities and the sale of shares through our ATM for net proceeds of $33.8 million, after deducting underwriting commission and discounts and other offering expenses, partially offset by cash used to repay our Key Facility and pay distributions to our stockholders.

Our operating activities used cash of $20.9 million for the nine months ended September 30, 2019, and our financing activities provided cash of $44.7 million for the same period. Our operating activities used cash primarily to purchase investments in portfolio companies partially offset by principal payments received on our debt investments. Our financing activities provided cash primarily from the sale of shares through a follow-on public offering and our ATM for net proceeds of $33.3 million, after deducting underwriting commission and discounts and other offering expenses and the completion of our securitization, partially offset by cash used to repay our Key Facility and pay distributions to our stockholders.

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

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

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

Current borrowings

The following table shows our borrowings as of September 30, 2020 and December 31, 2019:

	September 30, 2020			December 31, 2019		
	Total Commitment	Balance Outstanding	Unused Commitment	Total Commitment	Balance Outstanding	Unused Commitment
	(In thousands)					
Key Facility	$ 125,000	$ 15,000	$ 110,000	$ 125,000	$ 17,000	$ 108,000
NYL Facility	100,000	13,250	86,750	—	—	—
Asset-Backed Notes	100,000	100,000	—	100,000	100,000	—
2022 Notes	37,375	37,375	—	37,375	37,375	—
Total before debt issuance costs	362,375	165,625	196,750	262,375	154,375	108,000
Unamortized debt issuance costs attributable to term borrowings	—	(1,936)	—	—	(2,325)	—
Total borrowings outstanding, net	$ 362,375	$ 163,689	$ 196,750	$ 262,375	$ 152,050	$ 108,000

We entered into the Key Facility effective November 4, 2013. The interest rate on the Key Facility is based upon the one-month LIBOR plus a spread of 3.25%, with a LIBOR floor of 1.00%. The LIBOR rate was 0.15% and 1.76% as of September 30, 2020 and December 31, 2019, respectively. The interest rates in effect were 4.25% and 4.94% as of September 30, 2020 and December 31, 2019, respectively. The Key Facility requires the payment of an unused line fee in an amount equal to 0.50% of any unborrowed amount available under the facility annually.

The Key Facility has an accordion feature which allows for an increase in the total loan commitment to $150 million. On June 29, 2020, we amended the Key Facility, among other things, to amend the LIBOR floor from 0.75% to 1.00% and to extend the period during which we may request advances under the Key Facility, or the Revolving Period, to September 30, 2021. The Key Facility is collateralized by debt investments held by Horizon Credit II LLC, or Credit II, and permits an advance rate of up to fifty percent (50%) of eligible debt investments held by Credit II. The Key Facility contains covenants that, among other things, require us to maintain a minimum net worth, to restrict the debt investments securing the Key Facility to certain criteria for qualified debt investments and to comply with portfolio company concentration limits as defined in the related loan agreement. After the Revolving Period, we may not request new advances, and we must repay the outstanding advances under the Key Facility as of such date, at such times and in such amounts as are necessary to maintain compliance with the terms and conditions of the Key Facility, particularly the condition that the principal balance of the Key Facility not exceed fifty percent (50%) of the aggregate principal balance of our eligible debt investments to our portfolio companies. The maturity of the Key Facility, the date on which all outstanding advances under the Key Facility are due and payable, is on April 6, 2023.

On September 29, 2017, we issued and sold an aggregate principal amount of $32.5 million of our 6.25% notes due 2022, or the 2022 Notes, and on October 11, 2017, pursuant to the underwriters' 30-day option to purchase additional notes, we sold an additional $4.9 million of the 2022 Notes. The 2022 Notes have a stated maturity of September 15, 2022 and may be redeemed in whole or in part at our option at any time or from time to time on or after September 15, 2019 at a redemption price of $25 per security plus accrued and unpaid interest. The 2022 Notes bear interest at a rate of 6.25% per year payable quarterly on March 15, June 15, September 15 and December 15 of each year. The 2022 Notes are our direct, unsecured obligations and (1) rank equally in right of payment with our current and future unsecured indebtedness; (2) are senior in right of payment to any of our future indebtedness that expressly provides it is subordinated to the 2022 Notes; (3) are effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness and (4) are structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries. As of September 30, 2020, we were in material compliance with the terms of the 2022 Notes. The 2022 Notes are listed on the New York Stock Exchange under the symbol "HTFA".

On August 13, 2019, the Asset-Backed Notes were issued by the 2019-1 Trust pursuant to a note purchase agreement, dated as of August 13, 2019, by and among us and Keybanc Capital Markets Inc. as Initial Purchaser, and are backed by a pool of loans made to certain portfolio companies of ours and secured by certain assets of those portfolio companies and are to be serviced by us. Interest on the Asset-Backed Notes will be paid, to the extent of funds available, at a fixed rate of 4.21% per annum. The Asset-Backed Notes have a two-year reinvestment period and a stated maturity of September 15, 2027. The Asset-Backed Notes were rated A+(sf) by Morningstar Credit Ratings, LLC on August 13, 2019. There has been no change in the rating since August 13, 2019.

At September 30, 2020, and December 31, 2019, the Asset-Backed Notes had an outstanding principal balance of $100.0 million.

Under the terms of the Asset-Backed Notes, we are required to maintain a reserve cash balance, funded through proceeds from the sale of the Asset-Backed Notes, which may be used to pay monthly interest and principal payments on the Asset-Backed Notes. The Company has segregated these funds and classified them as restricted investments in money market funds. At September 30, 2020, and December 31, 2019, there was approximately $0.8 million and $1.1 million, respectively, of restricted investments.

On April 21, 2020, we purchased all of the limited liability company interests of Arena in HSLFI, including, which is a party to the NYL Facility. HFI entered into the NYL Facility with the Noteholders for an aggregate purchase price of up to $100.0 million, with an accordion feature of up to $200.0 million at the mutual discretion and agreement of HSLFI and the Noteholders. On June 1, 2018, HSLFI sold or contributed to HFI certain secured loans made to certain portfolio companies pursuant to into the Sale and Servicing Agreement. Any notes issued by HFI are 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.

On June 5, 2020, we amended the NYL Facility to extend the investment period to June 5, 2022. The investment period will be followed by a five year amortization period. The stated final payment date was extended to June 15, 2027, subject to any extension of the investment period. The interest rate on the notes issued under the NYL Facility is based on the three year USD mid-market swap rate plus a margin of between 3.55% and 5.15% with an interest rate floor, depending on the rating of such notes at the time of issuance. Any obligation to make additional advances was conditioned on the occurrence of certain conditions, which were satisfied June 26, 2020. There were $13.3 million in advances made by the Noteholders as of September 30, 2020 at an interest rate of 4.60%.

Other assets

As of September 30, 2020 and December 31, 2019, other assets were $1.9 million and $1.5 million, respectively, which is primarily comprised of debt issuance costs and prepaid expenses.

Contractual obligations and off-balance sheet arrangements

The following table shows our significant contractual payment obligations and off-balance sheet arrangements as of September 30, 2020:

	Payments due by period				
	Total	Less than 1 year	1 – 3 Years	3 – 5 Years	After 5 years
	(In thousands)				
Borrowings	$ 165,625	$ 23,188	$ 118,600	$ 23,837	$ —
Unfunded commitments	80,875	55,875	25,000	—	—
Total	$ 246,500	$ 79,063	$ 143,600	$ 23,837	$ —

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our unfunded commitments may be significant from time to time. As of September 30, 2020, we had such unfunded commitments of $80.9 million. This includes no undrawn revolver commitments. These commitments are subject to the same underwriting and ongoing portfolio maintenance requirements as are the financial instruments that we hold on our balance sheet. In addition, these commitments are often subject to financial or non-financial milestones and other conditions to borrowing that must be achieved before the commitment can be drawn. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. We regularly monitor our unfunded commitments and anticipated refinancings, maturities and capital raising, to ensure that we have sufficient liquidity to fund such unfunded commitments. As of September 30, 2020, we reasonably believed that our assets would provide adequate financial resources to satisfy all of our unfunded commitments.

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

Distributions

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

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

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

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

Related party transactions

We have entered into the Investment Management Agreement with the Advisor. The Advisor is registered as an investment adviser under the Investment Advisers Act of 1940, as amended. Our investment activities are managed by the Advisor and supervised by the Board, the majority of whom are independent directors. Under the Investment Management Agreement, we have agreed to pay the Advisor a base management fee as well as an incentive fee. During the three months ended September 30, 2020 and 2019, the Advisor earned $3.1 million and $2.8 million, respectively, pursuant to the Investment Management Agreement. During the nine months ended September 30, 2020 and 2019, the Advisor earned $9.1 million and $7.6 million, respectively, pursuant to the Investment Management Agreement.

Through March 6, 2019, our Advisor was 60% owned by HTF Holdings LLC, which was wholly-owned by Horizon Technology Finance Principals LLC f/k/a Horizon Technology Finance, LLC (“HTF Principals”). HTF Principals was wholly-owned by Robert D. Pomeroy, Jr. and Gerald A. Michaud. By virtue of their ownership interest in HTF Principals, our Chief Executive Officer, Robert D. Pomeroy, Jr. and our President, Gerald A. Michaud controlled our Advisor. Effective as of March 7, 2019, HTF Principals owns seventy-five percent (75%) of the Advisor. By virtue of their ownership interest in Horizon Principals, our Chief Executive Officer, Robert D. Pomeroy, Jr. and our President, Gerald A. Michaud control our Advisor.

We have also entered into the Administration Agreement with the Advisor. Under the Administration Agreement, we have agreed to reimburse the Advisor for our allocable portion of overhead and other expenses incurred by the Advisor in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Financial Officer and Chief Compliance Officer and their respective staffs. In addition, pursuant to the terms of the Administration Agreement the Advisor provides us with the office facilities and administrative services necessary to conduct our day-to-day operations. During the three months ended September 30, 2020 and 2019, the Advisor earned $0.2 million, pursuant to the Administration Agreement. During the nine months ended September 30, 2020 and 2019, the Advisor earned $0.7 million and $0.6 million, respectively, pursuant to the Administration Agreement.

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

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

Critical accounting policies

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

We have identified the following items as critical accounting policies.

Valuation of investments

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

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

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

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

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

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

Income recognition

Interest on debt investments is accrued and included in income based on contractual rates applied to principal amounts outstanding. Interest income is determined using a method that results in a level rate of return on principal amounts outstanding. Generally, when a debt investment becomes 90 days or more past due, or if we otherwise do not expect to receive interest and principal repayments, the debt investment is placed on non-accrual status and the recognition of interest income may be discontinued. Interest payments received on non-accrual debt investments may be recognized as income, on a cash basis, or applied to principal depending upon management's judgment at the time the debt investment is placed on non-accrual status. For the three and nine months ended September 30, 2020, we recognized as interest income interest payments of $0.03 million received from one portfolio company whose debt investment was on non-accrual status. For the three and nine months ended September 30, 2019, we did not recognize any interest income from debt investments on non-accrual status.

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

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

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

Prior to consolidating the investment of HSLFI on and after April 21, 2020, distributions from HSLFI were evaluated at the time of distribution to determine if the distribution should be recorded as dividend income or a return of capital. Generally, we did not record distributions from HSLFI as dividend income unless there were sufficient accumulated tax-basis earnings and profit in HSLFI prior to distribution. Distributions that were classified as a return of capital were recorded as a reduction in the cost basis of the investment. For the period January 1, 2020 through April 21, 2020, there were no distributions from HSLFI. For the three and nine months ended September 30, 2019, HSLFI distributed $0.2 million and $0.7 million, respectively, classified as dividend income to us.

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

Income taxes

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

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

We evaluate tax positions taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority in accordance with ASC Topic 740, *Income Taxes*, as modified by ASC Topic 946, *Financial Services — Investment Companies*. Tax benefits of positions not deemed to meet the more-likely-than-not threshold, or uncertain tax positions, are recorded as a tax expense in the current year. It is our policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax expense. We had no material uncertain tax positions at September 30, 2020 and December 31, 2019.

Recent development

On July 8, 2020, Espero BioPharma, Inc. and its affiliates, Jacksonville Pharmaceuticals, Inc. and Espero Pharmaceuticals, Inc. (collectively, "Espero") assigned substantially all of their assets to their respective assignment estates and respectively appointed PSE (ABC), LLC, PS PJAX (ABC), LLC, and PPSE (ABC), LLC (collectively, "Espero ABC") to administer their respective estates and to facilitate the orderly sale and liquidation of their property and assets. On October 6, 2020, the Court of Chancery of the State of Delaware approved the transfer of the assets of Espero to us and Credit II or our designees in consideration for our and Credit II's credit bid at auction of $7.0 million. On October 22, 2020, Espero ABC transferred the assets of Espero to HESP LLC, a Delaware limited liability company, wholly owned by us.

Recently issued accounting pronouncement

In March 2020, the Financial Accounting Standards Board issued Accounting Standards Update No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, or ASU 2020-04. ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another rate that is expected to be discontinued. The amendments in ASU 2020-04 are effective for all entities as of March 12, 2020 through December 31, 2022. We are currently assessing the impact of ASU 2020-04 and the LIBOR transition on our consolidated financial statements.

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

We are subject to financial market risks, including changes in interest rates. During the periods covered by our financial statements, the interest rates on the debt investments within our portfolio were primarily at floating rates. We expect that our debt investments in the future will primarily have floating interest rates. As of September 30, 2020 and December 31, 2019, 100% and 99%, respectively, of the outstanding principal amount of our debt investments bore interest at floating rates. The initial commitments to lend to our portfolio companies are usually based on either a floating LIBOR index or the Prime Rate as published in the Wall Street Journal.

Based on our September 30, 2020 consolidated statement of assets and liabilities (without adjustment for potential changes in the credit market, credit quality, size and composition of assets on the consolidated statement of assets and liabilities or other business developments that could affect net income) and the base index rates at September 30, 2020, the following table shows the annual impact on the change in net assets resulting from operations of changes in interest rates, which assumes no changes in our investments and borrowings:

Change in basis points	Investment Income	Interest Expense	Change in Net Assets(1)
		(In thousands)	
Up 300 basis points	$ 3,882	$ 328	$ 3,554
Up 200 basis points	$ 1,422	$ 176	$ 1,246
Up 100 basis points	$ 392	$ 24	$ 368
Down 300 basis points	$ —	$ —	$ —
Down 200 basis points	$ —	$ —	$ —
Down 100 basis points	$ —	$ —	$ —

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

While our 2022 Notes and our Asset-Backed Notes bear interest at a fixed rate, our Key Facility and our NYL Facility have a floating interest rate provision. The Key Facility is subject to a floor of 1.00% per annum, based on a LIBOR index which resets monthly and the NYL Facility is based on the three year USD mid-market swap rate plus a margin of between 3.55% and 5.15% with an interest rate floor, depending on the rating of such notes at the time of issuance. Any other credit facilities into which we enter in the future may have floating interest rate provisions. We have used hedging instruments in the past to protect us against interest rate fluctuations, and we may use them in the future. Such instruments may include caps, swaps, futures, options and forward contracts. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the investments in our portfolio with fixed interest rates. Engaging in commodity interest transactions such as swap transactions or futures contracts for the Company may cause the Investment Adviser to fall within the definition of “commodity pool operator” under the Commodity Exchange Act (the “CEA”) and related Commodity Futures Trading Commission (the “CFTC”) regulations. On January 31, 2020, the Investment Adviser claimed an exclusion from the definition of the term “commodity pool operator” under the CEA and the CFTC regulations in connection with its management of the Company and, therefore, is not subject to CFTC registration or regulation under the CEA as a commodity pool operator with respect to its management of the Company.

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

Item 4. *Controls and Procedures*

(a) Evaluation of disclosure controls and procedures

As of September 30, 2020, we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

(b) Changes in internal controls over financial reporting.

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

PART II

Item 1: Legal Proceedings.

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

Item 1A: Risk Factors.

In addition to other information set forth in this report, you should carefully consider the factors set forth below and in “Item 1A Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2019, which could materially affect our business, financial condition and/or operating results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results. There have been no material changes during the nine months ended September 30, 2020 to the risk factors set forth in “Item 1A. Risk Factors” of our annual report on Form 10-K for the year ended December 31, 2019, except as set forth below.

The COVID-19 pandemic could materially and adversely affect our portfolio companies and the results of our operations.

Social, political, economic and other conditions and events will occur that create uncertainty and have significant impacts on issuers, industries, governments and other systems, including the financial markets, to which the Company and its investments are exposed. In addition, global economies and financial markets are increasingly interconnected, and political, economic and other conditions and events in one country, region, or financial market may adversely impact issuers in a different country, region or financial market. Furthermore, the occurrence of, among other events, natural or man-made disasters, severe weather or geological events, fires, floods, earthquakes, outbreaks of disease (such as COVID-19, avian influenza or H1N1/09), epidemics, pandemics, malicious acts, cyber-attacks, terrorist acts or the occurrence of climate change, also adversely impact our performance from time to time. Such events may result in, and have resulted in, closing borders, securities exchange closures, health screenings, healthcare service delays, quarantines, cancellations, supply chain disruptions, lower consumer demand, market volatility and general uncertainty. Such events have adversely impacted, and may continue to adversely impact our portfolio companies and markets and economies over the short- and long-term, including in ways that cannot necessarily be foreseen. We have been, and may continue to be negatively impacted if the value of our portfolio company holdings were harmed by such political or economic conditions or events. Moreover, such negative political and economic conditions and events have disrupted, and could continue to disrupt the processes necessary for our operations. This has created, and may continue to create widespread business continuity issues for us and our portfolio companies and heightened cybersecurity, information security and operational risks as a result of, among other things, remote work arrangements.

For example, in December 2019, COVID-19 emerged in China and has since spread rapidly to other countries, including the United States. This outbreak has led, and for an unknown period of time will continue to lead, to disruptions in local, regional, national and global markets and economies affected thereby. The global impact of the outbreak is rapidly evolving, and many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. While several countries, as well as certain states in the United States, have liberalized public health restrictions as to further reopen their economies, recurring COVID-19 outbreaks have led to the re-introduction of such restrictions in certain states in the United States and globally and could continue to lead to the re-introduction of such restrictions elsewhere. Even after the COVID-19 pandemic subsides, the U.S. economy and most other major global economies may continue to experience a recession, and we anticipate our business and operations could be materially adversely affected by a prolonged recession in the U.S. and other major markets. With respect to the U.S. credit markets (in particular for middle market loans), this outbreak has resulted in, and until fully resolved is likely to continue to result in, the following, among other things: (i) government imposition and/or re-imposition of various forms of shelter-in-place orders and the closing of "non-essential" businesses, resulting in significant disruption to the businesses of many middle-market loan borrowers including supply chains, demand and practical aspects of their operations, as well as furloughs or lay-offs of employees (while such measures are hoped to be temporary, their impact may persist or become permanent); (ii) increased draws by borrowers on revolving lines of credit; (iii) increased requests by borrowers for amendments, forbearance agreements and waivers of provisions of their credit agreements in order to avoid default, increased defaults by such borrowers and/or increased difficulty in obtaining refinancing at the maturity dates of their loans; (iv) volatility and disruption of these markets including greater volatility in pricing and spreads and difficulty in valuing loans during periods of increased volatility, and liquidity issues; and (v) rapidly evolving proposals and/or actions by state and federal governments to address problems in functioning of the markets and by businesses and the economy in general which will not necessarily adequately address the problems facing the loan market and middle market businesses. The COVID-19 outbreak is having, and any future outbreaks could have, an adverse impact on the markets and the economy in general, which could have a material adverse impact on, among other things, the ability of lenders to originate loans, the volume and type of loans originated, and the volume and type of amendments and waivers granted to borrowers and remedial actions taken in the event of a borrower default, each of which could negatively impact the amount and quality of loans available for investment by us and returns to us, among other things. As of the date of this quarterly report on Form 10-Q, it is impossible to determine the scope of this outbreak, or any future outbreaks, how long any such outbreak, market disruption or uncertainties may last, the effect any governmental actions will have or the full potential impact on us and our portfolio companies. Further, even after the pandemic subsides, the U.S. economy, as well as most other major global economies may continue to experience a recession, and we anticipate our business could be materially and adversely affected by a prolonged recession in the U.S. and other major markets.

Although it is impossible to predict the precise nature and consequences of these events, or of any political or policy decisions and regulatory changes occasioned by emerging events or uncertainty on applicable laws or regulations that impact us, our portfolio companies and our investments, it is clear that these types of events are impacting and will, for at least some time, continue to impact us and our portfolio companies. In many instances, the impact will be adverse and profound. For example, middle market companies in which we may invest are being significantly impacted by these emerging events and the uncertainty caused by these events. The effects of a public health emergency may materially and adversely impact (i) the value and performance of us and our portfolio companies, (ii) the ability of our borrowers to continue to meet loan covenants or repay loans provided by us on a timely basis or at all, which may require us to restructure our investments or write down the value of our investments, (iii) our ability to comply with the covenants and other terms of our debt obligations and to repay such obligations, on a timely basis or at all, (iv) our ability to comply with certain regulatory requirements, such as asset coverage requirements under the 1940 Act, (v) our ability maintain our distributions at their current level or to pay them at all or (vi) our ability to source, manage and divest investments and achieve our investment objectives, all of which could result in significant losses to us. We will also be negatively affected if the operations and effectiveness of any of our portfolio companies (or any of the key personnel or service providers of the foregoing) is compromised or if necessary or beneficial systems and processes are disrupted.

Disruptions in the capital markets caused by the COVID-19 pandemic have increased the spread between the yields realized on risk-free and higher risk securities, resulting in illiquidity in parts of the capital markets. These and future market disruptions and/or illiquidity can be expected to have an adverse effect on our business, financial condition, results of operations and cash flows. Unfavorable economic conditions also would be expected to increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events have limited and could continue to limit our investment originations, limit our ability to grow and have a material negative impact on our and our portfolio companies' operating results and the fair values of our debt and equity investments.

We are currently operating in a period of capital markets disruption and economic uncertainty.

The U.S. capital markets have experienced extreme volatility and disruption following the spread of COVID-19 in the United States. Some economists and major investment banks have expressed concern that the continued spread of the virus globally could lead to a world-wide economic downturn. Disruptions in the capital markets have increased the spread between the yields realized on risk-free and higher risk securities, resulting in illiquidity in parts of the capital markets. These and future market disruptions and/or illiquidity would be expected to have an adverse effect on our business, financial condition, results of operations and cash flows. Unfavorable economic conditions also would be expected to increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events have limited and could continue to limit our investment originations, limit our ability to grow and have a material negative impact on our operating results and the fair values of our debt and equity investments.

Terrorist attacks, acts of war, natural disasters, disease outbreaks or pandemics may impact our portfolio companies and harm our business, operating results and financial condition.

Terrorist acts, acts of war, natural disasters, disease outbreaks, pandemics, or other similar events may disrupt our operations, as well as the operations of our portfolio companies. Such acts have created, and continue to create, economic and political uncertainties and have contributed to recent global economic instability. Future terrorist activities, military or security operations, natural disasters, disease outbreaks, pandemics, or other similar events could further weaken the domestic/global economies and create additional uncertainties, which may negatively impact our portfolio companies and, in turn, could have a material adverse impact on our business, operating results, and financial condition. Losses from terrorist attacks and natural disasters are generally uninsurable.

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

None.

Item 3: Defaults Upon Senior Securities.

None.

Item 4: Mine Safety Disclosures.

Not applicable

Item 5: Other Information.

None.

Item 6: Exhibits.

EXHIBIT INDEX

Exhibit No.	Description
31.1*	Certifications by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended
31.2*	Certifications by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended

* Filed herewith

SIGNATURES

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

	HORIZON TECHNOLOGY FINANCE CORPORATION	
Date: November 3, 2020	By:	/s/ Robert D. Pomeroy, Jr.
	Name:	Robert D. Pomeroy, Jr.
	Title:	Chief Executive Officer and Chairman of the Board
Date: November 3, 2020	By:	/s/ Daniel R. Trolio
	Name:	Daniel R. Trolio
	Title:	Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14 AND 15d-14, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Robert D. Pomeroy, Jr., as Chief Executive Officer and Chairman of the Board of Horizon Technology Finance Corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Horizon Technology Finance Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2020

By: /s/ Robert D. Pomeroy, Jr.
Chief Executive Officer and
Chairman of the Board

EXHIBIT 31.2

CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14 AND 15d-14, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Daniel R. Trolio, as Chief Financial Officer of Horizon Technology Finance Corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Horizon Technology Finance Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2020

By: /s/ Daniel R. Trolio
Daniel R. Trolio
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

In connection with the Quarterly Report on Form 10-Q of Horizon Technology Finance Corporation (the “Company”) for the quarterly period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert D. Pomeroy, Jr., as Chief Executive Officer and Chairman of the Board, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002, as amended, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert D. Pomeroy, Jr.

Name:	**Robert D. Pomeroy, Jr.**
Title:	**Chief Executive Officer and Chairman of the Board**
Date:	November 3, 2020

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

In connection with the Quarterly Report on Form 10-Q of Horizon Technology Finance Corporation (the “Company”) for the quarterly period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Daniel R. Trolio, as Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002, as amended, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Daniel R. Trolio

Name: **Daniel R. Trolio**
Title: **Chief Financial Officer**

Date: November 3, 2020