

New Mountain Finance Corp
Form 10-Q
August 03, 2016

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarter Ended June 30, 2016

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number	Exact name of registrant as specified in its charter, address of principal executive offices, telephone numbers and states or other jurisdictions of incorporation or organization	I.R.S. Employer Identification Number
814-00832	New Mountain Finance Corporation 787 Seventh Avenue, 48th Floor New York, New York 10019 Telephone: (212) 720-0300 State of Incorporation: Delaware	27-2978010

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 and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock.

Description	Shares as of August 3, 2016
Common stock, par value \$0.01 per share	63,756,888

Table of Contents

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2016

TABLE OF CONTENTS

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	<u>3</u>
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>New Mountain Finance Corporation</u>	
<u>Consolidated Statements of Assets and Liabilities as of June 30, 2016 (unaudited) and December 31, 2015 (unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Operations for the three and six months ended June 30, 2016 (unaudited) and June 30, 2015 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Changes in Net Assets for the six months ended June 30, 2016 (unaudited) and June 30, 2015 (unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2016 (unaudited) and June 30, 2015 (unaudited)</u>	<u>6</u>
<u>Consolidated Schedule of Investments as of June 30, 2016 (unaudited)</u>	<u>7</u>
<u>Consolidated Schedule of Investments as of December 31, 2015</u>	<u>18</u>
<u>Notes to the Consolidated Financial Statements of New Mountain Finance Corporation</u>	<u>29</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>62</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>63</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>89</u>
<u>Item 4. Controls and Procedures</u>	<u>90</u>
<u>PART II. OTHER INFORMATION</u>	<u>91</u>
<u>Item 1. Legal Proceedings</u>	<u>91</u>
<u>Item 1A. Risk Factors</u>	<u>91</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>91</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>92</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>92</u>
<u>Item 5. Other Information</u>	<u>92</u>
<u>Item 6. Exhibits</u>	<u>93</u>
<u>Signatures</u>	<u>95</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

New Mountain Finance Corporation

Consolidated Statements of Assets and Liabilities

(in thousands, except shares and per share data)

(unaudited)

	June 30, 2016	December 31, 2015
Assets		
Investments at fair value		
Non-controlled/non-affiliated investments (cost of \$1,383,739 and \$1,438,415, respectively)	\$ 1,321,957	\$ 1,377,515
Non-controlled/affiliated investments (cost of \$94,105 and \$89,047, respectively)	92,320	87,287
Controlled investments (cost of \$69,139 and \$41,254, respectively)	83,784	47,422
Total investments at fair value (cost of \$1,546,983 and \$1,568,716, respectively)	1,498,061	1,512,224
Securities purchased under collateralized agreements to resell (cost of \$30,000 and \$30,000, respectively)	29,630	29,704
Cash and cash equivalents	34,467	30,102
Interest and dividend receivable	15,272	13,832
Receivable from unsettled securities sold	3,600	—
Receivable from affiliates	953	360
Other assets	2,618	1,924
Total assets	\$ 1,584,601	\$ 1,588,146
Liabilities		
Borrowings		
Holdings Credit Facility	\$ 348,013	\$ 419,313
SBA-guaranteed debentures	121,745	117,745
Convertible Notes	115,000	115,000
NMFC Credit Facility	87,000	90,000
Unsecured Notes	50,000	—
Deferred financing costs (net of accumulated amortization of \$10,411 and \$8,822, respectively)	(13,915)	(13,992)
Net borrowings	707,843	728,066
Payable for unsettled securities purchased	15,832	5,441
Management fee payable	5,577	5,466
Incentive fee payable	5,449	5,622
Interest payable	2,749	2,343
Deferred tax liability	868	1,676
Payable to affiliates	437	564
Other liabilities	2,521	2,060
Total liabilities	741,276	751,238
Commitments and contingencies (See Note 9)		
Net assets		
Preferred stock, par value \$0.01 per share, 2,000,000 shares authorized, none issued	—	—
Common stock, par value \$0.01 per share, 100,000,000 shares authorized, 64,005,387 and 64,005,387 shares issued, respectively, and 63,756,888 and 64,005,387 shares outstanding, respectively	640	640
Paid in capital in excess of par	899,751	899,713

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Treasury stock at cost, 248,499 and 0 shares held, respectively	(2,948) —
Accumulated undistributed net investment income	4,146	4,164
Accumulated undistributed net realized gains on investments	2,383	1,342
Net unrealized (depreciation) appreciation (net of provision for taxes of \$868 and \$1,676, respectively)	(60,647	) (68,951)
Total net assets	\$843,325	\$ 836,908
Total liabilities and net assets	\$1,584,601	\$ 1,588,146
Number of shares outstanding	63,756,888	64,005,387
Net asset value per share	\$13.23	\$ 13.08

The accompanying notes are an integral part of these consolidated financial statements.

3

Table of Contents

New Mountain Finance Corporation

Consolidated Statements of Operations

(in thousands, except shares and per share data)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2016	2015	2016	2015
Investment income				
From non-controlled/non-affiliated investments:				
Interest income	\$36,302	\$33,767	\$72,008	\$65,621
Dividend income	92	201	92	102
Other income	997	320	2,219	1,877
From non-controlled/affiliated investments:				
Interest income	1,627	1,183	3,209	2,226
Dividend income	887	951	1,807	1,809
Other income	305	308	618	622
From controlled investments:				
Interest income	483	520	985	970
Dividend income	742	643	1,461	1,191
Other income	55	12	67	23
Total investment income	41,490	37,905	82,466	74,441
Expenses				
Incentive fee	5,449	5,057	10,834	9,935
Capital gains incentive fee	—	9	—	490
Total incentive fees	5,449	5,066	10,834	10,425
Management fee	6,818	6,198	13,654	12,666
Interest and other financing expenses	6,771	5,598	13,373	11,075
Professional fees	861	909	1,738	1,648
Administrative expenses	629	522	1,468	1,157
Other general and administrative expenses	384	453	816	882
Total expenses	20,912	18,746	41,883	37,853
Less: management fee waived (See Note 5)	(1,241)	(1,247)	(2,560)	(2,629)
Less: expenses waived and reimbursed (See Note 5)	(63)	—	(347)	(400)
Net expenses	19,608	17,499	38,976	34,824
Net investment income before income taxes	21,882	20,406	43,490	39,617
Income tax expense	50	153	91	302
Net investment income	21,832	20,253	43,399	39,315
Net realized gains (losses):				
Non-controlled/non-affiliated investments	865	(13,338)	1,041	(13,471)
Net change in unrealized appreciation (depreciation):				
Non-controlled/non-affiliated investments	13,532	11,970	(882)	10,508
Non-controlled/affiliated investments	1,126	1,600	(25)	728
Controlled investments	7,298	(86)	8,477	6,734
Securities purchased under collateralized agreements to resell	(44)	—	(74)	—
Benefit (provision) for taxes	84	(135)	808	(636)
Net realized and unrealized gains (losses)	22,861	11	9,345	3,863
Net increase in net assets resulting from operations	\$44,693	\$20,264	\$52,744	\$43,178
Basic earnings per share	\$0.70	\$0.35	\$0.83	\$0.74

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Weighted average shares of common stock outstanding - basic (See Note 11)	63,839,925	58,076,552	63,887,036	58,037,868
Diluted earnings per share	\$0.64	\$0.33	\$0.77	\$0.70
Weighted average shares of common stock outstanding - diluted (See Note 11)	71,117,056	55,313,497	71,164,167	55,265,931
Dividends declared and paid per share	\$0.34	\$0.34	\$0.68	\$0.68

The accompanying notes are an integral part of these consolidated financial statements.

4

Table of Contents

New Mountain Finance Corporation

Consolidated Statements of Changes in Net Assets
(in thousands, except shares and per share data)
(unaudited)

	Six Months Ended	
	June 30, 2016	June 30, 2015
Increase (decrease) in net assets resulting from operations:		
Net investment income	\$43,399	\$39,315
Net realized gains (losses) on investments	1,041	(13,471)
Net change in unrealized appreciation (depreciation) of investments	7,570	17,970
Net change in unrealized (depreciation) appreciation of securities purchased under collateralized agreements to resell	(74)	—
Benefit (provision) for taxes	808	(636)
Net increase in net assets resulting from operations	52,744	43,178
Capital transactions		
Deferred offering costs	38	59
Dividends declared to stockholders from net investment income	(43,417)	(39,465)
Reinvestment of dividends	—	2,384
Repurchase of shares under repurchase program	(2,948)	—
Total net decrease in net assets resulting from capital transactions	(46,327)	(37,022)
Net increase in net assets	6,417	6,156
Net assets at the beginning of the period	836,908	802,170
Net assets at the end of the period	\$843,325	\$808,326
Capital share activity		
Shares issued from reinvestment of dividends	—	163,931
Shares repurchased under repurchase program	(248,499)	—
Net (decrease) increase in shares outstanding	(248,499)	163,931

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

New Mountain Finance Corporation

Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Six Months Ended	
	June 30,	June 30,
	2016	2015
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$52,744	\$43,178
Adjustments to reconcile net (increase) decrease in net assets resulting from operations to net cash (used in) provided by operating activities:		
Net realized (gains) losses on investments	(1,041)	13,471
Net change in unrealized (appreciation) depreciation of investments	(7,570)	(17,970)
Net change in unrealized depreciation (appreciation) of securities purchased under collateralized agreements to resell	74	—
Amortization of purchase discount	(1,617)	(1,176)
Amortization of deferred financing costs	1,589	1,419
Non-cash investment income	(3,356)	(3,209)
(Increase) decrease in operating assets:		
Purchase of investments and delayed draw facilities	(163,888)	(187,045)
Proceeds from sales and paydowns of investments	198,211	315,219
Cash received for purchase of undrawn portion of revolving credit or delayed draw facilities	43	54
Cash paid for purchase of drawn portion of revolving credit facilities	—	(3,050)
Cash paid on drawn revolvers	(8,851)	(970)
Cash repayments on drawn revolvers	2,232	475
Interest and dividend receivable	(1,440)	288
Receivable from unsettled securities sold	(3,600)	8,912
Receivable from affiliates	(593)	128
Other assets	(423)	(1,162)
Increase (decrease) in operating liabilities:		
Payable for unsettled securities purchased	10,391	(26,460)
Management fee payable	111	(193)
Incentive fee payable	(173)	254
Interest payable	406	8
Deferred tax liability	(808)	636
Payable to affiliates	(127)	(362)
Capital gains incentive fee payable	—	490
Other liabilities	257	(658)
Net cash flows provided by operating activities	72,571	142,277
Cash flows from financing activities		
Dividends paid	(43,417)	(37,081)
Offering costs paid	(53)	(56)
Proceeds from Holdings Credit Facility	103,300	138,750
Repayment of Holdings Credit Facility	(174,600)	(247,000)
Proceeds from SBA-guaranteed debentures	4,000	17,500
Proceeds from NMFC Credit Facility	71,000	51,300
Repayment of NMFC Credit Facility	(74,000)	(63,300)
Proceeds from Unsecured Notes	50,000	—

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Deferred financing costs paid	(1,488)	(1,609)
Repurchase of shares under repurchase program	(2,948)	—
Net cash flows used in financing activities	(68,206)	(141,496)
Net increase in cash and cash equivalents	4,365	781
Cash and cash equivalents at the beginning of the period	30,102	23,445
Cash and cash equivalents at the end of the period	\$34,467	\$24,226
Supplemental disclosure of cash flow information		
Cash interest paid	\$10,960	\$9,303
Income taxes paid	3	143
Non-cash operating activities:		
Non-cash activity on investments	\$167	\$60,652
Non-cash financing activities:		
Value of shares issued in connection with dividend reinvestment plan	\$—	\$2,384
Accrual for offering costs	817	824
Accrual for deferred financing costs	106	127

The accompanying notes are an integral part of these consolidated financial statements.

6

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments

June 30, 2016

(in thousands, except shares)

(unaudited)

Portfolio Company, Location and Industry (1)	Type of Investment	Interest Rate(10)	Maturity / Expiration Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
Non-Controlled/Non-Affiliated Investments							
Funded Debt Investments - Australia							
Project Sunshine IV Pty Ltd**							
Media	First lien (2)	8.00% (L + 7.00%/M)	9/23/2019	\$ 7,755	\$ 7,725	\$ 7,523	0.89 %
Total Funded Debt Investments - Australia				\$ 7,755	\$ 7,725	\$ 7,523	0.89 %
Funded Debt Investments - Luxembourg							
Pinnacle Holdco S.à.r.l. / Pinnacle (US) Acquisition Co Limited**							
Software	Second lien (2)	10.50% (L + 9.25%/Q)	7/30/2020	\$ 24,630	\$ 24,349	\$ 17,240	
	Second lien (3)	10.50% (L + 9.25%/Q)	7/30/2020	8,204	8,329	5,743	
Total Funded Debt Investments - Luxembourg				\$ 32,834	\$ 32,678	\$ 22,983	2.73 %
Total Funded Debt Investments - Luxembourg				\$ 32,834	\$ 32,678	\$ 22,983	2.73 %
Funded Debt Investments - Netherlands							
Eiger Acquisition B.V. (Eiger Co-Borrower, LLC)**							
Software	Second lien (3)	10.13% (L + 9.13%/Q)	2/17/2023	\$ 10,000	\$ 9,337	\$ 9,450	1.12 %
Total Funded Debt Investments - Netherlands				\$ 10,000	\$ 9,337	\$ 9,450	1.12 %
Funded Debt Investments - United Kingdom							
Air Newco LLC**							
Software	Second lien (3)	10.50% (L + 9.50%/Q)	1/31/2023	\$ 32,500	\$ 31,774	\$ 30,265	3.59 %
Total Funded Debt Investments - United Kingdom				\$ 32,500	\$ 31,774	\$ 30,265	3.59 %
Funded Debt Investments - United States							

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Engility Corporation (fka TASC, Inc.)

Federal Services	First lien (2)	7.00% (L + 6.00%/Q)	5/22/2020	\$ 27,600	\$27,325	\$27,651	
	Second lien (3)	12.00%/M	5/21/2021	12,500	12,104	12,552	
	Second lien (3)	12.00%/M	5/21/2021	4,000	3,974	4,017	
				44,100	43,403	44,220	5.24 %
Deltek, Inc.							
Software	Second lien (3)	9.50% (L + 8.50%/Q)	6/26/2023	21,000	20,982	21,276	
	Second lien (2)	9.50% (L + 8.50%/Q)	6/26/2023	20,000	19,629	20,263	
				41,000	40,611	41,539	4.93 %
Hill International, Inc.							
Business Services	First lien (2)	7.75% (L + 6.75%/Q)	9/28/2020	41,756	41,315	41,443	4.91 %
Navex Global, Inc.							
Software	First lien (4)	5.75% (L + 4.75%/Q)	11/19/2021	4,574	4,537	4,545	
	First lien (2)	5.75% (L + 4.75%/Q)	11/19/2021	2,589	2,568	2,573	
	Second lien (4)	9.75% (L + 8.75%/Q)	11/18/2022	18,187	17,972	17,734	
	Second lien (3)	9.75% (L + 8.75%/Q)	11/18/2022	15,313	14,831	14,930	
				40,663	39,908	39,782	4.72 %
AssuredPartners, Inc.							
Business Services	Second lien (2)	10.00% (L + 9.00%/M)	10/20/2023	20,000	19,246	19,762	
	Second lien (3)	10.00% (L + 9.00%/M)	10/20/2023	20,200	19,444	19,960	
				40,200	38,690	39,722	4.71 %

The accompanying notes are an integral part of these consolidated financial statements.

7

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

June 30, 2016

(in thousands, except shares)

(unaudited)

Portfolio Company, Location and Industry (1)	Type of Investment	Interest Rate(10)	Maturity / Expiration Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
TIBCO Software Inc.							
Software	First lien (2)	6.50% (L + 5.50%/M)	12/4/2020	\$ 29,625	\$ 28,474	\$ 27,181	
	Subordinated (3)	11.38%/S	12/1/2021	15,000	14,635	12,000	
				44,625	43,109	39,181	4.65 %
Kronos Incorporated							
Software	Second lien (2)	9.75% (L + 8.50%/Q)	4/30/2020	32,632	32,454	32,931	
	Second lien (3)	9.75% (L + 8.50%/Q)	4/30/2020	4,999	4,962	5,044	
				37,631	37,416	37,975	4.50 %
ProQuest LLC							
Business Services	Second lien (3)	10.00% (L + 9.00%/Q)	12/15/2022	35,000	34,337	35,000	4.15 %
Ascend Learning, LLC							
Education	Second lien (3)	9.50% (L + 8.50%/Q)	11/30/2020	35,227	34,860	33,906	4.02 %
CRGT Inc.							
Federal Services	First lien (2)	7.50% (L + 6.50%/M)	12/19/2020	32,408	32,203	32,164	3.81 %
Valet Waste Holdings, Inc.							
Business Services	First lien (2)	8.00% (L + 7.00%/Q)	9/24/2021	29,775	29,442	29,404	
	First lien (3)(11) - Drawn	8.00% (L + 7.00%/Q)	9/24/2021	2,250	2,222	2,222	
				32,025	31,664	31,626	3.75 %
PetVet Care Centers LLC							
Consumer Services	Second lien (3)	10.25% (L + 9.25%/Q)	6/17/2021	24,000	23,804	24,329	
	Second lien (3)	10.50% (L + 9.50%/Q)	6/17/2021	6,500	6,438	6,630	
				30,500	30,242	30,959	3.67 %
Rocket Software, Inc.							
Software	Second lien (2)	10.25% (L + 8.75%/Q)	2/8/2019	30,875	30,793	30,810	3.65 %
VetCor Professional Practices LLC							
Consumer Services	First lien (4)		4/20/2021	19,404	19,241	19,598	

Edgar Filing: New Mountain Finance Corp - Form 10-Q

		7.25% (L + 6.25%/Q)						
	First lien (2)	7.25% (L + 6.25%/Q)	4/20/2021	7,832	7,676	7,911		
	First lien (4)(11) - Drawn	7.25% (L + 6.25%/Q)	4/20/2021	2,265	2,244	2,288		
	First lien (3)(11) - Drawn	7.25% (L + 6.25%/Q)	4/20/2021	675	668	682		
				30,176	29,829	30,479	3.61 %	
CompassLearning, Inc. (15)								
	Education	8.00% (L + 6.75%/Q)	11/26/2018	30,000	29,605	29,828	3.54 %	
Integro Parent Inc.								
	Business Services	6.75% (L + 5.75%/Q)	10/31/2022	18,887	18,538	18,604		
	First lien (2)	6.75% (L + 5.75%/Q)	10/31/2022	1,019	1,000	1,003		
	Second lien (3)	10.25% (L + 9.25%/Q)	10/30/2023	10,000	9,906	9,650		
				29,906	29,444	29,257	3.47 %	
Ryan, LLC								
	Business Services	6.75% (L + 5.75%/M)	8/7/2020	26,600	26,263	26,069	3.09 %	
DigiCert Holdings, Inc.								
	Software	6.00% (L + 5.00%/Q)	10/21/2021	24,875	24,200	24,752	2.94 %	
Precyse Acquisition Corp.								
	Healthcare Services	10.75% (L + 9.75%/Q)	4/20/2023	25,000	24,570	24,563	2.91 %	
AAC Holding Corp.								
	Education	8.25% (L + 7.25%/M)	9/30/2020	24,621	24,299	24,253	2.88 %	
KeyPoint Government Solutions, Inc.								
	Federal Services	7.75% (L + 6.50%/Q)	11/13/2017	24,143	23,977	24,023	2.85 %	

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

June 30, 2016

(in thousands, except shares)

(unaudited)

Portfolio Company, Location and Industry (1)	Type of Investment	Interest Rate(10)	Maturity / Expiration Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
Pelican Products, Inc.							
Business Products	Second lien (3)	9.25% (L + 8.25%/Q)	4/9/2021	\$ 15,500	\$15,512	\$ 14,105	
	Second lien (2)	9.25% (L + 8.25%/Q)	4/9/2021	10,000	10,111	9,100	
				25,500	25,623	23,205	2.75 %
EN Engineering, LLC							
Business Services	First lien (2)	7.00% (L + 6.00%/Q)	6/30/2021	21,214	21,030	21,002	
	First lien (2)(11) - Drawn	8.50% (P + 5.00%/Q)	6/30/2021	2,197	2,177	2,175	
				23,411	23,207	23,177	2.75 %
TWDiamondback Holdings Corp. (18)							
Diamondback Drugs of Delaware, L.L.C.							
(TWDiamondback II Holdings LLC)							
Distribution & Logistics	First lien (4)	9.75% (L + 8.75%/Q)	11/19/2019	19,895	19,895	20,156	
	First lien (3)	9.75% (L + 8.75%/Q)	11/19/2019	2,158	2,158	2,186	
	First lien (4)	9.75% (L + 8.75%/Q)	11/19/2019	605	605	613	
				22,658	22,658	22,955	2.72 %
Vision Solutions, Inc.							
Software	First lien (2)	7.50% (L + 6.50%/Q)	6/16/2022	22,500	22,276	22,275	2.64 %
Severin Acquisition, LLC							
Software	Second lien (4)	9.75% (L + 8.75%/Q)	7/29/2022	15,000	14,864	14,850	
	Second lien (4)	9.75% (L + 8.75%/Q)	7/29/2022	4,154	4,115	4,112	
	Second lien (4)	10.25% (L + 9.25%/Q)	7/29/2022	3,273	3,242	3,305	
				22,427	22,221	22,267	2.64 %

Edgar Filing: New Mountain Finance Corp - Form 10-Q

TW-NHME Holdings Corp.
(23)

National HME, Inc.

Healthcare Services	Second lien (4)	10.25% (L + 9.25%/Q)	7/14/2022	21,500	21,252	21,231	
	Second lien (3)	10.25% (L + 9.25%/Q)	7/14/2022	500	494	494	
				22,000	21,746	21,725	2.58 %

Sierra Hamilton LLC / Sierra Hamilton Finance, Inc.

Energy	First lien (2)	12.25%/S	12/15/2018	25,000	25,000	19,500	
	First lien (3)	12.25%/S	12/15/2018	2,660	2,144	2,075	
				27,660	27,144	21,575	2.56 %

Confie Seguros Holding II Co.

Consumer Services	Second lien (2)	10.25% (L + 9.00%/M)	5/8/2019	18,886	18,811	17,988	
	Second lien (3)	10.25% (L + 9.00%/M)	5/8/2019	3,571	3,631	3,402	
				22,457	22,442	21,390	2.54 %

Weston Solutions, Inc.

Business Services	Subordinated (4)	16.00%/Q	7/3/2019	20,000	20,000	20,311	2.41 %
-------------------	------------------	----------	----------	--------	--------	--------	--------

IT'SUGAR LLC

Retail	First lien (4)	10.50% (L + 9.50%/Q)	10/23/2019	20,895	20,200	20,082	2.38 %
--------	----------------	----------------------	------------	--------	--------	--------	--------

Aricent Technologies

Business Services	Second lien (2)	9.50% (L + 8.50%/Q)	4/14/2022	20,000	19,887	16,200	
	Second lien (3)	9.50% (L + 8.50%/Q)	4/14/2022	4,000	3,733	3,240	
				24,000	23,620	19,440	2.31 %

DCA Investment Holding, LLC

Healthcare Services	First lien (2)	6.25% (L + 5.25%/Q)	7/2/2021	17,721	17,569	17,544	
	First lien (3)(11) - Drawn	7.75% (P + 4.25%/Q)	7/2/2021	1,244	1,231	1,231	
				18,965	18,800	18,775	2.23 %

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

June 30, 2016

(in thousands, except shares)

(unaudited)

Portfolio Company, Location and Industry (1)	Type of Investment	Interest Rate(10)	Maturity / Expiration Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
First American Payment Systems, L.P.							
Business Services	Second lien (2)	10.75% (L + 9.50%/M)	4/12/2019	\$ 18,643	\$ 18,451	\$ 17,990	2.13 %
iPipeline, Inc. (Internet Pipeline, Inc.)							
Software	First lien (4)	8.25% (L + 7.25%/Q)	8/4/2022	17,865	17,704	17,686	2.10 %
YP Holdings LLC / Print Media Holdings LLC (12)							
YP LLC / Print Media LLC							
Media	First lien (2)	8.00% (L + 6.75%/M)	6/4/2018	18,320	18,208	17,233	2.04 %
AgKnowledge Holdings Company, Inc.							
Business Services	Second lien (2)	9.25% (L + 8.25%/M)	7/23/2020	18,500	18,365	17,122	2.03 %
Netsmart Inc. / Netsmart Technologies, Inc.							
Healthcare Information Technology	Second lien (2)	10.50% (L + 9.50%/Q)	10/19/2023	15,000	14,631	14,850	1.76 %
SW Holdings, LLC							
Business Services	Second lien (4)	9.75% (L + 8.75%/Q)	12/30/2021	14,265	14,138	14,122	1.67 %
Poseidon Intermediate, LLC							
Software	Second lien (2)	9.50% (L + 8.50%/Q)	8/15/2023	13,000	12,820	12,805	1.52 %
American Tire Distributors, Inc.							
Distribution & Logistics	Subordinated (3)	10.25%/S	3/1/2022	13,000	12,810	11,473	1.36 %
Transtar Holding Company							
Distribution & Logistics	Second lien (2)	12.00% (L + 10.75%/Q)(8)	10/9/2019	28,300	28,011	8,490	
			10/9/2019	9,564	2,889	2,869	

Edgar Filing: New Mountain Finance Corp - Form 10-Q

	Second lien (3)	12.00% (L + 10.75%/Q)(8)		37,864	30,900	11,359	1.35 %
Smile Brands Group Inc.							
Healthcare Services	First lien (2)	9.00% (L + 6.25% + 1.50% PIK/Q)*	8/16/2019	12,243	12,145	10,635	1.26 %
PowerPlan Holdings, Inc.							
Software	Second lien (2)	10.75% (L + 9.75%/Q)	2/23/2023	10,000	9,912	9,908	1.17 %
Harley Marine Services, Inc.							
Distribution & Logistics	Second lien (2)	10.50% (L + 9.25%/Q)	12/20/2019	9,000	8,883	8,955	1.06 %
QC McKissock Investment, LLC (17) McKissock, LLC							
Education	First lien (2)	7.50% (L + 6.50%/Q)	8/5/2019	4,796	4,764	4,796	
	First lien (2)	7.50% (L + 6.50%/Q)	8/5/2019	3,096	3,076	3,096	
	First lien (2)	7.50% (L + 6.50%/Q)	8/5/2019	999	992	999	
				8,891	8,832	8,891	1.05 %
TTM Technologies, Inc.**							
Business Products	First lien (2)	6.00% (L + 5.00%/Q)	5/31/2021	8,859	8,510	8,781	1.04 %
Greenway Health, LLC (fka Vitera Healthcare Solutions, LLC)							
Software	First lien (2)	6.00% (L + 5.00%/Q)	11/4/2020	1,950	1,937	1,877	
	Second lien (2)	9.25% (L + 8.25%/Q)	11/4/2021	7,000	6,922	6,300	
				8,950	8,859	8,177	0.97 %
Permian Tank & Manufacturing, Inc.							
Energy	First lien (2)	10.50%/S (8)	1/15/2018	24,357	24,460	7,185	0.85 %
J.D. Power and Associates							
Business Services	Second lien (3)	9.50% (L + 8.50%/Q)	6/9/2024 (26)	7,000	6,895	6,895	0.82 %
Sotera Defense Solutions, Inc. (Global Defense Technology & Systems, Inc.)							
Federal Services	First lien (2)	9.00% (L + 7.50%/Q)	4/21/2017	6,396	6,377	5,917	0.70 %

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

June 30, 2016

(in thousands, except shares)

(unaudited)

Portfolio Company, Location and Industry (1)	Type of Investment	Interest Rate(10)	Maturity / Expiration Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
Solera LLC / Solera Finance, Inc.							
Software	Subordinated (3)	10.50%/S	3/1/2024	\$5,000	\$4,757	\$5,280	0.63 %
Packaging Coordinators, Inc. (13)							
Healthcare Products	Second lien (3)	9.00% (L + 8.00%/Q)	8/1/2022	5,000	4,959	5,000	0.59 %
Immucor, Inc.							
Healthcare Services	Subordinated (2)(9)	11.13%/S	8/15/2019	5,000	4,967	4,575	0.54 %
Vencore, Inc. (fka The SI Organization Inc.)							
Federal Services	Second lien (3)	9.75% (L + 8.75%/Q)	5/23/2020	4,000	3,920	3,920	0.46 %
Brock Holdings III, Inc.							
Industrial Services	Second lien (2)	10.00% (L + 8.25%/Q)	3/16/2018	3,000	2,984	2,700	0.32 %
Synarc-Biocore Holdings, LLC							
Healthcare Services	Second lien (3)	9.25% (L + 8.25%/Q)	3/10/2022	2,500	2,480	2,413	0.29 %
York Risk Services Holding Corp.							
Business Services	Subordinated (3)	8.50%/S	10/1/2022	3,000	3,000	2,227	0.26 %
Ensemble S Merger Sub, Inc.							
Software	Subordinated (3)	9.00%/S	9/30/2023	2,000	1,936	1,983	0.24 %
Education Management Corporation (22)							
Education Management II LLC							
Education	First lien (2)	5.50% (L + 4.50%/Q)	7/2/2020	250	239	72	
	First lien (3)		7/2/2020	141	135	39	

Edgar Filing: New Mountain Finance Corp - Form 10-Q

		5.50% (L + 4.50%/Q)							
		8.50% (L + 1.00% + 6.50% PIK/Q)*	7/2/2020	452	394	27			
		8.50% (L + 1.00% + 6.50% PIK/Q)*	7/2/2020	255	223	15			
				1,098	991	153	0.02	%	
ATI Acquisition Company (fka Ability Acquisition, Inc.) (14)									
		17.25% (P + 10.00% + 4.00% PIK/Q) (8)*	6/30/2012 - Past Due	1,665	1,434	—			
		17.25% (P + 10.00% + 4.00% PIK/Q) (8)*	6/30/2012 - Past Due	103	94	—			
				1,768	1,528	—	—	%	
Total Funded Debt Investments - United States				\$1,268,323	\$1,245,097	\$1,186,963	140.74	%	
Total Funded Debt Investments Equity - United Kingdom				\$1,351,412	\$1,326,611	\$1,257,184	149.07	%	
Packaging Coordinators, Inc. (13) PCI Pharma Holdings UK Limited**									
	Healthcare Products	Ordinary shares (2)	—	—	19,427	\$578	\$2,528	0.30	%
Total Shares - United Kingdom					\$578	\$2,528	0.30	%	
Equity - United States Crowley Holdings Preferred, LLC									
	Distribution & Logistics	Preferred shares (3)(20)	12.00% (10.00% + 2.00% PIK/Q)*	—	52,580	\$52,039	\$52,580	6.23	%
TWDiamondback Holdings Corp. (18) Distribution & Logistics TW-NHME Holdings Corp. (23)									
		Preferred shares (4)	—	—	200	2,000	2,664	0.32	%

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Healthcare Services	Preferred shares (4)	—	—	100	1,000	1,116		
	Preferred shares (4)	—	—	16	158	176		
	Preferred shares (4)	—	—	6	68	68		
					1,226	1,360	0.16	%

The accompanying notes are an integral part of these consolidated financial statements.

11

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

June 30, 2016

(in thousands, except shares)

(unaudited)

Portfolio Company, Location and Industry (1)	Type of Investment	Interest Rate(10)	Maturity / Expiration Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
Ancora Acquisition LLC (14)							
Education	Preferred shares (6)	—	—	\$ 372	\$ 83	\$ 393	0.05 %
Education Management Corporation (22)							
Education	Preferred shares (2)	—	—	3,331	200	9	
	Preferred shares (3)	—	—	1,879	113	5	
	Ordinary shares (2)	—	—	2,994,065	100	75	
	Ordinary shares (3)	—	—	1,688,976	56	43	
Total Shares - United States					469	132	0.01 %
Total Shares					\$55,817	\$57,129	6.77 %
Warrants - United States					\$56,395	\$59,657	7.07 %
YP Holdings LLC / Print Media Holdings LLC (12)							
YP Equity Investors, LLC							
Media	Warrants (5)	—	5/8/2022	5	\$—	\$3,628	0.43 %
IT'SUGAR LLC							
Retail	Warrants (3)	—	10/23/2025	94,672	817	817	0.10 %
ASP LCG Holdings, Inc.							
Education	Warrants (3)	—	5/5/2026	622	37	687	0.08 %
Ancora Acquisition LLC (14)							
Education	Warrants (6)	—	8/12/2020	20	—	—	— %
Total Warrants - United States					\$854	\$5,132	0.61 %
Total Funded Investments					\$1,383,860	\$1,321,973	156.75 %
Unfunded Debt Investments - United States							
VetCor Professional Practices LLC							
Consumer Services	First lien (3)(11) - Undrawn	—	4/20/2021	\$ 2,025	\$(20)	\$ 20	
		—	5/12/2017	425	(4)	4	

Edgar Filing: New Mountain Finance Corp - Form 10-Q

	First lien (4)(11) - Undrawn								
	First lien (4)(11) - Undrawn	—	3/30/2018	500	(10	)	5		
	First lien (2)(11) - Undrawn	—	6/22/2018	1,644	(33	)	16		
				4,594	(67	)	45	—	%
DCA Investment Holding, LLC									
Healthcare Services	First lien (3)(11) - Undrawn	—	7/2/2021	856	(9	)	(9)	— %
iPipeline, Inc. (Internet Pipeline, Inc.)									
Software	First lien (3)(11) - Undrawn	—	8/4/2021	1,000	(10	)	(10)	— %
EN Engineering, LLC									
Business Services	First lien (2)(11) - Undrawn	—	12/30/2016	1,368	(7	)	(14)	— %
Valet Waste Holdings, Inc.									
Business Services	First lien (3)(11) - Undrawn	—	9/24/2021	2,250	(28	)	(28)	— %
Total Unfunded Debt Investments				\$ 10,068	\$(121	)	\$(16)	— %
Total Non-Controlled/Non-Affiliated Investments					\$1,383,739	\$1,321,957	156.75%		

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

June 30, 2016

(in thousands, except shares)

(unaudited)

Portfolio Company, Location and Industry (1)	Type of Investment	Interest Rate(10)	Maturity / Expiration Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
Non-Controlled/Affiliated Investments(24)							
Funded Debt Investments - United States							
Tenawa Resource Holdings LLC (16)							
Tenawa Resource Management LLC							
Energy	First lien (3)	10.50% (Base + 8.00%/Q)	5/12/2019	\$ 40,000	\$39,885	\$39,151	4.64 %
Edmentum Ultimate Holdings, LLC (19)							
Edmentum, Inc. (fka Plato, Inc.) (Archipelago Learning, Inc.)							
Education	Second lien (3)(11) - Drawn	5.00%/Q	6/9/2020	4,002	4,002	4,002	
	Subordinated (3)	8.50% PIK/Q*	6/9/2020	3,950	3,943	3,950	
	Subordinated (2)	10.00% PIK/Q*	6/9/2020	14,417	14,417	11,931	
	Subordinated (3)	10.00% PIK/Q*	6/9/2020	3,547	3,547	2,935	
				25,916	25,909	22,818	2.71 %
Total Funded Debt Investments - United States				\$ 65,916	\$65,794	\$61,969	7.35 %
Equity - United States							
NMFC Senior Loan Program I LLC**							
Investment Fund	Membership interest (3)	—	—	—	\$23,000	\$22,820	2.71 %
Edmentum Ultimate Holdings, LLC (19)							
Education	Ordinary shares (3)	—	—	123,968	11	2,357	
	Ordinary shares (2)	—	—	107,143	9	2,037	
					20	4,394	0.52 %

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Tenawa Resource Holdings								
LLC (16)								
QID NGL LLC								
Energy	Ordinary shares	—	—	5,290,997	5,291	3,137	0.37	%
	(7)							
Total Shares - United States					\$28,311	\$30,351	3.60	%
Unfunded Debt Investments - United States								
Edmentum Ultimate Holdings, LLC (19)								
Edmentum, Inc. (fka Plato, Inc.) (Archipelago Learning, Inc.)								
Education	Second lien	—	6/9/2020	\$ 878	\$—	\$—	—	%
	(3)(11) - Undrawn							
Total Unfunded Debt Investments				\$ 878	\$—	\$—	—	%
Total Non-Controlled/Affiliated Investments					\$94,105	\$92,320	10.95	%
Controlled Investments(25)								
Funded Debt Investments - United States								
UniTek Global Services, Inc.								
Business Services	First lien (2)	8.50% (L + 7.50%/Q)	1/13/2019	\$ 10,846	\$10,846	\$11,000		
	First lien (2)	9.88% (Base + 7.25% + 1.00% PIK/Q)*	1/13/2019	5,773	5,773	5,845		
	Subordinated (2)	15.00% PIK/Q*	7/13/2019	1,602	1,602	1,631		
	Subordinated (3)	15.00% PIK/Q*	7/13/2019	958	958	976		
				19,179	19,179	19,452	2.31	%
Total Funded Debt Investments - United States				\$ 19,179	\$19,179	\$19,452	2.31	%

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

June 30, 2016

(in thousands, except shares)

(unaudited)

Portfolio Company, Location and Industry (1)	Type of Investment	Interest Rate(10)	Maturity / Expiration Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
Equity - United States							
UniTek Global Services, Inc.							
Business Services	Preferred shares (2)(21)	—	—	17,824,939	\$ 15,445	\$ 15,857	
	Preferred shares (3)(21)	—	—	4,925,965	4,268	4,382	
	Ordinary shares (2)	—	—	2,096,477	1,925	12,773	
	Ordinary shares (3)	—	—	579,366	532	3,530	
					22,170	36,542	4.33 %
NMFC Senior Loan Program II LLC**							
Investment Fund	Membership interest (3)	—	—	—	27,790	27,790	3.30 %
Total Shares - United States					\$49,960	\$64,332	7.63 %
Total Funded Investments					\$69,139	\$83,784	9.94 %
Unfunded Debt Investments - United States							
UniTek Global Services, Inc.							
Business Services	First lien (3)(11) - Undrawn	—	1/13/2019	\$ 2,048	\$—	\$—	
	First lien (3)(11) - Undrawn	—	1/13/2019	758	—	—	
				2,806	—	—	— %
Total Unfunded Debt Investments					\$ 2,806	\$—	— %
Total Controlled Investments					\$69,139	\$83,784	9.94 %
Total Investments					\$1,546,983	\$1,498,061	177.64 %

(1) New Mountain Finance Corporation (the “Company”) generally acquires its investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”). These investments are generally subject to certain limitations on resale, and may be deemed to be “restricted securities” under the Securities

Act.

(2) Investment is pledged as collateral for the Holdings Credit Facility, a revolving credit facility among the Company as Collateral Manager, New Mountain Finance Holdings, L.L.C. ("NMF Holdings") as the Borrower, Wells Fargo Securities, LLC as the Administrative Agent, and Wells Fargo Bank, National Association, as the Lender and Collateral Custodian. See Note 7, Borrowings, for details.

(3) Investment is pledged as collateral for the NMFC Credit Facility, a revolving credit facility among the Company as the Borrower and Goldman Sachs Bank USA as the Administrative Agent and the Collateral Agent and Goldman Sachs Bank USA, Morgan Stanley Bank, N.A. and Stifel Bank & Trust as Lenders. See Note 7, Borrowings, for details.

(4) Investment is held in New Mountain Finance SBIC, L.P.

(5) Investment is held in NMF YP Holdings, Inc.

(6) Investment is held in NMF Ancora Holdings, Inc.

(7) Investment is held in NMF QID NGL Holdings, Inc.

(8) Investment or a portion of the investment is on non-accrual status. See Note 3, Investments, for details.

(9) Securities are registered under the Securities Act.

(10) All interest is payable in cash unless otherwise indicated. A majority of the variable rate debt investments bear interest at a rate that may be determined by reference to the London Interbank Offered Rate (L), the Prime Rate (P) and the alternative base rate (Base) and which resets monthly (M), quarterly (Q), semi-annually (S) or annually (A). For each investment the current interest rate provided reflects the rate in effect as of June 30, 2016. Par Value amounts represent the drawn or undrawn (as indicated in type of investment) portion of revolving credit facilities or delayed draws. Cost amounts represent the cash received at settlement date net of the impact of paydowns and cash paid for drawn revolvers or delayed draws.

(11) The Company holds investments in three related entities of YP Holdings LLC/Print Media Holdings LLC. The Company directly holds warrants to purchase a 4.96% membership interest of YP Equity Investors, LLC (which at closing represented an indirect 1.0% equity interest in YP Holdings LLC) and holds an investment in the Term Loan B loans issued by YP LLC and Print Media LLC, wholly-owned subsidiaries of YP Holdings LLC and Print Media Holdings LLC, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

14

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

June 30, 2016

(in thousands, except shares)

(unaudited)

The Company holds investments in Packaging Coordinators, Inc. and one related entity of Packaging
(13) Coordinators, Inc. The Company has a debt investment in Packaging Coordinators, Inc. and holds ordinary equity in PCI Pharma Holdings UK Limited, a wholly-owned subsidiary of Packaging Coordinators, Inc.

The Company holds investments in ATI Acquisition Company and Ancora Acquisition LLC. The Company has
(14) debt investments in ATI Acquisition Company and preferred equity and warrants to purchase units of common membership interests of Ancora Acquisition LLC. The Company received its investments in Ancora Acquisition LLC as a result of its investments in ATI Acquisition Company.

(15) The Company holds an investment in CompassLearning, Inc. that is structured as a first lien last out term loan.

The Company holds investments in two related entities of Tenawa Resource Holdings LLC. The Company holds
(16) 5.25% of the common units in QID NGL LLC (which at closing represented 98.1% of the ownership in the common units in Tenawa Resource Holdings LLC) and holds a first lien investment in Tenawa Resource Management LLC, a wholly-owned subsidiary of Tenawa Resource Holdings LLC.

The Company holds investments in QC McKissock Investment, LLC and one related entity of QC McKissock
(17) Investment, LLC. The Company holds a first lien term loan in QC McKissock Investment, LLC (which at closing represented 71.1% of the ownership in the Series A common units of McKissock Investment Holdings, LLC) and holds a first lien term loan and a delayed draw term loan in McKissock, LLC, a wholly-owned subsidiary of McKissock Investment Holdings, LLC.

The Company holds investments in TWDiamondback Holdings Corp. and one related entity of TWDiamondback
(18) Holdings Corp. The Company holds preferred equity in TWDiamondback Holdings Corp. and holds a first lien last out term loan and a delayed draw term loan in Diamondback Drugs of Delaware LLC, a wholly-owned subsidiary of TWDiamondback Holdings Corp.

The Company holds investments in Edmentum Ultimate Holdings, LLC and its related entities. The Company
(19) holds subordinated notes and ordinary equity in Edmentum Ultimate Holdings, LLC and holds a second lien revolver in Edmentum, Inc. and Archipelago Learning, Inc., which are wholly-owned subsidiaries of Edmentum Ultimate Holdings, LLC.

(20) Total shares reported assumes shares issued for the capitalization of payment-in-kind ("PIK") interest. Actual shares owned total 50,000 as of June 30, 2016.

(21) The Company holds preferred equity in UniTek Global Services, Inc. that is entitled to receive cumulative preferential dividends at a rate of 13.5% per annum payable in additional shares.

The Company holds investments in Education Management Corporation and one related entity of Education
(22) Management Corporation. The Company holds series A-1 convertible preferred stock and common stock in Education Management Corporation and holds a tranche A first lien term loan and a tranche B first lien term loan in Education Management II LLC, which is an indirect subsidiary of Education Management Corporation.

(23) The Company holds an equity investment in TW-NHME Holdings Corp., as well as a second lien term loan investment in National HME, Inc., a wholly-owned subsidiary of TW-NHME Holdings Corp.

Denotes investments in which the Company is an "Affiliated Person", as defined in the Investment Company Act of
(24) 1940, as amended, due to owning or holding the power to vote 5.0% or more of the outstanding voting securities of the investment but not controlling the company. Fair value as of December 31, 2015 and June 30, 2016 along with transactions during the six months ended June 30, 2016 in which the issuer was a non-controlled/affiliated investment is as follows:

Portfolio Company (1)	Fair Value Gross at December 31(A)	Gross Additions (A)	Redemptions (B)	Net Realized Gains	Net Unrealized Appreciation	Change in Fair Value	Fair Value at	Interest Income	Dividend Income	Other Income
-----------------------	------------------------------------	---------------------	-----------------	--------------------	-----------------------------	----------------------	---------------	-----------------	-----------------	--------------

Edgar Filing: New Mountain Finance Corp - Form 10-Q

	2015				(Loss) Depreciation		June 30,		2016	
Edmentum Ultimate Holdings, LLC/Edmentum Inc.	\$ 22,782	\$ 5,042	\$	—	—	—	—	—	—	—
NMFC Senior Loan Program I LLC	21,914	—	—	—	906	22,820	—	1,807	593	
Tenawa Resource Holdings LLC	42,591	16	—	—	(319)	42,288	2,105	—	25	
Total Non-Controlled/Affiliated Investments	\$ 87,287	\$ 5,058	\$	—	—	—	—	—	—	—

Gross additions include increases in the cost basis of investments resulting from new portfolio investments, PIK (A) interest or dividends, the amortization of discounts, reorganizations or restructurings and the movement of an existing portfolio company into this category from a different category.

Gross reductions include decreases in the cost basis of investments resulting from principal collections related to (B) investment repayments or sales, reorganizations or restructurings and the movement of an existing portfolio company out of this category into a different category.

The accompanying notes are an integral part of these consolidated financial statements.

15

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

June 30, 2016

(in thousands, except shares)

(unaudited)

(25) Denotes investments in which the Company is in “Control”, as defined in the Investment Company Act of 1940, as amended, due to owning or holding the power to vote 25.0% or more of the outstanding voting securities of the investment. Fair value as of December 31, 2015 and June 30, 2016 along with transactions during the six months ended June 30, 2016 in which the issuer was a controlled investment is as follows:

Portfolio Company (1)	Fair Value at December 31, 2015	Gross Additions (A)	Gross Redemptions (B)	Net Realized Gains (Losses)	Net Change in Unrealized Appreciation (Depreciation)	Fair Value at June 30, 2016	Interest Income	Dividend Income	Other Income
UniTek Global Services, Inc.	\$ 47,422	\$ 1,680	\$ (1,585)	\$ —	\$ 8,477	\$ 55,994	\$ 985	\$ 1,461	\$ 67
NMFC Senior Loan Program II LLC	—	27,790	—	—	—	27,790	—	—	—
Total Controlled Investments	\$ 47,422	\$ 29,470	\$ (1,585)	\$ —	\$ 8,477	\$ 83,784	\$ 985	\$ 1,461	\$ 67

(A) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, PIK interest or dividends, the amortization of discounts, reorganizations or restructurings and the movement of an existing portfolio company into this category from a different category.

(B) Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investment repayments or sales, reorganizations or restructurings and the movement of an existing portfolio company out of this category into a different category.

(26) Investment was unsettled as of June 30, 2016. Maturity date is subject to change once the credit agreement has been executed.

* All or a portion of interest contains PIK interest.

Indicates assets that the Company deems to be “non-qualifying assets” under Section 55(a) of the Investment

** Company Act of 1940, as amended. Qualifying assets must represent at least 70.00% of the Company’s total assets at the time of acquisition of any additional non-qualifying assets. As of June 30, 2016, 8.3% of the Company’s total assets were non-qualifying assets.

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

June 30, 2016

(unaudited)

Investment Type	June 30, 2016	
	Percent of Total	Investments at Fair Value
First lien	41.18	%
Second lien	42.88	%
Subordinated	5.29	%
Equity and other	10.65	%
Total investments	100.00	%

Industry Type	June 30, 2016	
	Percent of Total	Investments at Fair Value
Business Services	25.39	%
Software	25.17	%
Education	8.38	%
Federal Services	7.36	%
Distribution & Logistics	7.34	%
Healthcare Services	5.61	%
Consumer Services	5.53	%
Energy	4.74	%
Investment Fund	3.38	%
Business Products	2.14	%
Media	1.89	%
Retail	1.40	%
Healthcare Information Technology	0.99	%
Healthcare Products	0.50	%
Industrial Services	0.18	%
Total investments	100.00	%

Interest Rate Type	June 30, 2016	
	Percent of Total	Investments at Fair Value
Floating rates	86.55	%
Fixed rates	13.45	%
Total investments	100.00	%

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments

December 31, 2015

(in thousands, except shares)

Portfolio Company, Location and Industry(1)	Type of Investment	Interest Rate(10)	Maturity / Expiration Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
Non-Controlled/Non-Affiliated Investments							
Funded Debt Investments - Australia							
Project Sunshine IV Pty Ltd**							
Media	First lien (2)	8.00% (L + 7.00%/M)	9/23/2019	\$ 10,800	\$ 10,752	\$ 10,314	1.23 %
Total Funded Debt Investments - Australia				\$ 10,800	\$ 10,752	\$ 10,314	1.23 %
Funded Debt Investments - Luxembourg							
Pinnacle Holdco S.à.r.l. / Pinnacle (US) Acquisition Co Limited**							
Software	Second lien (2)	10.50% (L + 9.25%/Q)	7/30/2020	\$ 24,630	\$ 24,339	\$ 19,581	
	Second lien (3)	10.50% (L + 9.25%/Q)	7/30/2020	8,204	8,324	6,522	
Total Funded Debt Investments - Luxembourg				\$ 32,834	\$ 32,663	\$ 26,103	3.12 %
Total Funded Debt Investments - Luxembourg				\$ 32,834	\$ 32,663	\$ 26,103	3.12 %
Funded Debt Investments - Netherlands							
Eiger Acquisition B.V. (Eiger Co-Borrower, LLC)**							
Software	Second lien (3)	10.13% (L + 9.13%/Q)	2/17/2023	\$ 10,000	\$ 9,303	\$ 9,049	1.08 %
Total Funded Debt Investments - Netherlands				\$ 10,000	\$ 9,303	\$ 9,049	1.08 %
Funded Debt Investments - United Kingdom							
Air Newco LLC**							
Software	Second lien (3)	10.50% (L + 9.50%/Q)	1/31/2023	\$ 32,500	\$ 31,736	\$ 31,363	3.75 %
Total Funded Debt Investments - United Kingdom				\$ 32,500	\$ 31,736	\$ 31,363	3.75 %
Funded Debt Investments - United States							
Deltek, Inc.							
Software	Second lien (3)	9.50% (L + 8.50%/Q)	6/26/2023	\$ 21,000	\$ 20,972	\$ 20,948	

Edgar Filing: New Mountain Finance Corp - Form 10-Q

	Second lien (2)	9.50% (L + 8.50%/Q)	6/26/2023	20,000	19,619	19,950	
				41,000	40,591	40,898	4.89 %
TIBCO Software Inc.							
Software	First lien (2)	6.50% (L + 5.50%/M)	12/4/2020	29,775	28,508	27,021	
	Subordinated (3)	11.38%/S	12/1/2021	15,000	14,611	12,600	
				44,775	43,119	39,621	4.73 %
AssuredPartners, Inc.							
Business Services	Second lien (2)	10.00% (L + 9.00%/Q)	10/20/2023	20,000	19,212	19,600	
	Second lien (3)	10.00% (L + 9.00%/Q)	10/20/2023	20,000	19,212	19,600	
				40,000	38,424	39,200	4.68 %
Kronos Incorporated							
Software	Second lien (2)	9.75% (L + 8.50%/Q)	4/30/2020	32,641	32,443	32,546	
	Second lien (3)	9.75% (L + 8.50%/Q)	4/30/2020	5,000	4,961	4,985	
				37,641	37,404	37,531	4.48 %
Hill International, Inc.							
Business Services	First lien (2)	7.75% (L + 6.75%/Q)	9/28/2020	37,056	36,752	36,779	4.39 %
ProQuest LLC							
Business Services	Second lien (3)	10.00% (L + 9.00%/M)	12/15/2022	35,000	34,302	34,300	4.10 %

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

December 31, 2015

(in thousands, except shares)

Portfolio Company, Location and Industry(1)	Type of Investment	Interest Rate(10)	Maturity / Expiration Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
Navex Global, Inc.							
Software	First lien (4)	5.75% (L + 4.75%/Q)	11/19/2021	\$ 4,610	\$4,570	\$4,471	
	First lien (2)	5.75% (L + 4.75%/Q)	11/19/2021	2,610	2,587	2,531	
	Second lien (4)	9.75% (L + 8.75%/Q)	11/18/2022	17,879	17,683	17,343	
	Second lien (3)	9.75% (L + 8.75%/Q)	11/18/2022	10,121	10,001	9,817	
				35,220	34,841	34,162	4.08 %
Ascend Learning, LLC							
Education	Second lien (3)	9.50% (L + 8.50%/Q)	11/30/2020	34,727	34,352	33,077	3.95 %
CRGT Inc.							
Federal Services	First lien (2)	7.50% (L + 6.50%/Q)	12/19/2020	33,261	33,030	32,928	3.93 %
Physio-Control International, Inc.							
Healthcare Products	Second lien (2)	10.00% (L + 9.00%/Q)	6/5/2023	30,000	29,426	27,451	
	Second lien (3)	10.00% (L + 9.00%/Q)	6/5/2023	4,000	3,703	3,660	
				34,000	33,129	31,111	3.72 %
Valet Waste Holdings, Inc.							
Business Services	First lien (2)	8.00% (L + 7.00%/Q)	9/24/2021	29,925	29,564	29,505	
	First lien (3)(11) - Drawn	8.00% (L + 7.00%/Q)	9/24/2021	1,500	1,481	1,479	
				31,425	31,045	30,984	3.70 %
Rocket Software, Inc.							
Software	Second lien (2)	10.25% (L + 8.75%/Q)	2/8/2019	30,875	30,781	30,759	3.68 %
TASC, Inc.							
Federal Services	First lien (2)	7.00% (L + 6.00%/Q)	5/22/2020	28,314	28,001	28,396	
	Second lien (3)	12.00%/Q	5/21/2021	2,000	1,964	2,062	
				30,314	29,965	30,458	3.64 %

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Pittsburgh Glass Works, LLC (24)							
Manufacturing	First lien (2)	10.13% (L + 9.13%/M)	11/25/2021	30,000	29,852	29,850	3.57 %
Integro Parent Inc.							
Business Services	First lien (2)	6.75% (L + 5.75%/Q)	10/31/2022	17,370	17,029	16,980	
	First lien (2)	6.75% (L + 5.75%/M)	10/31/2022	2,630	2,578	2,570	
	Second lien (3)	10.25% (L + 9.25%/Q)	10/30/2023	10,000	9,901	9,625	
				30,000	29,508	29,175	3.49 %
CompassLearning, Inc. (15)							
Education	First lien (2)	8.00% (L + 6.75%/Q)	11/26/2018	30,000	29,531	28,471	3.40 %
Ryan, LLC							
Business Services	First lien (2)	6.75% (L + 5.75%/M)	8/7/2020	27,300	26,918	26,583	3.18 %
McGraw-Hill Global Education Holdings, LLC							
Education	First lien (2)(9)	9.75%/S	4/1/2021	24,500	24,378	26,093	3.12 %
KeyPoint Government Solutions, Inc.							
Federal Services	First lien (2)	7.75% (L + 6.50%/M)	11/13/2017	25,876	25,636	25,747	3.08 %
DigiCert Holdings, Inc.							
Software	First lien (2)	6.00% (L + 5.00%/Q)	10/21/2021	25,000	24,268	24,375	2.91 %
Pelican Products, Inc.							
Business Products	Second lien (3)	9.25% (L + 8.25%/Q)	4/9/2021	15,500	15,519	14,764	
	Second lien (2)	9.25% (L + 8.25%/Q)	4/9/2021	10,000	10,115	9,524	
				25,500	25,634	24,288	2.90 %

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

December 31, 2015

(in thousands, except shares)

Portfolio Company, Location and Industry(1)	Type of Investment	Interest Rate(10)	Maturity / Expiration Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
Confie Seguros Holding II Co.							
Consumer Services	Second lien (2)	10.25% (L + 9.00%/M)	5/8/2019	\$ 18,886	\$18,789	\$18,673	
	Second lien (3)	10.25% (L + 9.00%/M)	5/8/2019	5,571	5,648	5,508	
				24,457	24,437	24,181	2.89 %
AAC Holding Corp.							
Education	First lien (2)	8.25% (L + 7.25%/M)	9/30/2020	25,000	24,640	24,110	2.88 %
Transtar Holding Company							
Distribution & Logistics	Second lien (2)	10.00% (L + 8.75%/Q)	10/9/2019	28,300	27,974	23,630	2.82 %
PetVet Care Centers LLC							
Consumer Services	Second lien (3)	9.75% (L + 8.75%/Q)	6/17/2021	24,000	23,789	23,149	2.77 %
EN Engineering, L.L.C.							
Business Services	First lien (2)	7.00% (L + 6.00%/Q)	6/30/2021	21,321	21,121	20,554	
	First lien (2)(11) - Drawn	8.50% (P + 5.00%/Q)	6/30/2021	1,223	1,211	1,179	
				22,544	22,332	21,733	2.60 %
Aricent Technologies							
Business Services	Second lien (2)	9.50% (L + 8.50%/M)	4/14/2022	20,000	19,881	19,133	
	Second lien (3)	9.50% (L + 8.50%/M)	4/14/2022	2,550	2,558	2,440	
				22,550	22,439	21,573	2.58 %
McGraw-Hill School Education Holdings, LLC							
Education	First lien (2)	6.25% (L + 5.00%/M)	12/18/2019	21,560	21,408	21,237	2.54 %
VetCor Professional Practices LLC							
Consumer Services	First lien (4)	7.00% (L + 6.00%/Q)	4/20/2021	19,502	19,324	19,254	
	First lien (4)(11) - Drawn	7.00% (L + 6.00%/Q)	4/20/2021	1,753	1,736	1,731	
				21,255	21,060	20,985	2.51 %

Edgar Filing: New Mountain Finance Corp - Form 10-Q

IT'SUGAR LLC							
Retail	First lien (4)	10.50% (L + 9.50%/Q)	10/23/2019	21,000	20,215	20,183	2.41 %
Weston Solutions, Inc.							
Business Services	Subordinated (4)	16.00%/Q	7/3/2019	20,000	20,000	19,430	2.32 %
TWDiamondback Holdings Corp. (18)							
Diamondback Drugs of Delaware, L.L.C. (TWDiamondback II Holdings LLC)							
Distribution & Logistics	First lien (4)	9.75% (L + 8.75%/Q)	11/19/2019	19,895	19,895	19,117	2.28 %
Severin Acquisition, LLC							
Software	Second lien (4)	9.25% (L + 8.25%/Q)	7/29/2022	15,000	14,857	14,272	
	Second lien (4)	9.75% (L + 8.75%/Q)	7/29/2022	4,154	4,113	4,112	
				19,154	18,970	18,384	2.20 %
First American Payment Systems, L.P.							
Business Services	Second lien (2)	10.75% (L + 9.50%/M)	4/12/2019	18,643	18,423	18,362	2.20 %
DCA Investment Holding, LLC							
Healthcare Services	First lien (2)	6.25% (L + 5.25%/Q)	7/2/2021	17,811	17,645	17,632	
	First lien (3)(11) - Drawn	7.75% (P + 4.25%/Q)	7/2/2021	53	52	52	
				17,864	17,697	17,684	2.11 %
YP Holdings LLC / Print Media Holdings LLC (12)							
YP LLC / Print Media LLC							
Media	First lien (2)	8.00% (L + 6.75%/M)	6/4/2018	18,320	18,182	17,679	2.11 %

The accompanying notes are an integral part of these consolidated financial statements.

20

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

December 31, 2015

(in thousands, except shares)

Portfolio Company, Location and Industry(1)	Type of Investment	Interest Rate(10)	Maturity / Expiration Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
iPipeline, Inc. (Internet Pipeline, Inc.)							
Software	First lien (4)	8.25% (L + 7.25%/Q)	8/4/2022	\$ 17,955	\$ 17,783	\$ 17,550	2.10 %
AgKnowledge Holdings Company, Inc.							
Business Services	Second lien (2)	9.25% (L + 8.25%/M)	7/23/2020	18,500	18,352	17,066	2.04 %
Vertafore, Inc.							
Software	Second lien (2)	9.75% (L + 8.25%/M)	10/27/2017	13,855	13,848	13,844	
	Second lien (3)	9.75% (L + 8.25%/M)	10/27/2017	2,000	2,016	1,999	
				15,855	15,864	15,843	1.89 %
GSDM Holdings Corp.							
Healthcare Services	Subordinated (4)	10.00%/M	6/23/2020	15,000	14,880	15,000	1.79 %
MailSouth, Inc. (d/b/a Mspark)							
Media	First lien (2)	6.75% (L + 5.00%/Q)	12/14/2016	14,998	14,736	14,586	1.74 %
TW-NHME Holdings Corp. (23)							
National HME, Inc.							
Healthcare Services	Second lien (4)	10.25% (L + 9.25%/Q)	7/14/2022	14,000	13,833	13,825	1.65 %
Sierra Hamilton LLC / Sierra Hamilton Finance, Inc.							
Energy	First lien (2)	12.25%/S	12/15/2018	25,000	25,000	12,251	
	First lien (3)	12.25%/S	12/15/2018	2,660	2,064	1,302	
				27,660	27,064	13,553	1.62 %
Vision Solutions, Inc.							
Software	Second lien (2)	9.50% (L + 8.00%/M)	7/23/2017	14,000	13,978	12,740	1.52 %
SW Holdings, LLC							
Business Services	Second lien (4)	9.75% (L + 8.75%/Q)	12/30/2021	13,500	13,373	12,701	1.52 %

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Poseidon Intermediate, LLC	Software	Second lien (2)	9.50% (L + 8.50%/Q)	8/15/2023	13,000	12,811	12,427	1.49 %
American Tire Distributors, Inc.	Distribution & Logistics	Subordinated (3)	10.25%/S	3/1/2022	13,000	12,798	11,960	1.43 %
PowerPlan Holdings, Inc.	Software	Second lien (2)	10.75% (L + 9.75%/M)	2/23/2023	10,000	9,907	9,573	1.14 %
Permian Tank & Manufacturing, Inc.	Energy	First lien (2)	10.50%/S	1/15/2018	24,357	24,493	9,377	1.12 %
TTM Technologies, Inc.**	Business Products	First lien (2)	6.00% (L + 5.00%/Q)	5/31/2021	9,980	9,554	9,132	1.09 %
Smile Brands Group Inc.	Healthcare Services	First lien (2)	9.00% (L + 6.25% + 1.50% PIK/Q)*	8/16/2019	12,204	12,091	8,878	1.06 %
Harley Marine Services, Inc.	Distribution & Logistics	Second lien (2)	10.50% (L + 9.25%/Q)	12/20/2019	9,000	8,868	8,865	1.06 %
QC McKissock Investment, LLC (17)	Education	First lien (2)	7.50% (L + 6.50%/Q)	8/5/2019	4,875	4,838	4,707	
McKissock, LLC		First lien (2)	7.50% (L + 6.50%/Q)	8/5/2019	3,148	3,124	3,039	
		First lien (2)(11) - Drawn	7.50% (L + 6.50%/Q)	8/5/2019	1,016	1,007	981	
					9,039	8,969	8,727	1.04 %

The accompanying notes are an integral part of these consolidated financial statements.

21

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

December 31, 2015

(in thousands, except shares)

Portfolio Company, Location and Industry(1)	Type of Investment	Interest Rate(10)	Maturity / Expiration Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets	
Greenway Health, LLC (fka Vitera Healthcare Solutions, LLC)								
Software	First lien (2)	6.00% (L + 5.00%/Q)	11/4/2020	\$ 1,960	\$ 1,946	\$ 1,877		
	Second lien (2)	9.25% (L + 8.25%/Q)	11/4/2021	7,000	6,917	6,720		
				8,960	8,863	8,597	1.03	%
Novitex Acquisition, LLC (fka ARSloane Acquisition, LLC)								
Business Services	First lien (2)	7.50% (L + 6.25%/Q)	7/7/2020	7,242	7,064	6,807	0.81	%
Sotera Defense Solutions, Inc. (Global Defense Technology & Systems, Inc.)								
Federal Services	First lien (2)	9.00% (L + 7.50%/M)	4/21/2017	6,859	6,828	6,344	0.76	%
Brock Holdings III, Inc.								
Industrial Services	Second lien (2)	10.00% (L + 8.25%/Q)	3/16/2018	7,000	6,953	5,443	0.65	%
Packaging Coordinators, Inc. (13)								
Healthcare Products	Second lien (3)	9.00% (L + 8.00%/Q)	8/1/2022	5,000	4,957	4,925	0.59	%
Immucor, Inc.								
Healthcare Services	Subordinated (2)(9)	11.13%/S	8/15/2019	5,000	4,963	4,575	0.55	%
GCA Services Group, Inc.								
Business Services	Second lien (3)	9.25% (L + 8.00%/Q)	11/2/2020	4,000	3,973	3,950	0.47	%
York Risk Services Holding Corp.								
Business Services	Subordinated (3)	8.50%/S	10/1/2022	3,000	3,000	2,471	0.30	%

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Synarc-Biocore Holdings, LLC									
Healthcare Services	Second lien (3)	9.25% (L + 8.25%/Q)	3/10/2022	2,500	2,479	2,313	0.28	%	
Ensemble S Merger Sub, Inc.									
Software	Subordinated (3)	9.00%/S	9/30/2023	2,000	1,933	1,940	0.23	%	
Education Management Corporation (22)									
Education Management II LLC									
Education	First lien (2)	5.50% (L + 4.50%/Q)	7/2/2020	250	238	69			
	First lien (3)	5.50% (L + 4.50%/Q)	7/2/2020	141	134	39			
	First lien (2)	8.50% (L + 1.00% + 6.50% PIK/Q)*	7/2/2020	437	375	46			
	First lien (3)	8.50% (L + 1.00% + 6.50% PIK/Q)*	7/2/2020	247	212	26			
				1,075	959	180	0.02	%	
ATI Acquisition Company (fka Ability Acquisition, Inc.) (14)									
Education	First lien (2)	17.25% (P + 10.00% + 4.00% PIK/Q) (8)*	6/30/2012 - Past Due	1,665	1,434	—			
	First lien (2)	17.25% (P + 10.00% + 4.00% PIK/Q) (8)*	6/30/2012 - Past Due	103	94	—			
				1,768	1,528	—	—	%	
Total Funded Debt Investments - United States				\$ 1,314,464	\$ 1,297,775	\$ 1,237,175	147.83	%	
Total Funded Debt Investments Equity - United Kingdom				\$ 1,400,598	\$ 1,382,229	\$ 1,314,004	157.01	%	
Packaging Coordinators, Inc. (13)									
PCI Pharma Holdings UK Limited**									
Healthcare Products	Ordinary shares (2)	—	—	19,427	\$ 578	\$ 1,612	0.19	%	

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Total Shares - United Kingdom					\$578	\$1,612	0.19	%
Equity - United States Crowley Holdings Preferred, LLC								
		12.00%						
Distribution & Logistics	Preferred shares (3)(20)	(10.00% + 2.00% PIK/Q)*	—	52,058	\$51,518	\$51,911	6.20	%

The accompanying notes are an integral part of these consolidated financial statements.

22

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

December 31, 2015

(in thousands, except shares)

Portfolio Company, Location and Industry(1)	Type of Investment	Interest Rate(10)	Maturity / Expiration Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets	
TWDiamondback Holdings Corp. (18)								
Distribution & Logistics	Preferred shares (4)	—	—	200	\$2,000	\$2,000	0.24	%
TW-NHME Holdings Corp. (23)								
Healthcare Services	Preferred shares (4)	—	—	100	1,000	1,000	0.12	%
Ancora Acquisition LLC (14)								
Education	Preferred shares (6)	—	—	372	83	393	0.05	%
Education Management Corporation (22)								
Education	Preferred shares (2)	—	—	3,331	200	10		
	Preferred shares (3)	—	—	1,879	113	5		
	Ordinary shares (2)	—	—	2,994,065	100	202		
	Ordinary shares (3)	—	—	1,688,976	56	114		
					469	331	0.04	%
Total Shares - United States					\$55,070	\$55,635	6.65	%
Total Shares					\$55,648	\$57,247	6.84	%
Warrants - United States								
YP Holdings LLC / Print Media Holdings LLC (12)								
YP Equity Investors, LLC								
Media	Warrants (5)	—	5/8/2022	5	\$—	\$5,304	0.63	%
IT'SUGAR LLC								
Retail	Warrants (3)	—	10/23/2025	94,672	817	817	0.10	%
ASP LCG Holdings, Inc.								
Education	Warrants (3)	—	5/5/2026	622	37	610	0.07	%

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Ancora Acquisition									
LLC (14)									
Education	Warrants (6)	—	8/12/2020	20	—	—	—	—	%
Total Warrants - United States					\$854	\$6,731	0.80		%
Total Funded Investments					\$1,438,731	\$1,377,982	164.65		%
Unfunded Debt									
Investments - United States									
DCA Investment Holdings, LLC									
Healthcare Services	First lien (3)(11) - Undrawn	—	7/2/2021	\$ 2,047	\$(20)	\$(20)	—		%
iPipeline, Inc. (Internet Pipeline, Inc.)									
Software	First lien (3)(11) - Undrawn	—	8/4/2021	1,000	(10)	(23)	—		%
Valet Waste Holdings, Inc.									
Business Services	First lien (3)(11) - Undrawn	—	9/24/2021	3,000	(38)	(42)	—		%
VetCor Professional Practices LLC									
Consumer Services	First lien (3)(11) - Undrawn	—	4/20/2021	2,700	(27)	(34)			
	First lien (4)(11) - Undrawn	—	4/20/2021	947	(9)	(12)			
				3,647	(36)	(46)	(0.01)		%

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

December 31, 2015

(in thousands, except shares)

Portfolio Company, Location and Industry(1)	Type of Investment	Interest Rate(10)	Maturity / Expiration Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
QC McKissock Investment, LLC (17) McKissock, LLC	First lien (2)(11) - Undrawn	—	12/31/2015	\$1,862	\$(19)	\$(64)	(0.01)%
Education							
MailSouth, Inc. (d/b/a Mspark)	First lien (3)(11) - Undrawn	—	12/14/2016	1,900	(181)	(79)	(0.01)%
Media							
EN Engineering, L.L.C.	First lien (2)(11) - Undrawn	—	12/30/2016	2,348	(12)	(85)	(0.01)%
Business Services							
TWDiamondback Holdings Corp. (18) Diamondback Drugs of Delaware, L.L.C. (TWDiamondback II Holdings LLC)	First lien (3)(11) - Undrawn	—	2/16/2016	2,158	—	(84)	
Distribution & Logistics							
	First lien (4)(11) - Undrawn	—	2/16/2016	605	—	(24)	
				2,763	—	(108)	(0.01)%
Total Unfunded Debt Investments				\$18,567	\$(316)	\$(467)	(0.05)%
Total Non-Controlled/Non-Affiliated Investments					\$1,438,415	\$1,377,515	164.60%
Non-Controlled/Affiliated Investments(25) Funded Debt Investments - United States							

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Tenawa Resource Holdings LLC (16) Tenawa Resource Management LLC								
Energy	First lien (3)	10.50% (Base + 8.00%/Q)	5/12/2019	\$40,000	\$39,869	\$38,813	4.64	%
Edmentum Ultimate Holdings, LLC (19)								
Education	Subordinated (3)	8.50% PIK/Q*	6/9/2020	3,786	3,778	3,622		
	Subordinated (2)	10.00% PIK/Q*	6/9/2020	13,715	13,715	10,547		
	Subordinated (3)	10.00% PIK/Q*	6/9/2020	3,374	3,374	2,595		
				20,875	20,867	16,764	2.00	%
Total Funded Debt Investments - United States				\$60,875	\$60,736	\$55,577	6.64	%
Equity - United States NMFC Senior Loan Program I LLC**								
Investment Fund	Membership interest (3)	—	—	—	\$23,000	\$21,914	2.62	%
Edmentum Ultimate Holdings, LLC (19)								
Education	Ordinary shares (3)	—	—	123,968	11	3,341		
	Ordinary shares (2)	—	—	107,143	9	2,888		
					20	6,229	0.74	%
Tenawa Resource Holdings LLC (16) QID NGL LLC								
Energy	Ordinary shares (7)	—	—	5,290,997	5,291	3,778	0.45	%
Total Shares - United States					\$28,311	\$31,921	3.81	%

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

December 31, 2015

(in thousands, except shares)

Portfolio Company, Location and Industry(1)	Type of Investment	Interest Rate(10)	Maturity / Expiration Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
Unfunded Debt Investments							
- United States							
Edmentum Ultimate Holdings, LLC (19)							
Edmentum, Inc. (fka Plato, Inc.) (Archipelago Learning, Inc.)							
Education	Second lien (3)(11) - Undrawn	—	6/9/2020	\$ 4,881	\$—	\$ (211)	(0.02) %
Total Unfunded Debt Investments				\$ 4,881	\$—	\$ (211)	(0.02) %
Total Non-Controlled/Affiliated Investments					\$ 89,047	\$ 87,287	10.43 %
Controlled Investments(26)							
Funded Debt Investments - United States							
UniTek Global Services, Inc.							
Business Services	First lien (2)	8.50% (L + 7.50%/Q)	1/13/2019	\$ 6,786	\$ 6,786	\$ 6,640	
	First lien (3)	8.50% (L + 7.50%/Q)	1/13/2019	4,060	4,060	3,973	
	First lien (3)	9.50% (L + 7.50% + 1.00% PIK/Q)*	1/13/2019	7,323	7,323	7,257	
	Subordinated (2)	15.00% PIK/Q*	7/13/2019	1,487	1,487	1,417	
	Subordinated (3)	15.00% PIK/Q*	7/13/2019	890	890	848	
Total Funded Debt Investments - United States				20,546	20,546	20,135	2.40 %
Equity - United States				\$ 20,546	\$ 20,546	\$ 20,135	2.40 %
UniTek Global Services, Inc.							
Business Services		—	—	16,680,037	\$ 14,299	\$ 13,870	

Edgar Filing: New Mountain Finance Corp - Form 10-Q

	Preferred shares (2)(21)								
	Preferred shares (3)(21)	—	—	4,609,569	3,952	3,833			
	Ordinary shares (2)	—	—	2,096,477	1,925	7,528			
	Ordinary shares (3)	—	—	579,366	532	2,081			
						20,708	27,312	3.26	%
Total Shares - United States						\$20,708	\$27,312	3.26	%
Total Funded Investments						\$41,254	\$47,447	5.66	%
Unfunded Debt Investments - United States									
UniTek Global Services, Inc.									
Business Services	First lien (3)(11) - Undrawn	—	1/13/2019	\$ 2,048	\$—	\$(18)		
	First lien (3)(11) - Undrawn	—	1/13/2019	758	—	(7)		
				2,806	—	(25)	—	%
Total Unfunded Debt Investments				\$ 2,806	\$—	\$(25)	—	%
Total Controlled Investments						\$41,254	\$47,422	5.66	%
Total Investments						\$1,568,716	\$1,512,224	180.69	%

(1) New Mountain Finance Corporation (the "Company") generally acquires its investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"). These investments are generally subject to certain limitations on resale, and may be deemed to be "restricted securities" under the Securities Act.

(2) Investment is pledged as collateral for the Holdings Credit Facility, a revolving credit facility among the Company as Collateral Manager, New Mountain Finance Holdings, L.L.C. ("NMF Holdings") as the Borrower, Wells Fargo Securities, LLC as the Administrative Agent, and Wells Fargo Bank, National Association, as the Lender and Collateral Custodian. See Note 7, Borrowings, for details.

(3) Investment is pledged as collateral for the NMFC Credit Facility, a revolving credit facility among the Company as the Borrower and Goldman Sachs Bank USA as the Administrative Agent and the Collateral Agent and Goldman Sachs Bank USA, Morgan Stanley Bank, N.A. and Stifel Bank & Trust as Lenders. See Note 7, Borrowings, for details.

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

December 31, 2015

(in thousands, except shares)

(4) Investment is held in New Mountain Finance SBIC, L.P.

(5) Investment is held in NMF YP Holdings, Inc.

(6) Investment is held in NMF Ancora Holdings, Inc.

(7) Investment is held in NMF QID NGL Holdings, Inc.

(8) Investment or a portion of the investment is on non-accrual status. See Note 3, Investments, for details.

(9) Securities are registered under the Securities Act.

All interest is payable in cash unless otherwise indicated. A majority of the variable rate debt investments bear interest at a rate that may be determined by reference to the London Interbank Offered Rate (L), the Prime Rate

(10) (P) and the alternative base rate (Base) and which resets monthly (M), quarterly (Q), semi-annually (S) or annually (A). For each investment the current interest rate provided reflects the rate in effect as of December 31, 2015.

Par Value amounts represent the drawn or undrawn (as indicated in type of investment) portion of revolving

(11) credit facilities or delayed draws. Cost amounts represent the cash received at settlement date net the impact of paydowns and cash paid for drawn revolvers or delayed draws.

The Company holds investments in three related entities of YP Holdings LLC/Print Media Holdings LLC. The Company directly holds warrants to purchase a 4.96% membership interest of YP Equity Investors, LLC (which

(12) at closing represented an indirect 1.0% equity interest in YP Holdings LLC) and holds an investment in the Term Loan B loans issued by YP LLC and Print Media LLC, wholly-owned subsidiaries of YP Holdings LLC and Print Media Holdings LLC, respectively.

The Company holds investments in Packaging Coordinators, Inc. and one related entity of Packaging

(13) Coordinators, Inc. The Company has a debt investment in Packaging Coordinators, Inc. and holds ordinary equity in PCI Pharma Holdings UK Limited, a wholly-owned subsidiary of Packaging Coordinators, Inc.

The Company holds investments in ATI Acquisition Company and Ancora Acquisition LLC. The Company has

(14) debt investments in ATI Acquisition Company and preferred equity and warrants to purchase units of common membership interests of Ancora Acquisition LLC. The Company received its investments in Ancora Acquisition LLC as a result of its investments in ATI Acquisition Company.

(15) The Company holds an investment in CompassLearning, Inc. that is structured as a first lien last out term loan.

The Company holds investments in two related entities of Tenawa Resource Holdings LLC. The Company holds

(16) 5.25% of the common units in QID NGL LLC (which at closing represented 98.1% of the ownership in the common units in Tenawa Resource Holdings LLC) and holds a first lien investment in Tenawa Resource Management LLC, a wholly-owned subsidiary of Tenawa Resource Holdings LLC.

The Company holds investments in QC McKissock Investment, LLC and one related entity of QC McKissock

(17) Investment, LLC. The Company holds a first lien term loan in QC McKissock Investment, LLC (which at closing represented 71.1% of the ownership in the Series A common units of McKissock Investment Holdings, LLC) and holds a first lien term loan and a delayed draw term loan in McKissock, LLC, a wholly-owned subsidiary of McKissock Investment Holdings, LLC.

The Company holds investments in TWDiamondback Holdings Corp. and one related entity of TWDiamondback

(18) Holdings Corp. The Company holds preferred equity in TWDiamondback Holdings Corp. and holds a first lien last out term loan and a delayed draw term loan in Diamondback Drugs of Delaware LLC, a wholly-owned subsidiary of TWDiamondback Holdings Corp.

(19) The Company holds investments in Edmentum Ultimate Holdings, LLC and its related entities. The Company holds subordinated notes and ordinary equity in Edmentum Ultimate Holdings, LLC and holds a second lien revolver in Edmentum, Inc. and Archipelago Learning, Inc., which are wholly-owned subsidiaries of Edmentum

Ultimate Holdings, LLC.

- (20) Total shares reported assumes shares issued for the capitalization of payment-in-kind ("PIK") interest. Actual shares owned total 50,000 as of December 31, 2015.
- (21) The Company holds preferred equity in UniTek Global Services, Inc. that is entitled to receive cumulative preferential dividends at a rate of 13.5% per annum payable in additional shares.
The Company holds investments in Education Management Corporation and one related entity of Education Management Corporation. The Company holds series A-1 convertible preferred stock and common stock in Education Management Corporation and holds a tranche A first lien term loan and a tranche B first lien term loan in Education Management II LLC, which is an indirect subsidiary of Education Management Corporation.
- (23) The Company holds an equity investment in TW-NHME Holdings Corp., as well as a second lien term loan investment in National HME, Inc., a wholly-owned subsidiary of TW-NHME Holdings Corp.
- (24) The Company holds an investment in Pittsburgh Glass Works, LLC that is structured as a first lien last out term loan.

The accompanying notes are an integral part of these consolidated financial statements.

26

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

December 31, 2015

(in thousands, except shares)

Denotes investments in which the Company is an “Affiliated Person”, as defined in the Investment Company Act of 1940, as amended, due to owning or holding the power to vote 5.0% or more of the outstanding voting securities (25) of the investment but not controlling the company. Fair value as of December 31, 2014 and December 31, 2015 along with transactions during the year ended December 31, 2015 in which the issuer was a non-controlled/affiliated investment is as follows:

Portfolio Company (1)	Fair Value at December 31, 2014	Gross Additions (A)	Gross Redemptions (B)	Net Realized Gains (Losses)	Net Change in Unrealized Appreciation (Depreciation)	Fair Value at December 31, 2015	Interest Income	Dividend Income	Other Income
Edmentum Ultimate Holdings, LLC/Edmentum Inc.	\$ —	\$ 23,937	\$ (3,050)	\$ — 1,895	\$ 22,782	\$ 1,171	\$ —	\$ —	\$ —
NMFC Senior Loan Program I LLC	22,461	—	—	— (547)	21,914	—	3,619	1,215	
Tenawa Resource Holdings LLC	—	44,572	—	— (1,981)	42,591	4,231	—	750	
Total Non-Controlled/Affiliated Investments	\$ 22,461	\$ 68,509	\$ (3,050)	\$ — (633)	\$ 87,287	\$ 5,402	\$ 3,619	\$ 1,965	

Gross additions include increases in the cost basis of investments resulting from new portfolio investments, PIK (A) interest or dividends, the amortization of discounts, reorganizations or restructurings and the movement at fair value of an existing portfolio company into this category from a different category.

Gross reductions include decreases in the cost basis of investments resulting from principal collections related to (B) investment repayments or sales, reorganizations or restructurings and the movement of an existing portfolio company out of this category into a different category.

Denotes investments in which the Company is in “Control”, as defined in the Investment Company Act of 1940, as amended, due to owning or holding the power to vote 25.0% or more of the outstanding voting securities of the (26) investment. Fair value as of December 31, 2014 and December 31, 2015 along with transactions during the year ended December 31, 2015 in which the issuer was a controlled investment is as follows:

Portfolio Company (1)	Fair Value at December 31, 2014	Gross Additions (A)	Gross Redemptions (B)	Net Realized Gains (Losses)	Net Change in Unrealized Appreciation (Depreciation)	Fair Value at December 31, 2015	Interest Income	Dividend Income	Other Income
UniTek Global Services, Inc.	\$ —	\$ 42,780	\$ (1,526)	\$ — 6,168	\$ 47,422	\$ 2,007	\$ 2,559	\$ 49	
Total Controlled Investments	\$ —	\$ 42,780	\$ (1,526)	\$ — 6,168	\$ 47,422	\$ 2,007	\$ 2,559	\$ 49	

Gross additions include increases in the cost basis of investments resulting from new portfolio investments, PIK (A) interest or dividends, the amortization of discounts, reorganizations or restructurings and the movement at fair value of an existing portfolio company into this category from a different category.

(B) Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investment repayments or sales, reorganizations or restructurings and the movement of an existing portfolio

company out of this category into a different category.

* All or a portion of interest contains PIK interest.

** Indicates assets that the Company deems to be “non-qualifying assets” under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70.00% of the Company’s total assets at the time of acquisition of any additional non-qualifying assets. As of December 31, 2015, 6.8% of the Company’s total assets were non-qualifying assets.

The accompanying notes are an integral part of these consolidated financial statements.

27

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)
December 31, 2015

Investment Type	December 31, 2015	
	Percent of Total	
	Investments at Fair Value	
First lien	44.31	%
Second lien	41.79	%
Subordinated	5.75	%
Equity and other	8.15	%
Total investments	100.00	%

Industry Type	December 31, 2015	
	Percent of Total	
	Investments at Fair Value	
Software	24.53	%
Business Services	24.36	%
Education	10.97	%
Distribution & Logistics	7.76	%
Federal Services	6.31	%
Consumer Services	4.52	%
Energy	4.33	%
Healthcare Services	4.18	%
Media	3.16	%
Healthcare Products	2.49	%
Business Products	2.21	%
Manufacturing	1.98	%
Investment Fund	1.45	%
Retail	1.39	%
Industrial Services	0.36	%
Total investments	100.00	%

Interest Rate Type	December 31, 2015	
	Percent of Total	
	Investments at Fair Value	
Floating rates	86.26	%
Fixed rates	13.74	%
Total investments	100.00	%

The accompanying notes are an integral part of these consolidated financial statements.

Table of ContentsNotes to the Consolidated Financial Statements of
New Mountain Finance Corporation

June 30, 2016

(in thousands, except share data)

(unaudited)

Note 1. Formation and Business Purpose

New Mountain Finance Corporation

New Mountain Finance Corporation (“NMFC” or the “Company”) is a Delaware corporation that was originally incorporated on June 29, 2010. NMFC is a closed-end, non-diversified management investment company that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). As such, NMFC is obligated to comply with certain regulatory requirements. NMFC has elected to be treated, and intends to comply with the requirements to continue to qualify annually, as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended, (the “Code”). NMFC is also registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the “Advisers Act”).

On May 19, 2011, NMFC priced its initial public offering (the “IPO”) of 7,272,727 shares of common stock at a public offering price of \$13.75 per share. Concurrently with the closing of the IPO and at the public offering price of \$13.75 per share, NMFC sold an additional 2,172,000 shares of its common stock to certain executives and employees of, and other individuals affiliated with, New Mountain Capital L.L.C. (“New Mountain Capital”, defined as New Mountain Capital Group, L.L.C. and its affiliates) in a concurrent private placement (the “Concurrent Private Placement”).

Additionally, 1,252,964 shares were issued to the partners of New Mountain Guardian Partners, L.P. at that time for their ownership interest in the Predecessor Entities (as defined below). In connection with NMFC’s IPO and through a series of transactions, New Mountain Finance Holdings, L.L.C. (“NMF Holdings” or the “Predecessor Operating Company”) acquired all of the operations of the Predecessor Entities, including all of the assets and liabilities related to such operations.

New Mountain Finance Holdings, L.L.C.

NMF Holdings is a Delaware limited liability company. Until May 8, 2014, NMF Holdings was externally managed and was regulated as a BDC under the 1940 Act. As such, NMF Holdings was obligated to comply with certain regulatory requirements. NMF Holdings was treated as a partnership for United States (“U.S.”) federal income tax purposes for so long as it had at least two members. With the completion of the underwritten secondary offering on February 3, 2014, NMF Holdings’ existence as a partnership for U.S. federal income tax purposes terminated and NMF Holdings became an entity that is disregarded as a separate entity from its owner for U.S. federal tax purposes. For additional information on the Company’s organizational structure prior to May 8, 2014, see “—Restructuring”.

Until May 8, 2014, NMF Holdings was externally managed by New Mountain Finance Advisers BDC, L.L.C. (the “Investment Adviser”). As of May 8, 2014, the Investment Adviser serves as the external investment adviser to NMFC.

New Mountain Finance Administration, L.L.C. (the “Administrator”) provides the administrative services necessary for operations. The Investment Adviser and Administrator are wholly-owned subsidiaries of New Mountain Capital. New Mountain Capital is a firm with a track record of investing in the middle market. New Mountain Capital focuses on investing in defensive growth companies across its private equity, public equity and credit investment vehicles. NMF Holdings, formerly known as New Mountain Guardian (Leveraged), L.L.C., was originally formed as a subsidiary of New Mountain Guardian AIV, L.P. (“Guardian AIV”) by New Mountain Capital in October 2008. Guardian AIV was formed through an allocation of approximately \$300.0 million of the \$5.1 billion of commitments supporting New Mountain Partners III, L.P., a private equity fund managed by New Mountain Capital. In February 2009, New Mountain Capital formed a co-investment vehicle, New Mountain Guardian Partners, L.P., comprising \$20.4 million of commitments. New Mountain Guardian (Leveraged), L.L.C. and New Mountain Guardian Partners, L.P., together with their respective direct and indirect wholly-owned subsidiaries, are defined as the “Predecessor Entities”.

Prior to December 18, 2014, New Mountain Finance SPV Funding, L.L.C. (“NMF SLF”) was a Delaware limited liability company. NMF SLF was a wholly-owned subsidiary of NMF Holdings and thus a wholly-owned indirect

subsidiary of the Company. NMF SLF was bankruptcy-remote and non-recourse to NMFC. As part of an amendment to the Company's existing credit facilities with Wells Fargo Bank, National Association, NMF SLF merged with and into NMF Holdings on December 18, 2014. See Note 7, Borrowings, for details.

Table of Contents

New Mountain Finance AIV Holdings Corporation

Until April 25, 2014, New Mountain Finance AIV Holdings Corporation (“AIV Holdings”) was a Delaware corporation that was originally incorporated on March 11, 2011. AIV Holdings was dissolved on April 25, 2014. Guardian AIV, a Delaware limited partnership, was AIV Holdings’ sole stockholder. AIV Holdings was a closed-end, non-diversified management investment company that was regulated as a BDC under the 1940 Act. As such, AIV Holdings was obligated to comply with certain regulatory requirements. AIV Holdings was treated, and complied with the requirements to qualify annually, as a RIC under the Code.

Structure

Prior to the Restructuring (as defined below) on May 8, 2014, NMFC and AIV Holdings were holding companies with no direct operations of their own, and their sole asset was their ownership in NMF Holdings. In connection with the IPO, NMFC and AIV Holdings each entered into a joinder agreement with respect to the Limited Liability Company Agreement, as amended and restated (the “Operating Agreement”), of NMF Holdings, pursuant to which NMFC and AIV Holdings were admitted as members of NMF Holdings. NMFC acquired from NMF Holdings, with the gross proceeds of the IPO and the Concurrent Private Placement, common membership units (“units”) of NMF Holdings (the number of units were equal to the number of shares of NMFC’s common stock sold in the IPO and the Concurrent Private Placement). Additionally, NMFC received units of NMF Holdings equal to the number of shares of common stock of NMFC issued to the partners of New Mountain Guardian Partners, L.P. Guardian AIV was the parent of NMF Holdings prior to the IPO and, as a result of the transactions completed in connection with the IPO, obtained units in NMF Holdings. Guardian AIV contributed its units in NMF Holdings to its newly formed subsidiary, AIV Holdings, in exchange for common stock of AIV Holdings. AIV Holdings had the right to exchange all or any portion of its units in NMF Holdings for shares of NMFC’s common stock on a one-for-one basis at any time.

The original structure was designed to generally prevent NMFC from being allocated taxable income with respect to unrecognized gains that existed at the time of the IPO in the Predecessor Entities’ assets, and rather such amounts would be allocated generally to AIV Holdings. The result was that any distributions made to NMFC’s stockholders that were attributable to such gains generally were not treated as taxable dividends but rather as return of capital.

Since NMFC’s IPO, and through June 30, 2016, NMFC raised approximately \$454,040 in net proceeds from additional offerings of common stock and issued shares of its common stock valued at approximately \$288,416 on behalf of AIV Holdings for exchanged units. NMFC acquired from NMF Holdings units of NMF Holdings equal to the number of shares of NMFC’s common stock sold in the additional offerings. With the completion of the final secondary offering on February 3, 2014, NMFC owned 100.0% of the units of NMF Holdings, which became a wholly-owned subsidiary of NMFC.

Restructuring

As a BDC, AIV Holdings had been subject to the 1940 Act, including certain provisions applicable only to BDCs. Accordingly, and after careful consideration of the 1940 Act requirements applicable to BDCs, the cost of 1940 Act compliance and a thorough assessment of AIV Holdings’ business model, AIV Holdings’ board of directors determined that continuation as a BDC was not in the best interests of AIV Holdings and Guardian AIV. Specifically, given that AIV Holdings was formed for the sole purpose of holding units of NMF Holdings and AIV Holdings had disposed of all of the units of NMF Holdings that it was holding as of February 3, 2014, the board of directors of AIV Holdings approved and declared advisable at an in-person meeting held on March 25, 2014 the withdrawal of AIV Holdings’ election to be regulated as a BDC under the 1940 Act. In addition, the board of directors of AIV Holdings approved and declared advisable for AIV Holdings to terminate its registration under Section 12(g) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and to dissolve AIV Holdings under the laws of the State of Delaware. Upon receipt of the necessary stockholder consent to authorize the board of directors of AIV Holdings to withdraw AIV Holdings’ election to be regulated as a BDC, the withdrawal was filed and became effective upon receipt by the U.S. Securities and Exchange Commission (“SEC”) of AIV Holdings’ notification of withdrawal on Form N-54C on April 15, 2014. The board of directors of AIV Holdings believed that AIV Holdings met the requirements for filing the notification to withdraw its election to be regulated as a BDC, upon the receipt of the necessary stockholder consent. After the notification of withdrawal of AIV Holdings’ BDC election was filed with the SEC, AIV Holdings was no longer subject to the regulatory provisions of the 1940 Act applicable to BDCs generally, including regulations

related to insurance, custody, composition of its board of directors, affiliated transactions and any compensation arrangements.

In addition, on April 15, 2014, AIV Holdings filed a Form 15 with the SEC to terminate AIV Holdings' registration under Section 12(g) of the Exchange Act. After these SEC filings and any other federal or state regulatory or tax filings were made, AIV Holdings proceeded to dissolve under Delaware law by filing a certificate of dissolution in Delaware on April 25, 2014.

Table of Contents

Until May 8, 2014, as a BDC, NMF Holdings had been subject to the 1940 Act, including certain provisions applicable only to BDCs. Accordingly, and after careful consideration of the 1940 Act requirements applicable to BDCs, the cost of 1940 Act compliance and a thorough assessment of NMF Holdings' current business model, NMF Holdings' board of directors determined at an in-person meeting held on March 25, 2014 that continuation as a BDC was not in the best interests of NMF Holdings.

At the joint annual meeting of the stockholders of NMFC and the sole unit holder of NMF Holdings held on May 6, 2014, the stockholders of NMFC and the sole unit holder of NMF Holdings approved a proposal which authorized the board of directors of NMF Holdings to withdraw NMF Holdings' election to be regulated as a BDC. Additionally, the stockholders of NMFC approved a new investment advisory and management agreement between NMFC and the Investment Adviser. Upon receipt of the necessary stockholder/unit holder approval to authorize the board of directors of NMF Holdings to withdraw NMF Holdings' election to be regulated as a BDC, the withdrawal was filed and became effective upon receipt by the SEC of NMF Holdings' notification of withdrawal on Form N-54C on May 8, 2014.

Effective May 8, 2014, NMF Holdings amended and restated its Operating Agreement such that the board of directors of NMF Holdings was dissolved and NMF Holdings remained a wholly-owned subsidiary of NMFC with the sole purpose of serving as a special purpose vehicle for NMF Holdings' credit facility, and NMFC assumed all other operating activities previously undertaken by NMF Holdings under the management of the Investment Adviser (collectively, the "Restructuring"). After the Restructuring, all wholly-owned direct and indirect subsidiaries of NMFC are consolidated with NMFC for both 1940 Act and financial statement reporting purposes, subject to any financial statement adjustments required in accordance with accounting principles generally accepted in the United States of America ("GAAP"). NMFC continues to remain a BDC under the 1940 Act.

Also, on May 8, 2014, NMF Holdings filed Form 15 with the SEC to terminate NMF Holdings' registration under Section 12(g) of the Exchange Act. As a special purpose entity, NMF Holdings is bankruptcy-remote and non-recourse to NMFC. In addition, the assets held at NMF Holdings will continue to be used to secure NMF Holdings' credit facility.

Current Organization

The Company's wholly-owned subsidiaries, NMF Ancora Holdings Inc. ("NMF Ancora"), NMF QID NGL Holdings, Inc. ("NMF QID") and NMF YP Holdings Inc. ("NMF YP"), are structured as Delaware entities that serve as tax blocker corporations which hold equity or equity-like investments in portfolio companies organized as limited liability companies (or other forms of pass-through entities). The Company consolidates its tax blocker corporations for accounting purposes. The tax blocker corporations are not consolidated for income tax purposes and may incur income tax expense as a result of their ownership of portfolio companies. Additionally, the Company has a wholly-owned subsidiary, New Mountain Finance Servicing, L.L.C. ("NMF Servicing") that serves as the administrative agent on certain investment transactions. New Mountain Finance SBIC, L.P. ("SBIC LP"), and its general partner, New Mountain Finance SBIC G.P., L.L.C. ("SBIC GP"), were organized in Delaware as a limited partnership and limited liability company, respectively. SBIC LP and SBIC GP are consolidated wholly-owned direct and indirect subsidiaries of the Company. SBIC LP received a license from the U.S. Small Business Administration (the "SBA") to operate as a small business investment company ("SBIC") under Section 301(c) of the Small Business Investment Act of 1958, as amended (the "1958 Act").

Table of Contents

The diagram below depicts the Company's organizational structure as of June 30, 2016.

*Includes partners of New Mountain Guardian Partners, L.P.

** NMFC is the sole limited partner of SBIC LP. NMFC, directly or indirectly through SBIC GP, wholly-owns SBIC LP. NMFC owns 100.0% of SBIC GP which owns 1.0% of SBIC LP. NMFC owns 99.0% of SBIC LP.

The Company's investment objective is to generate current income and capital appreciation through the sourcing and origination of debt securities at all levels of the capital structure, including first and second lien debt, notes, bonds and mezzanine securities. In some cases, the Company's investments may also include equity interests. The primary focus is in the debt of defensive growth companies, which are defined as generally exhibiting the following characteristics: (i) sustainable secular growth drivers, (ii) high barriers to competitive entry, (iii) high free cash flow after capital expenditure and working capital needs, (iv) high returns on assets and (v) niche market dominance. Similar to the Company, SBIC LP's investment objective is to generate current income and capital appreciation under the investment criteria used by the Company, however, SBIC LP's investments must be in SBA eligible companies. The Company's portfolio may be concentrated in a limited number of industries. As of June 30, 2016, the Company's top five industry concentrations were business services, software, education, federal services and distribution & logistics.

Note 2. Summary of Significant Accounting Policies

Basis of accounting—The Company's consolidated financial statements have been prepared in conformity with GAAP. The Company is an investment company following accounting and reporting guidance in Accounting Standards Codification Topic 946, Financial Services—Investment Companies, (“ASC 946”). NMFC consolidates its wholly-owned direct and indirect subsidiaries: NMF Holdings, NMF Servicing, SBIC LP, SBIC GP, NMF Ancora, NMF QID and NMF YP. Previously, the Company consolidated its wholly-owned indirect subsidiary NMF SLF until it merged with and into NMF Holdings on December 18, 2014. See Note 7, Borrowings, for details.

The Company's consolidated financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the results of operations and financial condition for all periods presented. All intercompany transactions have been eliminated. Revenues are recognized when earned and expenses when incurred. The financial results of the Company's portfolio investments are not consolidated in the financial statements.

The Company's interim consolidated financial statements are prepared in accordance with GAAP and pursuant to the requirements for reporting on Form 10-Q and Article 6 or 10 of Regulation S-X. Accordingly, the Company's interim consolidated financial statements do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of management, all adjustments, consisting solely of normal recurring accruals considered necessary for the fair presentation of financial statements for the interim period, have been included. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending December 31, 2016.

Table of Contents

Investments—The Company applies fair value accounting in accordance with GAAP. Fair value is the amount 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. Investments are reflected on the Company’s Consolidated Statements of Assets and Liabilities at fair value, with changes in unrealized gains and losses resulting from changes in fair value reflected in the Company’s Consolidated Statements of Operations as “Net change in unrealized appreciation (depreciation) of investments” and realizations on portfolio investments reflected in the Company’s Consolidated Statements of Operations as “Net realized gains (losses) on investments”.

The Company values its assets on a quarterly basis, or more frequently if required under the 1940 Act. In all cases, the Company’s board of directors is ultimately and solely responsible for determining the fair value of the portfolio investments on a quarterly basis in good faith, including investments that are not publicly traded, those whose market prices are not readily available and any other situation where its portfolio investments require a fair value determination. Security transactions are accounted for on a trade date basis. The Company’s quarterly valuation procedures are set forth in more detail below:

- (1) Investments for which market quotations are readily available on an exchange are valued at such market quotations based on the closing price indicated from independent pricing services.
- (2) Investments for which indicative prices are obtained from various pricing services and/or brokers or dealers are valued through a multi-step valuation process, as described below, to determine whether the quote(s) obtained is representative of fair value in accordance with GAAP.
 - a. Bond quotes are obtained through independent pricing services. Internal reviews are performed by the investment professionals of the Investment Adviser to ensure that the quote obtained is representative of fair value in accordance with GAAP and if so, the quote is used. If the Investment Adviser is unable to sufficiently validate the quote(s) internally and if the investment’s par value or its fair value exceeds the materiality threshold, the investment is valued similarly to those assets with no readily available quotes (see (3) below); and
 - b. For investments other than bonds, the Company looks at the number of quotes readily available and performs the following:
 - i. Investments for which two or more quotes are received from a pricing service are valued using the mean of the mean of the bid and ask of the quotes obtained.
 - ii. Investments for which one quote is received from a pricing service are validated internally. The investment professionals of the Investment Adviser analyze the market quotes obtained using an array of valuation methods (further described below) to validate the fair value. If the Investment Adviser is unable to sufficiently validate the quote internally and if the investment’s par value or its fair value exceeds the materiality threshold, the investment is valued similarly to those assets with no readily available quotes (see (3) below).
- (3) Investments for which quotations are not readily available through exchanges, pricing services, brokers, or dealers are valued through a multi-step valuation process:
 - a. Each portfolio company or investment is initially valued by the investment professionals of the Investment Adviser responsible for the credit monitoring;
 - b. Preliminary valuation conclusions will then be documented and discussed with the Company’s senior management; If an investment falls into (3) above for four consecutive quarters and if the investment’s par value or its fair value exceeds the materiality threshold, then at least once each fiscal year, the valuation for each portfolio investment for which the Company does not have a readily available market quotation will be reviewed by an independent valuation firm engaged by the Company’s board of directors; and
 - c. When deemed appropriate by the Company’s management, an independent valuation firm may be engaged to review and value investment(s) of a portfolio company, without any preliminary valuation being performed by the Investment Adviser.
 - d. The investment professionals of the Investment Adviser will review and validate the value provided.

For investments in revolving credit facilities and delayed draw commitments, the cost basis of the funded investments purchased is offset by any costs/netbacks received for any unfunded portion on the total balance committed. The fair value is also adjusted for the price appreciation or depreciation on the unfunded portion. As a result, the purchase of commitments not completely funded may result in a negative fair value until it is called and funded.

Table of Contents

The values assigned to investments are based upon available information and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot be reasonably determined until the individual positions are liquidated. 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 and the fluctuations could be material.

See Note 3, Investments, for further discussion relating to investments.

Collateralized agreements or repurchase financings—The Company follows the guidance in Accounting Standards Codification Topic 860, Transfers and Servicing—Secured Borrowing and Collateral, (“ASC 860”) when accounting for transactions involving the purchases of securities under collateralized agreements to resell (resale agreements). These transactions are treated as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts, as specified in the respective agreements. Interest on collateralized agreements is accrued and recognized over the life of the transaction and included in interest income. As of June 30, 2016 and December 31, 2015, the Company held one collateralized agreement to resell with a cost basis of \$30,000 and \$30,000, respectively, and a carrying value of \$29,630 and \$29,704, respectively, and is collateralized by a second lien bond in Northstar GOM Holdings Group LLC with a fair value of \$29,630 and \$29,704, respectively. The collateralized agreement to resell is guaranteed by a private hedge fund with the most recently reported assets under management of approximately \$690,000 and December 31, 2015 assets under management of approximately \$716,590. Pursuant to the terms of the collateralized agreement, the private hedge fund is obligated to repurchase the collateral from the Company at the par value of the collateralized agreement once called upon by the Company or if the private hedge fund's total assets under management fall below the agreed upon thresholds. The collateralized agreement was called upon by the Company but the counterparty failed to repurchase the collateral at its par value in accordance with the terms of the collateralized agreement. As of June 30, 2016, litigation is on-going in the state of New York to resolve this matter. The collateralized agreement earned interest at a weighted average rate of 16.0% and 15.0% per annum as of June 30, 2016 and December 31, 2015, respectively.

Cash and cash equivalents—Cash and cash equivalents include cash and short-term, highly liquid investments. The Company defines cash equivalents as securities that are readily convertible into known amounts of cash and so near maturity that there is insignificant risk of changes in value. These securities have original maturities of three months or less. The Company did not hold any cash equivalents as of June 30, 2016 and December 31, 2015.

Revenue recognition

Sales and paydowns of investments: Realized gains and losses on investments are determined on the specific identification method.

Interest and dividend income: Interest income, including amortization of premium and discount using the effective interest method, is recorded on the accrual basis and periodically assessed for collectability. Interest income also includes interest earned from cash on hand. Upon the prepayment of a loan or debt security, any prepayment penalties are recorded as part of interest income. The Company has loans and certain preferred equity investments in the portfolio that contain a payment-in-kind (“PIK”) interest or dividend provision. PIK interest and dividends are accrued and recorded as income at the contractual rates, if deemed collectible. The PIK interest and dividends are added to the principal or share balances on the capitalization dates and are generally due at maturity or when redeemed by the issuer.

Dividend income on common equity is recorded on the record date for private portfolio companies or on the ex-dividend date for publicly traded portfolio companies. Dividend income on preferred securities is recorded as dividend income on an accrual basis to the extent that such amounts are deemed collectible.

Non-accrual income: Investments are placed on non-accrual status when principal or interest payments are past due 30 days or more and when there is reasonable doubt that principal or interest will be collected. Accrued cash and un-capitalized PIK interest or dividends are reversed when an investment is placed on non-accrual status. Previously capitalized PIK interest or dividends are not reversed when an investment is placed on non-accrual status. Interest or dividend payments received on non-accrual investments may be recognized as income or applied to principal depending upon management's judgment of the ultimate outcome. Non-accrual investments are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current.

Other income: Other income represents delayed compensation, consent or amendment fees, revolver fees, structuring fees, upfront fees, management fees from a non-controlled/affiliated investment and other miscellaneous fees received and are typically non-recurring in nature. Delayed compensation is income earned from counterparties on trades that do not settle within a set number of business days after trade date. Other income may also include fees from bridge loans. The Company may from time to time enter into bridge financing commitments, an obligation to provide interim financing to a counterparty until permanent credit can be obtained. These commitments are short-term in nature and may expire unfunded. A fee is received

Table of Contents

by the Company for providing such commitments. Structuring fees and upfront fees are recognized as income when earned, usually when paid at the closing of the investment, and are non-refundable.

Interest and other financing expenses—Interest and other financing fees are recorded on an accrual basis by the Company. See Note 7, Borrowings, for details.

Deferred financing costs—The deferred financing costs of the Company consists of capitalized expenses related to the origination and amending of the Company’s borrowings. The Company amortizes these costs into expense over the stated life of the related borrowing. See Note 7, Borrowings, for details. On January 1, 2016, the Company adopted Accounting Standards Update No. 2015-03, Interest—Imputation of Interest Subtopic 835-30—Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). Upon adoption, the Company revised its presentation of deferred financing costs from an asset to a liability, which is a direct deduction to its debt on the Consolidated Statements of Assets and Liabilities. In addition, the Company retrospectively revised its presentation of \$13,992 of deferred financing costs that were previously presented as an asset as of December 31, 2015, which resulted in a decrease to total assets and total liabilities as of December 31, 2015.

Deferred offering costs—The Company's deferred offering costs consist of fees and expenses incurred in connection with equity offerings and the filing of shelf registration statements. Upon the issuance of shares, offering costs are charged as a direct reduction to net assets. Deferred offering costs are included in other assets on the Company's Consolidated Statements of Assets and Liabilities.

Income taxes—The Company has elected to be treated, and intends to comply with the requirements to qualify annually, as a RIC under subchapter M of the Code. As a RIC, the Company is not subject to U.S. federal income tax on the portion of taxable income and gains timely distributed to its stockholders.

To continue to qualify and be subject to tax as a RIC, the Company is required to meet certain income and asset diversification tests in addition to distributing at least 90.0% of its investment company taxable income, as defined by the Code. Since U.S. federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences between taxable income and the results of operations for financial reporting purposes may be permanent or temporary in nature. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

For U.S. federal income tax purposes, distributions paid to stockholders of the Company are reported as ordinary income, return of capital, long term capital gains or a combination thereof.

The Company will be subject to a 4.0% nondeductible federal excise tax on certain undistributed income unless the Company distributes, in a timely manner as required by the Code, an amount at least equal to the sum of (1) 98.0% of its respective net ordinary income earned for the calendar year and (2) 98.2% of its respective capital gain net income for the one-year period ending October 31 in the calendar year.

Certain consolidated subsidiaries of the Company are subject to U.S. federal and state income taxes. These taxable entities are not consolidated for income tax purposes and may generate income tax liabilities or assets from permanent and temporary differences in the recognition of items for financial reporting and income tax purposes.

For the three and six months ended June 30, 2016, the Company recognized a total income tax benefit of approximately \$34 and \$717, respectively, for the Company’s consolidated subsidiaries. For the three and six months ended June 30, 2016, the Company recorded current income tax expense of approximately \$50 and \$91, respectively, and deferred income tax benefits of approximately \$84 and \$808, respectively, which excludes a deferred tax benefit of \$44 and \$222, respectively, attributable to one of the Company's consolidated subsidiaries. For the three and six months ended June 30, 2015, the Company recognized a total provision for income taxes of approximately \$288 and \$938, respectively, for the Company’s consolidated subsidiaries. For the three and six months ended June 30, 2015, the Company recorded current income tax expense of approximately \$153 and \$302, respectively, and deferred income tax expense of approximately \$135 and \$636, respectively.

As of June 30, 2016 and December 31, 2015, the Company had \$868 and \$1,676, respectively, of deferred tax liabilities primarily relating to deferred taxes attributable to certain differences between the computation of income for U.S. federal income tax purposes as compared to GAAP. As of June 30, 2016 and December 31, 2015, the Company

had a deferred tax asset of \$742 and \$520, respectively, attributable to one of the Company's consolidated subsidiaries primarily related to net operating losses. The Company has determined that it is more likely than not that the subsidiary will have insufficient taxable income to realize some portion or all of the deferred tax asset. As such, as of June 30, 2016 and December 31, 2015, a full valuation allowance of \$742 and \$520, respectively, has been recorded against the deferred tax asset.

Table of Contents

The Company has adopted the Income Taxes topic of the Accounting Standards Codification Topic 740 (“ASC 740”). ASC 740 provides guidance for income taxes, including how uncertain income tax positions should be recognized, measured, and disclosed in the financial statements. Based on its analysis, the Company has determined that there were no uncertain income tax positions that do not meet the more likely than not threshold through December 31, 2015. The 2012 through 2015 tax years remain subject to examination by the U.S. federal, state, and local tax authorities.

Dividends—Distributions to common stockholders of the Company are recorded on the record date as set by the board of directors. The Company intends to make distributions to its stockholders that will be sufficient to enable the Company to maintain its status as a RIC. The Company intends to distribute approximately all of its adjusted net investment income (see Note 5, Agreements) on a quarterly basis and substantially all of its taxable income on an annual basis, except that the Company may retain certain net capital gains for reinvestment.

The Company has adopted a dividend reinvestment plan that provides on behalf of its stockholders for reinvestment of any distributions declared, unless a stockholder elects to receive cash.

The Company applies the following in implementing the dividend reinvestment plan. If the price at which newly issued shares are to be credited to stockholders’ accounts is equal to or greater than 110.0% of the last determined net asset value of the shares, the Company will use only newly issued shares to implement its dividend reinvestment plan. Under such circumstances, the number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the distribution payable to such stockholder by the market price per share of the Company’s common stock on the New York Stock Exchange (“NYSE”) on the distribution payment date. Market price per share on that date will be the closing price for such shares on the NYSE or, if no sale is reported for such day, the average of their electronically reported bid and ask prices.

If the price at which newly issued shares are to be credited to stockholders’ accounts is less than 110.0% of the last determined net asset value of the shares, the Company will either issue new shares or instruct the plan administrator to purchase shares in the open market to satisfy the additional shares required. Shares purchased in open market transactions by the plan administrator will be allocated to a stockholder based on the average purchase price, excluding any brokerage charges or other charges, of all shares of common stock purchased in the open market. The number of shares of the Company’s common stock to be outstanding after giving effect to payment of the distribution cannot be established until the value per share at which additional shares will be issued has been determined and elections of the Company’s stockholders have been tabulated.

Share repurchase plan—On February 4, 2016, the Company's board of directors authorized a program for the purpose of repurchasing up to \$50,000 worth of the Company's common stock. Under the repurchase program, the Company may, but is not obligated to, repurchase its outstanding common stock in the open market from time to time provided that it complies with the Company's code of ethics and the guidelines specified in Rule 10b-18 of the Exchange Act, including certain price, market volume and timing constraints. In addition, any repurchases will be conducted in accordance with the 1940 Act. Unless amended or extended by the Company's board of directors, the Company expects the repurchase program to be in place until the earlier of December 31, 2016 or until \$50,000 of the Company's outstanding shares of common stock have been repurchased. During the three and six months ended June 30, 2016, the Company repurchased a total of 123,549 and 248,499 shares, respectively, of the Company's common stock in the open market for \$1,515 and \$2,948, respectively, including commissions paid.

Earnings per share—The Company’s earnings per share (“EPS”) amounts have been computed based on the weighted-average number of shares of common stock outstanding for the period. Basic EPS is computed by dividing net increase (decrease) in net assets resulting from operations by the weighted average number of shares of common stock outstanding during the period of computation. Diluted EPS is computed by dividing net increase (decrease) in net assets resulting from operations by the weighted average number of shares of common stock assuming all potential shares had been issued, and its related net impact to net assets accounted for, and the additional shares of common stock were dilutive. Diluted EPS reflects the potential dilution, using the as-if-converted method for convertible debt, which could occur if all potentially dilutive securities were exercised.

Foreign securities—The accounting records of the Company are maintained in U.S. dollars. Investment securities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies on

the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies on the respective dates of the transactions. The Company does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with “Net change in unrealized appreciation (depreciation) of investments” and “Net realized gains (losses) on investments” in the Company’s Consolidated Statements of Operations.

Investments denominated in foreign currencies may be negatively affected by movements in the rate of exchange between the U.S. dollar and such foreign currencies. This movement is beyond the control of the Company and cannot be predicted.

Table of Contents

Use of estimates—The preparation of the Company’s consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Company’s consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Changes in the economic environment, financial markets, and other metrics used in determining these estimates could cause actual results to differ from the estimates used, and the differences could be material.

Dividend income recorded related to distributions received from flow-through investments is an accounting estimate based on the most recent estimate of the tax treatment of the distribution.

Note 3. Investments

At June 30, 2016, the Company’s investments consisted of the following:

Investment Cost and Fair Value by Type

	Cost	Fair Value
First lien	\$644,882	\$616,894
Second lien	680,009	642,423
Subordinated	86,572	79,272
Equity and other	135,520	159,472
Total investments	\$1,546,983	\$1,498,061

Investment Cost and Fair Value by Industry

	Cost	Fair Value
Business Services	\$370,703	\$380,353
Software	390,301	377,108
Education	126,633	125,455
Federal Services	109,880	110,244
Distribution & Logistics	129,290	109,986
Healthcare Services	85,925	84,037
Consumer Services	82,446	82,873
Energy	96,780	71,048
Investment Fund	50,790	50,610
Business Products	34,133	31,986
Media	25,933	28,384
Retail	21,017	20,899
Healthcare Information Technology	14,631	14,850
Healthcare Products	5,537	7,528
Industrial Services	2,984	2,700
Total investments	\$1,546,983	\$1,498,061

At December 31, 2015, the Company’s investments consisted of the following:

Investment Cost and Fair Value by Type

	Cost	Fair Value
First lien	\$711,601	\$670,023
Second lien	656,165	631,985
Subordinated	95,429	87,005
Equity and other	105,521	123,211
Total investments	\$1,568,716	\$1,512,224

Table of Contents

Investment Cost and Fair Value by Industry

	Cost	Fair Value
Software	\$384,805	\$370,892
Business Services	367,109	368,409
Education	167,222	165,947
Distribution & Logistics	123,053	117,375
Federal Services	95,459	95,477
Consumer Services	69,250	68,269
Energy	96,717	65,521
Healthcare Services	66,923	63,255
Media	43,489	47,804
Healthcare Products	38,664	37,648
Business Products	35,188	33,420
Manufacturing	29,852	29,850
Investment Fund	23,000	21,914
Retail	21,032	21,000
Industrial Services	6,953	5,443
Total investments	\$1,568,716	\$1,512,224

During the second quarter of 2016, the Company placed a portion of its first lien position in Permian Tank & Manufacturing, Inc. (“Permian”) on non-accrual status due to its ongoing restructuring. As of June 30, 2016, the portion of the Permian first lien position placed on non-accrual status represented an aggregate cost basis of \$17,122, an aggregate fair value of \$5,030 and total unearned interest income of \$825 and \$825 for the three and six months then ended.

During the second quarter of 2016, the Company placed a portion of its second lien position in Transtar Holding Company (“Transtar”) on non-accrual status due to its ongoing restructuring. As of June 30, 2016, the portion of the Transtar second lien position placed on non-accrual status represented an aggregate cost basis of \$24,720, an aggregate fair value of \$9,087 and total unearned interest income of \$842 and \$842 for the three and six months then ended.

As of June 30, 2016, the Company’s two super priority first lien positions in ATI Acquisition Company and its related preferred shares and warrants in Ancora Acquisition LLC remained on non-accrual status due to the inability of the portfolio company to service its interest payment for the quarter then ended and uncertainty about its ability to pay such amounts in the future. As of June 30, 2016, the Company’s investment had an aggregate cost basis of \$1,611, an aggregate fair value of \$393 and no unearned interest income for the three and six months then ended. For the three and six months ended June 30, 2015, total unearned interest income was \$85 and \$168, respectively. As of December 31, 2015, the Company’s investment had an aggregate cost basis of \$1,611 and an aggregate fair value of \$393. As of June 30, 2016 and December 31, 2015, unrealized gains (losses) include a fee that the Company would recognize upon realization of the two super priority first lien debt investments.

During the first quarter of 2015, the Company placed a portion of its second lien position in Edmentum, Inc. (“Edmentum”) on non-accrual status due to its ongoing restructuring. As of March 31, 2015, the Company’s investment in Edmentum had an aggregate cost basis of \$30,771, an aggregate fair value of \$15,575 and total unearned interest income of \$438 for the three months then ended. In June 2015, Edmentum completed a restructuring which resulted in a material modification of the original terms and an extinguishment of the Company’s original investment in Edmentum. Prior to the extinguishment in June 2015, the Company’s original investment in Edmentum had an aggregate cost of \$31,636, an aggregate fair value of \$16,437 and total unearned interest income of \$851 for the six months ended June 30, 2015. The extinguishment resulted in a realized loss of \$15,199. Post restructuring, the Company’s investments in Edmentum have been restored to full accrual status. As of June 30, 2016, the Company’s investments in Edmentum have an aggregate cost basis of \$25,929 and an aggregate fair value of \$27,212.

During the first quarter of 2015, the Company’s first lien position in Education Management LLC (“EDMC”) was non-income producing as a result of the portfolio company undergoing a restructuring. As of December 31, 2014, the

Company's investment in EDMC had an aggregate cost basis of \$2,987, an aggregate fair value of \$1,376 and no unearned interest income for the three months then ended. In January 2015, EDMC completed a restructuring which resulted in a material modification of the original terms and an extinguishment of the Company's original investment in EDMC. Prior to the extinguishment in January 2015, the Company's original investment in EDMC had an aggregate cost of \$2,987, an aggregate

Table of Contents

fair value of \$1,376 and no unearned interest income for the period then ended. The extinguishment resulted in a realized loss of \$1,611. Post restructuring, the Company's investments in EDMC are income producing. As of June 30, 2016, the Company's investments in EDMC have an aggregate cost basis of \$1,460 and an aggregate fair value of \$285.

During the third quarter of 2014, the Company placed a portion of its first lien position in UniTek Global Services, Inc. ("UniTek") on non-accrual status in anticipation of a voluntary petition for a "Pre-Packaged" Chapter 11 Bankruptcy in the U.S. Bankruptcy Court for the District of Delaware, which was filed on November 3, 2014. As of December 31, 2014, the Company's investments in UniTek had an aggregate cost basis of \$47,357, an aggregate fair value of \$35,227 and total unearned interest income of \$975 for the year then ended. In January 2015, UniTek emerged from "Pre-Packaged" Chapter 11 Bankruptcy and completed its restructuring. The restructuring resulted in a material modification of the original terms and an extinguishment of the Company's original investments in UniTek. Prior to the extinguishment in January 2015, the Company's original investments in UniTek had an aggregate cost of \$52,902, an aggregate fair value of \$40,137 and total unearned interest income of \$68 for the period then ended. The extinguishment resulted in a realized loss of \$12,765. Post restructuring, the Company's investments in UniTek have been restored to full accrual status. As of June 30, 2016, the Company's investments in UniTek have an aggregate cost basis of \$41,349 and an aggregate fair value of \$55,994.

As of June 30, 2016, the Company had unfunded commitments on revolving credit facilities and bridge facilities of \$9,057 and \$0, respectively. As of June 30, 2016, the Company had unfunded commitments in the form of delayed draws or other future funding commitments of \$4,695. The unfunded commitments on revolving credit facilities and delayed draws are disclosed on the Company's Consolidated Schedule of Investments as of June 30, 2016.

As of December 31, 2015, the Company had unfunded commitments on revolving credit facilities and bridge facilities of \$17,576 and \$0, respectively. As of December 31, 2015, the Company had unfunded commitments in the form of delayed draws or other future funding commitments of \$8,678. The unfunded commitments on revolving credit facilities and delayed draws are disclosed on the Company's Consolidated Schedule of Investments as of December 31, 2015.

NMFC Senior Loan Program I LLC

NMFC Senior Loan Program I LLC ("SLP I") was formed as a Delaware limited liability company on May 27, 2014 and commenced operations on June 10, 2014. SLP I is a portfolio company held by the Company. SLP I is structured as a private investment fund, in which all of the investors are qualified purchasers, as such term is defined under the 1940 Act. Transfer of interests in SLP I is subject to restrictions, and as a result, such interests are not readily marketable. SLP I operates under a limited liability company agreement (the "SLP I Agreement") and will continue in existence until June 10, 2019, subject to earlier termination pursuant to certain terms of the SLP I Agreement. The term may be extended for up to one year pursuant to certain terms of the SLP I Agreement. SLP I has a three year re-investment period. SLP I invests in senior secured loans issued by companies within the Company's core industry verticals. These investments are typically broadly syndicated first lien loans.

SLP I is capitalized with \$93,000 of capital commitments, \$275,000 of debt from a revolving credit facility and is managed by the Company. The Company's capital commitment is \$23,000, representing less than 25.0% ownership, with third party investors representing the remaining capital commitment. As of June 30, 2016, SLP I had total investments with an aggregate fair value of approximately \$338,950, debt outstanding of \$245,917 and capital that had been called and funded of \$93,000. As of December 31, 2015, SLP I had total investments with an aggregate fair value of approximately \$349,704, debt outstanding of \$267,617 and capital that had been called and funded of \$93,000. The Company's investment in SLP I is disclosed on the Company's Consolidated Schedules of Investments as of June 30, 2016 and December 31, 2015.

The Company, as an investment adviser registered under the Advisers Act, acts as the collateral manager to SLP I and is entitled to receive a management fee for its investment management services provided to SLP I. As a result, SLP I is classified as an affiliate of the Company. No management fee is charged on the Company's investment in SLP I in connection with the administrative services provided to SLP I. For the three and six months ended June 30, 2016, the Company earned approximately \$293 and \$593, respectively, in management fees related to SLP I which is included in other income. For the three and six months ended June 30, 2015, the Company earned approximately \$296 and

\$597, respectively, in management fees related to SLP I which is included in other income. As of June 30, 2016 and December 31, 2015, approximately \$293 and \$311, respectively, of management fees related to SLP I was included in receivable from affiliates. For the three and six months ended June 30, 2016, the Company earned approximately \$887 and \$1,807, respectively, of dividend income related to SLP I, which is included in dividend income. For the three and six months ended June 30, 2015, the Company earned approximately \$951 and \$1,809, respectively, of dividend income related to SLP I, which is included in dividend income. As of June 30, 2016 and December 31, 2015, approximately \$887 and \$918, respectively, of dividend income related to SLP I was included in interest and dividend receivable.

Table of Contents

Unconsolidated Significant Subsidiaries

In accordance with Regulation S-X Rule 10-01(b)(1), the Company evaluates its unconsolidated controlled portfolio companies as significant subsidiaries under this rule.

NMFC Senior Loan Program II LLC

NMFC Senior Loan Program II LLC ("SLP II") was formed as a Delaware limited liability company on March 9, 2016 and commenced operations on April 12, 2016. SLP II is structured as a private joint venture investment fund between the Company and SkyKnight Income, LLC ("SkyKnight") and operates under a limited liability company agreement (the "SLP II Agreement"). The purpose of the joint venture is to invest primarily in senior secured loans issued by portfolio companies within the Company's core industry verticals. These investments are typically broadly syndicated first lien loans. All investment decisions must be unanimously approved by the board of managers of SLP II, which has equal representation from the Company and SkyKnight. SLP II has a three year investment period and will continue in existence until April 12, 2021. The term may be extended for up to one year pursuant to certain terms of the SLP II Agreement.

SLP II is capitalized with equity contributions which are called from its members, on a pro-rata basis based on their equity commitments, as transactions are completed. Any decision by SLP II to call down on capital commitments requires approval by the board of managers of SLP II. The Company and SkyKnight have committed to provide \$79,400 and \$20,600 of equity to SLP II, respectively. As of June 30, 2016 the Company and SkyKnight have contributed \$27,790 and \$7,210, respectively. The Company's investment in SLP II is disclosed on the Company's Consolidated Schedule of Investments as of June 30, 2016.

On April 12, 2016, SLP II closed its \$275,000 revolving credit facility with Wells Fargo Bank, National Association which matures on April 12, 2021 and bears interest at a rate of LIBOR plus 1.75% per annum. As of June 30, 2016, SLP II had total investments with an aggregate fair value of approximately \$167,914 and debt outstanding under its credit facility of \$71,600.

The Company has determined that SLP II is an investment company under ASC 946, however, in accordance with such guidance the Company will generally not consolidate its investment in a company other than a wholly-owned investment company subsidiary. Furthermore, Accounting Standards Codification Topic 810, Consolidation, concludes that in a joint venture where both members have equal decision making authority, it is not appropriate for one member to consolidate the joint venture since neither has control. Accordingly, the Company does not consolidate SLP II.

As of June 30, 2016, SLP II is not considered a significant unconsolidated subsidiary under Regulation S-X Rule 10-01(b)(1).

UniTek Global Services, Inc.

UniTek Global Services, Inc. ("UniTek") is a full service provider of technical services to customers in the wireless telecommunications, public safety, satellite television and broadband cable industries in the U.S. and Canada. UniTek's customers are primarily satellite television, broadband cable and other telecommunications companies, their contractors, and municipalities and related agencies. UniTek's customers utilize its services to build and maintain their infrastructure and networks and to provide residential and commercial fulfillment services, which is critical to their ability to deliver voice, video and data services to end users.

As of June 30, 2016, UniTek is considered a significant unconsolidated subsidiary under Regulation S-X Rule 10-01(b)(1). Based on the requirements under Regulation S-X 10-01(b)(1), the summarized consolidated financial information of UniTek is shown below:

Summary of Operations:	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net sales	\$71,567	\$66,702	\$139,910	\$133,024
Cost of goods sold	54,839	54,108	107,275	110,315
Gross profit	16,728	12,594	32,635	22,709
Other expenses	13,712	12,205	27,905	28,772

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Net income (loss) from continuing operations before extraordinary items	3,016	389	4,730	(6,063)
Loss from discontinued operations	—	—	—	—
Net income (loss)	\$3,016	\$389	\$4,730	\$(6,063)

40

Table of Contents

Investment risk factors

First and second lien debt that the Company invests in is entirely, or almost entirely, rated below investment grade or may be unrated. Debt investments rated below investment grade are often referred to as “leveraged loans”, “high yield” or “junk” debt investments, and may be considered “high risk” compared to debt investments that are rated investment grade. These debt investments are considered speculative because of the credit risk of the issuers. Such issuers are considered more likely than investment grade issuers to default on their payments of interest and principal and such risk of default could reduce the net asset value and income distributions of the Company. In addition, some of the Company’s debt investments will not fully amortize during their lifetime, which could result in a loss or a substantial amount of unpaid principal and interest due upon maturity. First and second lien debt may also lose significant market value before a default occurs. Furthermore, an active trading market may not exist for these first and second lien debt investments. This illiquidity may make it more difficult to value the debt.

Subordinated debt is generally subject to similar risks as those associated with first and second lien debt, except that such debt is subordinated in payment and/or lower in lien priority. Subordinated debt is subject to the additional risk that the cash flow of the borrower and the property securing the debt, if any, may be insufficient to meet scheduled payments after giving effect to the senior secured and unsecured obligations of the borrower.

The Company may directly invest in the equity of private companies or in some cases, equity investments could be made in connection with a debt investment. Equity investments may or may not fluctuate in value resulting in recognized realized gains or losses upon disposition.

Note 4. Fair Value

Fair value is the amount 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. Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures (“ASC 820”), establishes a fair value hierarchy that prioritizes and ranks the inputs to valuation techniques used in measuring investments at fair value. The hierarchy classifies the inputs used in measuring fair value into three levels as follows:

Level I—Quoted prices (unadjusted) are available in active markets for identical investments and the Company has the ability to access such quotes as of the reporting date. The type of investments which would generally be included in Level I include active exchange-traded equity securities and exchange-traded derivatives. As required by ASC 820, the Company, to the extent that it holds such investments, does not adjust the quoted price for these investments, even in situations where the Company holds a large position and a sale could reasonably impact the quoted price.

Level II—Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level I. Level II inputs include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);
- Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including foreign exchange forward contracts); and
- Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level III—Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment.

The inputs used to measure fair value may fall into different levels. In all instances when the inputs fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level of input that is significant to the fair value measurement in its entirety. As such, a Level III fair value measurement may include inputs that are both observable and unobservable. Gains and losses for such assets categorized within the Level III table below may include changes in fair value that are attributable to both observable inputs and unobservable inputs.

The inputs into the determination of fair value require significant judgment or estimation by management and consideration of factors specific to each investment. A review of the fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in the transfer of certain investments

within the fair value hierarchy from period to period. Reclassifications impacting the fair value hierarchy are reported as transfers in/out of the respective leveling categories as of the beginning of the quarter in which the reclassifications occur.

Table of Contents

The following table summarizes the levels in the fair value hierarchy that the Company's portfolio investments fall into as of June 30, 2016:

	Total	Level I	Level II	Level III
First lien	\$616,894	\$ —	\$285,363	\$331,531
Second lien	642,423	—	354,286	288,137
Subordinated	79,272	—	37,538	41,734
Equity and other	159,472	118	14	159,340
Total investments	\$1,498,061	\$ 118	\$677,201	\$820,742

The following table summarizes the levels in the fair value hierarchy that the Company's portfolio investments fall into as of December 31, 2015:

	Total	Level I	Level II	Level III
First lien	\$670,023	\$ —	\$329,133	\$340,890
Second lien	631,985	—	449,227	182,758
Subordinated	87,005	—	33,546	53,459
Equity and other	123,211	316	15	122,880
Total investments	\$1,512,224	\$ 316	\$811,921	\$699,987

The following table summarizes the changes in fair value of Level III portfolio investments for the three months ended June 30, 2016, as well as the portion of appreciation (depreciation) included in income attributable to unrealized appreciation (depreciation) related to those assets and liabilities still held by the Company at June 30, 2016:

	Total	First Lien	Second Lien	Subordinated	Equity and other
Fair value, March 31, 2016	\$740,665	\$343,455	\$232,593	\$40,744	\$123,873
Total gains or losses included in earnings:					
Net realized gains on investments	1,361	512	849	—	—
Net change in unrealized appreciation (depreciation)	11,408	4,702	(274	) 376	6,604
Purchases, including capitalized PIK and revolver fundings	118,182	36,442	52,263	614	28,863
Proceeds from sales and paydowns of investments	(82,688	) (48,521	) (34,167) —	—
Transfers into Level III(1)	56,128	19,255	36,873	—	—
Transfers out of Level III(1)	(24,314	) (24,314) —	—	—
Fair Value, June 30, 2016	\$820,742	\$331,531	\$288,137	\$41,734	\$159,340
Unrealized appreciation (depreciation) for the period relating to those Level III assets that were still held by the Company at the end of the period:	\$12,758	\$5,203	\$575	\$376	\$6,604

(1) As of June 30, 2016, portfolio investments were transferred into Level III from Level II and out of Level III into Level II at fair value as of the beginning of the quarter in which the reclassification occurred.

Table of Contents

The following table summarizes the changes in fair value of Level III portfolio investments for the three months ended June 30, 2015, as well as the portion of appreciation (depreciation) included in income attributable to unrealized appreciation (depreciation) related to those assets and liabilities still held by the Company at June 30, 2015:

	Total	First Lien	Second Lien	Subordinated	Equity and other
Fair value, March 31, 2015	\$389,174	\$152,658	\$102,736	\$38,062	\$95,718
Total gains or losses included in earnings:					
Net realized (losses) gains on investments	(14,458)	398	(14,852)	—	(4)
Net change in unrealized appreciation (depreciation)	15,341	26	14,367	(3,167)	4,115
Purchases, including capitalized PIK and revolver fundings(1)	65,290	20,150	23,893	20,397	850
Proceeds from sales and paydowns of investments(1)	(60,373)	(2,100)	(58,277)	—	4
Transfers into Level III(2)	28,333	28,333	—	—	—
Fair Value, June 30, 2015	\$423,307	\$199,465	\$67,867	\$55,292	\$100,683
Unrealized appreciation (depreciation) for the period relating to those Level III assets that were still held by the Company at the end of the period:	\$1,211	\$370	\$(107)	\$(3,167)	\$4,115

(1) Includes reorganizations and restructurings.

(2) As of June 30, 2015, portfolio investments were transferred into Level III from Level II at fair value as of the beginning of the quarter in which the reclassification occurred.

The following table summarizes the changes in fair value of Level III portfolio investments for the six months ended June 30, 2016, as well as the portion of appreciation (depreciation) included in income attributable to unrealized appreciation (depreciation) related to those assets and liabilities still held by the Company at June 30, 2016:

	Total	First Lien	Second Lien	Subordinated	Equity and other
Fair value, December 31, 2015	\$699,987	\$340,890	\$182,758	\$53,459	\$122,880
Total gains or losses included in earnings:					
Net realized gains (losses) on investments	1,508	540	849	119	—
Net change in unrealized appreciation (depreciation)	9,505	6,679	(5,568)	1,933	6,461
Purchases, including capitalized PIK and revolver fundings	141,650	39,071	71,357	1,223	29,999
Proceeds from sales and paydowns of investments	(99,757)	(50,590)	(34,167)	(15,000)	—
Transfers into Level III(1)	92,163	19,255	72,908	—	—
Transfers out of Level III(1)	(24,314)	(24,314)	—	—	—
Fair Value, June 30, 2016	\$820,742	\$331,531	\$288,137	\$41,734	\$159,340
Unrealized appreciation (depreciation) for the period relating to those Level III assets that were still held by the Company at the end of the period:	\$7,443	\$6,539	\$(7,609)	\$2,052	\$6,461

(1) As of June 30, 2016, portfolio investments were transferred into Level III from Level II and out of Level III into Level II at fair value as of the beginning of the quarter in which the reclassification occurred.

Table of Contents

The following table summarizes the changes in fair value of Level III portfolio investments for the six months ended June 30, 2015, as well as the portion of appreciation (depreciation) included in income attributable to unrealized appreciation (depreciation) related to those assets and liabilities still held by the Company at June 30, 2015:

	Total	First Lien	Second Lien	Subordinated	Equity and other
Fair value, December 31, 2014	\$419,681	\$ 169,180	\$ 134,406	\$ 35,470	\$ 80,625
Total gains or losses included in earnings:					
Net realized (losses) gains on investments	(13,016)	(10,919)	(14,542)	—	12,445
Net change in unrealized appreciation (depreciation)	21,783	9,907	13,937	(3,005)	944
Purchases, including capitalized PIK and revolver fundings(1)	125,293	45,504	36,243	22,827	20,719
Proceeds from sales and paydowns of investments(1)	(158,767)	(42,540)	(102,177)	—	(14,050)
Transfers into Level III(2)	28,333	28,333	—	—	—
Fair Value, June 30, 2015	\$423,307	\$ 199,465	\$ 67,867	\$ 55,292	\$ 100,683
Unrealized appreciation (depreciation) for the period relating to those Level III assets that were still held by the Company at the end of the period:	\$9,583	\$(619)	\$(22)	\$(3,005)	\$13,229

(1) Includes reorganizations and restructurings.

(2) As of June 30, 2015, portfolio investments were transferred into Level III from Level II at fair value as of the beginning of the quarter in which the reclassification occurred.

Except as noted in the tables above, there were no other transfers in or out of Level I, II, or III during the three and six months ended June 30, 2016 and June 30, 2015. Transfers into Level III occur as quotations obtained through pricing services are not deemed representative of fair value as of the balance sheet date and such assets are internally valued. As quotations obtained through pricing services are substantiated through additional market sources, investments are transferred out of Level III. In addition, transfers out of Level III and transfer into Level III occur based on the increase or decrease in the availability of certain observable inputs.

The Company invests in revolving credit facilities. These investments are categorized as Level III investments as these assets are not actively traded and their fair values are often implied by the term loans of the respective portfolio companies.

The Company generally uses the following framework when determining the fair value of investments where there are little, if any, market activity or observable pricing inputs. The Company typically determines the fair value of its performing debt investments utilizing an income approach. Additional consideration is given using a market based approach, as well as reviewing the overall underlying portfolio company's performance and associated financial risks. The following outlines additional details on the approaches considered:

Company Performance, Financial Review, and Analysis: Prior to investment, as part of its due diligence process, the Company evaluates the overall performance and financial stability of the portfolio company. Post investment, the Company analyzes each portfolio company's current operating performance and relevant financial trends versus prior year and budgeted results, including, but not limited to, factors affecting its revenue and earnings before interest, taxes, depreciation, and amortization ("EBITDA") growth, margin trends, liquidity position, covenant compliance and changes to its capital structure. The Company also attempts to identify and subsequently track any developments at the portfolio company, within its customer or vendor base or within the industry or the macroeconomic environment, generally, that may alter any material element of its original investment thesis. This analysis is specific to each portfolio company. The Company leverages the knowledge gained from its original due diligence process, augmented by this subsequent monitoring, to continually refine its outlook for each of its portfolio companies and ultimately form the valuation of its investment in each portfolio company. When an external event such as a purchase transaction, public offering or subsequent sale occurs, the Company will consider the pricing indicated by the external event to corroborate the private valuation.

For debt investments, the Company may employ the Market Based Approach (as described below) to assess the total enterprise value of the portfolio company, in order to evaluate the enterprise value coverage of the Company's debt investment. For equity investments or in cases where the Market Based Approach implies a lack of enterprise value coverage for the debt investment, the Company may additionally employ a discounted cash flow analysis based on the free cash flows of the portfolio company to assess the total enterprise value.

Table of Contents

After enterprise value coverage is demonstrated for the Company's debt investments through the method(s) above, the Income Based Approach (as described below) may be employed to estimate the fair value of the investment.

Market Based Approach: The Company may estimate the total enterprise value of each portfolio company by utilizing market value cash flow (EBITDA) multiples of publicly traded comparable companies and comparable transactions. The Company considers numerous factors when selecting the appropriate companies whose trading multiples are used to value its portfolio companies. These factors include, but are not limited to, the type of organization, similarity to the business being valued, relevant risk factors, as well as size, profitability and growth expectations. The Company may apply an average of various relevant comparable company EBITDA multiples to the portfolio company's latest twelve month ("LTM") EBITDA or projected EBITDA to calculate the enterprise value of the portfolio company. Significant increases or decreases in the EBITDA multiple will result in an increase or decrease in enterprise value, which may result in an increase or decrease in the fair value estimate of the investment. In applying the market based approach as of June 30, 2016 and December 31, 2015, the Company used the relevant EBITDA multiple ranges set forth in the table below to determine the enterprise value of its portfolio companies. The Company believes this was a reasonable range in light of current comparable company trading levels and the specific portfolio companies involved.

Income Based Approach: The Company also may use a discounted cash flow analysis to estimate the fair value of the investment. Projected cash flows represent the relevant security's contractual interest, fee and principal payments plus the assumption of full principal recovery at the investment's expected maturity date. These cash flows are discounted at a rate established utilizing a yield calibration approach, which incorporates changes in the credit quality (as measured by relevant statistics) of the portfolio company, as compared to changes in the yield associated with comparable credit quality market indices, between the date of origination and the valuation date. Significant increases or decreases in the discount rate would result in a decrease or increase in the fair value measurement. In applying the income based approach as of June 30, 2016 and December 31, 2015, the Company used the discount ranges set forth in the table below to value investments in its portfolio companies.

The unobservable inputs used in the fair value measurement of the Company's Level III investments as of June 30, 2016 were as follows:

Type	Fair Value as of June 30, 2016	Approach	Unobservable Input	Range		Weighted Average
				Low	High	
First lien	\$283,732	Market & income approach	EBITDA multiple	5.0x	16.0x	10.3x
			Discount rate	7.4 %	12.4 %	9.7 %
	25,524	Market quote	Broker quote	N/A	N/A	N/A
Second lien	22,275	Other	N/A(1)	N/A	(1)N/A	(1)N/A (1)
			157,473	Market & income approach	EBITDA multiple	6.5x	16.0x	11.5x
			Discount rate	9.5 %	13.1 %	11.3 %
Subordinated	118,769	Market quote	Broker quote	N/A	N/A	N/A
			11,895	Other	N/A(1)	N/A	(1)N/A	(1)N/A (1)
	41,734	Market & income approach	EBITDA multiple	5.0x	8.5x	7.3x
Equity and other	155,308	Market & income approach	Discount rate	9.5 %	18.1 %	15.8 %
					EBITDA multiple	2.5x	12.0x	6.2x
	1,504	Black Scholes analysis	Expected life in years	8.0 %	19.5 %	14.3 %
	2,528	Other	Volatility	9.3	9.8	9.5
					Discount rate	27.0%	33.8 %	30.7 %
	\$820,742		N/A(1)	1.6 %	1.6 %	1.6 %

(1) Fair value was determined based on transaction pricing or recent acquisition or sale as the best measure of fair value with no material changes in operations of the related portfolio company since the transaction date.

45

Table of Contents

The unobservable inputs used in the fair value measurement of the Company's Level III investments as of December 31, 2015 were as follows:

Type	Fair Value as of December 31, 2015	Approach	Unobservable Input	Range		Weighted Average
				Low	High	
First lien	\$ 292,507	Market & income approach	EBITDA multiple	4.5x	15.5x	10.0x
			Discount rate	7.3 %	13.9 %	11.0 %
			Broker quote	N/A	N/A	N/A
Second lien	88,977	Market & income approach	EBITDA multiple	6.5x	16.0x	12.3x
			Discount rate	10.0%	14.2 %	12.7 %
			Broker quote	N/A	N/A	N/A
Subordinated	38,459	Market & income approach	EBITDA multiple	4.5x	9.0x	7.6x
			Discount rate	10.0%	19.4 %	17.7 %
			Broker quote	N/A	N/A	N/A
Equity and other	121,453	Market & income approach	EBITDA multiple	2.5x	12.0x	6.3x
			Discount rate	8.0 %	21.3 %	14.6 %
			Expected life in years	9.8	10.3	10.0
	1,427	Black Scholes analysis	Volatility	27.0%	30.3 %	28.9 %
			Discount rate	2.1 %	2.1 %	2.1 %
	\$ 699,987					

(1) Fair value was determined based on transaction pricing or recent acquisition or sale as the best measure of fair value with no material changes in operations of the related portfolio company since the transaction date.

Based on a comparison to similar BDC credit facilities, the terms and conditions of the Holdings Credit Facility and the NMFC Credit Facility (as defined in Note 7, Borrowings) are representative of market. The carrying values of the Holdings Credit Facility and NMFC Credit Facility approximate fair value as of June 30, 2016, as the facilities are continually monitored and examined by both the borrower and the lender. The carrying value of the SBA-guaranteed debentures approximate fair value as of June 30, 2016 based on a comparison of market interest rates for the Company's borrowings and similar entities. The Unsecured Notes (as defined in Note 7, Borrowings) were issued during the three months ended June 30, 2016 and as such the carrying value approximates fair value as of June 30, 2016. The fair value of the Holdings Credit Facility, NMFC Credit Facility, SBA-guaranteed debentures and Unsecured Notes are considered Level III. The fair value of the Convertible Notes (as defined in Note 7, Borrowings) as of June 30, 2016 was \$113,419, which was based on quoted prices and considered Level II. See Note 7, Borrowings, for details. The carrying value of the collateralized agreement approximates fair value as of June 30, 2016 and is considered Level III. The fair value of other financial assets and liabilities approximates their carrying value based on the short-term nature of these items.

Fair value risk factors—The Company seeks investment opportunities that offer the possibility of attaining substantial capital appreciation. Certain events particular to each industry in which the Company's portfolio companies conduct their operations, as well as general economic and political conditions, may have a significant negative impact on the operations and profitability of the Company's investments and/or on the fair value of the Company's investments. The Company's investments are subject to the risk of non-payment of scheduled interest or principal, resulting in a reduction in income to the Company and their corresponding fair valuations. Also, there may be risk associated with the concentration of investments in one geographic region or in certain industries. These events are beyond the control of the Company and cannot be predicted. Furthermore, the ability to liquidate investments and realize value is subject

to uncertainties.

46

Table of Contents

Note 5. Agreements

NMF Holdings entered into an investment advisory and management agreement, as amended and restated, with the Investment Adviser on May 19, 2011. Until May 8, 2014, under the investment advisory and management agreement, the Investment Adviser managed the day-to-day operations of, and provided investment advisory services to, NMF Holdings. For providing these services, the Investment Adviser received a fee from NMF Holdings, consisting of two components—a base management fee and an incentive fee.

On May 6, 2014, the stockholders of NMFC approved a new investment advisory and management agreement (the “Investment Management Agreement”) with the Investment Adviser which became effective on May 8, 2014. Under the Investment Management Agreement, the Investment Adviser manages the day-to-day operations of, and provides investment advisory services to, the Company. For providing these services, the Investment Adviser receives a fee from the Company, consisting of two components—a base management fee and an incentive fee.

Pursuant to the Investment Management Agreement, the base management fee is calculated at an annual rate of 1.75% of the Company’s gross assets, which equals the Company’s total assets on the Consolidated Statements of Assets and Liabilities, less (i) the borrowings under the SLF Credit Facility (as defined in Note 7, Borrowings) and (ii) cash and cash equivalents. The base management fee is payable quarterly in arrears, and is calculated based on the average value of the Company’s gross assets, which equals the Company’s total assets, as determined in accordance with GAAP, less the borrowings under the SLF Credit Facility and cash and cash equivalents at the end of each of the two most recently completed calendar quarters, and appropriately adjusted on a pro rata basis for any equity capital raises or repurchases during the current calendar quarter. The Company has not invested, and currently is not invested, in derivatives. To the extent the Company invests in derivatives in the future, the Company will use the actual value of the derivatives, as reported on the Consolidated Statements of Assets and Liabilities, for purposes of calculating its base management fee.

Since the IPO, the base management fee calculation has deducted the borrowings under the SLF Credit Facility. The SLF Credit Facility had historically consisted of primarily lower yielding assets at higher advance rates. As part of an amendment to the Company’s existing credit facilities with Wells Fargo Bank, National Association, the SLF Credit Facility merged with the Predecessor Holdings Credit Facility and into the Holdings Credit Facility on December 18, 2014 (as defined in Note 7, Borrowings). Post credit facility merger and to be consistent with the methodology since the IPO, the Investment Adviser will continue to waive management fees on the leverage associated with those assets that share the same underlying yield characteristics with investments leveraged under the legacy SLF Credit Facility, which as of June 30, 2016 and June 30, 2015 approximated \$269,625 and \$251,508, respectively. The Investment Adviser cannot recoup management fees that the Investment Adviser has previously waived. For the three and six months ended June 30, 2016, management fees waived were approximately \$1,241 and \$2,560, respectively. For the three and six months ended June 30, 2015, management fees waived were approximately \$1,247 and \$2,629, respectively.

The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20.0% of the Company’s “Pre-Incentive Fee Adjusted Net Investment Income” for the immediately preceding quarter, subject to a “preferred return”, or “hurdle”, and a “catch-up” feature. “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, upfront, diligence and consulting fees or other fees that the Company receives from portfolio companies) accrued during the calendar quarter, minus the Company’s operating expenses for the quarter (including the base management fee, expenses payable under an administration agreement, as amended and restated (the “Administration Agreement”), with the Administrator, and any interest expense and distributions paid on any issued and outstanding preferred stock (of which there are none as of June 30, 2016), 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 that the Company has not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation.

Under GAAP, NMFC’s IPO did not step-up the cost basis of the Predecessor Operating Company’s existing investments to fair market value at the IPO date. Since the total value of the Predecessor Operating Company’s

investments at the time of the IPO was greater than the investments' cost basis, a larger amount of amortization of purchase or original issue discount, as well as different amounts in realized gain and unrealized appreciation, may be recognized under GAAP in each period than if the step-up had occurred. This will remain until such predecessor investments are sold, repaid or mature in the future. The Company tracks the transferred (or fair market) value of each of its investments as of the time of the IPO and, for purposes of the incentive fee calculation, adjusts Pre-Incentive Fee Net Investment Income to reflect the amortization of purchase or original issue discount on the Company's investments as if each investment was purchased at the date of the IPO, or stepped up to fair market value. This is defined as "Pre-Incentive Fee Adjusted Net Investment Income". The Company also uses the transferred (or fair market) value of each of its investments as of the time of the IPO to adjust capital gains ("Adjusted

Table of Contents

Realized Capital Gains”) or losses (“Adjusted Realized Capital Losses”) and unrealized capital appreciation (“Adjusted Unrealized Capital Appreciation”) and unrealized capital depreciation (“Adjusted Unrealized Capital Depreciation”). Pre-Incentive Fee Adjusted Net Investment Income, expressed as a rate of return on the value of the Company’s net assets at the end of the immediately preceding calendar quarter, will be compared to a “hurdle rate” of 2.0% per quarter (8.0% annualized), subject to a “catch-up” provision measured as of the end of each calendar quarter. The hurdle rate is appropriately pro-rated for any partial periods. The calculation of the Company’s incentive fee with respect to the Pre-Incentive Fee Adjusted Net Investment Income for each quarter is as follows:

No incentive fee is payable to the Investment Adviser in any calendar quarter in which the Company’s Pre-Incentive Fee Adjusted Net Investment Income does not exceed the hurdle rate of 2.0% (the “preferred return” or “hurdle”). 100.0% of the Company’s Pre-Incentive Fee Adjusted Net Investment Income with respect to that portion of such Pre-Incentive Fee Adjusted Net Investment Income, if any, that exceeds the hurdle rate but is less than or equal to 2.5% in any calendar quarter (10.0% annualized) is payable to the Investment Adviser. This portion of the Company’s Pre-Incentive Fee Adjusted Net Investment Income (which exceeds the hurdle rate but is less than or equal to 2.5%) is referred to as the “catch-up”. The catch-up provision is intended to provide the Investment Adviser with an incentive fee of 20.0% on all of the Company’s Pre-Incentive Fee Adjusted Net Investment Income as if a hurdle rate did not apply when the Company’s Pre-Incentive Fee Adjusted Net Investment Income exceeds 2.5% in any calendar quarter. 20.0% of the amount of the Company’s Pre-Incentive Fee Adjusted Net Investment Income, if any, that exceeds 2.5% in any calendar quarter (10.0% annualized) is payable to the Investment Adviser once the hurdle is reached and the catch-up is achieved.

The second part will be determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement) and will equal 20.0% of the Company’s Adjusted Realized Capital Gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all Adjusted Realized Capital Losses and Adjusted Unrealized Capital Depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fee.

In accordance with GAAP, the Company accrues a hypothetical capital gains incentive fee based upon the cumulative net Adjusted Realized Capital Gains and Adjusted Realized Capital Losses and the cumulative net Adjusted Unrealized Capital Appreciation and Adjusted Unrealized Capital Depreciation on investments held at the end of each period. Actual amounts paid to the Investment Adviser are consistent with the Investment Management Agreement and are based only on actual Adjusted Realized Capital Gains computed net of all Adjusted Realized Capital Losses and Adjusted Unrealized Capital Depreciation on a cumulative basis from inception through the end of each calendar year as if the entire portfolio was sold at fair value.

The following table summarizes the management fees and incentive fees incurred by the Company for the three and six months ended June 30, 2016 and June 30, 2015.

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Management fee	\$6,818	\$6,198	\$13,654	\$12,666
Less: management fee waiver	(1,241)	(1,247)	(2,560)	(2,629)
Total management fee	5,577	4,951	11,094	10,037
Incentive fee, excluding accrued capital gains incentive fees	\$5,449	\$5,057	\$10,834	\$9,935
Accrued capital gains incentive fees(1)	\$—	\$9	\$—	\$490

As of June 30, 2016 and June 30, 2015, no actual capital gains incentive fee was owed under the Investment (1) Management Agreement by the Company, as cumulative net Adjusted Realized Capital Gains did not exceed cumulative Adjusted Unrealized Capital Depreciation.

Table of Contents

The Company's Consolidated Statements of Operations below are adjusted as if the step-up in cost basis to fair market value had occurred at the IPO date, May 19, 2011.

The following Consolidated Statement of Operations for the three and six months ended June 30, 2016 is adjusted to reflect this step-up to fair market value.

	Three Months Ended June 30, 2016	Stepped-up Cost Basis Adjustments	Adjusted Three Months Ended June 30, 2016
Investment income			
Interest income(1)	\$38,412	\$ (35)	\$38,377
Dividend income(2)	1,721	—	1,721
Other income	1,357	—	1,357
Total investment income(3)	41,490	(35)	41,455
Total expenses pre-incentive fee(4)	14,209	—	14,209
Pre-Incentive Fee Net Investment Income	27,281	(35)	27,246
Incentive fee(5)	5,449	—	5,449
Post-Incentive Fee Net Investment Income	21,832	(35)	21,797
Net realized gains (losses) on investments(6)	865	(86)	779
Net change in unrealized appreciation (depreciation) of investments(6)	21,956	121	22,077
Net change in unrealized (depreciation) appreciation of securities purchased under collateralized agreements to resell	(44)	—	(44)
Benefit for taxes	84	—	84
Net increase in net assets resulting from operations	\$44,693		\$44,693

(1) Includes \$950 in PIK interest from investments.

(2) Includes \$742 in PIK dividends from investments.

(3) Includes income from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

(4) Includes expense waivers and reimbursements of \$63 and management fee waivers of \$1,241.

(5) For the three months ended June 30, 2016, the Company incurred total incentive fees of \$5,449, of which \$0 is related to capital gains incentive fees on a hypothetical liquidation basis.

Includes net realized gains and losses on investments and net change in unrealized appreciation (depreciation) of

(6) investments from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

Table of Contents

	Six Months Ended June 30, 2016	Stepped-up Cost Basis Adjustments	Adjusted Six Months Ended June 30, 2016
Investment income			
Interest income(1)	\$76,202	\$ (64)	\$76,138
Dividend income(2)	3,360	—	3,360
Other income	2,904	—	2,904
Total investment income(3)	82,466	(64)	82,402
Total expenses pre-incentive fee(4)	28,233	—	28,233
Pre-Incentive Fee Net Investment Income	54,233	(64)	54,169
Incentive fee(5)	10,834	—	10,834
Post-Incentive Fee Net Investment Income	43,399	(64)	43,335
Net realized gains (losses) on investments(6)	1,041	(124)	917
Net change in unrealized appreciation (depreciation) of investments(6)	7,570	188	7,758
Net change in unrealized (depreciation) appreciation of securities purchased under collateralized agreements to resell	(74)	—	(74)
Benefit for taxes	808	—	808
Net increase in net assets resulting from operations	\$52,744		\$52,744

(1) Includes \$1,903 in PIK interest from investments.

(2) Includes \$1,461 in PIK dividends from investments.

(3) Includes income from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

(4) Includes expense waivers and reimbursements of \$347 and management fee waivers of \$2,560.

(5) For the six months ended June 30, 2016, the Company incurred total incentive fees of \$10,834, of which \$0 is related to capital gains incentive fees on a hypothetical liquidation basis.

(6) Includes net realized gains and losses on investments and net change in unrealized appreciation (depreciation) of investments from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

Table of Contents

The following Consolidated Statement of Operations for the three and six months ended June 30, 2015 is adjusted to reflect this step-up to fair market value.

	Three Months Ended June 30, 2015	Stepped-up Cost Basis Adjustments	Adjusted Three Months Ended June 30, 2015
Investment income			
Interest income(1)	\$35,470	\$ (33)	\$35,437
Dividend income(2)	1,795	—	1,795
Other income	640	—	640
Total investment income(3)	37,905	(33)	37,872
Total net expenses pre-incentive fee(4)	12,586	—	12,586
Pre-Incentive Fee Net Investment Income	25,319	(33)	25,286
Incentive fee(5)	5,066	—	5,066
Post-Incentive Fee Net Investment Income	20,253	(33)	20,220
Net realized losses on investments(6)	(13,338)	(47)	(13,385)
Net change in unrealized appreciation (depreciation) of investments(6)	13,484	80	13,564
Provision for taxes	(135)	—	(135)
Net increase in net assets resulting from operations	\$20,264		\$20,264

(1) Includes \$1,492 in PIK interest from investments.

(2) Includes \$643 in PIK dividends from investments.

(3) Includes income from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

(4) Includes management fee waivers of \$1,247. No expense waivers and reimbursements were noted for the three months ended June 30, 2015.

(5) For the three months ended June 30, 2015, the Company incurred total incentive fees of \$5,066, of which \$9 is related to capital gains incentive fees on a hypothetical liquidation basis.

(6) Includes net change in unrealized appreciation (depreciation) of investments from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

Table of Contents

	Six Months Ended June 30, 2015	Stepped-up Cost Basis Adjustments	Adjusted Six Months Ended June 30, 2015
Investment income			
Interest income(1)	\$68,817	\$ (66)	\$68,751
Dividend income(2)	3,102	—	3,102
Other income	2,522	—	2,522
Total investment income(3)	74,441	(66)	74,375
Total net expenses pre-incentive fee(4)	24,701	—	24,701
Pre-Incentive Fee Net Investment Income	49,740	(66)	49,674
Incentive fee(5)	10,425	—	10,425
Post-Incentive Fee Net Investment Income	39,315	(66)	39,249
Net realized losses on investments(6)	(13,471)	(47)	(13,518)
Net change in unrealized appreciation (depreciation) of investments(6)	17,970	113	18,083
Provision for taxes	(636)	—	(636)
Net increase in net assets resulting from operations	\$43,178		\$43,178

(1)Includes \$2,146 in PIK interest from investments.

(2)Includes \$1,191 in PIK dividends from investments.

(3)Includes income from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

(4)Includes expense waivers and reimbursements of \$400 and management fee waivers of \$2,629.

(5)For the six months ended June 30, 2015, the Company incurred total incentive fees of \$10,425, of which \$490 is related to capital gains incentive fees on a hypothetical liquidation basis.

(6)Includes net change in unrealized appreciation (depreciation) of investments from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

The Company has entered into an Administration Agreement with the Administrator under which the Administrator provides administrative services. The Administrator performs, or oversees the performance of, the Company's consolidated financial records, prepares reports filed with the SEC, generally monitors the payment of the Company's expenses and watches the performance of administrative and professional services rendered by others. The Company will reimburse the Administrator for the Company's allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations to the Company under the Administration Agreement. Pursuant to the Administration Agreement and further restricted by the Company, the Administrator may, in its own discretion, submit to the Company for reimbursement some or all of the expenses that the Administrator has incurred on behalf of the Company during any quarterly period. As a result, the amount of expenses for which the Company will have to reimburse the Administrator may fluctuate in future quarterly periods and there can be no assurance given as to when, or if, the Administrator may determine to limit the expenses that the Administrator submits to the Company for reimbursement in the future. However, it is expected that the Administrator will continue to support part of the expense burden of the Company in the near future and may decide to not calculate and charge through certain overhead related amounts as well as continue to cover some of the indirect costs. The Administrator cannot recoup any expenses that the Administrator has previously waived. For the three and six months ended June 30, 2016, approximately \$363 and \$931, respectively, of indirect administrative expenses were included in administrative expenses of which \$63 and \$347, respectively, of indirect administrative expenses were waived by the Administrator. For the three and six months ended June 30, 2015, approximately \$324 and \$724, respectively, of indirect administrative expenses were included in administrative expenses of which \$0 and \$400, respectively, of indirect administrative expenses were waived by the Administrator. As of June 30, 2016 and December 31, 2015,

approximately \$300 and \$374, respectively, of indirect administrative expenses were included in payable to affiliates as the expenses were payable to the Administrator.

The Company, the Investment Adviser and the Administrator have also entered into a Trademark License Agreement, as amended, with New Mountain Capital, pursuant to which New Mountain Capital has agreed to grant the Company, the Investment Adviser and the Administrator, a non-exclusive, royalty-free license to use the “New Mountain” and the “New Mountain Finance” names. Under the Trademark License Agreement, as amended, subject to certain conditions, the Company, the Investment Adviser and the Administrator will have a right to use the “New Mountain” and “New Mountain Finance” names, for so long as the Investment Adviser or one of its affiliates remains the investment adviser of the Company. Other than with respect to this limited license, the Company, the Investment Adviser and the Administrator will have no legal right to the “New Mountain” or the “New Mountain Finance” names.

Table of Contents

Note 6. Related Parties

The Company has entered into a number of business relationships with affiliated or related parties.

The Company has entered into the Investment Management Agreement with the Investment Adviser, a wholly-owned subsidiary of New Mountain Capital. Therefore, New Mountain Capital is entitled to any profits earned by the Investment Adviser, which includes any fees payable to the Investment Adviser under the terms of the Investment Management Agreement, less expenses incurred by the Investment Adviser in performing its services under the Investment Management Agreement.

The Company has entered into an Administration Agreement with the Administrator, a wholly-owned subsidiary of New Mountain Capital. The Administrator arranges office space for the Company and provides office equipment and administrative services necessary to conduct their respective day-to-day operations pursuant to the Administration Agreement. The Company reimburses the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations to the Company under the Administration Agreement which includes the fees and expenses associated with performing administrative, finance and compliance functions, and the compensation of the Company's chief financial officer and chief compliance officer and their respective staffs.

The Company, the Investment Adviser and the Administrator have entered into a royalty-free Trademark License Agreement, as amended, with New Mountain Capital, pursuant to which New Mountain Capital has agreed to grant the Company, the Investment Adviser and the Administrator, a non-exclusive, royalty-free license to use the name "New Mountain" and "New Mountain Finance".

The Company has adopted a formal code of ethics that governs the conduct of their respective officers and directors. These officers and directors also remain subject to the duties imposed by the 1940 Act, the Delaware General Corporation Law and the Delaware Limited Liability Company Act.

The Investment Adviser and its affiliates may also manage other funds in the future that may have investment mandates that are similar, in whole and in part, with the Company's investment mandates. The Investment Adviser and its affiliates may determine that an investment is appropriate for the Company or for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, the Investment Adviser or its affiliates may determine that the Company should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff and consistent with the Investment Adviser's allocation procedures.

Concurrently with the IPO, NMFC sold an additional 2,172,000 shares of its common stock to certain executives and employees of, and other individuals affiliated with, New Mountain Capital in the Concurrent Private Placement.

Note 7. Borrowings

Holdings Credit Facility—On December 18, 2014 the Company entered into the Second Amended and Restated Loan and Security Agreement (the "Holdings Credit Facility"), among the Company, as the Collateral Manager, NMF Holdings as the Borrower, Wells Fargo Securities, LLC as the Administrative Agent and Wells Fargo Bank, National Association, as the Lender and Collateral Custodian, which is structured as a revolving credit facility and matures on December 18, 2019.

Immediately prior to amending the Holdings Credit Facility, NMF SLF merged with and into NMF Holdings. The Holdings Credit Facility effectively amended and restated the Predecessor Holdings Credit Facility (as defined below), merged with the SLF Credit Facility (as defined below), and combined the amount of borrowings previously available.

The maximum amount of revolving borrowings available under the Holdings Credit Facility is \$495,000, which is the aggregate of the \$280,000 previously available under the Predecessor Holdings Credit Facility (as defined below) and the \$215,000 previously available under the SLF Credit Facility (as defined below). Under the Holdings Credit Facility, NMF Holdings is permitted to borrow up to 25.0%, 45.0% or 70.0% of the purchase price of pledged assets, subject to approval by Wells Fargo Securities, LLC. The Holdings Credit Facility is non-recourse to the Company and is collateralized by all of the investments of NMF Holdings on an investment by investment basis. All fees associated with the origination or upsizing of the Holdings Credit Facility are capitalized on the Company's Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the Holdings Credit Facility. The Holdings Credit Facility contains certain customary affirmative and negative covenants

and events of default. In addition, the Holdings Credit Facility requires the Company to maintain a minimum asset coverage ratio. The covenants are generally not tied to mark to market fluctuations in the prices of NMF Holdings investments, but rather to the performance of the underlying portfolio companies.

Effective January 1, 2016, the Holdings Credit Facility bears interest at a rate of the London Interbank Offered Rate (“LIBOR”) plus 1.75% per annum for Broadly Syndicated Loans (as defined in the Loan and Security Agreement) and LIBOR plus 2.50% per annum for all other investments. Previously, the Holdings Credit Facility bore interest at a rate of the LIBOR plus 2.00% per annum for Broadly Syndicated Loans (as defined in the Loan and Security Agreement) and LIBOR plus 2.75%

Table of Contents

per annum for all other investments. The Holdings Credit Facility also charges a non-usage fee, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the Loan and Security Agreement).

The following table summarizes the interest expense, non-usage fees and amortization of financing costs incurred on the Holdings Credit Facility for the three and six months ended June 30, 2016 and June 30, 2015.

	Three Months Ended		Six Months Ended			
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015		
Interest expense	\$2,351	\$2,458	\$4,994	\$5,351		
Non-usage fee	\$183	\$151	\$308	\$207		
Amortization of financing costs	\$401	\$402	\$803	\$799		
Weighted average interest rate	2.7	% 2.6	% 2.7	% 2.6	%	%
Effective interest rate	3.4	% 3.2	% 3.3	% 3.1	%	%
Average debt outstanding	\$348,039	\$374,180	\$371,374	\$411,631		

As of June 30, 2016 and December 31, 2015, the outstanding balance on the Holdings Credit Facility was \$348,013 and \$419,313, respectively, and NMF Holdings was in compliance with the applicable covenants in the Holdings Credit Facility on such dates.

Prior to December 18, 2014, the Loan and Security Agreement, as amended and restated, dated May 19, 2011 (the “Predecessor Holdings Credit Facility”) among NMF Holdings as the Borrower and Collateral Administrator, Wells Fargo Securities, LLC as the Administrative Agent, and Wells Fargo Bank, National Association, as the Collateral Custodian, was structured as a revolving credit facility and would mature on October 27, 2016. NMF Holdings became a party to the Predecessor Holdings Credit Facility upon the IPO of NMFC. The Predecessor Holdings Credit Facility amended and restated the credit facility of the Predecessor Entities (the “Predecessor Credit Facility”). The maximum amount of revolving borrowings available under the Predecessor Holdings Credit Facility was \$280,000. Until December 18, 2014, NMF Holdings was permitted to borrow up to 45.0% or 25.0% of the purchase price of pledged first lien or non-first lien debt securities, and up to 70.0% and 45.0% of the purchase price of specified first lien debt securities and specified non-first lien debt securities, respectively, subject to approval by Wells Fargo Bank, National Association. The Predecessor Holdings Credit Facility was amended and restated on May 6, 2014 and as a result, it was non-recourse to the Company and was collateralized by all of the investments of NMF Holdings on an investment by investment basis. All fees associated with the origination or upsizing of the Predecessor Holdings Credit Facility were capitalized on the Company’s Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the Predecessor Holdings Credit Facility. The Predecessor Holdings Credit Facility contained certain customary affirmative and negative covenants and events of default, including the occurrence of a change in control. In addition, the Predecessor Holdings Credit Facility required the Company to maintain a minimum asset coverage ratio. However, the covenants were generally not tied to mark to market fluctuations in the prices of NMF Holdings’ investments, but rather to the performance of the underlying portfolio companies.

The Predecessor Holdings Credit Facility bore interest at a rate of LIBOR plus 2.75% per annum and charged a non-usage fee, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the Loan and Security Agreement).

NMF SLF’s Loan and Security Agreement, as amended and restated, dated October 27, 2010 (the “SLF Credit Facility”) among NMF SLF as the Borrower, NMF Holdings as the Collateral Administrator, Wells Fargo Securities, LLC as the Administrative Agent, and Wells Fargo Bank, National Association, as the Collateral Custodian, was structured as a revolving credit facility and was set to mature on October 27, 2016. The maximum amount of revolving borrowings available under the SLF Credit Facility was \$215,000. The SLF Credit Facility was non-recourse to the Company and secured by all assets of NMF SLF on an investment by investment basis. All fees associated with the origination or upsizing of the SLF Credit Facility were capitalized on the Company’s Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the SLF Credit Facility. The SLF Credit Facility contained certain customary affirmative and negative covenants and events of default, including the occurrence of a change in control. The covenants were generally not tied to mark to market fluctuations in the prices

of NMF SLF's investments, but rather to the performance of the underlying portfolio companies. NMF SLF was not restricted from the purchase or sale of loans with an affiliate. Therefore, specified loans could be moved as collateral between the Holdings Credit Facility and the SLF Credit Facility. The SLF Credit Facility merged with the Holdings Credit Facility on December 18, 2014.

Table of Contents

Until December 18, 2014, the SLF Credit Facility permitted borrowings of up to 70.0% of the purchase price of pledged first lien debt securities and up to 25.0% of the purchase price of specified second lien loans, of which, up to 25.0% of the aggregate outstanding loan balance of all pledged debt securities in the SLF Credit Facility was allowed to be derived from second lien loans, subject to approval by Wells Fargo Bank, National Association.

The SLF Credit Facility bore interest at a rate of LIBOR plus 2.00% per annum for first lien loans and LIBOR plus 2.75% per annum for second lien loans, respectively. A non-usage fee was paid, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the Loan and Security Agreement).

NMFC Credit Facility—The Senior Secured Revolving Credit Agreement, as amended, dated June 4, 2014 (together with the related guarantee and security agreement, the “NMFC Credit Facility”), among the Company as the Borrower, Goldman Sachs Bank USA as the Administrative Agent and Collateral Agent, and Goldman Sachs Bank USA, Morgan Stanley Bank, N.A. and Stifel Bank & Trust as Lenders, is structured as a senior secured revolving credit facility and matures on June 4, 2019. The NMFC Credit Facility is guaranteed by certain domestic subsidiaries of the Company and proceeds from the NMFC Credit Facility may be used for general corporate purposes, including the funding of portfolio investments.

As of June 30, 2016, the maximum amount of revolving borrowings available under the NMFC Credit Facility was \$122,500. The Company is permitted to borrow at various advance rates depending on the type of portfolio investment as outlined in the Senior Secured Revolving Credit Agreement. All fees associated with the origination of the NMFC Credit Facility are capitalized on the Company’s Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the NMFC Credit Facility. The NMFC Credit Facility contains certain customary affirmative and negative covenants and events of default, including certain financial covenants related to asset coverage and liquidity and other maintenance covenants.

The NMFC Credit Facility generally bears interest at a rate of LIBOR plus 2.50% per annum or the prime rate plus 1.50% per annum, and charges a commitment fee, based on the unused facility amount multiplied by 0.375% per annum (as defined in the Senior Secured Revolving Credit Agreement).

The following table summarizes the interest expense, non-usage fees and amortization of financing costs incurred on the NMFC Credit Facility for the three and six months ended June 30, 2016 and June 30, 2015.

	Three Months Ended		Six Months Ended		
	June 30,	June 30,	June 30,	June 30,	
	2016	2015	2016	2015	
Interest expense	\$541	\$454	\$1,227	\$666	
Non-usage fee	\$43	\$13	\$46	\$59	
Amortization of financing costs	\$92	\$121	\$181	\$182	
Weighted average interest rate	2.9	% 2.7	% 2.9	% 2.7	%
Effective interest rate	3.7	% 3.5	% 3.5	% 3.7	%
Average debt outstanding	\$72,736	\$67,108	\$82,783	\$49,507	

As of June 30, 2016 and December 31, 2015, the outstanding balance on the NMFC Credit Facility was \$87,000 and \$90,000, respectively, and NMFC was in compliance with the applicable covenants in the NMFC Credit Facility on such dates.

Convertible Notes—On June 3, 2014, the Company closed a private offering of \$115,000 aggregate principal amount of senior unsecured convertible notes (the “Convertible Notes”), pursuant to an indenture, dated June 3, 2014 (the “Indenture”). The Convertible Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933. As of the first anniversary, June 3, 2015, of the Convertible Notes, the restrictions under Rule 144A under the Securities Act of 1933 were removed, allowing the Convertible Notes to be eligible and freely tradable without restrictions for resale pursuant to Rule 144(b)(1) under the Securities Act of 1933. The Convertible Notes bear interest at an annual rate of 5.0%, payable semi-annually in arrears on June 15 and December 15 of each year, which commenced on December 15, 2014. The Convertible Notes will mature on June 15, 2019 unless earlier converted or repurchased at the holder’s option.

Table of Contents

The following table summarizes certain key terms related to the convertible features of the Company's Convertible Notes as of June 30, 2016.

	June 30, 2016
Initial conversion premium	12.5 %
Initial conversion rate(1)	62.7746
Initial conversion price	\$ 15.93
Conversion premium at June 30, 2016	11.7 %
Conversion rate at June 30, 2016(1)(2)	63.2794
Conversion price at June 30, 2016(2)(3)	\$ 15.80
Last conversion price calculation date	June 3, 2016

(1) Conversion rates denominated in shares of common stock per \$1 principal amount of the Convertible Notes converted.

(2) Represents conversion rate and conversion price, as applicable, taking into account certain de minimis adjustments that will be made on the conversion date.

(3) The conversion price in effect at June 30, 2016 was calculated on the last anniversary of the issuance and will be calculated again on the next anniversary, unless the exercise price shall have changed by more than 1.0% before the anniversary.

The conversion rate will be subject to adjustment upon certain events, such as stock splits and combinations, mergers, spin-offs, increases in dividends in excess of \$0.34 per share per quarter and certain changes in control. Certain of these adjustments, including adjustments for increases in dividends, are subject to a conversion price floor of \$14.16 per share. In no event will the total number of shares of common stock issuable upon conversion exceed 70.6214 per \$1 principal amount of the Convertible Notes. The Company has determined that the embedded conversion option in the Convertible Notes is not required to be separately accounted for as a derivative under GAAP.

The Convertible Notes are senior unsecured obligations and rank senior in right of payment to the Company's existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Notes; equal in right of payment to the Company's existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of the Company's secured indebtedness (including existing unsecured indebtedness that the Company later secures) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company's subsidiaries and financing vehicles. As reflected in Note 11, Earnings Per Share, the issuance is considered part of the if-converted method for calculation of diluted earnings per share.

The Company may not redeem the Convertible Notes prior to maturity. No sinking fund is provided for the Convertible Notes. In addition, if certain corporate events occur in respect of the Company, holders of the Convertible Notes may require the Company to repurchase for cash all or part of their Convertible Notes at a repurchase price equal to 100.0% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the repurchase date.

The Indenture contains certain covenants, including covenants requiring the Company to provide financial information to the holders of the Convertible Note and the Trustee if the Company ceases to be subject to the reporting requirements of the Exchange Act. These covenants are subject to limitations and exceptions that are described in the Indenture.

The following table summarizes the interest expense and amortization of financing costs incurred on the Convertible Notes for the three and six months ended June 30, 2016 and June 30, 2015.

Three Months Ended		Six Months Ended	
June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Interest expense	\$1,437	\$1,437	\$2,875	\$2,875
Amortization of financing costs	\$186	\$186	\$371	\$369
Effective interest rate	5.7	% 5.7	% 5.7	% 5.7

As of June 30, 2016 and December 31, 2015, the outstanding balance on the Convertible Notes was \$115,000 and \$115,000, respectively, and NMFC was in compliance with the terms of the Indenture on such dates.

Table of Contents

Unsecured Notes—On May 6, 2016, the Company issued \$50,000 in aggregate principal amount of five-year senior unsecured notes that mature on May 15, 2021 (the “Unsecured Notes”), pursuant to a note purchase agreement, dated May 4, 2016 (the “NPA”), to an institutional investor in a private placement. The Unsecured Notes rank pari-passu with the Company’s other unsecured indebtedness, including the Company’s Convertible Notes. The Unsecured Notes bear interest at an annual rate of 5.313%, payable semi-annually on May 15 and November 15 of each year, starting on November 15, 2016. This interest rate is subject to increase in the event that: (i) subject to certain exceptions, the Unsecured Notes or the Company cease to have an investment grade rating or (ii) the aggregate amount of the Company’s unsecured debt falls below \$150,000. In each such event, the Company also has the option to offer to prepay the Unsecured Notes at par, in which case holders of the Unsecured Notes who accept the offer would not receive the increased interest rate. In addition, the Company is obligated to offer to prepay the Unsecured Notes at par if the Investment Adviser, or an affiliate thereof, ceases to be the Company’s investment adviser or if certain change in control events occur with respect to the Investment Adviser.

The NPA contains customary terms and conditions for senior unsecured notes issued in a private placement, including, without limitation, an option to offer to prepay all or a portion of the Unsecured Notes at par (plus a make-whole amount, if applicable), affirmative and negative covenants such as information reporting, maintenance of the Company’s status as a BDC under the 1940 Act and a RIC under the Internal Revenue Code, minimum stockholders’ equity, minimum asset coverage ratio, and prohibitions on certain fundamental changes at the Company or any subsidiary guarantor, as well as customary events of default with customary cure and notice, including, without limitation, nonpayment, misrepresentation in a material respect, breach of covenant, cross-default under other indebtedness of the Company or certain significant subsidiaries, certain judgments and orders, and certain events of bankruptcy. As of June 30, 2016, the outstanding balance on the Unsecured Notes was \$50,000 and the Company was in compliance with the terms of the NPA.

Interest expense incurred on the Unsecured Notes for the three and six months ended June 30, 2016 was \$406 and \$406, respectively. Amortization of financing costs incurred on the Unsecured Notes for the three and six months ended June 30, 2016 was \$37 and \$37, respectively. The effective interest rate for the three and six months ended June 30, 2016 was 5.8% and 5.8%, respectively.

SBA-guaranteed debentures—On August 1, 2014, SBIC LP received an SBIC license from the SBA.

The SBIC license allows SBIC LP to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse to the Company, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed on a semi-annual basis at a market-driven spread over U.S. Treasury Notes with ten year maturities. The SBA, as a creditor, will have a superior claim to the assets of SBIC LP over the Company’s stockholders in the event SBIC LP is liquidated or the SBA exercises remedies upon an event of default.

The maximum amount of borrowings available under current SBA regulations is \$150,000 as long as the licensee has at least \$75,000 in regulatory capital, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing.

As of June 30, 2016 and December 31, 2015, SBIC LP had regulatory capital of approximately \$72,402 and \$72,402, respectively, and SBA-guaranteed debentures outstanding of \$121,745 and \$117,745, respectively. The SBA-guaranteed debentures incur upfront fees of 3.425%, which consists of a 1.00% commitment fee and a 2.425% issuance discount, which are amortized over the life of the SBA-guaranteed debentures. The following table summarizes the Company’s SBA-guaranteed debentures as of June 30, 2016.

Issuance Date	Maturity Date	Debenture Amount	Interest Rate	SBA Annual Charge
Fixed SBA-guaranteed debentures:				
March 25, 2015	March 1, 2025	\$ 37,500	2.517 %	0.355 %
September 23, 2015	September 1, 2025	37,500	2.829 %	0.355 %
September 23, 2015	September 1, 2025	28,795	2.829 %	0.742 %

Edgar Filing: New Mountain Finance Corp - Form 10-Q

March 23, 2016	March 1, 2026	13,950	2.507	%	0.742	%
Interim SBA-guaranteed debentures:						
	September 1, 2026(1)	1,000	0.950	%	0.742	%
	September 1, 2026(1)	3,000	0.907	%	0.742	%
Total SBA-guaranteed debentures		\$ 121,745				

(1) Estimated maturity date as interim SBA-guaranteed debentures are expected to pool in September 2016.

57

Table of Contents

Prior to pooling, the SBA-guaranteed debentures bear interest at an interim floating rate of LIBOR plus 0.30%. Once pooled, which occurs in March and September each year, the SBA-guaranteed debentures bear interest at a fixed rate that is set to the current 10-year treasury rate plus a spread at each pooling date.

The following table summarizes the interest expense and amortization of financing costs incurred on the SBA-guaranteed debentures for the three and six months ended June 30, 2016 and June 30, 2015.

	Three Months Ended		Six Months Ended		
	June 30,	June 30,	June 30,	June 30,	
	2016	2015	2016	2015	
Interest expense	\$937	\$293	\$1,820	\$393	
Amortization of financing costs	\$99	\$39	\$197	\$70	
Weighted average interest rate	3.2	% 2.5	% 3.1	% 1.9	%
Effective interest rate	3.5	% 2.8	% 3.4	% 2.2	%
Average debt outstanding	\$117,998	\$47,115	\$117,871	\$42,334	

The SBIC program is designed to stimulate the flow of private investor capital into eligible small businesses, as defined by the SBA. Under SBA regulations, SBIC LP is subject to regulatory requirements, including making investments in SBA-eligible businesses, investing at least 25.0% of its investment capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, regulating the types of financing, prohibiting investments in small businesses with certain characteristics or in certain industries and requiring capitalization thresholds that limit distributions to the Company. SBIC LP is subject to an annual periodic examination by an SBA examiner to determine SBIC LP's compliance with the relevant SBA regulations and an annual financial audit of its financial statements that are prepared on a basis of accounting other than GAAP (such as ASC 820) by an independent auditor. As of June 30, 2016 and December 31, 2015, SBIC LP was in compliance with SBA regulatory requirements.

Leverage risk factors—The Company utilizes and may utilize leverage to the maximum extent permitted by the law for investment and other general business purposes. The Company's lenders will have fixed dollar claims on certain assets that are superior to the claims of the Company's common stockholders, and the Company would expect such lenders to seek recovery against these assets in the event of a default. The use of leverage also magnifies the potential for gain or loss on amounts invested. Leverage may magnify interest rate risk (particularly on the Company's fixed-rate investments), which is the risk that the prices of portfolio investments will fall or rise if market interest rates for those types of securities rise or fall. As a result, leverage may cause greater changes in the Company's net asset value. Similarly, leverage may cause a sharper decline in the Company's income than if the Company had not borrowed. Such a decline could negatively affect the Company's ability to make dividend payments to its stockholders. Leverage is generally considered a speculative investment technique. The Company's ability to service any debt incurred will depend largely on financial performance and will be subject to prevailing economic conditions and competitive pressures.

Note 8. Regulation

The Company has elected to be treated, and intends to comply with the requirements to continue to qualify annually, as a RIC under Subchapter M of the Code. In order to continue to qualify and be subject to tax as a RIC, among other things, the Company is required to timely distribute to its stockholders at least 90.0% of investment company taxable income, as defined by the Code, for each year. The Company, among other things, intends to make and will continue to make the requisite distributions to its stockholders, which will generally relieve the Company from U.S. federal, state, and local income taxes (excluding excise taxes which may be imposed under the Code).

Additionally as a BDC, the Company must not acquire any assets other than "qualifying assets" specified in the 1940 Act unless, at the time the acquisition is made, at least 70.0% of its total assets are qualifying assets (with certain limited exceptions).

Note 9. Commitments and Contingencies

In the normal course of business, the Company may enter into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Company may also enter into future funding commitments such as revolving credit facilities, bridge financing commitments or delayed draw commitments. As of

June 30, 2016, the Company had unfunded commitments on revolving credit facilities of \$9,057, no outstanding bridge financing commitments and other future funding commitments of \$4,695. As of December 31, 2015, the Company had unfunded commitments on revolving credit facilities of \$17,576, no outstanding bridge financing commitments and other future funding commitments of \$8,678. The unfunded commitments on revolving credit facilities and delayed draws are disclosed on the Company's respective Consolidated Schedules of Investments.

Table of Contents

The Company also has revolving borrowings available under the Holdings Credit Facility and the NMFC Credit Facility as of June 30, 2016 and December 31, 2015. See Note 7, Borrowings, for details.

The Company may from time to time enter into financing commitment letters. As of June 30, 2016 and December 31, 2015, the Company had commitment letters to purchase debt investments in an aggregate par amount of \$25,000 and \$0, respectively, which could require funding in the future.

As of June 30, 2016 and December 31, 2015, the Company had unfunded commitments related to an equity investment in SLP II of \$51,610 and \$0, respectively, which may be funded at the Company's discretion.

Note 10. Net Assets

The table below illustrates the effect of certain transactions on the net asset accounts of the Company:

	Common Stock		Treasury Stock	Paid in Capital in Excess of Par	Accumulated Undistributed Net Investment Income	Accumulated Undistributed Net Realized Gains (Losses)	Net Unrealized Appreciation (Depreciation)	Total Net Assets
	Shares	Par Amount	Cost					
Balance at December 31, 2015	64,005,387	\$ 640	\$—	\$ 899,713	\$ 4,164	\$ 1,342	\$(68,951)	\$ 836,908
Issuances of common stock	—	—	—	—	—	—	—	—
Repurchases of common stock	(248,499)	—	(2,948)	—	—	—	—	(2,948)
Deferred offering costs	—	—	—	38	—	—	—	38
Dividends declared	—	—	—	—	(43,417)	—	—	(43,417)
Net increase (decrease) in net assets resulting from operations	—	—	—	—	43,399	1,041	8,304	52,744
Balance at June 30, 2016	63,756,888	\$ 640	\$(2,948)	\$ 899,751	\$ 4,146	\$ 2,383	\$(60,647)	\$ 843,325

Note 11. Earnings Per Share

The following information sets forth the computation of basic and diluted net increase in the Company's net assets per share resulting from operations for the three and six months ended June 30, 2016 and June 30, 2015:

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Earnings per share—basic				
Numerator for basic earnings per share:	\$44,693	\$ 20,264	\$52,744	\$ 43,178
Denominator for basic weighted average share:	63,839,928	68,076,552	63,887,038	68,037,868
Basic earnings per share:	\$0.70	\$ 0.35	\$0.83	\$ 0.74
Earnings per share—diluted ⁽¹⁾				
Numerator for increase in net assets per share	\$44,693	\$ 20,264	\$52,744	\$ 43,178
Adjustment for interest on Convertible Notes and incentive fees, net	1,150	1,150	2,300	2,300
Numerator for diluted earnings per share:	\$45,843	\$ 21,414	\$55,044	\$ 45,478
Denominator for basic weighted average share	63,839,928	68,076,552	63,887,038	68,037,868
Adjustment for dilutive effect of Convertible Notes	7,277,137	17,236,945	7,277,137	17,228,063
Denominator for diluted weighted average share	71,117,065	85,313,497	71,164,175	85,265,931
Diluted earnings per share	\$0.64	\$ 0.33	\$0.77	\$ 0.70

(1) In applying the if-converted method, conversion is not assumed for purposes of computing diluted earnings per share if the effect would be anti-dilutive.

Table of Contents

Note 12. Financial Highlights

The following information sets forth the Company's financial highlights for the six months ended June 30, 2016 and June 30, 2015.

	Six Months Ended			
	June 30, 2016	June 30, 2015		
Per share data(1):				
Net asset value, January 1, 2016 and January 1, 2015, respectively	\$ 13.08	\$ 13.83		
Net investment income	0.68	0.68		
Net realized and unrealized gains (losses)	0.15	0.07		
Total net increase	0.83	0.75		
Dividends declared to stockholders from net investment income	(0.68)	(0.68)		
Net asset value, June 30, 2016 and June 30, 2015, respectively	\$ 13.23	\$ 13.90		
Per share market value, June 30, 2016 and June 30, 2015, respectively	\$ 12.90	\$ 14.49		
Total return based on market value(2)	4.36	% 1.58	%	
Total return based on net asset value(3)	6.50	% 5.48	%	
Shares outstanding at end of period	63,756,888	58,161,821		
Average weighted shares outstanding for the period	63,887,036	58,037,868		
Average net assets for the period	\$ 832,668	\$ 807,394		
Ratio to average net assets:				
Net investment income	10.48	% 9.82	%	
Total expenses, before waivers/reimbursements	10.14	% 9.53	%	
Total expenses, net of waivers/reimbursements	9.44	% 8.77	%	
Average debt outstanding—Holdings Credit Facility	\$ 371,374	\$ 411,631		
Average debt outstanding—SBA-guaranteed debentures	117,871	42,334		
Average debt outstanding—Convertible Notes	115,000	115,000		
Average debt outstanding—NMFC Credit Facility	82,783	49,507		
Average debt outstanding—Unsecured Notes(4)	50,000	—		
Asset coverage ratio(5)	240.55	% 257.61	%	
Portfolio turnover	10.97	% 14.01	%	

(1) Per share data is based on weighted average shares outstanding for the respective period (except for dividends declared to stockholders which is based on actual rate per share).

(2) Total return is calculated assuming a purchase of common stock at the opening of the first day of the year and a sale on the closing of the last business day of the period. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at prices obtained under the Company's dividend reinvestment plan.

(3) Total return is calculated assuming a purchase at net asset value on the opening of the first day of the year and a sale at net asset value on the last day of the period. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at the net asset value on the last day of the respective quarter.

(4) For the six months ended June 30, 2016, average debt outstanding represents the period from May 6, 2016 (issuance of the Unsecured Notes) to June 30, 2016.

(5) On November 5, 2014, the Company received exemptive relief from the SEC allowing the Company to modify the asset coverage requirement to exclude the SBA-guaranteed debentures from this calculation.

Note 13. Recent Accounting Standards Updates

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, Presentation of Financial Statements—Going Concern Subtopic 205-40—Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). ASU 2014-15 will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The new standard will be effective for all entities in the first annual period ending after December 15, 2016. Earlier adoption is

permitted. The adoption of ASU 2014-15 is not expected to have a material impact on the Company's consolidated financial statements and disclosures.

60

Table of Contents

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, Consolidation Topic 810—Amendments to the Consolidation Analysis (“ASU 2015-02”), which modifies the consolidation analysis in determining if limited partnerships or similar type entities fall under the variable interest model or voting interest model, particularly those that have fee arrangements and related party relationships. ASU 2015-02 was effective for all public entities for interim and annual reporting periods beginning after December 15, 2015. Earlier adoption is permitted. On January 1, 2016, the Company adopted ASU 2015-02. The adoption did not have an impact on the Company's consolidated financial statements and disclosures.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest—Imputation of Interest Subtopic 835-30—Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”), which changes the presentation of debt issuance costs in financial statements. Under ASU 2015-03, an entity presents such costs on the statement of assets and liabilities as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The new standard was effective for all public entities for interim and annual reporting periods beginning after December 15, 2015. Earlier adoption is permitted. On January 1, 2016, the Company adopted ASU 2015-03. Upon adoption, the Company revised its presentation of deferred financing costs from an asset to a liability, which is a direct deduction to its debt on the Consolidated Statements of Assets and Liabilities. In addition, the Company retrospectively revised its presentation of \$13,992 of deferred financing costs that were previously presented as an asset as of December 31, 2015, which resulted in a decrease to total assets and total liabilities as of December 31, 2015.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Financial Instruments—Overall Subtopic 825-10—Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). ASU 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial assets and liabilities. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The new guidance must be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of ASU 2016-01. The Company is in the process of evaluating the impact that this guidance will have on the Company's consolidated financial statements and disclosures. Note 14. Subsequent Events

On August 2, 2016, the Company's board of directors declared a third quarter 2016 distribution of \$0.34 per share payable on September 30, 2016 to holders of record as of September 16, 2016.

Table of Contents

Deloitte & Touche LLP

30 Rockefeller Plaza
New York, NY 10112
USA

Tel: 212 436 2000

Fax: 212 436 5000

www.deloitte.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
New Mountain Finance Corporation
New York, New York

We have reviewed the accompanying consolidated statement of assets and liabilities of New Mountain Finance Corporation and subsidiaries, including the consolidated schedule of investments, as of June 30, 2016, and the related consolidated statements of operations for the three and six month periods ended June 30, 2016 and 2015, and changes in net assets, and cash flows for the six month periods ended June 30, 2016 and 2015. These interim financial statements are the responsibility of the management of New Mountain Finance Corporation.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the statement of assets and liabilities of New Mountain Finance Corporation and subsidiaries as of December 31, 2015, and the related statements of operations, changes in net assets, and cash flows for the year then ended (not presented herein); and in our report dated February 29, 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated statement of assets and liabilities as of December 31, 2015, is fairly stated, in all material respects, in relation to the consolidated statement of assets and liabilities from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

August 3, 2016

Table of Contents

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

The information in management's discussion and analysis of financial condition and results of operations relates to New Mountain Finance Corporation, including its wholly-owned direct and indirect subsidiaries (collectively, "we", "us", "our", "NMFC" or the "Company").

The following analysis of our financial condition and results of operations should be read in conjunction with our financial data and our financial statements and the notes thereto contained elsewhere in this report.

Forward-Looking Statements

The information contained in this section should be read in conjunction with the financial data and consolidated financial statements and notes thereto appearing elsewhere in this report. Some of the statements in this report (including in the following discussion) constitute forward-looking statements, which relate to future events or our future performance or our financial condition. The forward-looking statements contained in this section involve a number of risks and uncertainties, including:

- statements concerning the impact of a protracted decline in the liquidity of credit markets;
- the general economy, including interest and inflation rates, and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our ability to make investments consistent with our investment objectives, including with respect to the size, nature and terms of our investments;
- the ability of New Mountain Finance Advisers BDC, L.L.C. (the "Investment Adviser") or its affiliates to attract and retain highly talented professionals;
- actual and potential conflicts of interest with the Investment Adviser and New Mountain Capital L.L.C. ("New Mountain Capital", defined as New Mountain Capital Group, L.L.C. and its affiliates); and
- the risk factors set forth in Item 1A.—Risk Factors contained in our annual report on Form 10-K for the year ended December 31, 2015.

Forward-looking statements are identified by their use of such terms and phrases such as "anticipate", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "project", "seek", "should", "target", "will", "would" or similar. Actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in Item 1A.—Risk Factors contained in our annual report on Form 10-K for the year ended December 31, 2015.

We have based the forward-looking statements included in this report on information available to us on the date of this report. We assume no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Although we undertake no obligation to revise or update any forward-looking statements, you are advised to consult any additional disclosures that we may make directly to you or through reports that we have filed or in the future may file with the United States Securities and Exchange Commission ("SEC"), including annual reports on Form 10-K, registration statements on Form N-2, quarterly reports on Form 10-Q and current reports on Form 8-K.

Overview

New Mountain Finance Corporation

We are a Delaware corporation that was originally incorporated on June 29, 2010. We are a closed-end, non-diversified management investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). As such, we are obligated to comply with certain regulatory requirements. We have elected to be treated, and intend to comply with the requirements to continue to qualify annually, as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended, (the "Code"). NMFC is also registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act").

Table of Contents

On May 19, 2011, we priced our initial public offering (the "IPO") of 7,272,727 shares of common stock at a public offering price of \$13.75 per share. Concurrently with the closing of the IPO and at the public offering price of \$13.75 per share, we sold an additional 2,172,000 shares of our common stock to certain executives and employees of, and other individuals affiliated with, New Mountain Capital in a concurrent private placement (the "Concurrent Private Placement"). Additionally, 1,252,964 shares were issued to the partners of New Mountain Guardian Partners, L.P. at that time for their ownership interest in the Predecessor Entities (as defined below). In connection with our IPO and through a series of transactions, New Mountain Finance Holdings, L.L.C. ("NMF Holdings" or the "Predecessor Operating Company") acquired all of the operations of the Predecessor Entities, including all of the assets and liabilities related to such operations.

New Mountain Finance Holdings, L.L.C.

NMF Holdings is a Delaware limited liability company. Until May 8, 2014, NMF Holdings was externally managed and was regulated as a BDC under the 1940 Act. As such, NMF Holdings was obligated to comply with certain regulatory requirements. NMF Holdings was treated as a partnership for United States ("U.S.") federal income tax purposes for so long as it had at least two members. With the completion of the underwritten secondary offering on February 3, 2014, NMF Holdings' existence as a partnership for U.S. federal income tax purposes terminated and NMF Holdings became an entity that is disregarded as a separate entity from its owner for U.S. federal tax purposes. For additional information on our organizational structure prior to May 8, 2014, see "—Restructuring".

Until May 8, 2014, NMF Holdings was externally managed by the Investment Adviser. As of May 8, 2014, the Investment Adviser serves as the external investment adviser to us. New Mountain Finance Administration, L.L.C. (the "Administrator") provides the administrative services necessary for operations. The Investment Adviser and Administrator are wholly-owned subsidiaries of New Mountain Capital. New Mountain Capital is a firm with a track record of investing in the middle market and with assets under management totaling more than \$15.0 billion⁽¹⁾, which includes total assets held by us. New Mountain Capital focuses on investing in defensive growth companies across its private equity, public equity and credit investment vehicles. NMF Holdings, formerly known as New Mountain Guardian (Leveraged), L.L.C., was originally formed as a subsidiary of New Mountain Guardian AIV, L.P. ("Guardian AIV") by New Mountain Capital in October 2008. Guardian AIV was formed through an allocation of approximately \$300.0 million of the \$5.1 billion of commitments supporting New Mountain Partners III, L.P., a private equity fund managed by New Mountain Capital. In February 2009, New Mountain Capital formed a co-investment vehicle, New Mountain Guardian Partners, L.P., comprising \$20.4 million of commitments. New Mountain Guardian (Leveraged), L.L.C. and New Mountain Guardian Partners, L.P., together with their respective direct and indirect wholly-owned subsidiaries, are defined as the "Predecessor Entities".

Prior to December 18, 2014, New Mountain Finance SPV Funding, L.L.C. ("NMF SLF") was a Delaware limited liability company. NMF SLF was a wholly-owned subsidiary of NMF Holdings and thus our wholly-owned indirect subsidiary. NMF SLF was bankruptcy-remote and non-recourse to us. As part of an amendment to our existing credit facilities with Wells Fargo Bank, National Association, NMF SLF merged with and into NMF Holdings on December 18, 2014. See "—Borrowings" for additional information on our credit facilities.

New Mountain Finance AIV Holdings Corporation

Until April 25, 2014, New Mountain Finance AIV Holdings Corporation ("AIV Holdings") was a Delaware corporation that was originally incorporated on March 11, 2011. AIV Holdings was dissolved on April 25, 2014. Guardian AIV, a Delaware limited partnership, was AIV Holdings' sole stockholder. AIV Holdings was a closed-end, non-diversified management investment company that was regulated as a BDC under the 1940 Act. As such, AIV Holdings was obligated to comply with certain regulatory requirements. AIV Holdings was treated, and complied with the requirements to qualify annually, as a RIC under the Code.

(1) Includes amounts committed, not all of which have been drawn down and invested to date, as of June 30, 2016.

Table of Contents

Structure

Prior to the Restructuring (as defined below) on May 8, 2014, NMFC and AIV Holdings were holding companies with no direct operations of their own, and their sole asset was their ownership in NMF Holdings. In connection with the IPO, NMFC and AIV Holdings each entered into a joinder agreement with respect to the Limited Liability Company Agreement, as amended and restated (the "Operating Agreement"), of NMF Holdings, pursuant to which NMFC and AIV Holdings were admitted as members of NMF Holdings. NMFC acquired from NMF Holdings, with the gross proceeds of the IPO and the Concurrent Private Placement, common membership units ("units") of NMF Holdings (the number of units were equal to the number of shares of NMFC's common stock sold in the IPO and the Concurrent Private Placement). Additionally, NMFC received units of NMF Holdings equal to the number of shares of common stock of NMFC issued to the partners of New Mountain Guardian Partners, L.P. Guardian AIV was the parent of NMF Holdings prior to the IPO and, as a result of the transactions completed in connection with the IPO, obtained units in NMF Holdings. Guardian AIV contributed its units in NMF Holdings to AIV Holdings in exchange for common stock of AIV Holdings. AIV Holdings had the right to exchange all or any portion of its units in NMF Holdings for shares of NMFC's common stock on a one-for-one basis at any time.

The original structure was designed to generally prevent NMFC and its stockholders from being allocated taxable income with respect to unrecognized gains that existed at the time of the IPO in the Predecessor Entities' assets, and rather such amounts would be allocated generally to AIV Holdings. The result was that any distributions made to NMFC's stockholders that were attributable to such gains generally were not treated as taxable dividends but rather as return of capital.

Since our IPO, and through June 30, 2016, we raised approximately \$454.0 million in net proceeds from additional offerings of common stock and issued shares of common stock valued at approximately \$288.4 million on behalf of AIV Holdings for exchanged units. We acquired from NMF Holdings units of NMF Holdings equal to the number of shares of our common stock sold in additional offerings. With the completion of the final secondary offering on February 3, 2014, we owned 100.0% of the units of NMF Holdings, which became our wholly-owned subsidiary.

Restructuring

As a BDC, AIV Holdings had been subject to the 1940 Act, including certain provisions applicable only to BDCs. Accordingly, and after careful consideration of the 1940 Act requirements applicable to BDCs, the cost of 1940 Act compliance and a thorough assessment of AIV Holdings' business model, AIV Holdings' board of directors determined that continuation as a BDC was not in the best interests of AIV Holdings and Guardian AIV. Specifically, given that AIV Holdings was formed for the sole purpose of holding units of NMF Holdings and AIV Holdings had disposed of all of the units of NMF Holdings that it was holding as of February 3, 2014, the board of directors of AIV Holdings approved and declared advisable at an in-person meeting held on March 25, 2014 the withdrawal of AIV Holdings' election to be regulated as a BDC under the 1940 Act. In addition, the board of directors of AIV Holdings approved and declared advisable for AIV Holdings to terminate its registration under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and to dissolve AIV Holdings under the laws of the State of Delaware.

Upon receipt of the necessary stockholder consent to authorize the board of directors of AIV Holdings to withdraw AIV Holdings' election to be regulated as a BDC, the withdrawal was filed and became effective upon receipt by the SEC of AIV Holdings' notification of withdrawal on Form N-54C on April 15, 2014. The board of directors of AIV Holdings believed that AIV Holdings met the requirements for filing the notification to withdraw its election to be regulated as a BDC, upon the receipt of the necessary stockholder consent. After the notification of withdrawal of AIV Holdings' BDC election was filed with the SEC, AIV Holdings was no longer subject to the regulatory provisions of the 1940 Act applicable to BDCs generally, including regulations related to insurance, custody, composition of its board of directors, affiliated transactions and any compensation arrangements.

In addition, on April 15, 2014, AIV Holdings filed a Form 15 with the SEC to terminate AIV Holdings' registration under Section 12(g) of the Exchange Act. After these SEC filings and any other federal or state regulatory or tax filings were made, AIV Holdings proceeded to dissolve under Delaware law by filing a certificate of dissolution in Delaware on April 25, 2014.

Until May 8, 2014, as a BDC, NMF Holdings had been subject to the 1940 Act, including certain provisions applicable only to BDCs. Accordingly, and after careful consideration of the 1940 Act requirements applicable to BDCs, the cost of 1940 Act compliance and a thorough assessment of NMF Holdings' current business model, NMF Holdings' board of directors determined at an in-person meeting held on March 25, 2014 that continuation as a BDC was not in the best interests of NMF Holdings.

At the joint annual meeting of the stockholders of NMFC and the sole unit holder of NMF Holdings held on May 6, 2014, the stockholders of NMFC and the sole unit holder of NMF Holdings approved a proposal which authorized the board of directors of NMF Holdings to withdraw NMF Holdings' election to be regulated as a BDC. Additionally, the stockholders of NMFC approved a new investment advisory and management agreement between NMFC and the Investment Adviser. Upon

Table of Contents

receipt of the necessary stockholder/unit holder approval to authorize the board of directors of NMF Holdings to withdraw NMF Holdings' election to be regulated as a BDC, the withdrawal was filed and became effective upon receipt by the SEC of NMF Holdings' notification of withdrawal on Form N-54C on May 8, 2014.

Effective May 8, 2014, NMF Holdings amended and restated its Operating Agreement such that the board of directors of NMF Holdings was dissolved and NMF Holdings remained a wholly-owned subsidiary of NMFC with the sole purpose of serving as a special purpose vehicle for NMF Holdings' credit facility, and NMFC assumed all other operating activities previously undertaken by NMF Holdings under the management of the Investment Adviser (collectively, the "Restructuring"). After the Restructuring, all wholly-owned direct and indirect subsidiaries of NMFC are consolidated with NMFC for both 1940 Act and financial statement reporting purposes, subject to any financial statement adjustments required in accordance with accounting principles generally accepted in the United States of America ("GAAP"). NMFC continues to remain a BDC regulated under the 1940 Act.

Also, on May 8, 2014, NMF Holdings filed Form 15 with the SEC to terminate NMF Holdings' registration under Section 12(g) of the Exchange Act. As a special purpose entity, NMF Holdings is bankruptcy-remote and non-recourse to NMFC. In addition, the assets held at NMF Holdings will continue to be used to secure NMF Holdings' credit facility.

Current Organization

Our wholly-owned subsidiaries, NMF Ancora Holdings Inc. ("NMF Ancora"), NMF QID NGL Holdings, Inc. ("NMF QID") and NMF YP Holdings Inc. ("NMF YP"), are structured as Delaware entities that serve as tax blocker corporations which hold equity or equity-like investments in portfolio companies organized as limited liability companies (or other forms of pass-through entities). We consolidate our tax blocker corporations for accounting purposes. The tax blocker corporations are not consolidated for income tax purposes and may incur income tax expense as a result of their ownership of the portfolio companies. Additionally, our wholly-owned subsidiary, New Mountain Finance Servicing, L.L.C. ("NMF Servicing") serves as the administrative agent on certain investment transactions. New Mountain Finance SBIC, L.P. ("SBIC LP"), and its general partner, New Mountain Finance SBIC G.P., L.L.C. ("SBIC GP"), were organized in Delaware as a limited partnership and limited liability company, respectively. SBIC LP and SBIC GP are our consolidated wholly-owned direct and indirect subsidiaries. SBIC LP received a license from the U.S. Small Business Administration (the "SBA") to operate as a small business investment company ("SBIC") under Section 301(c) of the Small Business Investment Act of 1958, as amended (the "1958 Act").

The diagram below depicts our organizational structure as of June 30, 2016.

*Includes partners of New Mountain Guardian Partners, L.P.

** NMFC is the sole limited partner of SBIC LP. NMFC, directly or indirectly through SBIC GP, wholly-owns SBIC LP. NMFC owns 100.0% of SBIC GP which owns 1.0% of SBIC LP. NMFC owns 99.0% of SBIC LP.

Our investment objective is to generate current income and capital appreciation through the sourcing and origination of debt securities at all levels of the capital structure, including first and second lien debt, notes, bonds and mezzanine securities. In some cases, our investments may also include equity interests. The primary focus is in the debt of defensive growth companies, which are defined as generally exhibiting the following characteristics: (i) sustainable secular growth drivers, (ii) high barriers to competitive entry, (iii) high free cash flow after capital expenditure and working capital needs, (iv) high returns on assets and (v) niche market dominance. Similar to us, SBIC LP's investment objective is to generate current

Table of Contents

income and capital appreciation under our investment criteria. However, SBIC LP's investments must be in SBA eligible companies. Our portfolio may be concentrated in a limited number of industries. As of June 30, 2016, our top five industry concentrations were business services, software, education, federal services and distribution & logistics. As of June 30, 2016, our net asset value was \$843.3 million and our portfolio had a fair value of approximately \$1,498.1 million in 72 portfolio companies, with a weighted average Yield to Maturity at Cost of approximately 10.3%. This Yield to Maturity at Cost ("Yield to Maturity at Cost") calculation assumes that all investments, including secured collateralized agreements, not on non-accrual are purchased at the adjusted cost on the quarter end date and held until their respective maturities with no prepayments or losses and exited at par at maturity. Adjusted cost reflects the GAAP cost for post-IPO investments and a stepped up cost basis of pre-IPO investments (assuming a step-up to fair market value occurred on the IPO date). This calculation excludes the impact of existing leverage. Yield to Maturity at Cost uses the London Interbank Offered Rate ("LIBOR") curves at each quarter's end date. The actual yield to maturity may be higher or lower due to the future selection of the LIBOR contracts by the individual companies in our portfolio or other factors.

Recent Developments

On August 2, 2016, our board of directors declared a third quarter 2016 distribution of \$0.34 per share payable on September 30, 2016 to holders of record as of September 16, 2016.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following items as critical accounting policies.

Basis of Accounting

We consolidate our wholly-owned direct and indirect subsidiaries: NMF Holdings, NMF Servicing, SBIC LP, SBIC GP, NMF Ancora, NMF QID and NMF YP. Previously, we consolidated our wholly-owned indirect subsidiary NMF SLF until it merged with and into NMF Holdings on December 18, 2014. See "—Borrowings" for additional information on our credit facilities. We are an investment company following accounting and reporting guidance as described in Accounting Standards Codification Topic 946, Financial Services—Investment Companies, ("ASC 946").

Valuation and Leveling of Portfolio Investments

At all times consistent with GAAP and the 1940 Act, we conduct a valuation of assets, which impacts our net asset value.

We value our assets on a quarterly basis, or more frequently if required under the 1940 Act. In all cases, our board of directors is ultimately and solely responsible for determining the fair value of our portfolio investments on a quarterly basis in good faith, including investments that are not publicly traded, those whose market prices are not readily available and any other situation where our portfolio investments require a fair value determination. Security transactions are accounted for on a trade date basis. Our quarterly valuation procedures are set forth in more detail below:

(1) Investments for which market quotations are readily available on an exchange are valued at such market quotations based on the closing price indicated from independent pricing services.

Investments for which indicative prices are obtained from various pricing services and/or brokers or dealers are (2) valued through a multi-step valuation process, as described below, to determine whether the quote(s) obtained is representative of fair value in accordance with GAAP.

Bond quotes are obtained through independent pricing services. Internal reviews are performed by the investment professionals of the Investment Adviser to ensure that the quote obtained is representative of fair value in a. accordance with GAAP and if so, the quote is used. If the Investment Adviser is unable to sufficiently validate the quote(s) internally and if the investment's par value or its fair value exceeds the materiality threshold, the investment is valued similarly to those assets with no readily available quotes (see (3) below); and

b. For investments other than bonds, we look at the number of quotes readily available and perform the following:

i.

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Investments for which two or more quotes are received from a pricing service are valued using the mean of the mean of the bid and ask of the quotes obtained;

- ii. Investments for which one quote is received from a pricing service are validated internally. The investment professionals of the Investment Adviser analyze the market quotes obtained

67

Table of Contents

using an array of valuation methods (further described below) to validate the fair value. If the Investment Adviser is unable to sufficiently validate the quote internally and if the investment's par value or its fair value exceeds the materiality threshold, the investment is valued similarly to those assets with no readily available quotes (see (3) below).

(3) Investments for which quotations are not readily available through exchanges, pricing services, brokers, or dealers are valued through a multi-step valuation process:

a. Each portfolio company or investment is initially valued by the investment professionals of the Investment Adviser responsible for the credit monitoring;

b. Preliminary valuation conclusions will then be documented and discussed with our senior management;

If an investment falls into (3) above for four consecutive quarters and if the investment's par value or its fair value exceeds the materiality threshold, then at least once each fiscal year, the valuation for each portfolio investment for

c. which we do not have a readily available market quotation will be reviewed by an independent valuation firm engaged by our board of directors; and

d. When deemed appropriate by our management, an independent valuation firm may be engaged to review and value investment(s) of a portfolio company, without any preliminary valuation being performed by the Investment Adviser. The investment professionals of the Investment Adviser will review and validate the value provided.

For investments in revolving credit facilities and delayed draw commitments, the cost basis of the funded investments purchased is offset by any costs/netbacks received for any unfunded portion on the total balance committed. The fair value is also adjusted for the price appreciation or depreciation on the unfunded portion. As a result, the purchase of commitments not completely funded may result in a negative fair value until it is called and funded.

The values assigned to investments are based upon available information and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot be reasonably determined until the individual positions are liquidated. 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 our investments may fluctuate from period to period and the fluctuations could be material.

GAAP fair value measurement guidance classifies the inputs used in measuring fair value into three levels as follows: Level I—Quoted prices (unadjusted) are available in active markets for identical investments and we have the ability to access such quotes as of the reporting date. The type of investments which would generally be included in Level I include active exchange-traded equity securities and exchange-traded derivatives. As required by Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures ("ASC 820"), we, to the extent that we hold such investments, do not adjust the quoted price for these investments, even in situations where we hold a large position and a sale could reasonably impact the quoted price.

Level II—Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level I. Level II inputs include the following:

• Quoted prices for similar assets or liabilities in active markets;

• Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);

• Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including foreign exchange forward contracts); and

• Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level III—Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment.

The inputs used to measure fair value may fall into different levels. In all instances when the inputs fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level of input that is significant to the fair value measurement in its entirety. As such, a Level III fair value measurement may include inputs that are both observable and unobservable. Gains and losses for such assets categorized within the Level III table below may include changes in fair value that are attributable to both observable inputs and unobservable inputs.

Table of Contents

The inputs into the determination of fair value require significant judgment or estimation by management and consideration of factors specific to each investment. A review of the fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in the transfer of certain investments within the fair value hierarchy from period to period. Reclassifications impacting the fair value hierarchy are reported as transfers in/out of the respective leveling categories as of the beginning of the quarter in which the reclassifications occur.

The following table summarizes the levels in the fair value hierarchy that our portfolio investments fall into as of June 30, 2016:

(in thousands)	Total	Level I	Level II	Level III
First lien	\$616,894	\$ —	\$285,363	\$331,531
Second lien	642,423	—	354,286	288,137
Subordinated	79,272	—	37,538	41,734
Equity and other	159,472	118	14	159,340
Total investments	\$1,498,061	\$ 118	\$677,201	\$820,742

We generally use the following framework when determining the fair value of investments where there are little, if any, market activity or observable pricing inputs. We typically determine the fair value of our performing debt investments utilizing an income approach. Additional consideration is given using a market based approach, as well as reviewing the overall underlying portfolio company's performance and associated financial risks. The following outlines additional details on the approaches considered:

Company Performance, Financial Review, and Analysis: Prior to investment, as part of our due diligence process, we evaluate the overall performance and financial stability of the portfolio company. Post investment, we analyze each portfolio company's current operating performance and relevant financial trends versus prior year and budgeted results, including, but not limited to, factors affecting its revenue and earnings before interest, taxes, depreciation, and amortization ("EBITDA") growth, margin trends, liquidity position, covenant compliance and changes to its capital structure. We also attempt to identify and subsequently track any developments at the portfolio company, within its customer or vendor base or within the industry or the macroeconomic environment, generally, that may alter any material element of our original investment thesis. This analysis is specific to each portfolio company. We leverage the knowledge gained from our original due diligence process, augmented by this subsequent monitoring, to continually refine our outlook for each of our portfolio companies and ultimately form the valuation of our investment in each portfolio company. When an external event such as a purchase transaction, public offering or subsequent sale occurs, we will consider the pricing indicated by the external event to corroborate the private valuation.

For debt investments, we may employ the Market Based Approach (as described below) to assess the total enterprise value of the portfolio company, in order to evaluate the enterprise value coverage of our debt investment. For equity investments or in cases where the Market Based Approach implies a lack of enterprise value coverage for the debt investment, we may additionally employ a discounted cash flow analysis based on the free cash flows of the portfolio company to assess the total enterprise value.

After enterprise value coverage is demonstrated for our debt investments through the method(s) above, the Income Based Approach (as described below) may be employed to estimate the fair value of the investment.

Market Based Approach: We may estimate the total enterprise value of each portfolio company by utilizing market value cash flow (EBITDA) multiples of publicly traded comparable companies and comparable transactions. We consider numerous factors when selecting the appropriate companies whose trading multiples are used to value our portfolio companies. These factors include, but are not limited to, the type of organization, similarity to the business being valued, relevant risk factors, as well as size, profitability and growth expectations. We may apply an average of various relevant comparable company EBITDA multiples to the portfolio company's latest twelve month ("LTM") EBITDA or projected EBITDA to calculate the enterprise value of the portfolio company. Significant increases or decreases in the EBITDA multiple will result in an increase or decrease in enterprise value, which may result in an increase or decrease in the fair value estimate of the investment. In applying the market based approach as of June 30, 2016, we used the relevant EBITDA multiple ranges set forth in the table below to determine the enterprise value of our portfolio companies. We believe this was a reasonable range in light of current comparable company trading

levels and the specific portfolio companies involved.

69

Table of Contents

Income Based Approach: We also may use a discounted cash flow analysis to estimate the fair value of the investment. Projected cash flows represent the relevant security's contractual interest, fee and principal payments plus the assumption of full principal recovery at the investment's expected maturity date. These cash flows are discounted at a rate established utilizing a yield calibration approach, which incorporates changes in the credit quality (as measured by relevant statistics) of the portfolio company, as compared to changes in the yield associated with comparable credit quality market indices, between the date of origination and the valuation date. Significant increases or decreases in the discount rate would result in a decrease or increase in the fair value measurement. In applying the income based approach as of June 30, 2016, we used the discount ranges set forth in the table below to value investments in our portfolio companies.

The unobservable inputs used in the fair value measurement of our Level III investments as of June 30, 2016 were as follows:

(in thousands)		Range				
Type	Fair Value as of June 30, 2016	Approach	Unobservable Input	Low	High	Weighted Average
First lien	\$283,732	Market & income approach	EBITDA multiple	5.0x	16.0x	10.3x
			Discount rate	7.4 %	12.4 %	9.7 %
	25,524	Market quote	Broker quote	N/A	N/A	N/A
Second lien	22,275	Other	N/A(1)	N/A	(1)N/A	(1)N/A (1)
			157,473	Market & income approach	EBITDA multiple	6.5x
	118,769	Market quote	Discount rate	9.5 %	13.1 %	11.3 %
			Broker quote	N/A	N/A	N/A
			11,895	Other	N/A(1)	N/A	(1)N/A	(1)N/A (1)
Subordinated	41,734	Market & income approach	EBITDA multiple	5.0x	8.5x	7.3x
			Discount rate	9.5 %	18.1 %	15.8 %
Equity and other	155,308	Market & income approach	EBITDA multiple	2.5x	12.0x	6.2x
			Discount rate	8.0 %	19.5 %	14.3 %
	1,504	Black Scholes analysis	Expected life in years	9.3	9.8	9.5
			Volatility	27.0%	33.8 %	30.7 %
			Discount rate	1.6 %	1.6 %	1.6 %
	2,528	Other	N/A(1)	N/A	(1)N/A	(1)N/A (1)
\$820,742						

(1) Fair value was determined based on transaction pricing or recent acquisition or sale as the best measure of fair value with no material changes in operations of the related portfolio company since the transaction date.

NMFC Senior Loan Program I LLC

NMFC Senior Loan Program I LLC ("SLP I") was formed as a Delaware limited liability company on May 27, 2014 and commenced operations on June 10, 2014. SLP I is a portfolio company held by us. SLP I is structured as a private investment fund, in which all of the investors are qualified purchasers, as such term is defined under the 1940 Act.

Transfer of interests in SLP I is subject to restrictions, and as a result, such interests are not readily marketable. SLP I operates under a limited liability company agreement (the "SLP I Agreement") and will continue in existence until June 10, 2019, subject to earlier termination pursuant to certain terms of the SLP I Agreement. The term may be extended for up to one year pursuant to certain terms of the SLP I Agreement. SLP I has a three year re-investment period. SLP I invests in senior secured loans issued by companies within our core industry verticals. These investments are typically broadly syndicated first lien loans.

SLP I is capitalized with \$93.0 million of capital commitments, \$275.0 million of debt from a revolving credit facility and is managed by us. Our capital commitment is \$23.0 million, representing less than 25.0% ownership, with third

party investors representing the remaining capital commitment. As of June 30, 2016, SLP I had total investments with an aggregate fair value of approximately \$339.0 million, debt outstanding of \$245.9 million and capital that had been called and funded of \$93.0 million. As of December 31, 2015, SLP I had total investments with an aggregate fair value of approximately \$349.7 million, debt outstanding of \$267.6 million and capital that had been called and funded of \$93.0 million. Our investment in SLP I is disclosed on our Consolidated Schedules of Investments as of June 30, 2016 and December 31, 2015.

70

Table of Contents

We, as an investment adviser registered under the Advisers Act, act as the collateral manager to SLP I and are entitled to receive a management fee for our investment management services provided to SLP I. As a result, SLP I is classified as our affiliate. No management fee is charged on our investment in SLP I in connection with the administrative services provided to SLP I. For the three and six months ended June 30, 2016, we earned approximately \$0.3 million and \$0.6 million, respectively, in management fees related to SLP I which is included in other income. For the three and six months ended June 30, 2015, we earned approximately \$0.3 million and \$0.6 million, respectively, in management fees related to SLP I which is included in other income. As of June 30, 2016 and December 31, 2015, approximately \$0.3 million and \$0.3 million, respectively, of management fees related to SLP I was included in receivable from affiliates. For the three and six months ended June 30, 2016, we earned approximately \$0.9 million and \$1.8 million, respectively, of dividend income related to SLP I, which is included in dividend income. For the three and six months ended June 30, 2015, we earned approximately \$0.9 million and \$1.8 million, respectively, of dividend income related to SLP I, which is included in dividend income. As of June 30, 2016 and December 31, 2015, approximately \$0.9 million and \$0.9 million, respectively, of dividend income related to SLP I was included in interest and dividend receivable.

NMFC Senior Loan Program II LLC

NMFC Senior Loan Program II LLC ("SLP II") was formed as a Delaware limited liability company on March 9, 2016 and commenced operations on April 12, 2016. SLP II is structured as a private joint venture investment fund between us and SkyKnight Income, LLC ("SkyKnight") and operates under a limited liability company agreement (the "SLP II Agreement"). The purpose of the joint venture is to invest primarily in senior secured loans issued by portfolio companies within our core industry verticals. These investments are typically broadly syndicated first lien loans. All investment decisions must be unanimously approved by the board of managers of SLP II, which has equal representation from us and SkyKnight. SLP II has a three year investment period and will continue in existence until April 12, 2021. The term may be extended for up to one year pursuant to certain terms of the SLP II Agreement. SLP II is capitalized with equity contributions which are called from its members, on a pro-rata basis based on their equity commitments, as transactions are completed. Any decision by SLP II to call down on capital commitments requires approval by the board of managers of SLP II. We and SkyKnight have committed to provide \$79.4 million and \$20.6 million of equity to SLP II, respectively. As of June 30, 2016 we and SkyKnight have contributed \$27.8 million and \$7.2 million, respectively. Our investment in SLP II is disclosed on our Consolidated Schedule of Investments as of June 30, 2016.

On April 12, 2016, SLP II closed its \$275.0 million revolving credit facility with Wells Fargo Bank, National Association which matures on April 12, 2021 and bears interest at a rate of LIBOR plus 1.75% per annum. As of June 30, 2016, SLP II had total investments with an aggregate fair value of approximately \$167.9 million and debt outstanding under its credit facility of \$71.6 million.

We have determined that SLP II is an investment company under ASC 946, however, in accordance with such guidance we will generally not consolidate our investment in a company other than a wholly-owned investment company subsidiary. Furthermore, Accounting Standards Codification Topic 810, Consolidation, concludes that in a joint venture where both members have equal decision making authority, it is not appropriate for one member to consolidate the joint venture since neither has control. Accordingly, we do not consolidate SLP II.

Collateralized agreements or repurchase financings

We follow the guidance in Accounting Standards Codification Topic 860, Transfers and Servicing—Secured Borrowing and Collateral, ("ASC 860") when accounting for transactions involving the purchases of securities under collateralized agreements to resell (resale agreements). These transactions are treated as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts, as specified in the respective agreements. Interest on collateralized agreements is accrued and recognized over the life of the transaction and included in interest income. As of June 30, 2016 and December 31, 2015, we held one collateralized agreement to resell with a cost basis of \$30.0 million and \$30.0 million, respectively, and a carrying value of \$29.6 million and \$29.7 million, respectively, and is collateralized by a second lien bond in Northstar GOM Holdings Group LLC with a fair value of \$29.6 million and \$29.7 million, respectively. The collateralized agreement to resell is guaranteed by a private hedge fund with the most recently reported assets under management of approximately \$690.0 million and December 31, 2015 assets under

management of approximately \$716.6 million, respectively. Pursuant to the terms of the collateralized agreement, the private hedge fund is obligated to repurchase the collateral from us at the par value of the collateralized agreement once called upon by us or if the private hedge fund's total assets under management fall below the agreed upon thresholds. The collateralized agreement was called upon by us but the counterparty failed to repurchase the collateral at its par value in accordance with the terms of the collateralized agreement. As of June 30, 2016, litigation is on-going in the state of New York to resolve this matter. The collateralized agreement earned interest at a weighted average rate of 16.0% and 15.0% per annum as of June 30, 2016 and December 31, 2015, respectively.

Table of Contents

Revenue Recognition

Sales and paydowns of investments: Realized gains and losses on investments are determined on the specific identification method.

Interest and dividend income: Interest income, including amortization of premium and discount using the effective interest method, is recorded on the accrual basis and periodically assessed for collectability. Interest income also includes interest earned from cash on hand. Upon the prepayment of a loan or debt security, any prepayment penalties are recorded as part of interest income. We have loans and certain preferred equity investments in the portfolio that contain a payment-in-kind (“PIK”) interest or dividend provision. PIK interest and dividends are accrued and recorded as income at the contractual rates, if deemed collectible. The PIK interest and dividends are added to the principal or share balances on the capitalization dates and generally due at maturity or when redeemed by the issuer.

Dividend income on common equity is recorded on the record date for private portfolio companies or on the ex-dividend date for publicly traded portfolio companies. Dividend income on preferred securities is recorded as dividend income on an accrual basis to the extent that such amounts are deemed collectible.

Non-accrual income: Investments are placed on non-accrual status when principal or interest payments are past due 30 days or more and when there is reasonable doubt that principal or interest will be collected. Accrued cash and un-capitalized PIK interest or dividends are reversed when an investment is placed on non-accrual status. Previously capitalized PIK interest or dividends are not reversed when an investment is placed on non-accrual status. Interest or dividend payments received on non-accrual investments may be recognized as income or applied to principal depending upon management’s judgment of the ultimate outcome. Non-accrual investments are restored to accrual status when past due principal and interest is paid and, in management’s judgment, are likely to remain current.

Other income: Other income represents delayed compensation, consent or amendment fees, revolver fees, structuring fees, upfront fees, management fees from a non-controlled/affiliated investment and other miscellaneous fees received and are typically non-recurring in nature. Delayed compensation is income earned from counterparties on trades that do not settle within a set number of business days after trade date. Other income may also include fees from bridge loans. We may from time to time enter into bridge financing commitments, an obligation to provide interim financing to a counterparty until permanent credit can be obtained. These commitments are short-term in nature and may expire unfunded. A fee is received for providing such commitments. Structuring fees and upfront fees are recognized as income when earned, usually when paid at the closing of the investment, and are non-refundable.

Monitoring of Portfolio Investments

We monitor the performance and financial trends of our portfolio companies on at least a quarterly basis. We attempt to identify any developments within the portfolio company, the industry or the macroeconomic environment that may alter any material element of our original investment strategy.

We use an investment rating system to characterize and monitor the credit profile and expected level of returns on each investment in the portfolio. We use a four-level numeric rating scale as follows:

Investment Rating 1—Investment is performing materially above expectations;

Investment Rating 2—Investment is performing materially in-line with expectations. All new loans are rated 2 at initial purchase;

Investment Rating 3—Investment is performing materially below expectations and risk has increased materially since the original investment; and

Investment Rating 4—Investment is performing substantially below expectations and risks have increased substantially since the original investment. Payments may be delinquent. There is meaningful possibility that we will not recoup our original cost basis in the investment and may realize a substantial loss upon exit.

Table of Contents

The following table shows the distribution of our investments on the 1 to 4 investment rating scale at fair value as of June 30, 2016:

(in millions)	As of June 30, 2016			
Investment Rating	Par Value	Percent	Fair Value	Percent
Investment Rating 1	\$ 196.0	13.5 %	\$ 249.4	16.6 %
Investment Rating 2	1,161.5	80.1 %	1,207.9	80.6 %
Investment Rating 3	43.6	3.0 %	26.3	1.8 %
Investment Rating 4	49.1	3.4 %	14.5	1.0 %
	\$ 1,450.2	100.0 %	\$ 1,498.1	100.0 %

(1) Excludes shares and warrants.

As of June 30, 2016, all investments in our portfolio had an Investment Rating of 1 or 2 with the exception of five portfolio companies. As of June 30, 2016, four portfolio companies had an Investment Rating of 3 and three portfolio companies had an Investment Rating of 4, which includes two portfolio companies that had a portion of our investment included in Investment Rating of 3 and a portion included in Investment Rating of 4.

During the second quarter of 2016, the Company placed a portion of its first lien position in Permian Tank & Manufacturing, Inc. (“Permian”) on non-accrual status due to its ongoing restructuring. As of June 30, 2016, the portion of the Permian first lien position placed on non-accrual status represented an aggregate cost basis of \$17.1 million, an aggregate fair value of \$5.0 million and total unearned interest income of \$0.8 million and \$0.8 million for the three and six months then ended.

During the second quarter of 2016, the Company placed a portion of its second lien position in Transtar Holding Company (“Transtar”) on non-accrual status due to its ongoing restructuring. As of June 30, 2016, the portion of the Transtar second lien position placed on non-accrual status represented an aggregate cost basis of \$24.7 million, an aggregate fair value of \$9.1 million and total unearned interest income of \$0.8 million and \$0.8 million for the three and six months then ended.

As of June 30, 2016, our two super priority first lien positions in ATI Acquisition Company and its related equity positions in Ancora Acquisition LLC had an Investment Rating of 4 due to the underlying business encountering significant regulatory constraints which have led to the portfolio company’s underperformance. As of June 30, 2016, our two super priority first lien positions in ATI Acquisition Company and its related preferred shares and warrants in Ancora Acquisition LLC remained on non-accrual status due to the inability of the portfolio company to service its interest payments for the quarter then ended and uncertainty about its ability to pay such amounts in the future. As of June 30, 2016, our investment in ATI Acquisition Company and Ancora Acquisition LLC had an aggregate cost basis of \$1.6 million, an aggregate fair value of \$0.4 million and no unearned interest income for the three and six months then ended. For the three and six months ended June 30, 2015, total unearned interest income was \$0.1 million and \$0.2 million. As of December 31, 2015, our investment had an aggregate cost basis of \$1.6 million and an aggregate fair value of \$0.4 million. As of June 30, 2016 and December 31, 2015, unrealized gains (losses) include a fee that we would recognize upon realization of the two super priority first lien debt investments.

During the first quarter of 2015, we placed a portion of our second lien position in Edmentum, Inc. (“Edmentum”) on non-accrual status due to its ongoing restructuring. As of March 31, 2015, our investment in Edmentum had an aggregate cost basis of \$30.8 million, an aggregate fair value of \$15.6 million and total unearned interest income of \$0.4 million for the three months then ended. In June 2015, Edmentum completed a restructuring which resulted in a material modification of the original terms and an extinguishment of our original investment in Edmentum. Prior to the extinguishment in June 2015, our original investment in Edmentum had an aggregate cost of \$31.6 million, an aggregate fair value of \$16.4 million and total unearned interest income of \$0.8 million for the six months ended June 30, 2015. The extinguishment resulted in a realized loss of \$15.2 million. Post restructuring, our investments in Edmentum have been restored to full accrual status. As of June 30, 2016, our investments in Edmentum have an aggregate cost basis of \$25.9 million and an aggregate fair value of \$27.2 million.

During the first quarter of 2015, our first lien position in Education Management LLC (“EDMC”) was non-income producing as a result of the portfolio company undergoing a restructuring. As of December 31, 2014, our investment

in EDMC had an aggregate cost basis of \$3.0 million, an aggregate fair value of \$1.4 million and no unearned interest income for the three months then ended. In January 2015, EDMC completed a restructuring which resulted in a material modification of the original terms and an extinguishment of our original investment in EDMC. Prior to the extinguishment in January 2015, our original investment in EDMC had an aggregate cost of \$3.0 million, an aggregate fair value of \$1.4 million and no unearned interest income for the period then ended. The extinguishment resulted in a realized loss of \$1.6 million. Post restructuring, our

Table of Contents

investments in EDMC are income producing. As of June 30, 2016, our investments in EDMC have an aggregate cost basis of \$1.5 million and an aggregate fair value of \$0.3 million.

During the third quarter of 2014, we placed a portion of our first lien position in UniTek Global Services, Inc. ("UniTek") on non-accrual status in anticipation of a voluntary petition for a "Pre-Packaged" Chapter 11 Bankruptcy in the U.S. Bankruptcy Court for the District of Delaware which was filed on November 3, 2014. As of December 31, 2014, our investment in UniTek had an aggregate cost basis of \$47.4 million, an aggregate fair value of \$35.2 million and total unearned interest income of \$1.0 million for the year then ended. In January 2015, UniTek emerged from "Pre-Packaged" Chapter 11 Bankruptcy and completed its restructuring. The restructuring resulted in a material modification of the original terms and an extinguishment of our original investments in UniTek. Prior to the extinguishment in January 2015, our original investments in UniTek had an aggregate cost of \$52.9 million, an aggregate fair value of \$40.1 million and total unearned interest income of \$0.1 million for the period then ended. The extinguishment resulted in a realized loss of \$12.8 million. Post restructuring, our investments in UniTek have been restored to full accrual status. As of June 30, 2016, our investments in UniTek have an aggregate cost basis of \$41.3 million and an aggregate fair value of \$56.0 million.

Portfolio and Investment Activity

The fair value of our investments was approximately \$1,498.1 million in 72 portfolio companies at June 30, 2016 and approximately \$1,512.2 million in 75 portfolio companies at December 31, 2015.

The following table shows our portfolio and investment activity for the six months ended June 30, 2016 and June 30, 2015:

(in millions)	Six Months Ended	
	June 30, 2016	June 30, 2015
New investments in 21 and 14 portfolio companies, respectively	\$163.8	\$190.0
Debt repayments in existing portfolio companies	170.2	262.8
Sales of securities in 4 and 12 portfolio companies, respectively	28.0	52.4
Change in unrealized appreciation on 54 and 37 portfolio companies, respectively	41.7	48.6
Change in unrealized depreciation on 23 and 39 portfolio companies, respectively	(34.1)	(30.7)
At June 30, 2016 and June 30, 2015, our weighted average Yield to Maturity at Cost was approximately 10.3% and 10.8%, respectively.		

Recent Accounting Standards Updates

See Item 1.—Financial Statements—Note 13. Recent Accounting Standards for details on recent accounting standards updates.

Results of Operations

Under GAAP, our IPO did not step-up the cost basis of the Predecessor Operating Company's existing investments to fair market value at the IPO date. Since the total value of the Predecessor Operating Company's investments at the time of the IPO was greater than the investments' cost basis, a larger amount of amortization of purchase or original issue discount, and different amounts in realized gain and unrealized appreciation, may be recognized under GAAP in each period than if the step-up had occurred. This will remain until such predecessor investments are sold, repaid or mature in the future. We track the transferred (or fair market) value of each of the Predecessor Operating Company's investments as of the time of the IPO and, for purposes of the incentive fee calculation, adjusts income as if each investment was purchased at the date of the IPO (or stepped up to fair market value). The respective "Adjusted Net Investment Income" (defined as net investment income adjusted to reflect income as if the cost basis of investments held at the IPO date had stepped-up to fair market value as of the IPO date) is used in calculating both the incentive fee and dividend payments. See Item 1.—Financial Statements—Note 5. Agreements for additional details.

Table of Contents

The following table for the three months ended June 30, 2016 is adjusted to reflect the step-up to fair market value and the allocation of the incentive fees related to hypothetical capital gains out of the adjusted post-incentive fee net investment income.

(in thousands)	Three Months Ended June 30, 2016	Stepped-up Cost Basis Adjustments	Incentive Fee Adjustments	Adjusted Three Months Ended June 30, 2016
Investment income				
Interest income	\$38,412	\$ (35)	\$	—\$38,377
Dividend income	1,721	—	—	1,721
Other income	1,357	—	—	1,357
Total investment income(2)	41,490	(35)	—	41,455
Total expenses pre-incentive fee(3)	14,209	—	—	14,209
Pre-Incentive Fee Net Investment Income	27,281	(35)	—	27,246
Incentive fee	5,449	—	—	5,449
Post-Incentive Fee Net Investment Income	21,832	(35)	—	21,797
Net realized gains (losses) on investments(4)	865	(86)	—	779
Net change in unrealized appreciation (depreciation) of investments(4)	21,956	121	—	22,077
Net change in unrealized (depreciation) appreciation of securities purchased under collateralized agreements to resell	(44)	—	—	