

New Mountain Finance Corp  
Form 497  
September 26, 2016

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**Filed Pursuant to Rule 497  
Securities Act File No. 333-208622**

**This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, as amended, but the information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and are not soliciting an offer to buy these securities in any jurisdiction where the offer and sale is not permitted.**

**Subject to Completion, Dated September 26, 2016**

**PRELIMINARY PROSPECTUS SUPPLEMENT  
(to Prospectus dated February 1, 2016)**

**\$35,000,000**

**New Mountain Finance Corporation**

**5.00% Convertible Notes due 2019**

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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 under the Investment Company Act of 1940, as amended. 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. Our 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.

The investments that we invest in are almost entirely rated below investment grade or may be unrated, which are often referred to as "leveraged loans", "high yield" or "junk" debt investments, and may be considered "high risk" or speculative compared to debt investments that are rated investment grade. 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 our net asset value and income distributions. Our investments are also primarily floating rate debt investments that contain interest reset provisions that may make it more difficult for borrowers to make debt repayments to us if

interest rates rise. In addition, some of our 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. Our debt investments may also lose significant market value before a default occurs. Furthermore, an active trading market may not exist for these securities. This illiquidity may make it more difficult to value our investments.

We are offering \$35.0 million aggregate principal amount of our 5.00% Convertible Notes due 2019 (the "Additional Convertible Notes"). The Additional Convertible Notes offered hereby will be a further issuance of, be fungible and rank equally in right of payment with, have the same interest rate, maturity date, and other terms as, and form a single series for all purposes under the indenture governing the Additional Convertible Notes including, without limitation, waivers, amendments, consents, redemptions and other offers to purchase and voting, with the \$115,000,000 aggregate principal amount of 5.00% Convertible Notes due 2019 issued by us on June 3, 2014 in a private placement only to "qualified institutional buyers" (as defined under Rule 144A under the Securities Act of 1933, as amended (the "Securities Act")) in reliance on Rule 144A under the Securities Act (the "Convertible Notes"). The Additional Convertible Notes will bear interest at a rate of 5.00% per year, payable on June 15 and December 15 of each year, commencing on December 15, 2016. The Additional Convertible Notes will mature on June 15, 2019. We may not redeem the Additional Convertible Notes prior to maturity.

The Additional Convertible Notes will be convertible, at your option, into shares of our common stock initially at a conversion rate of 63.2794 shares per \$1,000 principal amount of Additional Convertible Notes (equivalent to an initial conversion price of approximately \$15.80 per share), subject to adjustment as described in this prospectus supplement, at any time on or prior to the close of business on the business day immediately preceding the maturity date. In the case of Additional Convertible Notes that are converted in connection with certain types of fundamental changes, we will, in certain circumstances, increase the conversion rate by a number of additional shares.

You may require us to repurchase all or a portion of your Additional Convertible Notes upon a fundamental change at a cash repurchase price equal to 100.0% of the principal amount plus accrued and unpaid interest (including additional interest, if any) through, and including, the maturity date. See "Description of the Notes Fundamental Change Put".

The Additional Convertible Notes will be our unsecured obligations. As of September 23, 2016, we had \$693.6 million of indebtedness outstanding, \$528.6 million of which was secured indebtedness and \$165.0 million of which was unsecured indebtedness. The Additional Convertible Notes will be our direct unsecured obligations and rank *pari passu*, or equally in right of payment, with all outstanding and future unsecured, unsubordinated indebtedness issued by us.

There is no public market for the Additional Convertible Notes, and we do not intend to apply for listing of the Additional Convertible Notes on any securities exchange or for inclusion of the Additional Convertible Notes in any automated quotation system. Our common stock is listed on the New York Stock Exchange under the symbol "NMFC". On September 23, 2016, the last reported sales price on the New York Stock Exchange for our common stock was \$13.80 per share, and the net asset value per share of our common stock on June 30, 2016 (the last date prior to the date of this prospectus supplement on which we determined our net asset value per share) was \$13.23.

The price at issuance of the Additional Convertible Notes will be \_\_\_\_\_ % of the principal amount, which reflects that, for the first interest payment, interest will be treated as having accrued from June 15, 2016. A portion of the purchase price will be attributed to this accrued and unpaid interest that precedes the issuance of the Additional Convertible Notes.

***An investment in the Additional Convertible Notes involves risks that are described in the "Supplementary Risk Factors" section beginning on page S-28 in this prospectus supplement and the "Risk Factors" section beginning on page 30 of the accompanying prospectus.***

This prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor should know before investing in the Additional Convertible Notes. Please read this prospectus supplement and the accompanying prospectus before investing and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information with the United States Securities and Exchange Commission (<http://www.sec.gov>), which is available free of charge by contacting us by mail at 787 Seventh Avenue, 48th Floor, New York, New York 10019 or on our website at <http://www.newmountainfinance.com>. Information contained on our website is not incorporated by reference into this prospectus supplement and the accompanying prospectus, and you should not consider that information to be part of this prospectus supplement and the accompanying prospectus.

**Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

	Per Note	Total
Public Offering Price	\$	\$
Sales Load paid by us (Underwriting Discounts and Commissions)(1)	\$	\$
Proceeds to us (before expenses)(2)	\$	\$

(1) See "Underwriting" for details of compensation to be received by the underwriters.

(2) All expenses of the offering will be borne by us. We will incur approximately \$0.4 million of estimated expenses in connection with this offering.

We have granted the underwriters an option to purchase up to an additional \$5,250,000 aggregate principal amount of Additional Convertible Notes on the same terms and conditions as set forth above, exercisable within 13 days from the date of this prospectus supplement. If the underwriters exercise this option in full, the total public offering price will be \$ , the total sales load (discounts and commissions) paid by us will be \$ , and total proceeds, before expenses, will be \$ .

**THE ADDITIONAL CONVERTIBLE NOTES ARE NOT DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY.**

Delivery of the Additional Convertible Notes in book-entry form only through The Depository Trust Company will be made on or about , 2016.

*Joint-Lead Bookrunners*

Wells Fargo Securities

Goldman, Sachs & Co.

Morgan Stanley



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**ABOUT THIS PROSPECTUS SUPPLEMENT**

**You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. Neither we nor the underwriters have authorized any other person to provide you with different information from that contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell, or a solicitation of an offer to buy, these securities by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. The information contained in this prospectus supplement and the accompanying prospectus is complete and accurate only as of their respective dates, regardless of the time of their delivery or sale of these securities. This prospectus supplement supersedes the accompanying prospectus to the extent it contains information different from or additional to the information in that prospectus.**

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. To the extent the information contained in this prospectus supplement differs from the information contained in the accompanying prospectus, the information in this prospectus supplement shall control. Please carefully read this prospectus supplement and the accompanying prospectus together with any exhibits and the additional information described under "Available Information", "Prospectus Supplement Summary" and "Supplementary Risk Factors" in this prospectus supplement and the "Available Information", "Summary" and "Risk Factors" sections of the accompanying prospectus before you make an investment decision. Unless otherwise indicated, all information included in this prospectus supplement assumes no exercise by the underwriters of their option to purchase up to an additional \$5,250,000 aggregate principal amount of Additional Convertible Notes.

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**PROSPECTUS SUPPLEMENT SUMMARY**

*This summary highlights some of the information in this prospectus supplement and the accompanying prospectus. It may not contain all the information that is important to you. For a more complete understanding, we encourage you to read this entire prospectus supplement and the accompanying prospectus and the documents to which we have referred in this prospectus supplement, together with the accompanying prospectus, including the risks set forth under "Supplementary Risk Factors" in this prospectus supplement and "Risk Factors" in the accompanying prospectus, and the other information included in this prospectus supplement and the accompanying prospectus. On June 3, 2014, we and U.S. Bank National Association (the "Trustee") entered into an indenture relating to our issuance, offer and sale of the Convertible Notes. We will issue the Additional Convertible Notes offered hereby under the same indenture. The Additional Convertible Notes offered hereby will be a further issuance of, rank equally in right of payment with, have the same interest rate, maturity date, and other terms as the Convertible Notes. The Additional Convertible Notes offered hereby and the Convertible Notes will be treated as a single series for all purposes under the indenture including, without limitation, waivers, amendments, consents, redemptions and other offers to purchase and voting. We refer to the "Additional Convertible Notes" and the "Convertible Notes" separately within this prospectus supplement since only the Additional Convertible Notes are being offered hereby, but any general discussion of the terms of the Additional Convertible Notes would also apply to the Convertible Notes since they are treated as the same under the indenture.*

*In this prospectus supplement, unless the context otherwise requires, references to:*

*"NMFC", the "Company", "we", "us" and "our" refers to New Mountain Finance Corporation, a Delaware corporation, which was incorporated on June 29, 2010, including, where appropriate, its wholly-owned direct and indirect subsidiaries;*

*"NMF Holdings" and "Predecessor Operating Company" refers to New Mountain Finance Holdings, L.L.C., a Delaware limited liability company. References to NMF Holdings include its wholly-owned subsidiary, NMF SLF, unless the context otherwise requires. References to NMF Holdings exclude NMF SLF when referencing NMF Holdings' common membership units, board of directors, and credit facility or leverage;*

*"NMF SLF" refers to New Mountain Finance SPV Funding, L.L.C., a Delaware limited liability company;*

*"SBIC GP" refers to New Mountain Finance SBIC G.P. L.L.C., a Delaware limited liability company;*

*"SBIC LP" refers to New Mountain Finance SBIC L.P., a Delaware limited partnership;*

*"Guardian AIV" refers to New Mountain Guardian AIV, L.P.;*

*"AIV Holdings" refers to New Mountain Finance AIV Holdings Corporation, a Delaware corporation which was incorporated on March 11, 2011, of which Guardian AIV was the sole stockholder;*

*"Investment Adviser" refers to New Mountain Finance Advisers BDC, L.L.C., our investment adviser;*

*"Administrator" refers to New Mountain Finance Administration, L.L.C., our administrator;*

*"New Mountain Capital" refers to New Mountain Capital Group, L.L.C. and its affiliates;*





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*"Predecessor Entities" refers to New Mountain Guardian (Leveraged), L.L.C. and New Mountain Guardian Partners, L.P., together with their respective direct and indirect wholly-owned subsidiaries prior to our initial public offering;*

*"NMFC Credit Facility" refers to our Senior Secured Revolving Credit Agreement with Goldman Sachs Bank USA, Morgan Stanley Bank, N.A. and Stifel Bank & Trust, dated June 4, 2014, as amended (together with the related guarantee and security agreement);*

*"Holdings Credit Facility" refers to NMF Holdings' Second Amended and Restated Loan and Security Agreement with Wells Fargo Bank, National Association, dated December 18, 2014;*

*"Predecessor Holdings Credit Facility" refers to NMF Holdings' Amended and Restated Loan and Security Agreement with Wells Fargo Bank, National Association, dated May 19, 2011, as amended;*

*"SLF Credit Facility" refers to NMF SLF's Loan and Security Agreement with Wells Fargo Bank, National Association, dated October 27, 2010, as amended;*

*"Convertible Notes" refers to our convertible notes issued on June 3, 2014 under an indenture between us and U.S. Bank National Association; and*

*"Unsecured Notes" refers to our unsecured notes issued on May 6, 2016 under a note purchase agreement, dated May 4, 2016, to an institutional investor in a private placement.*

*For the periods prior to and as of December 31, 2013, all financial information provided in this prospectus supplement and accompanying prospectus reflect our organizational structure prior to the restructuring on May 8, 2014 described under "Description of Restructuring" in the accompanying prospectus, where NMF Holdings functioned as the operating company.*

### **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"). We are also registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act").

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. In connection with our IPO and through a series of transactions, NMF Holdings 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



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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. See "Material Federal Income Tax Considerations" in the accompanying prospectus. For additional information on our organizational structure prior to May 8, 2014, see "Description of Restructuring" in the accompanying prospectus.

Until May 8, 2014, NMF Holdings was externally managed by the Investment Adviser. As of May 8, 2014, the Investment Adviser serves as our external investment adviser. 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<sup>(1)</sup>, 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 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.

Prior to December 18, 2014, 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 us. 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 "Management's Discussion and Analysis of Financial Conditions and Results of Operations – Liquidity and Capital Resources – Borrowings" in this prospectus supplement for additional information on our borrowings.

***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. SBIC LP, and its general partner, 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").

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

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The diagram below depicts our organizational structure as of September 23, 2016.

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\*

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

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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 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.

The investments that we invest in are almost entirely rated below investment grade or may be unrated, which are often referred to as "leveraged loans", "high yield" or "junk" debt investments, and may be considered "high risk" or speculative compared to debt investments that are rated investment grade. 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 our net asset value and income distributions. Our investments are also primarily floating rate debt investments that contain interest reset provisions that may make it more difficult for borrowers to make debt repayments to us if interest rates rise. In addition, some of our 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. Our debt investments may also lose significant market value before a default occurs. Furthermore, an active trading market may not exist for these securities. This illiquidity may make it more difficult to value our investments.

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 ("Yield to Maturity at Cost") of approximately 10.3%. This Yield to Maturity at Cost

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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 accounting principles generally accepted in the United States of America ("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**

***Appointment of President***

John R. Kline was promoted to be our President on July 19, 2016 in addition to maintaining his role as our Chief Operating Officer. Robert A. Hamwee, who previously held the title of President and Chief Executive Officer ("CEO"), will continue in his capacity as our CEO.

***Distribution***

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. Investors in this offering will not be entitled to this distribution.

***New Mountain Net Lease Corporation***

New Mountain Net Lease Corporation ("NMNLC") was formed as a Maryland corporation on April 18, 2016 and commenced operations on August 12, 2016. NMNLC was formed to acquire commercial real properties that are subject to "triple net" leases and to qualify as a real estate investment trust (a "REIT") within the meaning of Section 856(a) of the Code. We have determined that NMNLC is not an investment company under Accounting Standards Codification Topic 946, *Financial Services - Investment Companies* and in accordance with such guidance we will generally not consolidate our investment in a company other than a wholly-owned investment company subsidiary. Accordingly, NMNLC is a wholly-owned non-consolidated portfolio company of NMFC.

***Potential Additional Unsecured Notes***

Based on recent indications of interest, we anticipate issuing up to an additional \$40.0 million in aggregate principal amount of Unsecured Notes (the "Additional Unsecured Notes") to one or more institutional investors in a private placement, which could occur prior to the closing of this offering. The Additional Unsecured Notes will not be and have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. There can be no assurance given as to the amount, or timing, of the issuance of the Additional Unsecured Notes, if at all.

**The Investment Adviser**

The Investment Adviser, a wholly-owned subsidiary of New Mountain Capital, manages our day-to-day operations and provides us with investment advisory and management services. In particular, the Investment Adviser is responsible for identifying attractive investment opportunities, conducting research and due diligence on prospective investments, structuring our investments and monitoring and servicing our investments. We currently do not have, and do not intend to have, any

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employees. As of June 30, 2016, the Investment Adviser was supported by approximately 100 staff members of New Mountain Capital, including approximately 60 investment professionals.

The Investment Adviser is managed by a five member investment committee (the "Investment Committee"), which is responsible for approving purchases and sales of our investments above \$10.0 million in aggregate by issuer. The Investment Committee currently consists of Steven B. Klinsky, Robert A. Hamwee, Adam B. Weinstein and John R. Kline. The fifth and final member of the Investment Committee will consist of a New Mountain Capital Managing Director who will hold the position on the Investment Committee on an annual rotating basis. Beginning in August 2016, Mathew J. Lori was appointed to the Investment Committee for a one year term. In addition, our executive officers and certain investment professionals of the Investment Adviser are invited to all Investment Committee meetings. Purchases and dispositions below \$10.0 million may be approved by our Chief Executive Officer. These approval thresholds are subject to change over time. We expect to benefit from the extensive and varied relevant experience of the investment professionals serving on the Investment Committee, which includes expertise in private equity, primary and secondary leveraged credit, private mezzanine finance and distressed debt.

**Competitive Advantages**

We believe that we have the following competitive advantages over other capital providers to middle market companies:

***Proven and Differentiated Investment Style With Areas of Deep Industry Knowledge***

In making its investment decisions, the Investment Adviser applies New Mountain Capital's long-standing, consistent investment approach that has been in place since its founding more than 15 years ago. We focus on companies in defensive growth niches of the middle market space where we believe few debt funds have built equivalent research and operational size and scale.

We benefit directly from New Mountain Capital's private equity investment strategy that seeks to identify attractive investment sectors from the top down and then works to become a well positioned investor in these sectors. New Mountain Capital focuses on companies and industries with sustainable strengths in all economic cycles, particularly ones that are defensive in nature, that have secular tailwinds and can maintain pricing power in the midst of a recessionary and/or inflationary environment. New Mountain Capital focuses on companies within sectors in which it has significant expertise (examples include software, education, niche healthcare, business services, federal services and distribution & logistics) while typically avoiding investments in companies with products or services that serve markets that are highly cyclical, have the potential for long-term decline, are overly-dependent on consumer demand or are commodity-like in nature.

In making its investment decisions, the Investment Adviser has adopted the approach of New Mountain Capital, which is based on three primary investment principles:

1. A generalist approach, combined with proactive pursuit of the highest quality opportunities within carefully selected industries, identified via an intensive and structured ongoing research process;
2. Emphasis on strong downside protection and strict risk controls; and
3. Continued search for superior risk adjusted returns, combined with timely, intelligent exits and outstanding return performance.

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***Experienced Management Team and Established Platform***

The Investment Adviser's team members have extensive experience in the leveraged lending space. Steven B. Klinsky, New Mountain Capital's Founder, Chief Executive Officer and Managing Director and Chairman of our board of directors, was a general partner of Forstmann Little & Co., a manager of debt and equity funds totaling multiple billions of dollars in the 1980s and 1990s. He was also a co-founder of Goldman, Sachs & Co.'s Leverage Buyout Group in the period from 1981 to 1984. Robert A. Hamwee, our Chief Executive Officer and Managing Director of New Mountain Capital, was formerly President of GSC Group, Inc. ("GSC"), where he was the portfolio manager of GSC's distressed debt funds and led the development of GSC's CLOs. John R. Kline, our President and Chief Operating Officer and Managing Director of New Mountain Capital, worked at GSC as an investment analyst and trader for GSC's control distressed and corporate credit funds and at Goldman, Sachs & Co. in the Credit Risk Management and Advisory Group.

Many of the debt investments that we have made to date have been in the same companies with which New Mountain Capital has already conducted months of intensive acquisition due diligence related to potential private equity investments. We believe that private equity underwriting due diligence is usually more robust than typical due diligence for loan underwriting. In its underwriting of debt investments, the Investment Adviser is able to utilize the research and hands-on operating experience that New Mountain Capital's private equity underwriting teams possess regarding the individual companies and industries. Business and industry due diligence is led by a team of investment professionals of the Investment Adviser that generally consists of three to seven individuals, typically based on their relevant company and/or industry specific knowledge. Additionally, the Investment Adviser is also able to utilize its relationships with operating management teams and other private equity sponsors. We believe this differentiates us from many of our competitors.

***Significant Sourcing Capabilities and Relationships***

We believe the Investment Adviser's ability to source attractive investment opportunities is greatly aided by both New Mountain Capital's historical and current reviews of private equity opportunities in the business segments we target. To date, a significant majority of the investments that we have made are in the debt of companies and industry sectors that were first identified and reviewed in connection with New Mountain Capital's private equity efforts, and the majority of our current pipeline reflects this as well. Furthermore, the Investment Adviser's investment professionals have deep and longstanding relationships in both the private equity sponsor community and the lending/agency community which they have and will continue to utilize to generate investment opportunities.

***Risk Management through Various Cycles***

New Mountain Capital has emphasized tight control of risk since its inception and long before the recent global financial distress began. To date, New Mountain Capital has never experienced a bankruptcy of any of its portfolio companies in its private equity efforts. The Investment Adviser seeks to emphasize tight control of risk with our investments in several important ways, consistent with New Mountain Capital's historical approach. In particular, the Investment Adviser:

Emphasizes the origination or purchase of debt in what the Investment Adviser believes are defensive growth companies, which are less likely to be dependent on macro-economic cycles;

Targets investments in companies that are preeminent market leaders in their own industries, and when possible, investments in companies that have strong management teams whose skills are difficult for competitors to acquire or reproduce; and



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Targets investments in companies with significant equity value in excess of our debt investments.

***Access to Non Mark to Market, Seasoned Leverage Facility***

The amount available under the Holdings Credit Facility is generally not subject to reduction as a result of mark to market fluctuations in our portfolio investments. None of our credit facilities mature prior to June 2019. For a detailed discussion of our credit facilities, see "Management's Discussion and Analysis of Financial Conditions and Results of Operations – Liquidity and Capital Resources" in this prospectus supplement.

**Market Opportunity**

We believe that the size of the market for investments that we target, coupled with the demands of middle market companies for flexible sources of capital at competitive terms and rates, create an attractive investment environment for us.

*The leverage finance market has a high level of financing needs over the next several years due to significant bank debt maturities and significant amounts of private equity investable capital.* We believe that the large dollar volume of loans that need to be refinanced will present attractive opportunities to invest capital in a manner consistent with our stated objectives.

*Middle market companies continue to face difficulties in accessing the capital markets.* We believe opportunities to serve the middle market will continue to exist. While many middle market companies were formerly able to raise funds by issuing high-yield bonds, we believe this approach to financing has become more difficult in recent years as institutional investors have sought to invest in larger, more liquid offerings.

*Increased regulatory scrutiny of banks has reduced middle market lending.* We believe that many traditional bank lenders to middle market businesses have either exited or de-emphasized their service and product offerings in the middle market. These traditional lenders have instead focused on lending and providing other services to large corporate clients. We believe this has resulted in fewer key players and the reduced availability of debt capital to the companies we target.

*Attractive pricing.* Reduced access to, and availability of, debt capital typically increases the interest rates, or pricing, of loans for middle market lenders. Recent primary debt transactions in this market often include upfront fees, original issue discount, prepayment protections and, in some cases, warrants to purchase common stock, all of which should enhance the profitability of new loans to lenders.

*Conservative deal structures.* As a result of the credit crisis, many lenders are requiring larger equity contributions from financial sponsors. Larger equity contributions create an enhanced margin of safety for lenders because leverage is a lower percentage of the implied enterprise value of the company.

*Large pool of uninvested private equity capital available for new buyouts.* We expect that private equity firms will continue to pursue acquisitions and will seek to leverage their equity investments with mezzanine loans and/or senior loans (including traditional first and second lien, as well as unitranche loans) provided by companies such as ours.

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**Operating and Regulatory Structure**

We are a closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act and are required to maintain an asset coverage ratio, as defined in the 1940 Act, of at least 200.0%. We include the assets and liabilities of our consolidated subsidiaries for purposes of satisfying the requirements under the 1940 Act. See "Regulation" in the accompanying prospectus.

We have elected to be treated, and intend to comply with the requirements to continue to qualify annually, as a RIC under Subchapter M of the Code. See "Material Federal Income Tax Considerations" in the accompanying prospectus. As a RIC, we generally will not be subject to corporate-level U.S. federal income taxes on any net ordinary income or capital gains that we timely distribute to our stockholders as dividends if it meets certain source-of-income, distribution and asset diversification requirements. We intend to distribute to our stockholders substantially all of our annual taxable income except that we may retain certain net capital gains for reinvestment.

**Risks**

An investment in the Additional Convertible Notes involves risk, including the risk of leverage and the risk that our operating policies and strategies may change without prior notice. See "Supplementary Risk Factors" in this prospectus supplement and "Risk Factors" in the accompanying prospectus, and the other information included in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before deciding to invest in the Additional Convertible Notes. The value of our assets, as well as the market price of our securities, will fluctuate. Our investments may be risky, and you may lose all or part of your investment. Investing in us involves other risks, including the following:

Our amount of debt outstanding will increase as a result of this offering, which could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under the Additional Convertible Notes and our other debt;

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the Additional Convertible Notes;

The Additional Convertible Notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future;

The Additional Convertible Notes will be structurally subordinated to the indebtedness and other liabilities of our subsidiaries;

The indenture governing the Additional Convertible Notes does not contain restrictive covenants and provides only limited protection in the event of a change of control;

The conversion rate of the Additional Convertible Notes may not be adjusted for all dilutive events that may adversely affect the trading price of the Additional Convertible Notes or the common stock issuable upon conversion of the Additional Convertible Notes;

We may be unable to repurchase the Additional Convertible Notes following a fundamental change;

Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to repurchase the Additional Convertible Notes;

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Provisions of the Additional Convertible Notes could discourage an acquisition of us by a third party;

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The adjustment to the conversion rate upon the occurrence of certain types of fundamental changes may not adequately compensate you for the lost option time value of your Additional Convertible Notes as a result of such fundamental change;

There is currently no public market for the Additional Convertible Notes, and an active trading market may not develop for the Additional Convertible Notes. The failure of a market to develop for the Additional Convertible Notes could adversely affect the liquidity and value of your Additional Convertible Notes;

Recent regulatory actions may adversely affect the trading price and liquidity of the Additional Convertible Notes;

The accounting for convertible debt securities is subject to uncertainty;

The price of our common stock and of the Additional Convertible Notes may fluctuate significantly, and this may make it difficult for you to resell the Additional Convertible Notes or common stock issuable upon conversion of the Additional Convertible Notes when you want or at prices you find attractive;

Future sales of our common stock in the public market or the issuance of securities senior to our common stock could adversely affect the trading price of our common stock and the value of the Additional Convertible Notes and our ability to raise funds in new stock offerings;

Holder of the Additional Convertible Notes will not be entitled to any rights with respect to our common stock, but will be subject to all changes made with respect to our common stock;

You may be deemed to receive a taxable distribution without the receipt of any cash or property;

We may suffer credit losses;

We do not expect to replicate the Predecessor Entities' nor our historical performance or the historical performance of other entities managed or supported by New Mountain Capital;

There is uncertainty as to the value of our portfolio investments because most of our investments are, and may continue to be in private companies and recorded at fair value;

Our ability to achieve our investment objective depends on key investment personnel of the Investment Adviser. If the Investment Adviser were to lose any of its key investment personnel, our ability to achieve our investment objective could be significantly harmed;

The Investment Adviser has limited experience managing a BDC or a RIC, which could adversely affect our business;

We operate in a highly competitive market for investment opportunities and may not be able to compete effectively;

Our investments in securities rated below investment grade are speculative in nature and are subject to additional risk factors such as increased possibility of default, illiquidity of the security, and changes in value based on changes in interest rates;

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Our business, results of operations and financial condition depends on our ability to manage future growth effectively;

We borrow money, which could magnify the potential for gain or loss on amounts invested in us and increase the risk of investing in us;

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Changes in interest rates may affect our cost of capital and net investment income;

Regulations governing the operations of BDCs will affect our ability to raise additional equity capital as well as our ability to issue senior securities or borrow for investment purposes, any or all of which could have a negative effect on our investment objectives and strategies;

We may experience fluctuations in our annual and quarterly results due to the nature of our business;

Our board of directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse to your interests;

We will be subject to corporate-level U.S. federal income tax on all of our income if we are unable to maintain RIC status under Subchapter M of the Code, which would have a material adverse effect on our financial performance;

We may not be able to pay you distributions on our common stock, our distributions to you may not grow over time and a portion of our distributions to you may be a return of capital for U.S. federal income tax purposes;

Our investments in portfolio companies may be risky, and we could lose all or part of any of our investments;

The lack of liquidity in our investments may adversely affect our business;

Economic recessions, downturns or government spending cuts could impair our portfolio companies and harm our operating results;

The market price of our common stock may fluctuate significantly; and

Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.

**Company Information**

Our administrative and executive offices are located at 787 Seventh Avenue, 48th Floor, New York, New York 10019, and our telephone number is (212) 720-0300. We maintain a website at [www.newmountainfinance.com](http://www.newmountainfinance.com). Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

**Presentation of Historical Financial Information and Market Data**

***Historical Financial Information***

Unless otherwise indicated, historical references contained in this prospectus supplement or the accompanying prospectus for periods prior to and as of December 31, 2013 in "Selected Financial and Other Data", "Selected Quarterly Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Senior Securities" and "Portfolio Companies" relate to NMF Holdings. The consolidated

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financial statements of New Mountain Finance Holdings, L.L.C., formerly known as New Mountain Guardian (Leveraged), L.L.C., and New Mountain Guardian Partners, L.P. are NMF Holdings' historical consolidated financial statements.

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*Market Data*

Statistical and market data used in this prospectus supplement and the accompanying prospectus has been obtained from governmental and independent industry sources and publications. We have not independently verified the data obtained from these sources, and we cannot assure you of the accuracy or completeness of the data. Forward-looking information obtained from these sources is subject to the same qualifications and the additional uncertainties regarding the other forward-looking statements contained in this prospectus supplement and accompanying prospectus. See "Cautionary Statement Regarding Forward-Looking Statements" in this prospectus supplement and the accompanying prospectus.



Table of Contents**SPECIFIC TERMS OF THE NOTES AND THE OFFERING**

*This prospectus supplement sets forth certain terms of the Additional Convertible Notes that we are offering pursuant to this prospectus supplement and supplements the accompanying prospectus that is attached to the back of this prospectus supplement. On June 3, 2014, we and the Trustee entered into the indenture relating to our issuance, offer and sale of the Convertible Notes. We will issue the Additional Convertible Notes offered hereby under the same indenture. The Additional Convertible Notes offered hereby will be a further issuance of, be fungible and rank equally in right of payment with, have the same interest rate, maturity date and other terms as the Convertible Notes. The Additional Convertible Notes offered hereby and the Convertible Notes will be treated as a single series for all purposes under the indenture including, without limitation, waivers, amendments, consents, redemptions and other offers to purchase and voting. This section outlines the specific legal and financial terms of the Additional Convertible Notes. We refer to the "Additional Convertible Notes" and the "Convertible Notes" separately within this prospectus supplement since only the Additional Convertible Notes are being offered hereby, but any general discussion of the terms of the Additional Convertible Notes would also apply to the Convertible Notes since they are treated as the same under the indenture. You should read this section before investing in the Additional Convertible Notes. Capitalized terms used in this prospectus supplement and not otherwise defined shall have the meanings ascribed to them in the indenture governing the Additional Convertible Notes.*

<b>Issuer</b>	New Mountain Finance Corporation
<b>Title of the Securities</b>	5.00% Convertible Notes due 2019
<b>Aggregate Principal Amount Being Offered</b>	\$35,000,000
<b>Overallotment Option</b>	We have granted the underwriters an option to purchase up to an additional \$5,250,000 aggregate principal amount of Additional Convertible Notes to cover overallotments, if any, exercisable within 13 days from the date of this prospectus supplement.
<b>Initial Public Offering Price</b>	% of the aggregate principal amount, which reflects that, for the first interest payment, interest will be treated as having accrued from June 15, 2016. A portion of the purchase price will be attributed to this accrued and unpaid interest that precedes the issuance of the Additional Convertible Notes.
<b>Maturity</b>	June 15, 2019, unless earlier converted or repurchased
<b>Principal Payable at Maturity</b>	100.0% of the aggregate principal amount; the principal amount of each Additional Convertible Note will be payable on its stated maturity date
<b>Interest Rate</b>	5.00% per year
<b>Interest Payment Dates</b>	Interest will be payable in cash on June 15, and December 15 of each year, beginning December 15, 2016.
<b>Interest Periods</b>	The initial interest period will be the period from and including June 15, 2016 to, but excluding, the next interest payment date, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date.

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**Ranking**

The Additional Convertible Notes will be our general, unsecured obligations and will rank:

equal in right of payment with all of our existing and future unsecured indebtedness, including \$115.0 million and \$50.0 million in aggregate principal amount of Convertible Notes and Unsecured Notes, respectively;

senior in right of payment to all of our future indebtedness that is expressly subordinated in right of payment to the Additional Convertible Notes;

effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness, including \$98.0 million outstanding under the NMFC Credit Facility; and

structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiaries, including \$308.9 million outstanding under the Holdings Credit Facility and \$121.7 million outstanding under the SBA-guaranteed debentures.

As of September 23, 2016, we had \$693.6 million of indebtedness outstanding, \$528.6 million of which was secured indebtedness and \$165.0 million of which was unsecured indebtedness.

**Denominations**

We will issue the Additional Convertible Notes in book-entry form only in denominations of \$1,000 principal amount and integral multiples thereof.

**Business Day**

Any day other than a Saturday, a Sunday or a day on which the Federal Reserve Bank of New York or the Trustee is authorized or required by law or executive order to close or be closed.

**Redemption**

We may not redeem the Additional Convertible Notes prior to maturity.

**Sinking Fund**

The Additional Convertible Notes will not be subject to any sinking fund.

**Defeasance**

The Additional Convertible Notes are not subject to defeasance.

**Conversion Rights**

You may convert your Additional Convertible Notes into shares of our common stock at any time on or prior to the close of business on the business day immediately preceding the maturity date.

The Additional Convertible Notes will be convertible at an initial conversion rate of 63.2794 shares of common stock per \$1,000 principal amount of the Additional Convertible Notes (equivalent to an initial conversion price of approximately \$15.80 per share). The conversion rate, and thus the conversion price, may be adjusted under certain circumstances as described under "Description of the Notes Conversion Rights Conversion Rate Adjustments".

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**Limitation on Beneficial Ownership**

Upon any conversion, unless you convert after a record date for an interest payment but prior to the corresponding interest payment date, you will receive a cash payment representing accrued and unpaid interest to, but not including, the conversion date. See "Description of the Notes - Conversion Rights".

Notwithstanding the foregoing, no holder of Additional Convertible Notes will be entitled to receive shares of our common stock upon conversion to the extent (but only to the extent) that such receipt would cause such converting holder to become, directly or indirectly, a "beneficial owner" (within the meaning of Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder) of more than 5.0% of the shares of our common stock outstanding at such time (the "Limitation"). Any purported delivery of shares of our common stock upon conversion of Additional Convertible Notes shall be void and have no effect to the extent (but only to the extent) that such delivery would result in the converting holder becoming the beneficial owner of more than 5.0% of the shares of common stock outstanding at such time. If any delivery of shares of our common stock owed to a holder upon conversion of Additional Convertible Notes is not made, in whole or in part, as a result of the Limitation, our obligation to make such delivery shall not be extinguished and we shall deliver such shares as promptly as practicable after any such converting holder gives notice to us that such delivery would not result in it being the beneficial owner of more than 5.0% of the shares of common stock outstanding at such time. The Limitation shall no longer apply following the effective date of any Fundamental Change, as defined in "Description of the Notes - Fundamental Change Put".

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**Adjustment to Conversion Rate Upon a Non-Stock Change of Control**

If and only to the extent holders elect to convert the Additional Convertible Notes in connection with a transaction described under clause (1), (2) or (4) of the definition of fundamental change as described in "Description of the Notes Fundamental Change Put" and determined after giving effect to any exceptions to or exclusions from such definition, but without regard to the provision in clause (2) of the definition thereof, pursuant to which more than 10.0% of the consideration for our common stock (other than cash payments for fractional shares and cash payments made in respect of dissenters' appraisal rights) consists of cash or securities (or other property) that are not shares of common stock traded or scheduled to be traded immediately following such transaction on the New York Stock Exchange (the "NYSE"), the NASDAQ Global Market or the NASDAQ Global Select Market (or any of their respective successors), which we refer to as a "non-stock change of control", we will increase the conversion rate by a number of additional shares determined by reference to the table in "Description of the Notes Conversion Rights Adjustment to Conversion Rate Upon a Non-Stock Change of Control", based on the effective date and the price paid per share of our common stock in such nonstock change of control. If the price paid per share of our common stock in the fundamental change is less than \$14.05 or more than \$20.83 (subject to adjustment), there will be no such adjustment. If holders of our common stock receive only cash in the type of transaction described above, the price paid per share will be the cash amount paid per share. Otherwise, the stock price shall be the average of the last reported sale prices of our common stock over the five trading-day period ending on, and including, the trading day immediately preceding the effective date of the non-stock change of control.

**Fundamental Change Repurchase Right of Holders**

If we undergo a fundamental change (as defined in this prospectus supplement) prior to maturity, you will have the right, at your option, to require us to repurchase for cash some or all of your Additional Convertible Notes at a repurchase price equal to 100.0% of the principal amount of the Additional Convertible Notes being repurchased, plus accrued and unpaid interest to, but not including, the repurchase date. See "Description of the Notes Fundamental Change Put".

**Events of Default**

If an event of default on the Additional Convertible Notes occurs, the principal amount of the Additional Convertible Notes, plus accrued and unpaid interest (including additional interest, if any) may be declared immediately due and payable, subject to certain conditions set forth in the indenture. These amounts automatically become due and payable in the case of certain types of bankruptcy or insolvency events of default involving NMFC.

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**No Established Trading Market**

We cannot assure you that any active or liquid market will develop for the Additional Convertible Notes. See "Underwriting".

**No Listing**

We do not intend to apply to have the Additional Convertible Notes listed on any securities exchange or for inclusion of the Additional Convertible Notes in an automated quotation system. Our common stock is traded on the NYSE under the symbol "NMFC".

**Use of Proceeds**

We estimate that the net proceeds we will receive from the sale of the \$35.0 million aggregate principal amount of Additional Convertible Notes in this offering will be approximately \$            million (or approximately \$            million if the underwriters fully exercise their overallotment option), after deducting the discounts, commissions and expenses payable by us.

We intend to use the net proceeds from this offering to repay outstanding indebtedness under our credit facilities. However, through re-borrowing under our credit facilities, we also intend to use the net proceeds from this offering to make new investments in accordance with our investment objective and strategies described in this prospectus supplement and the accompanying prospectus and use available capital for other general corporate purposes, including working capital requirements. We are continuously identifying, reviewing and, to the extent consistent with our investment objective, funding new investments. As a result, we typically raise capital as we deem appropriate to fund such new investments. We expect that it will take up to three months for us to substantially invest the net proceeds from this offering, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurance that we will be able to achieve this goal. Proceeds not immediately used for the temporary repayment of debt under our credit facilities or for new investments will be invested primarily in cash, cash equivalents, U.S. government securities and other high-quality investments that mature in one year or less from the date of investment. These temporary investments are expected to provide a lower net return than we hope to achieve from our target investments. See "Use of Proceeds".

**Certain U.S. Federal Income Tax Consequences**

You should consult your tax advisor with respect to the U.S. federal income tax consequences of the purchase ownership, disposition and conversion of the Additional Convertible Notes, our qualification and taxation as a RIC for U.S. federal income tax purposes and the ownership and disposition of shares of our common stock and with respect to any tax consequences arising under the laws of any state, local, foreign or other taxing jurisdiction. See "Additional Material Federal Income Tax Considerations" in this prospectus supplement and "Material Federal Income Tax Considerations" in the accompanying prospectus.

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**Book-Entry Form**

The Additional Convertible Notes will be issued in book-entry form and will be represented by permanent global certificates deposited with, or on behalf of, The Depository Trust Company ("DTC") and registered in the name of a nominee of DTC. Beneficial interests in any of the Additional Convertible Notes will be shown on, and transfers will be effected only through, records maintained by DTC or its nominee and any such interest may not be exchanged for certificated securities, except in limited circumstances.

**Trustee, Paying Agent and Conversion Agent Available Information**

U.S. Bank National Association.

We have filed with the SEC a registration statement on Form N-2 together with all amendments and related exhibits under the Securities Act. The registration statement contains additional information about us and the securities being offered by this prospectus supplement and the accompanying prospectus.

We are required to file annual, quarterly and current reports, proxy statements and other information with the SEC under the Exchange Act. This information is available at the SEC's public reference room at 100 F Street, NE, Washington, District of Columbia 20549 and on the SEC's website at <http://www.sec.gov>. The public may obtain information on the operation of the SEC's public reference room by calling the SEC at 1-800-SEC-0330. This information is also available free of charge by contacting us at New Mountain Finance Corporation, 787 Seventh Avenue, 48th Floor, New York, New York 10019, by telephone at (212) 720-0300, or on our website at [www.newmountainfinance.com](http://www.newmountainfinance.com). Information contained on our website or on the SEC's web site about us is not incorporated into this prospectus supplement and the accompanying prospectus and you should not consider information contained on our website or on the SEC's website to be part of this prospectus supplement and the accompanying prospectus.

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The following table is intended to assist you in understanding the costs and expenses that you will bear directly or indirectly on an as-converted basis. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus supplement and the accompanying prospectus contains a reference to fees or expenses paid by "you", "NMFC", or "us" or that "we", "NMFC", or the "Company" will pay fees or expenses, we will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in us. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

<b>Stockholder transaction expenses:</b>	
Sales load borne by us (as a percentage of offering price)	%(1)
Offering expenses borne by us (as a percentage of offering price)	%(2)
Dividend reinvestment plan fees	N/A(3)
<b>Total stockholder transaction expenses (as a percentage of offering price)</b>	<b>%</b>
<b>Annual expenses (as a percentage of net assets attributable to common stock):</b>	
Base management fees	3.19%(4)
Incentive fees payable under the Investment Management Agreement	2.47%(5)
Interest payments on borrowed funds (other than the Additional Convertible Notes offered hereby)	3.01%(6)
Interest payments on the Additional Convertible Notes offered hereby	0.20%
Other expenses	0.94%(7)
Acquired fund fees and expenses	0.51%(8)
<b>Total annual expenses</b>	<b>10.32%(9)</b>

**Example**

The following example, required by the SEC, demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed that our borrowings and annual operating expenses would remain at the levels set forth in the table above. See Note 6 below for additional information regarding certain assumptions regarding our level of leverage.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5.0% annual return	\$	\$	\$	\$

**The example should not be considered a representation of future expenses, and actual expenses may be greater or less than those shown.**

While the example assumes, as required by the applicable rules of the SEC, a 5.0% annual return, our performance will vary and may result in a return greater or less than 5.0%. The incentive fee under the Investment Management Agreement, which, assuming a 5.0% annual return, would either not be payable or would have an insignificant impact on the expense amounts shown above, is not included in the above example. The above illustration assumes that we will not realize any capital gains (computed net of all realized capital losses and unrealized capital depreciation) in any of the indicated time periods. If we achieve sufficient returns on our investments, including through

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the realization of capital gains, to trigger an incentive fee of a material amount, our expenses and returns to our investors would be higher. For example, if we assumed that we received our 5.0% annual return completely in the form of net realized capital gains on our investments, computed net of all cumulative unrealized depreciation on our investments, the projected dollar amount of total cumulative expenses set forth in the above illustration would be as follows:

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5.0% annual return	\$	\$	\$	\$

The example assumes a sales load borne by us of \_\_\_\_%. In addition, while the examples assume reinvestment of all distributions at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the dividend payment date. The market price per share of our common stock may be at, above or below net asset value. See "Dividend Reinvestment Plan" in the accompanying prospectus for additional information regarding the dividend reinvestment plan.

- (1) Represents the commission with respect to the Additional Convertible Notes being sold in this offering, which we will pay to the underwriters in connection with sales of Additional Convertible Notes effected by the underwriters in this offering.
- (2) The offering expenses of this offering are estimated to be approximately \$0.4 million.
- (3) The de minimis expenses of the dividend reinvestment plan are included in "other expenses".
- (4) The base management fee under the Investment Management Agreement is based on an annual rate of 1.75% of our average gross assets for the two most recent quarters, which equals our total assets on the Consolidated Statements of Assets and Liabilities, less (i) the borrowings under the SLF Credit Facility and (ii) cash and cash equivalents. We have not invested, and currently do not invest, in derivatives. To the extent we invest in derivatives in the future, we will use the actual value of the derivatives, as reported on our Consolidated Statements of Assets and Liabilities, for purposes of calculating our base management fee. Since our 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 our 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. Post credit facility merger and to be consistent with the methodology since our 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. The Investment Adviser cannot recoup management fees that the Investment Adviser has previously waived. The base management fee reflected in the table above is based on the six months ended June 30, 2016 and is calculated without deducting any management fees waived. The annual base management fee after deducting the management fee waiver as a percentage of net assets would be 2.65% based on the six months ended June 30, 2016. See "Investment Management Agreement" in the accompanying prospectus.
- (5) Assumes that annual incentive fees earned by the Investment Adviser remain consistent with the incentive fees earned by the Investment Adviser during the six months ended June 30, 2016 and includes accrued capital gains incentive fee. These accrued capital gains incentive fees would be paid by us if we ceased



operations on June 30, 2016 and liquidated our investments at the June 30, 2016 valuation. As we cannot predict whether we will meet the thresholds for incentive fees under the Investment Management Agreement, the incentive fees paid in subsequent periods, if any, may be substantially different than the fees incurred during the six months ended June 30, 2016. For more detailed information about the incentive fee calculations, see the "Investment Management Agreement" section of the accompanying prospectus.

(6)

We may borrow funds from time to time to make investments to the extent we determine that additional capital would allow us to take advantage of additional investment opportunities or if the economic situation is otherwise conducive to doing so. The costs associated with these borrowings are indirectly borne by our stockholders. As of June 30, 2016, we had \$348.0 million, \$87.0 million, \$115.0 million, \$50.0 million and \$121.7 million of indebtedness outstanding under the Holdings Credit Facility, the NMFC Credit Facility, the Convertible Notes, the Unsecured Notes and the SBA-guaranteed debentures, respectively. For purposes of this calculation, we have assumed the June 30, 2016 amounts outstanding under the credit facilities, Convertible Notes, Unsecured Notes and SBA-guaranteed

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debentures, and have computed interest expense using an assumed interest rate of 2.7% for the Holdings Credit Facility, 3.0% for the NMFC Credit Facility, 5.0% for the Convertible Notes, 5.313% for the Unsecured Notes and 3.1% for the SBA-guaranteed debentures, which were the rates payable as of June 30, 2016. See "Senior Securities" in this prospectus supplement. Furthermore, we may issue additional Unsecured Notes before the end of the current fiscal year. For purposes of this calculation, we have assumed an additional \$40.0 million of Unsecured Notes to be outstanding and have computed interest expense using an assumed interest rate of 5.313%.

- (7) "Other expenses" include our overhead expenses, including payments by us under the Administration Agreement based on the allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations to us under the Administration Agreement. Pursuant to the Administration Agreement, the Administrator may, in its own discretion, submit to us for reimbursement some or all of the expenses that the Administrator has incurred on our behalf during any quarterly period. As a result, the amount of expenses for which we 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 us for reimbursement in the future. However, it is expected that the Administrator will continue to support part of our expense burden 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. This expense ratio is calculated without deducting any expenses waived or reimbursed by the Administrator. Assuming the expenses waived or reimbursed by the Administrator at June 30, 2016, the annual expense ratio after deducting the expenses waived or reimbursed by the Administrator as a percentage of net assets would be 0.86%. For the six months ended June 30, 2016, we reimbursed our Administrator approximately \$0.6 million, which represents approximately 0.13% of our net assets on an annualized basis. See "Administration Agreement" in the accompanying prospectus.
- (8) The holders of shares of our common stock indirectly bear the expenses of our investment in NMFC Senior Loan Program I, LLC ("SLP I") and NMFC Senior Loan Program II, LLC ("SLP II"). No management fee is charged on our investment in SLP I in connection with the administrative services provided to SLP I. As SLP II is structured as a private joint venture, no management fees are paid by SLP II. Future expenses for SLP I and SLP II may be substantially higher or lower because certain expenses may fluctuate over time.
- (9) The holders of shares of our common stock indirectly bear the cost associated with our annual expenses.

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**SELECTED FINANCIAL AND OTHER DATA**

The selected financial data should be read in conjunction with the respective consolidated financial statements and related consolidated notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus supplement and the accompanying prospectus. Financial information for the years ended December 31, 2015, December 31, 2014, December 31, 2013, December 31, 2012 and December 31, 2011 has been derived from the Predecessor Operating Company and our financial statements and the related notes thereto that were audited by Deloitte & Touche LLP, an independent registered public accounting firm. The financial information at and for the six months ended June 30, 2016 was derived from our unaudited consolidated financial statements and related consolidated notes. 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 periods, have been included. Our results for the interim periods may not be indicative of our results for any future interim period or the full year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Senior Securities" in this prospectus supplement and the accompanying prospectus for more information.

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The below selected financial and other data is for NMFC.

*(in thousands except shares and per share data)*

New Mountain Finance Corporation	Six Months Ended June 30,	Years Ended December 31,				Period from May 19, 2011 (commencement of operations) to December 31,
	2016	2015	2014	2013	2012	2011
<b>Statement of Operations Data:</b>						
Investment income	\$ 82,466	\$ 153,855	\$ 91,923	\$	\$	\$
Investment income allocated from NMF Holdings			43,678	90,876	37,511	13,669
Net expenses	39,067	71,360	34,727			
Net expenses allocated from NMF Holdings			20,808	40,355	17,719	5,324
Net investment income	43,399	82,495	80,066	50,521	19,792	8,345
Net realized gains (losses) on investments	1,041	(12,789)	357			
Net realized and unrealized gains (losses) allocated from NMF Holdings			9,508	11,443	12,087	(4,235)
Net change in unrealized appreciation (depreciation) of investments	7,570	(35,272)	(43,863)			
Net change in unrealized (depreciation) appreciation of securities purchased under	(74)	(296)				

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collateralized agreements to resell							
Net change in unrealized (depreciation) appreciation of investment in NMF Holdings				(44)	(95)		6,221
Benefit (provision) for taxes	808	(1,183)	(493)				
Net increase in net assets resulting from operations	52,744	32,955	45,575	61,920	31,784		10,331
<b>Per share data:</b>							
Net asset value	\$ 13.23	\$ 13.08	\$ 13.83	\$ 14.38	\$ 14.06	\$	13.60
Net increase in net assets resulting from operations (basic)	0.83	0.55	0.88	1.76	2.14		0.97
Net increase in net assets resulting from operations (diluted)(1)	0.77	0.55	0.86	1.76	2.14		0.38
Dividends declared(2)	0.68	1.36	1.48	1.48	1.71		0.86
<b>Balance sheet data:</b>							
Total assets	\$ 1,584,601	\$ 1,602,138	\$ 1,514,920	\$ 650,107	\$ 345,331	\$	145,487
Holdings Credit Facility	348,013	419,313	468,108	N/A	N/A		N/A
SBA-guaranteed debentures	121,745	117,745	37,500	N/A	N/A		N/A
Convertible Notes	115,000	115,000	115,000	N/A	N/A		N/A
NMFC Credit Facility	87,000	90,000	50,000	N/A	N/A		N/A
Unsecured Notes	50,000			N/A	N/A		N/A
Total net assets	843,325	836,908	802,170	650,107	341,926		145,487
<b>Other data:</b>							
Total return based on market value(3)	4.36%	(4.00)%	9.66%	11.62%	24.84%		4.16%
Total return based on net asset value(4)	6.50%	4.32%	6.56%	13.27%	16.61%		2.82%

Number of portfolio companies at period end	72	75	71	N/A	N/A	N/A
Total new investments for the period(5)	\$ 163,845	\$ 612,737	\$ 720,871	N/A	N/A	N/A
Investment sales and repayments for the period(5)	\$ 198,211	\$ 483,936	\$ 384,568	N/A	N/A	N/A
Weighted average Yield to Maturity at Cost on debt portfolio at period end (unaudited)(6)	10.3%	10.7%	10.7%	N/A	N/A	N/A
Weighted average shares outstanding for the period (basic)	63,887,036	59,715,290	51,846,164	35,092,722	14,860,838	10,697,691
Weighted average shares outstanding for the period (diluted)	71,164,167	66,968,089	56,157,835	35,092,722	14,860,838	10,697,691
Portfolio turnover(5)	10.97%	33.93%	29.51%	N/A	N/A	N/A

(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. For the year ended December 31, 2015, there was anti-dilution. For the six months ended June 30, 2016 and the year ended December 31, 2014, there was no anti-dilution. For the years ended December 31, 2013 and December 31, 2012, due to reflecting earnings for the full year of operations of the Predecessor Operating Company assuming 100.0% NMFC ownership of Predecessor Operating Company and assuming all of AIV Holdings units in the Predecessor Operating Company were exchanged for public shares of NMFC during the years then ended, the earnings per share would be \$1.79 and \$2.18, respectively.

(2)

Dividends declared in the year ended December 31, 2014 include a \$0.12 per share special dividend related to realized capital gains attributable to NMF Holdings' warrant investments in Learning Care Group (US), Inc. Dividends declared in the year ended December 31, 2013 include a \$0.12 per share special dividend related to a distribution received attributable to NMF Holdings' investment in YP Equity Investors LLC. Dividends declared in the year ended December 31, 2012 include a \$0.23 per share special dividend related to estimated realized capital gains attributable to NMF Holdings' investments in Lawson Software, Inc. and Infor Lux Bond Company and a \$0.14 per share special dividend intended to minimize to the greatest extent possible NMFC's U.S. federal income or excise tax liability.



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- (3) For the six months ended June 30, 2016 and the years ended December 31, 2015, December 31, 2014, December 31, 2013, December 31, 2012 and for the period May 19, 2011 to December 31, 2011, total return is calculated assuming a purchase of common stock at the opening of the first day of the period and assuming a purchase of common stock at our IPO, respectively, and a sale on the closing of the last day of the respective period ends. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at prices obtained under our dividend reinvestment plan.
- (4) Total return is calculated assuming a purchase at net asset value on the opening of the first day of the period 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.
- (5) For the year ended December 31, 2014, amounts include our investment activity and the investment activity of the Predecessor Operating Company.
- (6) The weighted average 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 respective period ends 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).



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As of May 8, 2014, NMFC assumed all operating activities previously undertaken by NMF Holdings. The following table sets forth selected financial and other data for NMF Holdings when it was the Predecessor Operating Company.

*(in thousands except units and per unit data)*

New Mountain Finance Holdings, L.L.C.	Years Ended December 31,		
	2013	2012	2011
<b>Statement of Operations Data:</b>			
Total investment income	\$ 114,912	\$ 85,786	\$ 56,523
Net expenses	51,235	40,569	17,998
Net investment income	63,677	45,217	38,525
Net realized and unrealized gains (losses)	15,247	28,779	(6,848)
Net increase in net assets resulting from operations	78,924	73,996	31,677
<b>Per unit data:</b>			
Net asset value	\$ 14.38	\$ 14.06	\$ 13.60
Net increase in net assets resulting from operations (basic and diluted)	1.79	2.18	1.02
Dividends declared <sup>(1)</sup>	1.48	1.71	0.86
<b>Balance sheet data:</b>			
Total assets	\$ 1,147,841	\$ 1,025,564	\$ 730,579
Holdings Credit Facility	221,849	206,938	129,038
SLF Credit Facility	214,668	214,262	165,928
Total net assets	688,516	569,939	420,502
<b>Other data:</b>			
Total return at net asset value <sup>(2)</sup>	13.27%	16.61%	10.09%
Number of portfolio companies at period end	59	63	55
Total new investments for the period	\$ 529,307	\$ 673,218	\$ 493,331
Investment sales and repayments for the period	\$ 426,561	\$ 423,874	\$ 231,962
Weighted average Yield to Maturity at Cost on debt portfolio at period end (unaudited) <sup>(3)</sup>	11.0%	10.3%	10.3%
Weighted average Yield to Maturity on debt portfolio at period end (unaudited) <sup>(4)</sup>	10.6%	10.1%	10.7%
Weighted average Adjusted Yield to Maturity on debt portfolio at period end (unaudited)	(5)	(5)	13.1%
Weighted average common membership units outstanding for the period	44,021,920	34,011,738	30,919,629 <sup>(6)</sup>
Portfolio turnover	40.52%	52.02%	42.13%

(1)

Dividends declared in the year ended December 31, 2013 include a \$0.12 per unit special dividend related to a distribution received attributable to NMF Holdings' investment in YP Equity Investors LLC. Dividends declared in the year ended December 31, 2012 include a \$0.23 per unit special dividend related to estimated realized capital gains attributable to NMF Holdings' investments in Lawson Software, Inc. and Infor Lux Bond Company and a \$0.14 per unit special dividend intended to minimize to the greatest extent possible NMFC's U.S. federal income or excise tax liability. Actual cash payments on the dividends declared to AIV Holdings only, for the quarters ended March 31, 2012, June 30, 2012, December 31, 2012 and March 31, 2013, were made on April 4, 2012, July 9, 2012, January 7, 2013 and April 5, 2013 respectively.

(2)

For years ended December 31, 2013 and December 31, 2012, 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 respective period ends. 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. For the year ended December 31, 2011, total return is calculated in two parts: (1) from the opening of the first day of the year to NMFC's IPO date, total return is calculated



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based on net income over weighted average net assets and (2) from NMFC's IPO date to the last day of the year, total return is calculated assuming a purchase at net asset value on NMFC's IPO date and a sale at net asset value on the last day of the year. 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.

- (3) The weighted average Yield to Maturity at Cost calculation assumes that all investments not on non-accrual are purchased at the adjusted cost on the respective period ends 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). The weighted average Yield to Maturity at Cost was not calculated prior to NMFC's IPO.
- (4) The weighted average Yield to Maturity calculation assumes that all investments not on non-accrual are purchased at fair value on the respective period ends and held until their respective maturities with no prepayments or losses and exited at par at maturity. The weighted average Yield to Maturity was not calculated subsequent to December 31, 2013.
- (5) "Adjusted Yield to Maturity" assumes that the investments in NMF Holdings' portfolio are purchased at fair value on the respective period ends and held until their respective maturities with no prepayments or losses and exited at par at maturity. This calculation excludes the impact of existing leverage, except for the non-recourse debt of NMF SLF. NMF SLF is treated as a fully levered asset of NMF Holdings, with NMF SLF's net asset value being included for yield calculation purposes.
- (6) Weighted average common membership units outstanding presented from May 19, 2011 to December 31, 2011, as the fund became unitized on May 19, 2011, the IPO date.

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The selected quarterly financial data should be read in conjunction with our respective consolidated financial statements and related consolidated notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus supplement and the accompanying prospectus. The following table sets forth certain quarterly financial data for the quarters ended June 30, 2016 and March 31, 2016 and each of the quarters for the fiscal years ended December 31, 2015 and December 31, 2014. This data is derived from our unaudited financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Senior Securities" included in this prospectus supplement and the accompanying prospectus for more information.

The below selected quarterly financial data is for NMFC.

*(in thousands except for per share data)*

Quarter Ended	Total Investment Income		Net Investment Income		Total Net Realized Gains (Losses) and Net Changes in Unrealized Appreciation (Depreciation) of Investments <sup>(1)</sup>		Net Increase (Decrease) in Net Assets Resulting from Operations	
	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share
June 30, 2016	\$ 41,490	\$ 0.65	\$ 21,832	\$ 0.34	\$ 22,861	\$ 0.36	\$ 44,693	\$ 0.70
March 31, 2016	40,976	0.64	21,567	0.34	(13,516)	(0.21)	8,051	0.13
December 31, 2015	\$ 41,967	\$ 0.66	\$ 22,521	\$ 0.35	\$ (42,548)	\$ (0.66)	\$ (20,027)	\$ (0.31)
September 30, 2015	37,447	0.64	20,659	0.35	(10,855)	(0.18)	9,804	0.17
June 30, 2015	37,905	0.65	20,253	0.35	11	0.00	20,264	0.35
March 31, 2015	36,536	0.63	19,062	0.33	3,852	0.07	22,914	0.40
December 31, 2014	\$ 36,748	\$ 0.65	\$ 25,919	\$ 0.46	\$ (34,865)	\$ (0.62)	\$ (8,946)	\$ (0.16)
September 30, 2014	34,706	0.67	20,800	0.40	(13,389)	(0.26)	7,411	0.14
June 30, 2014	33,708	0.65	17,289	0.34	6,373	0.12	23,662	0.46
March 31, 2014	30,439	0.65	16,058	0.34	7,390	0.16	23,448	0.50

(1)

Includes securities purchased under collateralized agreements to resell, benefit (provision) for taxes and the accretive effect of common stock issuances per share, if applicable.

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**SUPPLEMENTARY RISK FACTORS**

*Investing in the Additional Convertible Notes involves a number of significant risks. In addition to the other information contained in this prospectus supplement and the accompanying prospectus, you should consider carefully the following information before making an investment in the Additional Convertible Notes. The risks set out below are not the only risks we face and you should read the risks set out in the accompanying prospectus. Additional risks and uncertainties not presently known to us or not presently deemed material by us might also impair our operations and performance. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value and the trading price of our common stock could decline and you may lose all or part of your investment.*

**RISKS RELATING TO THE NOTES**

***Our amount of debt outstanding will increase as a result of this offering, which could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under the Additional Convertible Notes and our other debt.***

As of September 23, 2016, we had \$693.6 million of indebtedness outstanding, \$528.6 million of which was secured indebtedness and \$165.0 million of which was unsecured indebtedness. The use of debt could have significant consequences on our future operations, including:

making it more difficult for us to meet our payment and other obligations under the Additional Convertible Notes and our other outstanding debt;

resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in all of our debt becoming immediately due and payable;

reducing the availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;

subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our credit facilities; and

limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

Any of the above-listed factors could have an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the Additional Convertible Notes and our other debt. Our ability to meet our payment and other obligations under our debt instruments depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that future borrowings will be available to us under our credit facilities or otherwise, in an amount sufficient to enable us to meet our payment obligations under the Additional Convertible Notes and our other debt and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, including the Additional Convertible Notes, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the Additional Convertible Notes and our other debt.

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***If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the Additional Convertible Notes.***

Any default under the agreements governing our indebtedness or other indebtedness to which we may be a party that is not waived by the required lenders or holders, and the remedies sought by the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on the Additional Convertible Notes and substantially decrease the market value of the Additional Convertible Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to seek to obtain waivers from the required holders of our debt to avoid being in default. If we breach our covenants under our debt and seek a waiver, we may not be able to obtain a waiver from the required lenders or holders. If this occurs, we would be in default and our lenders or debt holders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations could proceed against the collateral securing the debt. Because our credit facilities and Unsecured Notes have, and any future credit facilities will likely have, customary cross-default provisions, if the indebtedness thereunder or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due.

***The Additional Convertible Notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future.***

The Additional Convertible Notes will not be secured by any of our assets or any of the assets of our subsidiaries. As a result, the Additional Convertible Notes are effectively subordinated to any secured indebtedness we or our subsidiaries have outstanding as of the date of this prospectus supplement or that we or they may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the Additional Convertible Notes. As of September 23, 2016, we had \$693.6 million of indebtedness outstanding, \$528.6 million of which was secured indebtedness, and therefore effectively senior to the Additional Convertible Notes to the extent of the value of such assets, and \$165.0 million of which was unsecured indebtedness.

***The Additional Convertible Notes will be structurally subordinated to the indebtedness and other liabilities of our subsidiaries.***

The Additional Convertible Notes are obligations exclusively of NMFC and not of any of our subsidiaries. None of our subsidiaries is a guarantor of the Additional Convertible Notes and the Additional Convertible Notes are not required to be guaranteed by any subsidiaries we may acquire or create in the future. Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors, including trade creditors, and holders of preferred stock, if any,

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of our subsidiaries will have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of the Additional Convertible Notes) with respect to the assets of such subsidiaries. Even if we were recognized as a creditor of one or more of our subsidiaries, our claims would still be effectively subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, the Additional Convertible Notes will be subordinated structurally to all indebtedness and other liabilities, including trade payables, of any of our subsidiaries and any subsidiaries that we may in the future acquire or establish as financing vehicles or otherwise. All of the existing indebtedness of our subsidiaries would be structurally senior to the Additional Convertible Notes. In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to the Additional Convertible Notes.

***The indenture governing the Additional Convertible Notes does not contain restrictive covenants and provides only limited protection in the event of a change of control.***

The indenture under which the Additional Convertible Notes will be issued does not contain any financial or operating covenants or any other restrictive covenants that would limit our or our subsidiaries' ability to engage in certain transactions that may adversely affect your investment in the Additional Convertible Notes. In particular, without limitation, the indenture does not place any restrictions on our or any of our subsidiaries' ability to:

incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the Additional Convertible Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the Additional Convertible Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the Additional Convertible Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to the Additional Convertible Notes with respect to the assets of our subsidiaries;

pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the Additional Convertible Notes, including subordinated indebtedness;

sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

enter into transactions with affiliates;

create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

make investments; or

create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

We will only be required to offer to repurchase the Additional Convertible Notes upon a change of control in the case of the transactions specified in the definition of a "fundamental change" under "Description of the Notes Fundamental Change Put". Similarly, we will only be required to adjust the conversion rate upon the occurrence of a "non-stock change of control" in circumstances where an Additional Convertible Note is converted in connection with such a transaction as set forth under "Description of the Notes Conversion Rights Adjustment to

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Conversion Rate Upon a Non-Stock Change of Control". Accordingly, subject to restrictions contained in our other debt agreements, we will be permitted to engage in certain transactions, such as acquisitions, re-financings or recapitalizations, that could affect our capital structure and the value of the Additional Convertible Notes and our common stock but would not constitute a fundamental change under the Additional Convertible Notes.

Furthermore, the terms of the indenture and the Additional Convertible Notes do not protect holders of the Additional Convertible Notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow or liquidity. Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the Additional Convertible Notes may have important consequences for you as a holder of the Additional Convertible Notes, including making it more difficult for us to satisfy our obligations with respect to the Additional Convertible Notes or negatively affecting the trading value of the Additional Convertible Notes. Certain of our current debt instruments include more protections for their holders than the indenture and the Additional Convertible Notes. In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the Additional Convertible Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the Additional Convertible Notes.

***The conversion rate of the Additional Convertible Notes may not be adjusted for all dilutive events that may adversely affect the trading price of the Additional Convertible Notes or the common stock issuable upon conversion of the Additional Convertible Notes.***

The conversion rate of the Additional Convertible Notes is subject to adjustment upon certain events, including the issuance of certain stock dividends on our common stock, certain issuance of rights or warrants, subdivisions, combinations, certain distributions of capital stock, indebtedness or assets, certain cash dividends and certain issuer tender or exchange offers as described under "Description of the Notes Conversion Rights Conversion Rate Adjustments". The conversion rate will not be adjusted for certain other events, including cash dividends below the dividend threshold amount (as defined in clause (4) of "Description of the Notes Conversion Rights Conversion Rate Adjustments"), which may adversely affect the trading price of the Additional Convertible Notes or the common stock issuable upon conversion of the Additional Convertible Notes.

***We may be unable to repurchase the Additional Convertible Notes following a fundamental change.***

Holders of the Additional Convertible Notes have the right to require us to repurchase the Additional Convertible Notes prior to their maturity upon the occurrence of a fundamental change as described under "Description of the Notes Fundamental Change Put". Any of our future debt agreements may contain similar provisions. We may not have sufficient funds or the ability to arrange necessary financing on acceptable terms at the time we are required to make repurchases of tendered Additional Convertible Notes. In addition, our ability to repurchase the Additional Convertible Notes may be limited by law or the terms of other agreements relating to our debt outstanding at the time, including our credit facilities. Under certain of our existing credit facilities, we would be prohibited from making any such repurchase without consent from the lenders thereunder or a waiver or modification of such requirements. If we fail to repurchase the Additional Convertible Notes as required by the indenture, it would constitute an event of default under the indenture governing the Additional Convertible Notes.



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***Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to repurchase the Additional Convertible Notes.***

Upon the occurrence of a fundamental change, you have the right to require us to offer to repurchase the Additional Convertible Notes. However, the fundamental change provisions will not afford protection to holders of the Additional Convertible Notes in the event of certain transactions. For example, transactions such as leveraged recapitalizations, re-financings, restructurings or acquisitions initiated by us would not constitute a fundamental change requiring us to repurchase the Additional Convertible Notes. In the event of any such transaction, the holders would not have the right to require us to repurchase the Additional Convertible Notes, even though each of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the holders of the Additional Convertible Notes.

***Provisions of the Additional Convertible Notes could discourage an acquisition of us by a third party.***

Certain provisions of the Additional Convertible Notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, holders of the Additional Convertible Notes will have the right, at their option, to require us to repurchase all of their Additional Convertible Notes or any portion of the principal amount of such Additional Convertible Notes in integral multiples of \$1,000. We may also be required to increase the conversion rate or provide for conversion into the acquirer's capital stock in the event of certain fundamental changes. These provisions could discourage an acquisition of us by a third party.

***The adjustment to the conversion rate upon the occurrence of certain types of fundamental changes may not adequately compensate you for the lost option time value of your Additional Convertible Notes as a result of such fundamental change.***

If certain types of fundamental changes occur on or prior to the maturity date of the Additional Convertible Notes, we may increase the conversion rate by an additional number of shares for holders that elect to convert their Additional Convertible Notes in connection with the fundamental change. The number of additional shares to be added to the conversion rate will be determined based on the date on which the fundamental change becomes effective and the price paid per share of our common stock in the fundamental change as described under "Description of the Notes Conversion Rights Adjustment to Conversion Rate Upon a Non-Stock Change of Control". Although this adjustment is designed to compensate you for the lost option value of your Additional Convertible Notes as a result of certain types of fundamental changes, the adjustment is only an approximation of such lost value based upon assumptions made on the date of this prospectus supplement and may not adequately compensate you for such loss. In addition, if the price paid per share of our common stock in the fundamental change is less than \$14.05 or more than \$20.83 (subject to adjustment), there will be no such adjustment.

***There is currently no public market for the Additional Convertible Notes, and an active trading market may not develop. The failure of a market to develop for the Additional Convertible Notes could adversely affect the liquidity and value of your Additional Convertible Notes.***

There is currently no public market for the Additional Convertible Notes, and we do not intend to apply for listing of the Additional Convertible Notes on any securities exchange or for quotation of the Additional Convertible Notes on any automated dealer quotation system. We have been advised by the underwriters that, following the completion of the offering, they currently intend to make a market in the Additional Convertible Notes. However, the underwriters are not obligated to

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do so and any market-making activities with respect to the Additional Convertible Notes may be discontinued at any time without notice. In addition, any market-making activity will be subject to limits imposed by law. A market may not develop for the Additional Convertible Notes, and there can be no assurance as to the liquidity of any market that may develop for the Additional Convertible Notes. If an active, liquid market does not develop for the Additional Convertible Notes, the market price and liquidity of the Additional Convertible Notes may be adversely affected. If any of the Additional Convertible Notes are traded after their initial issuance, they may trade at a discount from their initial offering price.

The liquidity of the trading market, if any, and future trading prices of the Additional Convertible Notes will depend on many factors, including, among other things, the market price of our common stock, prevailing interest rates, our operating results, financial performance and prospects, the market for similar securities and the overall securities market, and may be adversely affected by unfavorable changes in these factors. Historically, the market for convertible debt has been subject to disruptions that have caused volatility in prices. It is possible that the market for the Additional Convertible Notes will be subject to disruptions which may have a negative effect on the holders of the Additional Convertible Notes, regardless of our operating results, financial performance or prospects.

***Recent regulatory actions may adversely affect the trading price and liquidity of the Additional Convertible Notes.***

We expect that many investors in the Additional Convertible Notes will employ, or seek to employ, a convertible arbitrage strategy with respect to the Additional Convertible Notes. Investors that employ a convertible arbitrage strategy with respect to convertible debt instruments typically implement that strategy by selling short the common stock underlying the convertible notes and dynamically adjusting their short position while they hold the notes. Investors may also implement this strategy by entering into swaps on the common stock in lieu of or in addition to short selling the common stock. As a result, any specific rules regulating short selling of securities or equity swaps or other governmental action that interfere with the ability of market participants to effect short sales or equity swaps with respect to our common stock could adversely affect the ability of investors in the Additional Convertible Notes to conduct the convertible arbitrage strategy that we believe they will employ, or seek to employ, with respect to the Additional Convertible Notes. This could, in turn, adversely affect the trading price and liquidity of the Additional Convertible Notes.

The SEC and other regulatory and self-regulatory authorities have implemented various rule changes and are expected to adopt additional rule changes in the future that may impact those engaging in short-selling activity involving equity securities (including our common stock), including Rule 201 of SEC Regulation SHO, the Financial Industry Regulatory Authority, Inc.'s "Limit Up-Limit Down" program, market-wide circuit breaker systems that halt trading of stock for certain periods following specific market declines, and rules stemming from the enactment and implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Past regulatory actions, including emergency actions or regulations, have had a significant impact on the trading prices and liquidity of equity-linked instruments. Any governmental action that similarly restricts the ability of investors in, or potential purchasers of, the Additional Convertible Notes to effect short sales of our common stock could similarly adversely affect the trading price and the liquidity of the Additional Convertible Notes.

***The accounting for convertible debt securities is subject to uncertainty.***

The accounting for convertible debt securities is subject to frequent scrutiny by the accounting regulatory bodies and is subject to change. We cannot predict if or when any such change could be made and any such change could have an adverse impact on our reported or future financial

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results. Any such impacts could adversely affect the market price of our common stock and in turn negatively impact the trading price of the Additional Convertible Notes.

***The price of our common stock and of the Additional Convertible Notes may fluctuate significantly, and this may make it difficult for you to resell the Additional Convertible Notes or common stock issuable upon conversion of the Additional Convertible Notes when you want or at prices you find attractive.***

The price of our common stock constantly changes, and may fluctuate significantly. We expect that the market price and liquidity of our common stock will continue to fluctuate. In addition, because the Additional Convertible Notes are convertible into our common stock, volatility or depressed prices for our common stock could have a similar effect on the trading price of the Additional Convertible Notes. Our stock price and its liquidity may fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

price and volume fluctuations in the overall stock market or in the market for BDCs from time to time;

investor demand for shares of our common stock;

significant volatility in the market price and trading volume of securities of registered closed-end management investment companies, BDCs or other financial services companies, which is not necessarily related to the operating performance of these companies;

the inability to raise equity capital;

our inability to borrow money or deploy or invest our capital;

fluctuations in interest rates;

any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

operating performance of companies comparable to us;

changes in regulatory policies or tax guidelines with respect to RICs or BDCs;

our loss of status as or ability to operate as a BDC;

our failure to qualify as a RIC, loss of RIC status or ability operate as a RIC;

actual or anticipated changes in our earnings or fluctuations in our operating results;

changes in the value of our portfolio of investments;

general economic conditions, trends and other external factors;

departures of key personnel; or

loss of a major source of funding.

In addition, we are required to continue to meet certain listing standards in order for our common stock to remain listed on the NYSE. If we were to be delisted by the NYSE, the liquidity of our common stock would be materially impaired.

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***Future sales of our common stock in the public market or the issuance of securities senior to our common stock could adversely affect the trading price of our common stock and the value of the Additional Convertible Notes and our ability to raise funds in new stock offerings.***

Future sales of substantial amounts of our common stock or equity-related securities in the public market, or the perception that such sales could occur, could adversely affect prevailing trading prices of our common stock and the value of the Additional Convertible Notes and could impair our ability to raise capital through future offerings of our securities, should we decide to offer them. We may not, unless otherwise agreed to by the underwriters, commence any sales of shares of our common stock until 15 days following the date of this prospectus supplement. No prediction can be made as to the effect, if any, that future sales of shares of common stock, or the availability of shares of common stock for future sale, will have on the trading price of our common stock or the value of the Additional Convertible Notes.

***Holders of the Additional Convertible Notes will not be entitled to any rights with respect to our common stock, but will be subject to all changes made with respect to our common stock.***

Holders of the Additional Convertible Notes will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights or rights to receive any dividends or other distributions on our common stock), but will be subject to all changes affecting our common stock. Holders will only be entitled to rights in respect of our common stock if and when we deliver shares of our common stock upon conversion for their Additional Convertible Notes and, to a limited extent, under the conversion rate adjustments applicable to the Additional Convertible Notes. For example, in the event that an amendment is proposed to our certificate of incorporation or bylaws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to a holder's conversion of Additional Convertible Notes, the holder will not be entitled to vote on the amendment, although the holder will nevertheless be subject to any changes in the powers, preferences or rights of our common stock that result from such amendment.

***You may be deemed to receive a taxable distribution without the receipt of any cash or property.***

The conversion rate of the Additional Convertible Notes will be adjusted in certain circumstances. See the discussion under the headings "Description of the Notes Conversion Rights Conversion Rate Adjustments" and " Adjustment to Conversion Rate Upon a Non-Stock Change of Control". Adjustments to the conversion rate of the Additional Convertible Notes that have the effect of increasing your proportionate interest in our assets or earnings may in some circumstances result in a taxable constructive distribution to you for U.S. federal income tax purposes, notwithstanding the fact that you do not receive an actual distribution of cash or property. In addition, if you are a Non-U.S. Holder (as defined in "Additional Material Federal Income Tax Considerations" in this prospectus supplement), you may be subject to U.S. federal withholding taxes in connection with such a constructive distribution. If we pay withholding taxes on your behalf as a result of an adjustment to the conversion rate of the Additional Convertible Notes, we may, at our option, set off such payments against payments of cash and common stock on the Additional Convertible Notes. You are urged to consult your tax advisors with respect to the U.S. federal income tax consequences resulting from an adjustment to the conversion rate of the Additional Convertible Notes. See the discussions under the headings "Additional Material Federal Income Tax Considerations Tax Consequences to U.S. Holders of Additional Convertible Notes Constructive distributions" and " Tax Consequences to Non-U.S. Holders of Additional Convertible Notes Constructive distributions" in this prospectus supplement.

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**RISKS RELATED TO OUR BUSINESS AND STRUCTURE**

*Our ability to achieve our investment objective depends on key investment personnel of the Investment Adviser. If the Investment Adviser were to lose any of its key investment personnel, our ability to achieve our investment objective could be significantly harmed.*

We depend on the investment judgment, skill and relationships of the investment professionals of the Investment Adviser, particularly Steven B. Klinsky and Robert A. Hamwee, as well as other key personnel to identify, evaluate, negotiate, structure, execute, monitor and service our investments. The Investment Adviser, as an affiliate of New Mountain Capital, is supported by New Mountain Capital's team, which as of June 30, 2016 consisted of approximately 100 staff members of New Mountain Capital and its affiliates to fulfill its obligations to us under the Investment Management Agreement. The Investment Adviser may also depend upon New Mountain Capital to obtain access to investment opportunities originated by the professionals of New Mountain Capital and its affiliates. Our future success depends to a significant extent on the continued service and coordination of the key investment personnel of the Investment Adviser. The departure of any of these individuals could have a material adverse effect on our ability to achieve our investment objective.

The Investment Committee, which provides oversight over our investment activities, is provided by the Investment Adviser. The Investment Committee currently consists of five members. The loss of any member of the Investment Committee or of other senior professionals of the Investment Adviser and its affiliates without suitable replacement could limit our ability to achieve our investment objective and operate as we anticipate. This could have a material adverse effect on our financial condition, results of operation and cash flows. To achieve our investment objective, the Investment Adviser may hire, train, supervise and manage new investment professionals to participate in its investment selection and monitoring process. If the Investment Adviser is unable to find investment professionals or do so in a timely manner, our business, financial condition and results of operations could be adversely affected.

*We borrow money, which could magnify the potential for gain or loss on amounts invested in us and increase the risk of investing in us.*

We borrow money as part of our business plan. Borrowings, also known as leverage, magnify the potential for gain or loss on invested equity capital and may, consequently, increase the risk of investing in us. We expect to continue to use leverage to finance our investments, through senior securities issued by banks and other lenders. Lenders of these senior securities have fixed dollar claims on our assets that are superior to claims of our common stockholders. If the value of our assets decreases, leveraging would cause our net asset value to decline more sharply than it otherwise would have had it not leveraged. Similarly, any decrease in our income would cause our net income to decline more sharply than it would have had it not borrowed. Such a decline could adversely affect our ability to make common stock dividend payments. In addition, because our investments may be illiquid, we may be unable to dispose of them or to do so at a favorable price in the event we need to do so if we are unable to refinance any indebtedness upon maturity and, as a result, we may suffer losses. Leverage is generally considered a speculative investment technique.

Our ability to service any debt that we incur depends largely on our financial performance and is subject to prevailing economic conditions and competitive pressures. Moreover, as the Investment Adviser's management fee is payable to the Investment Adviser based on gross assets, including those assets acquired through the use of leverage, the Investment Adviser may have a financial incentive to incur leverage which may not be consistent with our interests and the interests of our common stockholders. In addition, holders of our common stock will, indirectly, bear the

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burden of any increase in our expenses as a result of leverage, including any increase in the management fee payable to the Investment Adviser.

At June 30, 2016, we had \$348.0 million, \$87.0 million, \$115.0 million, \$50.0 million and \$121.7 million of indebtedness outstanding under the Holdings Credit Facility, the NMFC Credit Facility, the Convertible Notes, the Unsecured Notes and the SBA-guaranteed debentures, respectively. The Holdings Credit Facility had a weighted average interest rate of 2.7% for the six months ended June 30, 2016, the NMFC Credit Facility had a weighted average interest rate of 2.9% for the six months ended June 30, 2016 and the SBA-guaranteed debentures had a weighted average interest rate of 3.1% for the six months ended June 30, 2016. The interest rate on the Convertible Notes is 5.0% per annum and the interest rate on the Unsecured Notes is 5.313% per annum. In order for us to cover our annual interest payments on our outstanding indebtedness at June 30, 2016, we must achieve annual returns on our June 30, 2016 total assets of at least 1.6%.

**Illustration.** The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses and adjusted for unsettled securities purchased. The calculations in the table below are hypothetical. Actual returns may be higher or lower than those appearing below. The calculation assumes (i) \$1,584.6 million in total assets, (ii) a weighted average cost of borrowings of 3.3%, which assumes the weighted average interest rates as of June 30, 2016 for the Holdings Credit Facility, the NMFC Credit Facility and the SBA-guaranteed debentures and the interest rate as of June 30, 2016 for the Convertible Notes and Unsecured Notes, (iii) \$721.7 million in debt outstanding and (iv) \$843.3 million in net assets.

#### Assumed Return on Our Portfolio (net of expenses)

	(10.0)%	(5.0)%	0%	5.0%	10.0%
Corresponding return to stockholder	(21.6)%	(12.2)%	(2.8)%	6.6%	15.9%

***If we are unable to comply with the covenants or restrictions in our borrowings, our business could be materially adversely affected.***

The Holdings Credit Facility includes covenants that, subject to exceptions, restrict our ability to pay distributions, create liens on assets, make investments, make acquisitions and engage in mergers or consolidations. The Holdings Credit Facility also includes a change of control provision that accelerates the indebtedness under the facility in the event of certain change of control events. Complying with these restrictions may prevent us from taking actions that we believe would help us grow our business or are otherwise consistent with our investment objective. These restrictions could also limit our ability to plan for or react to market conditions or meet extraordinary capital needs or otherwise restrict corporate activities. In addition, the restrictions contained in the Holdings Credit Facility could limit our ability to make distributions to our stockholders in certain circumstances, which could result in us failing to qualify as a RIC and thus becoming subject to corporate-level U.S. federal income tax (and any applicable state and local taxes).

The NMFC Credit Facility includes customary covenants, including certain financial covenants related to asset coverage and liquidity and other maintenance covenants, as well as customary events of default.

Our Convertible Notes are subject to certain covenants, including covenants requiring us to provide financial information to the holders of the Convertible Notes and the Trustee if we cease to be subject to the reporting requirements of the Exchange Act. These covenants are subject to limitations and exceptions. In addition, if certain corporate events occur, including change of control

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events, holders of the Convertible Notes may require us 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.

Our Unsecured Notes are subject to certain covenants, including covenants such as information reporting, maintenance of our 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, 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 our other indebtedness or certain significant subsidiaries, certain judgments and orders, and certain events of bankruptcy. In addition, we are obligated to offer to prepay the Unsecured Notes at par if the Investment Adviser, or an affiliate thereof, ceases to be our investment adviser or if certain change in control events occur with respect to the Investment Adviser.

The breach of any of the covenants or restrictions, unless cured within the applicable grace period, would result in a default under the applicable credit facility that would permit the lenders thereunder to declare all amounts outstanding to be due and payable. In such an event, we may not have sufficient assets to repay such indebtedness. As a result, any default could have serious consequences to our financial condition. An event of default or an acceleration under the credit facilities could also cause a cross-default or cross-acceleration of another debt instrument or contractual obligation, which would adversely impact our liquidity. We may not be granted waivers or amendments to the credit facilities if for any reason we are unable to comply with it, and we may not be able to refinance the credit facilities on terms acceptable to us, or at all.

***If we are unable to obtain additional debt financing, or if our borrowing capacity is materially reduced, our business could be materially adversely affected.***

We may want to obtain additional debt financing, or need to do so upon maturity of our credit facilities, in order to obtain funds which may be made available for investments. The revolving period under the Holdings Credit Facility ends on December 18, 2017, and the Holdings Credit Facility matures on December 18, 2019. The NMFC Credit Facility, the Convertible Notes and the Unsecured Notes mature on June 4, 2019, June 15, 2019 and May 15, 2021, respectively. The SBA-guaranteed debentures have ten year maturities and will begin to mature on March 1, 2025. If we are unable to increase, renew or replace any such facilities and enter into new debt financing facilities or other debt financing on commercially reasonable terms, our liquidity may be reduced significantly. In addition, if we are unable to repay amounts outstanding under any such facilities and are declared in default or are unable to renew or refinance these facilities, we may not be able to make new investments or operate our business in the normal course. These situations may arise due to circumstances that we may be unable to control, such as lack of access to the credit markets, a severe decline in the value of the U.S. dollar, a further economic downturn or an operational problem that affects us or third parties, and could materially damage our business operations, results of operations and financial condition.

***A renewed disruption in the capital markets and the credit markets could adversely affect our business.***

As a BDC, we must maintain our ability to raise additional capital for investment purposes. If we are unable to access the capital markets or credit markets, we may be forced to curtail our business operations and may be unable to pursue new investment opportunities. The capital markets and the credit markets have experienced extreme volatility in recent periods, and, as a result, there have been and will likely continue to be uncertainty in the financial markets in general.



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Disruptions in the capital markets in recent years increased the spread between the yields realized on risk-free and higher risk securities, resulting in illiquidity in parts of the capital markets. In addition, a prolonged period of market illiquidity may cause us to reduce the volume of loans that we originate and/or fund and adversely affect the value of our portfolio investments. Unfavorable economic conditions could also increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could limit our investment originations, limit our ability to grow and negatively impact our operating results. Ongoing disruptive conditions in the financial industry and the impact of new legislation in response to those conditions could restrict our business operations and, consequently, could adversely impact our business, results of operations and financial condition.

If the fair value of our assets declines substantially, we may fail to maintain the asset coverage ratios imposed upon us by the 1940 Act and contained in the Holdings Credit Facility, the NMFC Credit Facility and the Unsecured Notes. Any such failure would result in a default under such indebtedness and otherwise affect our ability to issue senior securities, borrow under the Holdings Credit Facility and NMFC Credit Facility and pay distributions, which could materially impair our business operations. Our liquidity could be impaired further by our inability to access the capital or credit markets. For example, we cannot be certain that we will be able to renew our credit facilities as they mature or to consummate new borrowing facilities to provide capital for normal operations, including new originations, or reapply for SBIC licenses. In recent years, reflecting concern about the stability of the financial markets, many lenders and institutional investors have reduced or ceased providing funding to borrowers. This market turmoil and tightening of credit have led to increased market volatility and widespread reduction of business activity generally in recent years. In addition, adverse economic conditions due to these disruptive conditions could materially impact our ability to comply with the financial and other covenants in any existing or future credit facilities. If we are unable to comply with these covenants, this could materially adversely affect our business, results of operations and financial condition.

**RISKS RELATED TO OUR OPERATIONS**

*Regulations governing the operations of BDCs will affect our ability to raise additional equity capital as well as our ability to issue senior securities or borrow for investment purposes, any or all of which could have a negative effect on our investment objectives and strategies.*

Our business requires a substantial amount of capital. We may acquire additional capital from the issuance of senior securities, including borrowing under a credit facility or other indebtedness. In addition, we may also issue additional equity capital, which would in turn increase the equity capital available to us. However, we may not be able to raise additional capital in the future on favorable terms or at all.

We may issue debt securities, preferred stock, and we may borrow money from banks or other financial institutions, which we refer to collectively as "senior securities", up to the maximum amount permitted by the 1940 Act. The 1940 Act permits us to issue senior securities in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200.0% after each issuance of senior securities. As a result of our SEC exemptive relief, we are permitted to exclude our SBA-guaranteed debentures from the definition of senior securities in the 200.0% asset coverage ratio we are required to maintain under the 1940 Act. If our asset coverage ratio is not at least 200.0%, we would be unable to issue senior securities, and if we had senior securities outstanding (other than any indebtedness issued in consideration of a privately arranged loan, such as any indebtedness outstanding under the Holdings Credit Facility and NMFC Credit Facility), we would be unable to make distributions to our stockholders. However, at June 30, 2016, our only senior securities outstanding were indebtedness under the Holdings Credit Facility, NMFC Credit Facility, Convertible Notes and Unsecured Notes and therefore at June 30, 2016, we would not have

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been precluded from paying distributions. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous.

The Holdings Credit Facility matures on December 18, 2019 and permits borrowings of \$495.0 million as of June 30, 2016. The Holdings Credit Facility had \$348.0 million in debt outstanding as of June 30, 2016. The NMFC Credit Facility matures on June 4, 2019 and permits borrowings of \$122.5 million as of June 30, 2016. The NMFC Credit Facility had \$87.0 million in debt outstanding as of June 30, 2016. The Convertible Notes mature on June 15, 2019. The Convertible Notes had \$115.0 million in debt outstanding as of June 30, 2016. The Unsecured Notes mature on May 15, 2021. The Unsecured Notes had \$50.0 million in debt outstanding as of June 30, 2016. The SBA-guaranteed debentures have ten year maturities and will begin to mature on March 1, 2025. As of June 30, 2016, \$121.7 million of SBA-guaranteed debentures were outstanding.

In addition, we may in the future seek to securitize other portfolio securities to generate cash for funding new investments. To securitize loans, we would likely create a wholly-owned subsidiary and contribute a pool of loans to the subsidiary. We would then sell interests in the subsidiary on a non-recourse basis to purchasers and we would retain all or a portion of the equity in the subsidiary. If we are unable to successfully securitize its loan portfolio, which must be done in compliance with the relevant restrictions in the Holdings Credit Facility, our ability to grow our business or fully execute our business strategy could be impaired and our earnings, if any, could decrease. The securitization market is subject to changing market conditions, and we may not be able to access this market when it would be otherwise deemed appropriate. Moreover, the successful securitization of our portfolio might expose us to losses as the residual investments in which we do not sell interests will tend to be those that are riskier and more apt to generate losses. The 1940 Act also may impose restrictions on the structure of any securitization.

We may also obtain capital through the issuance of additional equity capital. As a BDC, we generally are not able to issue or sell our common stock at a price below net asset value per share. If our common stock trades at a discount to our net asset value per share, this restriction could adversely affect our ability to raise equity capital. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below our net asset value per share of the common stock if our board of directors and independent directors determine that such sale is in our best interests and the best interests of our stockholders, and our stockholders approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price that, in the determination of our board of directors, closely approximates the market value of such securities (less any underwriting commission or discount). If we raise additional funds by issuing more shares of our common stock, or if we issue senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our stockholders may decline and you may experience dilution.

***We may not be able to pay you distributions on our common stock, our distributions to you may not grow over time and a portion of our distributions to you may be a return of capital for U.S. federal income tax purposes.***

We intend to pay quarterly distributions to our stockholders out of assets legally available for distribution. We cannot assure you that we will continue to achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. If we are unable to satisfy the asset coverage test applicable to us as a BDC, or if we violate certain covenants under the Holdings Credit Facility, the NMFC Credit Facility or the Unsecured Notes, our ability to pay distributions to our stockholders could be limited. All distributions are paid at the discretion of our board of directors and depend on our earnings, financial condition, maintenance

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of our RIC status, compliance with applicable BDC regulations, compliance with covenants under the Holdings Credit Facility, the NMFC Credit Facility and the Unsecured Notes, and such other factors as our board of directors may deem relevant from time to time. The distributions that we pay to our stockholders in a year may exceed our taxable income for that year and, accordingly, a portion of such distributions may constitute a return of capital for U.S. federal income tax purposes.

***Our business and operation could be negatively affected if we become subject to any securities litigation or shareholder activism, which could cause us to incur significant expense, hinder execution of investment strategy and impact our stock price.***

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Shareholder activism, which could take many forms or arise in a variety of situations, has been increasing in the BDC space recently. While we are currently not subject to any securities litigation or shareholder activism, due to the potential volatility of our stock price and for a variety of other reasons, we may in the future become the target of securities litigation or shareholder activism. Securities litigation and shareholder activism, including potential proxy contests, could result in substantial costs and divert the attention of our management and board of directors and resources from our business. Additionally, such securities litigation and shareholder activism could give rise to perceived uncertainties as to our future, adversely affect our relationships with service providers and make it more difficult to attract and retain qualified personnel. Also, we may be required to incur significant legal fees and other expenses related to any securities litigation or activist shareholder matters. Further, our stock price could be subject to significant fluctuation or otherwise be adversely affected by the events, risks and uncertainties of any securities litigation or shareholder activism.

***Pending legislation may allow us to incur additional leverage.***

As a BDC, under the 1940 Act we generally are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200.0% (i.e., the amount of debt may not exceed 50.0% of the value of our total assets or we may borrow an amount equal to 100.0% of net assets). Legislation introduced in the U.S. House of Representatives would modify this section of the 1940 Act and increase the amount of debt that BDCs may incur by modifying the asset coverage percentage from 200.0% to 150.0%. As a result, we may be able to incur additional indebtedness in the future and therefore your risk of an investment in us may increase.

In addition, in December 2015, the 2016 omnibus spending bill approved by the U.S. Congress and signed into law by the President increased the amount of SBA-guaranteed debentures that affiliated SBIC funds can have outstanding from \$225.0 million to \$350.0 million, subject to SBA approval. This new legislation may allow us to issue additional SBIC debentures above the \$225.0 million of SBA-guaranteed debentures previously permitted pending application for and receipt of additional SBIC licenses. If we incur this additional indebtedness in the future, your risk of an investment in our securities may increase.

## **RISKS RELATING TO OUR INVESTMENTS**

***Our portfolio may be concentrated in a limited number of industries, which may subject us to a risk of significant loss if there is a downturn in a particular industry in which a number of our investments are concentrated.***

Our portfolio may be concentrated in a limited number of industries. For example, as of June 30, 2016, our investments in the business services and the software industries represented approximately 25.4% and 25.2%, respectively, of the fair value of our portfolio. A downturn in any

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particular industry in which we are invested could significantly impact the portfolio companies operating in that industry, and accordingly, the aggregate returns that we realize from our investment in such portfolio companies.

Specifically, companies in the business services industry are subject to general economic downturns and business cycles, and will often suffer reduced revenues and rate pressures during periods of economic uncertainty. In addition, companies in the software industry often have narrow product lines and small market shares. Because of rapid technological change, the average selling prices of products and some services provided by software companies have historically decreased over their productive lives. As a result, the average selling prices of products and services offered by software companies in which we invest may decrease over time. If an industry in which we have significant investments suffers from adverse business or economic conditions, as these industries have to varying degrees, a material portion of our investment portfolio could be affected adversely, which, in turn, could adversely affect our financial position and results of operations.

*Continuation of the current decline in oil and natural gas prices for a prolonged period of time could have a material adverse effect.*

As of June 30, 2016, approximately 4.7% of our portfolio at fair value is invested in energy-related businesses. A decline in oil and natural gas prices would adversely affect the credit quality of these investments. A decrease in credit quality would, in turn, negatively affect the fair value of these investments, which would consequently negatively affect our financial position and results of operations. Should the current decline in oil and natural gas prices persist, it is likely that our energy-related portfolio companies' abilities to satisfy the financial or operating covenants of us or other lenders will be adversely affected, thereby negatively impacting our financial condition and their ability to satisfy their debt service and other obligations to us.

**RISKS RELATING TO OUR SECURITIES**

*Certain provisions of our certificate of incorporation and bylaws, as well as aspects of the Delaware General Corporation Law could deter takeover attempts and have an adverse impact on the price of our common stock.*

Our certificate of incorporation and bylaws as well as the Delaware General Corporation Law contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. Among other things, our certificate of incorporation and bylaws:

provide for a classified board of directors, which may delay the ability of our stockholders to change the membership of a majority of our board of directors;

authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to thwart a takeover attempt;

do not provide for cumulative voting;

provide that vacancies on the board of directors, including newly created directorships, may be filled only by a majority vote of directors then in office;

provide that our directors may be removed only for cause;

require supermajority voting to effect certain amendments to our certificate of incorporation and bylaws; and

require stockholders to provide advance notice of new business proposals and director nominations under specific procedures.

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These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price for our common stock. The Holdings Credit Facility, the NMFC Credit Facility and the Unsecured Notes also include covenants that, among other things, restrict our ability to dispose of assets, incur additional indebtedness, make restricted payments, create liens on assets, make investments, make acquisitions and engage in mergers or consolidations. The Holdings Credit Facility, the NMFC Credit Facility and the Unsecured Notes also include change of control provisions that accelerate the indebtedness (or require prepayment of such indebtedness) under these agreements in the event of certain change of control events.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus supplement and the accompanying prospectus contain forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about us, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as "anticipate", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "project", "seek", "should", "target", "will", "would" or variations of these words and similar expressions are intended to identify forward-looking statements. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus involve risks and uncertainties, including statements as to:

the preliminary estimates of our net asset value and adjusted net investment income;

our future operating results;

our business prospects and the prospects of our portfolio companies;

the impact of investments that we expect to make;

our contractual arrangements and relationships with third parties;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

the adequacy of our cash resources and working capital; and

the timing of cash flows, if any, from the operations of our portfolio companies.

These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

an economic downturn could impair our portfolio companies' ability to continue to operate, which could lead to the loss of some or all of our investments in such portfolio companies;

a contraction of available credit and/or an inability to access the equity markets could impair our lending and investment activities;

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interest rate volatility could adversely affect our results, particularly if we elect to use leverage as part of our investment strategy;

currency fluctuations could adversely affect the results of our investments in foreign companies, particularly to the extent that we receive payments denominated in foreign currency rather than U.S. dollars; and

the risks, uncertainties and other factors we identify in "Supplementary Risk Factors" in this prospectus supplement and "Risk Factors" in the accompanying prospectus, and elsewhere in this prospectus supplement, the accompanying prospectus and in our filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels

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of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus supplement or the accompanying prospectus should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in "Supplementary Risk Factors" in this prospectus supplement and "Risk Factors" in the accompanying prospectus, and elsewhere in this prospectus supplement and the accompanying prospectus. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus supplement. However, we will update this prospectus supplement to reflect any material changes to the information contained herein. The forward-looking statements and projections contained in this prospectus supplement are excluded from the safe harbor protection provided by Section 27A of the Securities Act.

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Table of Contents**CAPITALIZATION**

The following table sets forth our capitalization as of June 30, 2016:

on an actual basis; and

on an as adjusted basis to give effect to the assumed sale of \$35.0 million aggregate principal amount of Additional Convertible Notes (assuming no exercise of the overallotment option), excluding accrued interest, after deducting the underwriting discounts and commissions of approximately \$ million payable by us and estimated offering expenses of approximately \$0.4 million payable by us, and without giving effect to the use of the cash proceeds from such sale as described in "Use of Proceeds".

You should read this table together with "Use of Proceeds" and the financial statements and related notes thereto included elsewhere in this prospectus supplement and the accompanying prospectus.

	<b>As of June 30, 2016</b>	
	<b>Actual (unaudited)</b>	<b>As Adjusted (unaudited)</b>
	<b>(in thousands)</b>	
<b>Assets:</b>		
Cash and cash equivalents	\$ 34,467	\$
Investments at fair value	1,498,061	
Other assets	52,073	
<b>Total assets</b>	<b>\$ 1,584,601</b>	<b>\$</b>
<b>Liabilities:</b>		
Net outstanding borrowings	\$ 707,843	\$
Additional Convertible Notes offered hereby		
Other liabilities	33,433	
<b>Total liabilities</b>	<b>\$ 741,276</b>	<b>\$</b>
<b>Net assets</b>	<b>\$ 843,325</b>	<b>\$</b>
<b>Net assets:</b>		
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 63,756,888 shares issued and outstanding, respectively		640
Paid in capital in excess of par	899,751	
Treasury stock at cost, 248,499 shares held, respectively	(2,948)	
Accumulated undistributed net investment income	4,146	
Accumulated undistributed net realized gains on investments	2,383	
Net unrealized (depreciation) appreciation (net of provision for taxes)	(60,647)	

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Total net assets		843,325
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**USE OF PROCEEDS**

We estimate that the net proceeds we will receive from the sale of the \$35.0 million aggregate principal amount of Additional Convertible Notes in this offering will be approximately \$ (or approximately \$ if the underwriters fully exercise their overallotment option), after deducting the discounts, commissions and expenses payable by us.

We intend to use the net proceeds from this offering to repay outstanding indebtedness under our credit facilities. However, through re-borrowing under our credit facilities, we intend to make new investments in accordance with our investment objective and strategies described in this prospectus supplement and the accompanying prospectus and use available capital for other general corporate purposes, including working capital requirements. We are continuously identifying, reviewing and, to the extent consistent with our investment objective, funding new investments. As a result, we typically raise capital as we deem appropriate to fund such new investments.

Under the Holdings Credit Facility, which matures in December 2019, we had \$308.9 million outstanding as of September 23, 2016. Under the NMFC Credit Facility, which matures in June 2019, we had \$98.0 million outstanding as of September 23, 2016. As of September 23, 2016, we had \$115.0 million, \$50.0 million and \$121.7 million outstanding in connection with the Convertible Notes, the Unsecured Notes and the SBA-guaranteed debentures, respectively. For additional information regarding our outstanding indebtedness, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" in this prospectus supplement and the accompanying prospectus.

Affiliates of Wells Fargo Securities, LLC are lenders under the Holdings Credit Facility and affiliates of Goldman, Sachs & Co. and Morgan Stanley & Co. LLC are lenders under the NMFC Credit Facility. Accordingly, affiliates of Wells Fargo Securities, LLC, Goldman, Sachs & Co. and Morgan Stanley & Co. LLC may receive more than 5.0% of the net proceeds of this offering to the extent such proceeds are used to temporarily repay outstanding indebtedness under the Holdings Credit Facility or the NMFC Credit Facility.

We expect that it will take up to three months for us to substantially invest the net proceeds from this offering, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurance that we will be able to achieve this goal.

Proceeds not immediately used for the temporary repayment of debt under our credit facilities or for new investments will be invested primarily in cash, cash equivalents, U.S. government securities and other high-quality investments that mature in one year or less from the date of investment. These temporary investments are expected to provide a lower net return than we hope to achieve from our target investments.

Table of Contents**PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS**

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "NMFC". The following table sets forth the net asset value ("NAV") per share of our common stock, the high and low closing sale price for our common stock, the closing sale price as a percentage of NAV and the quarterly distributions per share for each fiscal quarter for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

Fiscal Year Ended	NAV Per Share <sup>(2)</sup>	Closing Sales Price <sup>(3)</sup>		Premium (Discount) of High Closing Sales to	Premium (Discount) of Low Closing Sales to	Declared Distributions Per Share <sup>(5)(6)</sup>
		High	Low	NAV <sup>(4)</sup>	NAV <sup>(4)</sup>	
<b>December 31, 2016</b>						
Third Quarter <sup>(1)</sup>	* \$	14.28	\$ 13.11	*	* \$	0.34
Second Quarter	\$ 13.23	\$ 12.90	\$ 12.10	(2.49)%	(8.54)%	\$ 0.34
First Quarter	\$ 12.87	\$ 12.96	\$ 11.09	0.70%	(13.83)%	\$ 0.34
<b>December 31, 2015</b>						
Fourth Quarter	\$ 13.08	\$ 14.17	\$ 12.15	8.33%	(7.11)%	\$ 0.34
Third Quarter	\$ 13.73	\$ 14.94	\$ 13.34	8.81%	(2.84)%	\$ 0.34
Second Quarter	\$ 13.90	\$ 15.14	\$ 14.49	8.92%	4.24%	\$ 0.34
First Quarter	\$ 13.89	\$ 15.06	\$ 14.30	8.42%	2.95%	\$ 0.34
<b>December 31, 2014</b>						
Fourth Quarter	\$ 13.83	\$ 15.09	\$ 14.14	9.11%	2.24%	\$ 0.34
Third Quarter	\$ 14.33	\$ 15.39	\$ 14.48	7.40%	1.05%	\$ 0.46 <sup>(7)</sup>
Second Quarter	\$ 14.65	\$ 14.89	\$ 13.91	1.64%	(5.05)%	\$ 0.34
First Quarter	\$ 14.53	\$ 15.19	\$ 14.46	4.54%	(0.48)%	\$ 0.34

(1) Period from July 1, 2016 through September 23, 2016.

(2) NAV is determined as of the last date in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.

(3) Closing sales price is determined as the high or low closing sales price noted within the respective quarter, not adjusted for distributions.

(4) Calculated as of the respective high or low closing sales price distributions by the quarter end NAV.

(5) Represents the distribution paid for the specified quarter.

(6)

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Tax characteristics of all distributions paid are reported to stockholders on Form 1099 after the end of the calendar year. For the years ended December 31, 2015 and December 31, 2014, total distributions were \$81.0 million and \$77.6 million, respectively, of which the distributions were comprised of approximately 99.96% and 96.16%, respectively, of ordinary income, 0.00% and 3.55%, respectively, of long-term capital gains and approximately 0.04% and 0.29%, respectively, of a return of capital.

(7)

Includes a special distribution of \$0.12 per share paid on September 3, 2014 and a third quarter dividend of \$0.34 per share paid on September 30, 2014.

\*

Not determinable at the time of filing.

On September 23, 2016, the last reported sales price of our common stock was \$13.80 per share. As of September 23, 2016, we had approximately 22 stockholders of record and approximately one beneficial owner whose shares are held in the names of brokers, dealers, funds, trusts and clearing agencies.

Shares of BDCs may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that our shares of common stock will trade at a discount from NAV or at premiums that are unsustainable over the long term are separate and distinct from the risk that our NAV will decrease. Since our initial public offering on May 19, 2011, our shares of

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common stock have traded at times at both a discount and a premium to the net assets attributable to those shares. As of September 23, 2016, our shares of common stock traded at a premium of approximately 4.3% of the NAV attributable to those shares as of June 30, 2016. It is not possible to predict whether the shares offered hereby will trade at, above, or below NAV.

We intend to pay quarterly distributions to our stockholders in amounts sufficient to maintain our status as a RIC. We intend to distribute approximately our entire 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) on a quarterly basis and substantially all of our taxable income on an annual basis, except that we may retain certain net capital gains for reinvestment.

We maintain an "opt out" dividend reinvestment plan on behalf of our stockholders, pursuant to which each of our stockholders' cash distributions will be automatically reinvested in additional shares of our common stock, unless the stockholder elects to receive cash.

We apply 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 NAV of the shares, we will use only newly issued shares to implement the 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 our common stock on the 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 NAV of the shares, we 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 our 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 our stockholders have been tabulated.

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The following table reflects the cash distributions, including dividends and returns of capital, if any, per share that have been declared by our board of directors for the years ended December 31, 2016, December 31, 2015 and December 31, 2014:

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount</b>
August 2, 2016	September 16, 2016	September 30, 2016	\$ 0.34
May 3, 2016	June 16, 2016	June 30, 2016	0.34
February 22, 2016	March 17, 2016	March 31, 2016	0.34
			\$ 1.02
November 3, 2015	December 16, 2015	December 30, 2015	\$ 0.34
August 4, 2015	September 16, 2015	September 30, 2015	0.34
May 5, 2015	June 16, 2015	June 30, 2015	0.34
February 23, 2015	March 17, 2015	March 31, 2015	0.34
			\$ 1.36
November 4, 2014	December 16, 2014	December 30, 2014	\$ 0.34
August 5, 2014	September 16, 2014	September 30, 2014	0.34
July 30, 2014	August 20, 2014	September 3, 2014	0.12 <sup>(1)</sup>
May 6, 2014	June 16, 2014	June 30, 2014	0.34
March 4, 2014	March 17, 2014	March 31, 2014	0.34
			\$ 1.48

(1)

Special dividend related to estimated realized capital gains attributable to NMF Holdings' warrant investments in Learning Care Group (US), Inc.

Tax characteristics of all distributions paid are reported to stockholders on Form 1099 after the end of the calendar year. For the years ended December 31, 2015 and December 31, 2014, total distributions were \$81.0 million and \$77.6 million, respectively, of which the distributions were comprised of approximately 99.96% and 96.16%, respectively, of ordinary income, 0.00% and 3.55%, respectively, of long-term capital gains and approximately 0.04% and 0.29%, respectively, of a return of capital. Future quarterly distributions, if any, will be determined by our board of directors.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The information contained in this section should be read in conjunction with the Selected Financial and Other Data and our Financial Statements and notes thereto appearing elsewhere in this prospectus supplement and the accompanying prospectus. For the periods prior to and as of May 8, 2014, all financial information provided in this prospectus supplement and the accompanying prospectus reflects our organizational structure prior to the restructuring on May 8, 2014 described under "Description of Restructuring" in the accompanying prospectus, where NMF Holdings functioned as the operating company. In addition to historical information, the following discussion and other parts of this prospectus supplement and the accompanying prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under "Supplementary Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" appearing elsewhere in this prospectus supplement and "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" in the accompanying prospectus.*

**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 BDC under 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 RIC under Subchapter M of the Code. NMFC is also registered as an investment adviser under the Advisers Act.

On May 19, 2011, we priced our 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 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. In connection with our IPO and through a series of transactions, NMF Holdings 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 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 "Description of Restructuring" in the accompanying prospectus.

Until May 8, 2014, NMF Holdings was externally managed by the Investment Adviser. As of May 8, 2014, the Investment Adviser serves as our external investment adviser. 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



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firm with a track record of investing in the middle market and with assets under management totaling more than \$15.0 billion<sup>(1)</sup>, 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 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.

Prior to December 18, 2014, 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.

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.

***Current Organization***

Our wholly-owned subsidiaries, NMF Ancora, NMF QID and 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, NMF Servicing serves as the administrative agent on certain investment transactions. SBIC LP, and its general partner, 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 SBA to operate as a SBIC under Section 301(c) of the 1958 Act.

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

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

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\*

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

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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 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.

The investments that we invest in are almost entirely rated below investment grade or may be unrated, which are often referred to as "leveraged loans", "high yield" or "junk" debt investments, and may be considered "high risk" or speculative compared to debt investments that are rated investment grade. 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 our net asset value and income distributions. Our investments are also primarily floating rate debt investments that contain interest reset provisions that may make it more difficult for borrowers to make debt repayments to us if interest rates rise. In addition, some of our 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. Our debt investments may also lose significant market value before a default occurs. Furthermore, an active trading market may not exist for these securities. This illiquidity may make it more difficult to value our investments.

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%.

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**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.
- (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, we look at the number of quotes readily available and perform 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;



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- 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 our senior management;
  - c. 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 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.

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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.

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
<b>Total investments</b>	<b>\$ 1,498,061</b>	<b>\$ 118</b>	<b>\$ 677,201</b>	<b>\$ 820,742</b>

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

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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.

**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.

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

(in thousands) 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
	25,524	Market quote	Discount rate	7.4%	12.4%	9.7%
	22,275	Other	Broker quote	N/A	N/A	N/A
Second lien	157,473	Market & income approach	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>
	118,769	Market quote	EBITDA multiple	6.5x	16.0x	11.5x
	11,895	Other	Discount rate	9.5%	13.1%	11.3%
Subordinated	41,734	Market & income approach	Broker quote	N/A	N/A	N/A
			N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>
Equity and other	155,308	Market & income approach	EBITDA multiple	5.0x	8.5x	7.3x
			Discount rate	9.5%	18.1%	15.8%
	1,504	Black Scholes analysis	Discount rate	8.0%	19.5%	14.3%
			Expected life in years	9.3	9.8	9.5
			Volatility	27.0%	33.8%	30.7%
	2,528	Other	Discount rate	1.6%	1.6%	1.6%
		N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	
\$ 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.





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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.

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***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.

***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.

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*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.

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 <sup>(1)</sup>	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.



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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

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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:

<u>(in millions)</u>	<b>Six Months Ended</b>	
	<b>June 30, 2016</b>	<b>June 30, 2015</b>
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**

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 our consolidated financial statements and disclosures.

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

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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, we adopted ASU 2015-02. The adoption did not have an impact on our 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, we adopted ASU 2015-03. Upon adoption, we revised our presentation of deferred financing costs from an asset to a liability, which is a direct deduction to our debt on the Consolidated Statements of Assets and Liabilities. In addition, we retrospectively revised our 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. We are in the process of evaluating the impact that this guidance will have on our consolidated financial statements and disclosures.

### **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.



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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 <sup>(1)</sup>	Adjusted Three Months Ended June 30, 2016
<b>Investment income</b>				
Interest income	\$ 38,412	\$ (35)		\$ 38,377
Dividend income	1,721			1,721
Other income	1,357			1,357
Total investment income <sup>(2)</sup>	41,490	(35)		41,455
Total expenses pre-incentive fee <sup>(3)</sup>	14,209			14,209
<b>Pre-Incentive Fee Net Investment Income</b>	<b>27,281</b>	<b>(35)</b>		<b>27,246</b>
Incentive fee	5,449			5,449
<b>Post-Incentive Fee Net Investment Income</b>	<b>21,832</b>	<b>(35)</b>		<b>21,797</b>
Net realized gains (losses) on investments <sup>(4)</sup>	865	(86)		779
Net change in unrealized appreciation (depreciation) of investments <sup>(4)</sup>	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
Capital gains incentive fees				
<b>Net increase in net assets resulting from operations</b>	<b>\$ 44,693</b>			<b>\$ 44,693</b>

- (1) For the three months ended June 30, 2016, we incurred total incentive fees of \$5.4 million, of which none was related to the capital gains incentive fee accrual on a hypothetical liquidation basis.
- (2) Includes income from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.
- (3) Includes expense waivers and reimbursements of \$0.1 million and management fee waivers of \$1.2 million.
- (4) 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.

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For the three months ended June 30, 2016, we had a less than \$0.1 million adjustment to interest income for amortization, a decrease of approximately \$0.1 million to net realized gains and an increase of approximately \$0.1 million to net change in unrealized appreciation to adjust for the stepped-up cost basis of the transferred investments as discussed above. For the three months ended June 30, 2016, total adjusted investment income of \$41.5 million consisted of approximately \$33.3 million in cash interest from investments, approximately \$0.9 million in PIK interest from

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investments, approximately \$3.3 million in prepayment fees, net amortization of purchase premiums and discounts of approximately \$0.8 million, approximately \$1.0 million in cash dividends from investments, \$0.8 million in PIK dividends from investments and approximately \$1.4 million in other income. Our Adjusted Net Investment Income was \$21.8 million for the three months ended June 30, 2016.

In accordance with GAAP, for the three months ended June 30, 2016, we did not have an accrual for 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. As of June 30, 2016, no actual capital gains incentive fee was owed under the Investment Management Agreement, as cumulative net Adjusted Realized Gains did not exceed cumulative Adjusted Unrealized Depreciation.

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The following table for the six 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)	Six Months Ended June 30, 2016	Stepped-up Cost Basis Adjustments	Incentive Fee Adjustments <sup>(1)</sup>	Adjusted Six Months Ended June 30, 2016
<b>Investment income</b>				
Interest income	\$ 76,202	\$ (64)	\$	\$ 76,138
Dividend income	3,360			3,360
Other income	2,904			2,904
Total investment income <sup>(2)</sup>	82,466	(64)		82,402
Total expenses pre-incentive fee <sup>(3)</sup>	28,233			28,233
<b>Pre-Incentive Fee Net Investment Income</b>	<b>54,233</b>	<b>(64)</b>		<b>54,169</b>
Incentive fee	10,834			10,834
<b>Post-Incentive Fee Net Investment Income</b>	<b>43,399</b>	<b>(64)</b>		<b>43,335</b>
Net realized gains (losses) on investments <sup>(4)</sup>	1,041	(124)		917
Net change in unrealized appreciation (depreciation) of investments <sup>(4)</sup>	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
Capital gains incentive fees				
<b>Net increase in net assets resulting from operations</b>	<b>\$ 52,744</b>			<b>\$ 52,744</b>

(1) For the six months ended June 30, 2016, we incurred total incentive fees of \$10.8 million, of which none was related to the capital gains incentive fee accrual on a hypothetical liquidation basis.

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

(3) Includes expense waivers and reimbursements of \$0.3 million and management fee waivers of \$2.6 million.

(4) 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.

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For the six months ended June 30, 2016, we had approximately \$0.1 million adjustment to interest income for amortization, a decrease of approximately \$0.1 million to net realized gains and an increase of approximately \$0.2 million to net change in unrealized appreciation to adjust for the stepped-up cost basis of the transferred investments as discussed above. For the six months ended June 30, 2016, total adjusted investment income of \$82.4 million consisted of approximately

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\$69.2 million in cash interest from investments, approximately \$1.9 million in PIK interest from investments, approximately \$3.5 million in prepayment fees, net amortization of purchase premiums and discounts of approximately \$1.5 million, approximately \$1.9 million in cash dividends from investments, \$1.5 million in PIK dividends from investments and approximately \$2.9 million in other income. Our Adjusted Net Investment Income was \$43.3 million for the six months ended June 30, 2016.

In accordance with GAAP, for the six months ended June 30, 2016, we did not have an accrual for 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. As of June 30, 2016, no actual capital gains incentive fee was owed under the Investment Management Agreement, as cumulative net Adjusted Realized Gains did not exceed cumulative Adjusted Unrealized Depreciation.

**Results of Operations for the Three Months Ended June 30, 2016 and June 30, 2015***Revenue*

(in thousands)	Three Months Ended		Percentage
	June 30, 2016	June 30, 2015	Change
Interest income	\$ 38,412	\$ 35,470	8%
Dividend income	1,721	1,795	(4)%
Other income	1,357	640	112%
Total investment income	\$ 41,490	\$ 37,905	9%

Our total investment income increased by approximately \$3.6 million for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. The 9% increase in total investment income primarily results from an increase in interest income of approximately \$2.9 million from the three months ended June 30, 2015 to the three months ended June 30, 2016 which is attributable to larger invested balances, driven by the proceeds from the September 2015 primary offering of our common stock, proceeds from our May 2016 Unsecured Notes offering, our use of leverage from our revolving credit facilities and SBA-guaranteed debentures to originate new investments, and prepayment fees received associated with the early repayment of three portfolio companies held as of March 31, 2016. Dividend income remained stable during the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 which is primarily comprised of distributions from our investment in SLP I and PIK dividend income from one equity position. Other income during the three months ended June 30, 2016, which represents fees that are generally non-recurring in nature, was primarily attributable to structuring, upfront, amendment, consent and commitment fees received from six different portfolio companies and management fees from a non-controlled affiliated portfolio company.

Table of Contents*Operating Expenses*

(in thousands)	Three Months Ended		Percentage
	June 30, 2016	June 30, 2015	Change
Management fee	\$ 6,818	\$ 6,198	
Less: management fee waiver	(1,241)	(1,247)	
Total management fee	5,577	4,951	13%
Incentive fee	5,449	5,057	8%
Capital gains incentive fee <sup>(1)</sup>		9	NM*
Interest and other financing expenses	6,771	5,598	21%
Professional fees	861	909	(5)%
Administrative expenses	629	522	20%
Other general and administrative expenses	384	453	(15)%
Total expenses	19,671	17,499	12%
Less: expenses waived and reimbursed	(63)		NM*
Net expenses before income taxes	19,608	17,499	12%
Income tax expense	50	153	(67)%
Net expenses after income taxes	\$ 19,658	\$ 17,652	11%

(1) Capital gains incentive fee accrual assumes a hypothetical liquidation basis.

\*  
Not meaningful.

Our total net operating expenses increased by approximately \$2.0 million for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. Our management fee increased by approximately \$0.6 million, net of a management fee waiver, and incentive fees increased by approximately \$0.4 million for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. The increase in management fee and incentive fee from the three months ended June 30, 2015 to the three months ended June 30, 2016 was attributable to larger invested balances, driven by the proceeds from the September 2015 primary offering of our common stock, proceeds from our May 2016 unsecured notes offering and our use of leverage from our revolving credit facilities and SBA-guaranteed debentures to originate new investments.

Interest and other financing expenses increased by approximately \$1.2 million during the three months ended June 30, 2016, primarily due to higher drawn balances on the NMFC Credit Facility (as defined below) and SBA-guaranteed debentures. Our total professional fees, total administrative expenses and total other general and administrative expenses remained flat and our expenses waived and reimbursed increased by approximately \$0.1 million for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015.

Table of Contents**Net Realized Gains (Losses) and Net Change in Unrealized Appreciation (Depreciation)**

(in thousands)	Three Months Ended		Percentage
	June 30, 2016	June 30, 2015	Change
Net realized gains (losses) on investments	\$ 865	\$ (13,338)	NM*
Net change in unrealized appreciation (depreciation) of investments	21,956	13,484	63%
Net change in unrealized (depreciation) appreciation securities purchased under collateralized agreements to resell	(44)		NM*
Benefit (provision) for taxes	84	(135)	NM*
Net realized and unrealized gains (losses)	\$ 22,861	\$ 11	NM*

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\*

Not meaningful.

Our net realized and unrealized gains resulted in a net gain of approximately \$22.9 million for the three months ended June 30, 2016 compared to net realized losses and unrealized gains resulting in a minimal net gain for the same period in 2015. We look at net realized and unrealized gains or losses together as movement in unrealized appreciation or depreciation can be the result of realizations. The net gain for the three months ended June 30, 2016 was primarily driven by the overall increase in the market prices of our investments during the period. The benefit for income taxes was attributable to three equity investments that are held as of June 30, 2016 in three of our corporate subsidiaries.

The minimal net gain for the three months ended June 30, 2015 was primarily driven by the overall decrease in the market prices of our investments during the period which were offset by sales or repayments of investments with fair values in excess of March 31, 2015 valuations, resulting in net realized gains being greater than the reversal of the cumulative net unrealized gains for those investments. In addition, one portfolio company had a modification of terms that was accounted for as an extinguishment during the quarter ended June 30, 2015, the net realized loss of approximately \$15.2 million was offset by the reversal of the cumulative net unrealized losses for this investment.

**Results of Operations for the Six Months Ended June 30, 2016 and June 30, 2015****Revenue**

(in thousands)	Six Months Ended		Percentage
	June 30, 2016	June 30, 2015	Change
Interest income	\$ 76,202	\$ 68,817	11%
Dividend income	3,360	3,102	8%
Other income	2,904	2,522	15%
Total investment income	\$ 82,466	\$ 74,441	11%

Our total investment income increased by approximately \$8.0 million for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. The 11% increase in total



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investment income primarily results from an increase in interest income of approximately \$7.4 million from the six months ended June 30, 2015 to the six months ended June 30, 2016 which is attributable to larger invested balances, driven by the proceeds from the September 2015 primary offering of our common stock, proceeds from our May 2016 Unsecured Notes offering, our use of leverage from our revolving credit facilities and SBA-guaranteed debentures to originate new investments, and prepayment fees received associated with the early repayment of four portfolio companies held as of December 31, 2015. Dividend income remained stable during the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 which is primarily comprised of distributions from our investment in SLP I and PIK dividend income from an equity position. Other income during the six months ended June 30, 2016, which represents fees that are generally non-recurring in nature, was primarily attributable to structuring, upfront, amendment, consent and commitment fees received from eleven different portfolio companies and management fees from a non-controlled affiliated portfolio company.

### *Operating Expenses*

(in thousands)	Six Months Ended		Percentage
	June 30, 2016	June 30, 2015	Change
Management fee	\$ 13,654	\$ 12,666	
Less: management fee waiver	(2,560)	(2,629)	
<b>Total management fee</b>	<b>11,094</b>	<b>10,037</b>	<b>11%</b>
Incentive fee	10,834	9,935	9%
Capital gains incentive fee <sup>(1)</sup>		490	NM*
Interest and other financing expenses	13,373	11,075	21%
Professional fees	1,738	1,648	5%
Administrative expenses	1,468	1,157	27%
Other general and administrative expenses	816	882	(7)%
<b>Total expenses</b>	<b>39,323</b>	<b>35,224</b>	<b>12%</b>
Less: expenses waived and reimbursed	(347)	(400)	(13)%
<b>Net expenses before income taxes</b>	<b>38,976</b>	<b>34,824</b>	<b>12%</b>
Income tax expense	91	302	(70)%
<b>Net expenses after income taxes</b>	<b>\$ 39,067</b>	<b>\$ 35,126</b>	<b>11%</b>

(1) Capital gains incentive fee accrual assumes a hypothetical liquidation basis.

\*  
Not meaningful.

Our total net operating expenses increased by approximately \$3.9 million for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. Our management fee increased by approximately \$1.1 million, net of a management fee waiver, and incentive fees increased by approximately \$0.9 million for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. The increase in management fee and incentive fee from the six months ended June 30, 2015 to the six months ended June 30, 2016 was attributable to larger invested balances, driven by the proceeds from the September 2015 primary offering of our common stock, proceeds from our May 2016 unsecured notes offering, and our use of leverage from our revolving credit facilities and SBA-guaranteed debentures to originate new investments. Our capital gains incentive fee accrual decreased by approximately \$0.5 million for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015, which was attributable to lower net Adjusted Realized Capital Gains (Losses) and Adjusted Unrealized Capital Appreciation (Depreciation) of investments during the period. As of June 30, 2016, no actual capital gains incentive fee was owed under the Investment Management Agreement, as cumulative net Adjusted Realized Gains did not exceed cumulative Adjusted Unrealized Depreciation.



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Interest and other financing expenses increased by approximately \$2.3 million during the six months ended June 30, 2016, primarily due to higher drawn balances on the NMFC Credit Facility (as defined below) and SBA-guaranteed debentures. Our total professional fees, total administrative expenses and total other general and administrative expenses increased \$0.3 million and our expenses waived and reimbursed remained flat for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015.

*Net Realized Gains (Losses) and Net Change in Unrealized Appreciation (Depreciation)*

(in thousands)	Six Months Ended		Percentage
	June 30, 2016	June 30, 2015	Change
Net realized gains (losses) on investments	\$ 1,041	\$ (13,471)	NM*
Net change in unrealized appreciation (depreciation) of investments	7,570	17,970	(58)%
Net change in unrealized (depreciation) appreciation securities purchased under collateralized agreements to resell	(74)		NM*
Benefit (provision) for taxes	808	(636)	NM*
Net realized and unrealized gains (losses)	\$ 9,345	\$ 3,863	NM*

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\*

Not meaningful.

Our net realized and unrealized gains resulted in a net gain of approximately \$9.3 million for the six months ended June 30, 2016 compared to net realized losses and unrealized gains resulting in a net gain of approximately \$3.9 million for the same period in 2015. We look at net realized and unrealized gains or losses together as movement in unrealized appreciation or depreciation can be the result of realizations. The net gain for the six months ended June 30, 2016 was primarily driven by the overall increase in the market prices of our investments during the period. The benefit for income taxes was attributable to three equity investments that are held as of June 30, 2016 in three of our corporate subsidiaries.

The net gain for the six months ended June 30, 2015 was primarily driven by the sales or repayments of investments with fair values in excess of December 31, 2014 valuations, resulting in net realized gains being greater than the reversal of the cumulative net unrealized gains for those investments which included the sale of two portfolio companies resulting in realized gains of approximately \$14.2 million. These gains were offset by \$29.7 million of realized losses on investments resulting from the modification of terms on three portfolio companies that were accounted for as extinguishments.

Table of Contents**Our Results of Operations for the Years Ended December 31, 2015 and December 31, 2014 and the Predecessor Operating Company for the Year Ended December 31, 2013****Revenue**

(in thousands)	Years Ended December 31,		
	2015	2014	2013
Interest income	\$ 140,074	\$ 85,123	\$ 107,027
Interest income allocated from the Predecessor Operating Company		40,515	
Total interest income	140,074	125,638	107,027
Dividend income	5,771	2,309	5,049
Dividend income allocated from the Predecessor Operating Company		2,368	
Total dividend income	5,771	4,677	5,049
Other income	8,010	4,491	2,836
Other income allocated from the Predecessor Operating Company		795	
Total other income	8,010	5,286	2,836
Total investment income	\$ 153,855	\$ 135,601	\$ 114,912

Our total investment income increased by approximately \$18.3 million for the year ended December 31, 2015 as compared to total investment income for the year ended December 31, 2014. The 13% increase in total investment income primarily results from an increase in interest income of approximately \$14.4 million from the year ended December 31, 2014 to the year ended December 31, 2015, which is attributable to larger invested balances, driven by the proceeds from the September 2015 primary offering of our common stock, our use of leverage from our revolving credit facilities, SBA-guaranteed debentures and the deployment of the June 2014 proceeds from the issuance of \$115.0 million of convertible notes to originate new investments, and prepayment fees received associated with the early repayments or partial repayments of nine different portfolio companies held as of December 31, 2014. The increase in dividend income of approximately \$1.1 million during the year ended December 31, 2015 as compared to the year ended December 31, 2014 was primarily attributable to distributions from our investment in SLP I and PIK dividends income from an equity position. The increase in other income, which represents fees that are generally non-recurring in nature, of approximately \$2.7 million during the year ended December 31, 2015 as compared to the year ended December 31, 2014 was primarily attributable to structuring, upfront, amendment and consent fees received from 22 different portfolio companies, commitment fees received from three bridge facilities and management fees from a non-controlled/affiliated portfolio company.

Our total investment income increased by approximately \$20.7 million for the year ended December 31, 2014 as compared to the Predecessor Operating Company's total investment income for the year ended December 31, 2013. The 18% increase in total investment income primarily results from an increase in interest income of approximately \$18.6 million from the year ended December 31, 2013 to the year ended December 31, 2014, which is attributable to larger invested balances, driven by the proceeds from the October 2013, April 2014 and October 2014 primary offerings of our common stock and the June 2014 offering of our convertible notes, our use of leverage from our revolving credit facilities to originate new investments, and prepayment fees received associated with the early repayments or partial repayments of ten different portfolio companies held by the Predecessor Operating Company as of December 31, 2013. The increase in

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other income of approximately \$2.5 million during the year ended December 31, 2014 as compared to the year ended December 31, 2013, which represents fees that are generally non-recurring in nature, was primarily attributable to structuring, amendment and consent fees received from 20 different portfolio companies and management fees from a non-controlled affiliated portfolio company. The decrease in dividend income during the year ended December 31, 2014 as compared to the year ended December 31, 2013 was primarily attributable to a large distribution from one of the Predecessor Operating Company's warrant investments in the prior year.

### *Operating Expenses*

(in thousands)	Years Ended December 31,		
	2015	2014	2013
Management fee	\$ 25,858	\$ 13,593	\$ 14,905
Management fee allocated from Predecessor Operating Company		5,983	
Less: management fee waiver	(5,219)	(686)	
<b>Total management fee</b>	<b>20,639</b>	<b>18,890</b>	<b>14,905</b>
Incentive fee	20,591	12,070	16,502
Incentive fee allocated from Predecessor Operating Company		6,248	
<b>Total incentive fee</b>	<b>20,591</b>	<b>18,318</b>	<b>16,502</b>
Capital gains incentive fee <sup>(1)</sup>		(8,573)	3,229
Capital gains incentive fee allocated from Predecessor Operating Company <sup>(1)</sup>		2,024	
<b>Total capital gains incentive fee<sup>(1)</sup></b>		<b>(6,549)</b>	<b>3,229</b>
Interest and other financing expenses	23,374	13,269	12,470
Interest and other financing expenses allocated from Predecessor Operating Company		4,764	
<b>Total interest and other financing expenses</b>	<b>23,374</b>	<b>18,033</b>	<b>12,470</b>
Professional fees	3,214	2,390	2,349
Professional fees allocated from Predecessor Operating Company		1,238	
<b>Total professional fees</b>	<b>3,214</b>	<b>3,628</b>	<b>2,349</b>
Administrative fees	2,450	1,470	3,429
Administrative expenses allocated from Predecessor Operating Company		761	
<b>Total administrative expenses</b>	<b>2,450</b>	<b>2,231</b>	<b>3,429</b>
Other general and administrative expenses	1,665	1,138	1,584
Other general and administrative expenses allocated from Predecessor Operating Company		555	
<b>Total other general and administrative expenses</b>	<b>1,665</b>	<b>1,693</b>	<b>1,584</b>
<b>Total expenses</b>	<b>71,933</b>	<b>56,244</b>	<b>54,468</b>
Less: expenses waived and reimbursed	(733)	(1,145)	(3,233)
<b>Net expenses before income taxes</b>	<b>71,200</b>	<b>55,099</b>	<b>51,235</b>
Income tax expense	160	436	
<b>Net expenses after income taxes</b>	<b>\$ 71,360</b>	<b>\$ 55,535</b>	<b>\$ 51,235</b>

(1)

Capital gains incentive fee accrual assumes a hypothetical liquidation basis.

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Our total net operating expenses increased by approximately \$15.8 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. Our management fee increased by approximately \$1.7 million, net of a management fee waiver, and incentive fees increased by approximately \$2.3 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The increase in management fee and incentive fee from the year ended December 31, 2014 to the year ended December 31, 2015 was attributable to larger invested balances, driven by the proceeds from the September 2015 primary offering of our common stock, our use of leverage from our revolving credit facilities, SBA-guaranteed debentures and the deployment of the June 2014 proceeds from the issuance of \$115.0 million of convertible notes to originate new investments. No capital gains incentive fee was accrued for the year ended December 31, 2015.

Interest and other financing expenses increased by approximately \$5.3 million during the year ended December 31, 2015, primarily due to our issuance of \$115.0 million of convertible notes, the closing of the NMFC Credit Facility (as defined below) during the second quarter of 2014 and the drawing on SBA-guaranteed debentures beginning in the fourth quarter of 2014. Our total professional fees, total administrative expenses and total other general and administrative expenses marginally decreased by approximately \$0.2 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. Our expenses waived and reimbursed decreased by approximately \$0.4 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014 due to the expiration of the expense cap on March 31, 2014.

Our total net operating expenses increased by approximately \$4.3 million for the year ended December 31, 2014 as compared to the Predecessor Operating Company's year ended December 31, 2013. Our management fee increased by approximately \$4.0 million, net of a management fee waiver, and incentive fees increased by approximately \$1.8 million for the year ended December 31, 2014 as compared to the Predecessor Operating Company's year ended December 31, 2013. The increase in management fee and incentive fee from the Predecessor Operating Company's year ended December 31, 2013 to our year ended December 31, 2014 was attributable to larger invested balances, driven by the proceeds from the October 2013, April 2014 and October 2014 primary offerings of our common stock, the June 2014 offering of our convertible notes and our use of leverage from our revolving credit facilities to originate new investments. Our capital gains incentive fee accrual decreased by approximately \$9.8 million for the year ended December 31, 2014 as compared to the Predecessor Operating Company's year ended December 31, 2013, which was attributable to lower net Adjusted Realized Capital Gains (Losses) and net Adjusted Unrealized Capital Depreciation of investments during the period due to lower marks on the broader portfolio. As of December 31, 2014, no actual capital gains incentive fee was owed under the Investment Management Agreement, as cumulative net Adjusted Realized Gains did not exceed cumulative Adjusted Unrealized Depreciation.

Interest and other financing expenses increased by approximately \$5.6 million during the year ended December 31, 2014, primarily due to the increase of average debt outstanding from \$184.1 million to \$244.6 million for the Holdings Credit Facility (as defined below) for the year ended December 31, 2013 compared to December 31, 2014. In addition, during the year ended December 31, 2014, we issued \$115.0 million of convertible notes, closed the NMFC Credit Facility (as defined below) and began to draw on SBA-guaranteed debentures. Our total professional fees, total administrative expenses and total other general and administrative expenses marginally increased by approximately \$0.2 million for the year ended December 31, 2014 as compared to the Predecessor Operating Company's year ended December 31, 2013. During the year ended December 31, 2014, we incurred \$10.9 thousand in other expenses that were not subject to the expense cap pursuant to the administration agreement, as amended and restated (the "Administration Agreement"), with the Administrator, and further restricted by us. For the year

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ended December 31, 2014, approximately \$1.4 million of indirect administrative expenses were included in administrative expenses, of which \$0.8 million were waived by the Administrator. Our expenses waived and reimbursed decreased by approximately \$2.1 million for the year ended December 31, 2014 as compared to the Predecessor Operating Company's year ended December 31, 2013 due to the expiration of the expense cap on March 31, 2014 and the decrease of waived indirect administrative expenses by the Administrator during the year ended December 31, 2014.

### *Net Realized Gains (Losses) and Net Change in Unrealized Appreciation (Depreciation)*

(in thousands)	Years Ended December 31,		
	2015	2014	2013
Net realized (losses) gains on investments	\$ (12,789)	\$ 357	\$ 7,253
Net realized gains on investments allocated from Predecessor Operating Company		8,568	
Total realized (losses) gains on investments	(12,789)	8,925	7,253
Net change in unrealized (depreciation) appreciation of investments	(35,272)	(43,863)	7,994
Net change in unrealized appreciation (depreciation) of investments allocated from Predecessor Operating Company		940	
Total change in unrealized (depreciation) appreciation of investments	(35,272)	(42,923)	7,994
Net change in unrealized (depreciation) appreciation of securities purchased under collateralized agreements to resell	(296)		
Provision for taxes	(1,183)	(493)	
Total net realized gains and net change in unrealized (depreciation) appreciation of investments	\$ (49,540)	\$ (34,491)	\$ 15,247

Our net realized and unrealized losses resulted in a net loss of approximately \$49.5 million for the year ended December 31, 2015 compared to the net realized gain and unrealized losses resulting in a net loss of approximately \$34.5 million for the same period in 2014. We look at net realized and unrealized gains or losses together as movement in unrealized appreciation or depreciation can be the result of realizations. The net loss for the year ended December 31, 2015 was primarily driven by the overall decrease in the market prices of our investments during the period and \$29.7 million of realized losses on investments resulting from the modification of terms on three portfolio companies that were accounted for as extinguishments. These losses were partially offset by sales or repayments of investments with fair values in excess of December 31, 2014 valuations, resulting in net realized gains being greater than the reversal of the cumulative net unrealized gains for those investments which included the sale of two portfolio companies resulting in realized gains of approximately \$14.2 million. The provision for income taxes was primarily attributable to three equity investments that are held as of December 31, 2015 in three of our corporate subsidiaries.

The net realized and unrealized losses resulted in a net loss of approximately \$34.5 million for the year ended December 31, 2014 compared to the Predecessor Operating Company's net realized and unrealized gains resulting in a net gain of approximately \$15.2 million for the same period in 2013. We look at net realized and unrealized gains or losses together as movement in unrealized appreciation or depreciation can be the result of realizations. The net loss for the year ended December 31, 2014 was primarily driven by the overall decrease in the market prices of our investments during the period and the partial write-down related to two portfolio companies. These



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losses were partially offset by a \$5.6 million gain from the sale of NMF Holdings' warrant investments in one portfolio company and sales or repayments of investments with fair values in excess of December 31, 2013 valuations resulting in net realized gains being greater than the reversal of the cumulative net unrealized gains for those investments. The provision for income taxes was attributable to one warrant investment that is held as of December 31, 2014 in one of our corporate subsidiaries.

The net gain for the year ended December 31, 2013 was primarily driven by sales or repayment of investments with fair values in excess of December 31, 2012 valuations, resulting in net realized gains being greater than the reversal of the cumulative net unrealized gains for those investments. Additionally, during the year ended December 31, 2013, a distribution from a warrant investment resulted in a realized gain of approximately \$1.1 million, the modification of terms on one debt investment that was accounted for as an extinguishment resulted in a realized gain of \$1.7 million and the sale of the first lien position in ATI Acquisition Company resulted in a realized loss of \$4.3 million.

**Liquidity and Capital Resources**

The primary use of existing funds and any funds raised in the future is expected to be for repayment of indebtedness, investments in portfolio companies, cash distributions to our stockholders or for other general corporate purposes.

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 valued at approximately \$288.4 million on behalf of AIV Holdings for exchanged units. We acquired from the Predecessor Operating Company units of the Predecessor Operating Company equal to the number of shares of our common stock sold in the additional offerings.

Our liquidity is generated and generally available through advances from the revolving credit facilities, from cash flows from operations, and, we expect, through periodic follow-on equity offerings. In addition, we may from time to time enter into additional debt facilities, increase the size of existing facilities or issue additional debt securities, including unsecured debt and/or debt securities convertible into common stock. Any such incurrence or issuance would be subject to prevailing market conditions, our liquidity requirements, contractual and regulatory restrictions and other factors. In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, calculated pursuant to the 1940 Act, is at least 200.0% after such borrowing.

At June 30, 2016 and December 31, 2015, we had cash and cash equivalents of approximately \$34.5 million and \$30.1 million, respectively. Our cash provided by operating activities during the six months ended June 30, 2016 and June 30, 2015 was approximately \$72.6 million and \$142.3 million, respectively. We expect that all current liquidity needs will be met with cash flows from operations and other activities.

***Borrowings***

***Holdings Credit Facility*** On December 18, 2014 we entered into the Second Amended and Restated Loan and Security Agreement (the "Holdings Credit Facility"), among us, 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

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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 \$495.0 million, which is the aggregate of the \$280.0 million previously available under the Predecessor Holdings Credit Facility (as defined below) and the \$215.0 million 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 us 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 our 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 us 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 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% 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.

(in millions)	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Interest expense	\$ 2.4	\$ 2.5	\$ 5.0	\$ 5.4
Non-usage fee	\$ 0.2	\$ 0.1	\$ 0.3	\$ 0.2
Amortization of financing costs	\$ 0.4	\$ 0.4	\$ 0.8	\$ 0.8
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	\$ 348.0	\$ 374.2	\$ 371.4	\$ 411.6

As of June 30, 2016 and December 31, 2015, the outstanding balance on the Holdings Credit Facility was \$348.0 million and \$419.3 million, 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.

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The maximum amount of revolving borrowings available under the Predecessor Holdings Credit Facility was \$280.0 million. 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 us 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 our 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 us 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 the 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 \$215.0 million. The SLF Credit Facility was non-recourse to us 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 our 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 the 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 first lien 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.

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, as amended on March 11, 2013. 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 us 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

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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 of our domestic subsidiaries 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 \$122.5 million. We are 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 our 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.

(in millions)	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Interest expense	\$ 0.5	\$ 0.5	\$ 1.2	\$ 0.7
Non-usage fee	\$ (1)	\$ (1)	\$ (1)	\$ 0.1
Amortization of financing costs	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.2
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	\$ 72.7	\$ 67.1	\$ 82.8	\$ 49.5

(1)

For the three months ended June 30, 2016 and June 30, 2015 and the six months ended June 30, 2016, the total non-usage fee was less than \$50 thousand.

As of June 30, 2016 and December 31, 2015, the outstanding balance on the NMFC Credit Facility was \$87.0 million and \$90.0 million, respectively, and NMFC was in compliance with the applicable covenants in the NMFC Credit Facility on such dates.

**Convertible Notes** On June 3, 2014, we closed a private offering of \$115.0 million aggregate principal amount of unsecured convertible notes (the "Convertible Notes"), pursuant to an indenture, dated June 3, 2014. The Convertible Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act. As of the first anniversary, June 3, 2015, of the Convertible Notes, the restrictions under Rule 144A under the Securities Act were removed, allowing the Convertible Notes to be eligible and freely tradeable without restrictions for resale pursuant to Rule 144(b)(1) under the Securities Act. 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.

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

**June 30, 2016**

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

- (1) Conversion rates denominated in shares of common stock per \$1.0 thousand 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 \$14.05 per share. In no event will the total number of shares of common stock issuable upon conversion exceed 71.1893 per \$1.0 thousand principal amount of the Convertible Notes (subject to adjustment upon certain events). We have 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 unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness (including existing unsecured indebtedness that we later secure) 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 our subsidiaries and financing vehicles. The issuance is considered part of the if-converted method for calculation of diluted earnings per share.

We may not redeem the Convertible Notes prior to maturity. No sinking fund is provided for the Convertible Notes. In addition, if certain corporate events, holders of the Convertible Notes may require us 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 us to provide financial information to the holders of the Convertible Notes and the Trustee if we cease 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.

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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.

(in millions)	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Interest expense	\$ 1.5	\$ 1.5	\$ 2.9	\$ 2.9
Amortization of financing costs	\$ 0.2	\$ 0.2	\$ 0.4	\$ 0.4
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 \$115.0 million and \$115.0 million, respectively, and NMFC was in compliance with the terms of the indenture.

**Unsecured Notes** On May 6, 2016, we issued \$50.0 million in aggregate principal amount of five-year 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 are equal in priority with our other unsecured indebtedness, including our 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 our unsecured debt falls below \$150.0 million. In each such event, we have 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, we are obligated to offer to prepay the Unsecured Notes at par if the Investment Adviser, or an affiliate thereof, ceases to be our investment adviser or if certain change in control events occur with respect to the Investment Adviser.

The NPA contains customary terms and conditions for 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 our 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 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 our other indebtedness 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 \$50.0 million and we were 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 \$0.4 million and \$0.4 million, respectively. Amortization of financing costs incurred on the Unsecured Notes for the three and six months ended June 30, 2016 was less than \$50 thousand, 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 us, interest only debentures with interest payable

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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 our 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 \$150.0 million as long as the licensee has at least \$75.0 million 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 \$72.4 million and \$72.4 million, respectively, and SBA-guaranteed debentures outstanding of \$121.7 million and \$117.7 million, 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 our fixed-rate SBA-guaranteed debentures as of June 30, 2016.

(in millions) Issuance Date	Maturity Date	Debenture Amount	Interest Rate	SBA Annual Charge
<b>Fixed SBA-guaranteed debentures:</b>				
March 25, 2015	March 1, 2025	\$ 37.5	2.517%	0.355%
September 23, 2015	September 1, 2025	37.5	2.829%	0.355%
September 23, 2015	September 1, 2025	28.8	2.829%	0.742%
March 23, 2016	March 1, 2026	13.9	2.507%	0.742%
<b>Interim SBA-guaranteed debentures:</b>				
	September 1, 2026 <sup>(1)</sup>	1.0	0.950%	0.742%
	September 1, 2026 <sup>(1)</sup>	3.0	0.907%	0.742%
<b>Total SBA-guaranteed debentures</b>		<b>\$ 121.7</b>		

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

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.

(in millions)	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Interest expense	\$ 0.9	\$ 0.3	\$ 1.8	\$ 0.4
Amortization of financing costs	\$ 0.1	\$ (1)	\$ 0.2	\$ 0.1
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	\$ 118.0	\$ 47.1	\$ 117.9	\$ 42.3

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- (1) For the three months ended June 30, 2015, the total amortization of financing costs was less than \$50 thousand.

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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 us. 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.

### ***Off-Balance Sheet Arrangements***

We may become a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. As of June 30, 2016 and December 31, 2015, we had outstanding commitments to third parties to fund investments totaling \$13.8 million and \$26.3 million, respectively, under various undrawn revolving credit facilities, delayed draw commitments or other future funding commitments.

We may from time to time enter into financing commitment letters or bridge financing commitments, which could require funding in the future. As of June 30, 2016 and December 31, 2015, we had commitment letters to purchase debt investments in an aggregate par amount of \$25.0 million and \$0, respectively. As of June 30, 2016 and December 31, 2015, we had not entered into any bridge financing commitments which could require funding in the future.

As of June 30, 2016 and December 31, 2015, we had unfunded commitments related to our equity investment in SLP II of \$51.6 million and \$0, respectively, which may be funded at our discretion.

### ***Contractual Obligations***

A summary of our significant contractual payment obligations as of June 30, 2016 is as follows:

#### **Contractual Obligations Payments Due by Period (in millions)**

	<b>Total</b>	<b>Less than 1 Year</b>	<b>1 - 3 Years</b>	<b>3 - 5 Years</b>	<b>More than 5 Years</b>
Holdings Credit Facility <sup>(1)</sup>	\$ 348.0	\$	\$	\$ 348.0	\$
SBA-guaranteed debentures <sup>(2)</sup>	121.7				121.7
Convertible Notes <sup>(3)</sup>	115.0			115.0	
NMFC Credit Facility <sup>(4)</sup>	87.0			87.0	
Unsecured Notes <sup>(5)</sup>	50.0			50.0	
<b>Total Contractual Obligations</b>	<b>\$ 721.7</b>	<b>\$</b>	<b>\$</b>	<b>\$ 600.0</b>	<b>\$ 121.7</b>

- (1) Under the terms of the \$495.0 million Holdings Credit Facility, all outstanding borrowings under that facility (\$348.0 million as of June 30, 2016) must be repaid on or before December 18, 2019. As of June 30, 2016, there was approximately \$147.0 million of possible capacity remaining under the Holdings Credit Facility.
- (2) Our SBA-guaranteed debentures will begin to mature on March 1, 2025.



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- (3) The \$115.0 million Convertible Notes will mature on June 15, 2019 unless earlier converted or repurchased at the holder's option.
- (4) Under the terms of the \$122.5 million NMFC Credit Facility, all outstanding borrowings under that facility (\$87.0 million as of June 30, 2016) must be repaid on or before June 4, 2019. As of June 30, 2016, there was approximately \$35.5 million of possible capacity remaining under the NMFC Credit Facility.
- (5) The \$50.0 million Unsecured Notes will mature on May 15, 2021 unless earlier repurchased.

We have entered into the Investment Management Agreement with the Investment Adviser in accordance with the 1940 Act. Under the Investment Management Agreement, the Investment Adviser has agreed to provide us with investment advisory and management services. We have agreed to pay for these services (1) a management fee and (2) an incentive fee based on our performance.

We have also entered into an Administration Agreement with the Administrator. Under the Administration Agreement, the Administrator has agreed to arrange office space for us and provide office equipment and clerical, bookkeeping and record keeping services and other administrative services necessary to conduct our respective day-to-day operations. The Administrator has also agreed to perform, or oversee the performance of, our financial records, our reports to stockholders and reports filed with the SEC.

If any of the contractual obligations discussed above are terminated, our costs under any new agreements that are entered into may increase. In addition, we would likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under the Investment Management Agreement and the Administration Agreement.

***Distributions and Dividends***

Distributions declared and paid to stockholders for the six months ended June 30, 2016 totaled \$43.4 million.

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The following table reflects cash distributions, including dividends and returns of capital, if any, per share that have been declared by our board of directors for the six months ended June 30, 2016 and the years ended December 31, 2015 and December 31, 2014:

Fiscal Year Ended	Date Declared	Record Date	Payment Date	Per Share Amount
<b><i>December 31, 2016</i></b>				
Second Quarter	May 3, 2016	June 16, 2016	June 30, 2016	\$ 0.34
First Quarter	February 22, 2016	March 17, 2016	March 31, 2016	0.34
				\$ 0.68
<b><i>December 31, 2015</i></b>				
Fourth Quarter	November 3, 2015	December 16, 2015	December 30, 2015	\$ 0.34
Third Quarter	August 4, 2015	September 16, 2015	September 30, 2015	0.34
Second Quarter	May 5, 2015	June 16, 2015	June 30, 2015	0.34
First Quarter	February 23, 2015	March 17, 2015	March 31, 2015	0.34
				\$ 1.36
<b><i>December 31, 2014</i></b>				
Fourth Quarter	November 4, 2014	December 16, 2014	December 30, 2014	\$ 0.34
Third Quarter	August 5, 2014	September 16, 2014	September 30, 2014	0.34
Third Quarter	July 30, 2014	August 20, 2014	September 3, 2014	0.12 <sup>(1)</sup>
Second Quarter	May 6, 2014	June 16, 2014	June 30, 2014	0.34
First Quarter	March 4, 2014	March 17, 2014	March 31, 2014	0.34
				\$ 1.48

- (1) Special dividend related to estimated realized capital gains attributable to the Predecessor Operating Company's warrant investments in Learning Care Group (US), Inc.

Tax characteristics of all dividends paid are reported to stockholders on Form 1099 after the end of the calendar year. Future quarterly dividends, if any, will be determined by our board of directors.

We intend to pay quarterly distributions to our stockholders in amounts sufficient to maintain our status as a RIC. We intend to distribute approximately all of our Adjusted Net Investment Income on a quarterly basis and substantially all of our taxable income on an annual basis, except that we may retain certain net capital gains for reinvestment.

We maintain an "opt out" dividend reinvestment plan on behalf of our common stockholders, pursuant to which each of our stockholders' cash distributions will be automatically reinvested in additional shares of common stock, unless the stockholder elects to receive cash.

### **Related Parties**

We have entered into a number of business relationships with affiliated or related parties, including the following:

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We have 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.

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We have entered into an Administration Agreement with the Administrator, a wholly-owned subsidiary of New Mountain Capital. The Administrator arranges our office space and provides office equipment and administrative services necessary to conduct our respective day-to-day operations pursuant to the Administration Agreement. We reimburse the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations to us under the Administration Agreement, which includes the fees and expenses associated with performing administrative, finance, and compliance functions, and the compensation of our Chief Financial Officer and Chief Compliance Officer and their respective staffs. Pursuant to the Administration Agreement and further restricted by us, the Administrator may, in its own discretion, submit to us for reimbursement some or all of the expenses that the Administrator has incurred on our behalf during any quarterly period. As a result, the amount of expenses for which we 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 us for reimbursement in the future. However, it is expected that the Administrator will continue to support part of our expense burden 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 \$0.4 million and \$0.9 million, respectively of indirect administrative expenses were included in administrative expenses, of which \$0 and \$0.3 million, respectively of indirect administrative expenses were waived by the Administrator. As of June 30, 2016, approximately \$0.3 million of indirect administrative expenses were included in payable to affiliates as the expenses were payable to the Administrator.

We, 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 us, the Investment Adviser and the Administrator, a non-exclusive, royalty-free license to use the name "New Mountain" and "New Mountain Finance".

In addition, we have adopted a formal code of ethics that governs the conduct of our 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 our investment mandates. The Investment Adviser and its affiliates may determine that an investment is appropriate for us and 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 we 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, 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 the Concurrent Private Placement.

Table of Contents**Quantitative and Qualitative Disclosures About Market Risk**

We are subject to certain financial market risks, such as interest rate fluctuations. During the six months ended June 30, 2016, certain of the loans held in our portfolio have floating interest rates. As of June 30, 2016, approximately 87.2% of investments at fair value (excluding investments on non-accrual, unfunded debt investments and non-interest bearing equity investments) represent floating-rate investments with a LIBOR floor (includes investments bearing prime interest rate contracts) and approximately 12.8% of investments at fair value represent fixed-rate investments. Additionally, our senior secured revolving credit facilities are also subject to floating interest rates and are currently paid based on one-month floating LIBOR rates.

The following table estimates the potential changes in net cash flow generated from interest income and expenses, should interest rates increase by 100, 200 or 300 basis points, or decrease by 25 basis points. Interest income is calculated as revenue from interest generated from our portfolio of investments held on June 30, 2016. Interest expense is calculated based on the terms of our outstanding revolving credit facilities and convertible notes. For our floating rate credit facilities, we use the outstanding balance as of June 30, 2016. Interest expense on our floating rate credit facilities are calculated using the interest rate as of June 30, 2016, adjusted for the hypothetical changes in rates, as shown below. The base interest rate case assumes the rates on our portfolio investments remain unchanged from the actual effective interest rates as of June 30, 2016. These hypothetical calculations are based on a model of the investments in our portfolio, held as of June 30, 2016, and are only adjusted for assumed changes in the underlying base interest rates.

Actual results could differ significantly from those estimated in the table.

<b>Change in Interest Rates</b>	<b>Estimated Percentage Change in Interest Income Net of Interest Expense (unaudited)</b>
25 Basis Points	0.96% <sup>(1)</sup>
Base Interest Rate	%
+100 Basis Points	2.14%
+200 Basis Points	9.24%
+300 Basis Points	16.64%

(1)

Limited to the lesser of the June 30, 2016 LIBOR rates or a decrease of 25 basis points.

We were not exposed to any foreign currency exchange risks as of June 30, 2016.

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Information about our senior securities as of June 30, 2016, December 31, 2015 and December 31, 2014 and information about NMF Holdings' senior securities as of December 31, 2013, 2012, 2011, 2010 and 2009 are shown in the following table. The report of Deloitte & Touche LLP, an independent registered public accounting firm, on the senior securities table as of December 31, 2015, 2014, 2013, 2012, 2011, 2010 and 2009 is attached, or incorporated by reference, as an exhibit to the registration statement of which this prospectus supplement and accompanying prospectus are a part.

<b>Class and Year<sup>(1)</sup></b>	<b>Total Amount Outstanding Exclusive of Treasury Securities<sup>(2)</sup> (in millions)</b>	<b>Asset Coverage Per Unit<sup>(3)</sup></b>	<b>Involuntary Liquidating Preference Per Unit<sup>(4)</sup></b>	<b>Average Market Value Per Unit<sup>(5)</sup></b>
<b>June 30, 2016 (unaudited)</b>				
Holdings Credit Facility	\$ 348.0	\$ 2,406	\$	N/A
Convertible Notes	115.0	2,406		N/A
NMFC Credit Facility	87.0	2,406		N/A
Unsecured Notes	50.0	2,406		N/A
<b>December 31, 2015</b>				
Holdings Credit Facility	419.3	2,341		N/A
Convertible Notes	115.0	2,341		N/A
NMFC Credit Facility	90.0	2,341		N/A
<b>December 31, 2014</b>				
Holdings Credit Facility	468.1	2,267		N/A
Convertible Notes	115.0	2,267		N/A
NMFC Credit Facility	50.0	2,267		N/A
<b>December 31, 2013</b>				
Holdings Credit Facility	221.8	2,577		N/A
SLF Credit Facility	214.7	2,577		N/A
<b>December 31, 2012</b>				
Holdings Credit Facility	206.9	2,353		N/A
SLF Credit Facility	214.3	2,353		N/A
<b>December 31, 2011</b>				
Holdings Credit Facility	129.0	2,426		N/A
SLF Credit Facility	165.9	2,426		N/A
<b>December 31, 2010<sup>(6)</sup></b>				
Holdings Credit Facility	59.7	3,074		N/A
SLF Credit Facility	56.9	3,074		N/A
<b>December 31, 2009<sup>(6)</sup></b>				
Holdings Credit Facility	77.7	4,080		N/A

(1)

We have excluded our SBA-guaranteed debentures from this table as a result of the SEC exemptive relief that permits us to exclude such debentures from the definition of senior securities in the 200.0% asset coverage ratio we are required to maintain under the 1940 Act. At June 30, 2016, December 31, 2015 and December 31, 2014, we had \$121.7 million, 117.7 million and \$37.5 million, respectively, in SBA-guaranteed debentures outstanding. At December 31, 2013, 2012, 2011, 2010 and 2009, we had no outstanding SBA-guaranteed debentures. Total asset coverage per unit including the SBA-guaranteed debentures as of June 30, 2016, December 31, 2015 and December 31, 2014 is \$2,168, \$2,128 and \$2,196, respectively, and unchanged for the prior years.



- (2) Total amount of each class of senior securities outstanding at the end of the period presented.

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- (3) Asset coverage per unit is the ratio of the carrying value of our total assets, less all liabilities excluding indebtedness represented by senior securities in this table, to the aggregate amount of senior securities representing indebtedness. Asset coverage per unit is expressed in terms of dollar amounts per \$1,000 of indebtedness and is calculated on a consolidated basis.
- (4) The amount to which such class of senior security would be entitled upon the voluntary liquidation of the issuer in preference to any security junior to it. The " " in this column indicates that the SEC expressly does not require this information to be disclosed for certain types of senior securities.
- (5) Not applicable because the senior securities are not registered for public trading.
- (6) Prior to NMFC's IPO on May 19, 2011, these credit facilities existed at the Predecessor Entities.

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Our ratios of earnings to fixed charges for the six months ended June 30, 2016 and years ended December 31, 2015 and 2014, and the Predecessor Operating Company's ratios of earnings to fixed charges for the years ended December 31, 2013, 2012 and 2011, computed as set forth below, were as follows:

	<b>For the Six Months Ended June 30, 2016</b>	<b>For the Year Ended December 31, 2015</b>	<b>For the Year Ended December 31, 2014</b>	<b>For the Year Ended December 31, 2013</b>	<b>For the Year Ended December 31, 2012</b>	<b>For the Year Ended December 31, 2011</b>
Earnings to Fixed Charges <sup>(1)</sup>	4.95	2.42	3.55	7.33	8.34	5.47

(1)

Earnings include net realized and unrealized gains or losses. Net realized and unrealized gains or losses can vary substantially from period to period.

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in net assets resulting from operations plus (or minus) income tax expense (benefit) including excise tax expense plus fixed charges. Fixed charges include interest and credit facility fees expense and amortization of debt issuance costs.

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**DESCRIPTION OF THE NOTES**

The Additional Convertible Notes will be issued under the indenture (the "indenture") dated as of June 3, 2014 between New Mountain Finance Corporation, as issuer, and U.S. Bank National Association, as Trustee. The terms of the Additional Convertible Notes include those provided in the indenture. The Additional Convertible Notes offered hereby will be a further issuance of, be fungible and rank equally in right of payment with, have the same interest rate, maturity date, and other terms as, and form a single series for all purposes under the indenture governing the Additional Convertible Notes including, without limitation, waivers, amendments, consents, redemptions and other offers to purchase and voting, with the Convertible Notes. We refer to the "Additional Convertible Notes" and the "Convertible Notes" separately within this prospectus supplement since only the Additional Convertible Notes are being offered hereby, but any general discussion of the terms of the Additional Convertible Notes would also apply to the Convertible Notes since they are treated as the same under the indenture.

The following description is only a summary of the material provisions of the Additional Convertible Notes and the indenture. We urge you to read the indenture in its entirety because it, and not this description, defines your rights as a holder of the Additional Convertible Notes. You may request copies of these documents as set forth under the captions "Available Information" in this prospectus supplement and the accompanying prospectus.

When we refer to "NMFC", the "Company", "we", "our" or "us" in this section, we refer only to New Mountain Finance Corporation and not its subsidiaries. In addition, all references to interest in this prospectus supplement include additional interest, if any, payable at our election as the sole remedy relating to the failure to comply with our reporting obligations pursuant to the provisions set forth below under the heading " Events of Default; Notice and Waiver".

***Brief Description of the Additional Convertible Notes***

The Additional Convertible Notes will:

initially be limited to \$35.0 million aggregate principal amount (\$40.25 million if the overallotment option is exercised in full by the underwriters);

bear interest at a rate of 5.00% per year, payable semi-annually in arrears, on June 15 and December 15 of each year, commencing on December 15, 2016;

be our general unsecured obligations, ranking equally with all of our other unsecured indebtedness, including the Convertible Notes and the Unsecured Notes, and senior in right of payment to any of our existing and future subordinated indebtedness, effectively subordinated in right of payment to our existing and future secured indebtedness and structurally subordinated to all existing and future debt of our subsidiaries;

be convertible by you at any time on or prior to 5:00 p.m., New York City time, on the business day immediately preceding the maturity date, into shares of our common stock (together with cash in lieu of fractional shares) initially at a conversion rate of 63.2794 shares of our common stock per \$1,000 principal amount of Additional Convertible Notes (subject to adjustment as set forth in this prospectus supplement), which represents an initial conversion price of approximately \$15.80 per share. In the event of a non-stock change of control, we will, in certain circumstances, increase the conversion rate as described herein;

not be redeemable prior to maturity;

be subject to repurchase by us at your option if a fundamental change occurs, at a cash repurchase price equal to 100.0% of the principal amount of the Additional Convertible

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Notes, plus accrued and unpaid interest (including additional interest, if any) to, but not including, the repurchase date; and

be due on June 15, 2019, unless earlier converted or repurchased by us at your option.

Neither we nor any of our subsidiaries will be subject to any financial covenants under the indenture. In addition, neither we nor any of our subsidiaries will be restricted under the indenture from paying dividends, incurring debt or issuing or repurchasing our securities. You are not afforded protection under the indenture in the event of a highly leveraged transaction or a change in control of us, except to the extent described below under " Adjustment to Conversion Rate Upon a Non-Stock Change of Control", " Fundamental Change Put" and " Consolidation, Merger and Sale of Assets by the Company".

No sinking fund is provided for the Additional Convertible Notes and the Additional Convertible Notes will not be subject to defeasance.

The Additional Convertible Notes initially will be issued in book-entry form only in denominations of \$1,000 principal amount and integral multiples thereof. Beneficial interests in the Additional Convertible Notes will be shown on, and transfers of beneficial interests in the Additional Convertible Notes will be effected only through, records maintained by The Depository Trust Company, or DTC, or its nominee, and any such interests may not be exchanged for certificated notes except in limited circumstances. For information regarding conversion, registration of transfer and exchange of global notes held in DTC, see " Form, Denomination and Registration Global Notes Book-Entry Form".

If certificated notes are issued, you may present them for conversion, registration of transfer and exchange, without service charge, at the corporate trust office of the applicable trustee, which will initially be the office or agency of the Trustee in New York City and/or the corporate trust office of the applicable trustee as may be specified in the indenture or in a notice to holders against surrender of the Additional Convertible Notes.

We do not intend to list the Additional Convertible Notes on any securities exchange or any automated dealer quotation system.

### ***Additional Notes***

We may, without the consent of the holders of the Additional Convertible Notes, increase the principal amount of the Additional Convertible Notes by issuing additional notes in the future on the same terms and conditions as the Additional Convertible Notes, except for any differences in the issue price and interest accrued prior to the issue date of the additional notes; provided that if any such additional notes are not fungible with the Additional Convertible Notes initially offered hereby for U.S. federal income tax purposes, those additional notes will have a separate CUSIP number. The Additional Convertible Notes offered hereby, the Convertible Notes and any additional notes would rank equally and ratably and would be treated as a single class for all purposes under the indenture. No such additional notes may be issued if any event of default has occurred with respect to the Additional Convertible Notes or the Convertible Notes.

### ***Payment at Maturity***

On the maturity date, each holder will be entitled to receive on such date \$1,000 in cash for each \$1,000 in principal amount of Additional Convertible Notes, together with accrued and unpaid interest (including additional interest, if any) to, but not including, the maturity date. With respect to global notes, principal and interest (including additional interest, if any) will be paid to DTC in immediately available funds. With respect to any certificated notes, principal and interest (including additional interest, if any) will be payable at the corporate trust office of the applicable trustee,

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which will initially be the office or agency of the Trustee in New York City and/or the corporate trust office of the applicable trustee as may be specified in the indenture or in a notice to holders against surrender of the Additional Convertible Notes.

### **Interest**

The Additional Convertible Notes will bear interest at a rate of 5.00% per year. Interest will accrue from the most recent date to which interest has been paid or duly provided for. We will pay interest on the Additional Convertible Notes (including additional interest, if any) semi-annually, in arrears on June 15 and December 15 of each year, commencing on December 15, 2016, to holders of record at 5:00 p.m., New York City time, on the preceding June 1 and December 1, respectively. However, there are two exceptions to the preceding sentence:

holders will be entitled to a cash payment representing accrued and unpaid interest to, but not including, the conversion date on any Additional Convertible Notes unless the Additional Convertible Notes are converted after a record date for an interest payment but prior to the corresponding interest payment date, as described under " Conversion Rights;" and

on the maturity date, we will pay accrued and unpaid interest to the person to whom we pay the principal amount.

We will pay interest on:

global notes to DTC in immediately available funds;

any certificated notes having a principal amount of less than \$2,000,000, by check mailed to the holders of those Additional Convertible Notes; provided, however, at maturity, interest will be payable as described under " Payment at Maturity;" and

any certificated notes having a principal amount of \$2,000,000 or more, by wire transfer in immediately available funds at the election of the holders of these Additional Convertible Notes duly delivered to the Trustee at least five business days prior to the relevant interest payment date; provided, however, at maturity, interest will be payable as described under " Payment at Maturity".

Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. If a payment date is not a business day, payment will be made on the next succeeding business day, and no additional interest will accrue thereon. The term "business day" means any day other than a Saturday, a Sunday or a day on which the Federal Reserve Bank of New York or the Trustee is authorized or required by law or executive order to close or be closed.

To the extent lawful, payments of principal or interest (including additional interest, if any) on the Additional Convertible Notes that are not made when due will accrue interest at the annual rate of 1.0% above the then applicable interest rate from the required payment date.

### **Ranking**

The Additional Convertible Notes will be our general unsecured obligations that rank senior in right of payment to all of our future indebtedness that is expressly subordinated in right of payment to the Additional Convertible Notes. The Additional Convertible Notes will rank equally in right of payment with all of our existing and future liabilities that are not so subordinated, including the Convertible Notes and the Unsecured Notes. The Additional Convertible Notes will effectively rank junior to any of our and our subsidiaries' secured indebtedness (including unsecured indebtedness that later becomes secured indebtedness) to the extent of the value of the assets securing such indebtedness. The Additional Convertible Notes will rank structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries and financing vehicles. In the

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event of our bankruptcy, liquidation, reorganization or other winding up, our assets that secure secured debt will be available to pay obligations on the Additional Convertible Notes only after all indebtedness under such secured debt has been repaid in full from such assets. We advise you that there may not be sufficient assets remaining to pay amounts due on any or all the Additional Convertible Notes and Convertible Notes then outstanding.

As of September 23, 2016, we had \$693.6 million of indebtedness outstanding, \$528.6 million of which was secured indebtedness and \$165.0 million of which was unsecured indebtedness. After giving effect to the issuance of the Additional Convertible Notes (assuming no exercise of the underwriters' overallotment option), and the use of the proceeds therefrom, our total consolidated indebtedness as of September 23, 2016 would have been \$728.6 million principal amount.

***Conversion Rights***

Holders may convert their Additional Convertible Notes prior to 5:00 p.m., New York City time, on the business day preceding the maturity date at an initial conversion rate of 63.2794 shares of common stock per \$1,000 principal amount of Additional Convertible Notes (equivalent to an initial conversion price of approximately \$15.80 per share). The conversion rate will be subject to adjustment as described below. You will have the right to convert any portion of the principal amount of any Additional Convertible Notes that is an integral multiple of \$1,000 at any time on or prior to the close of business on the business day immediately preceding the maturity date.

Upon conversion, unless you convert after a record date for an interest payment but prior to the corresponding interest payment date, you will receive a separate cash payment representing accrued and unpaid interest to, but not including the conversion date. Any such payment will be made on the settlement date applicable to the relevant conversion on the Additional Convertible Notes. If you convert after a record date for an interest payment but prior to the corresponding interest payment date, you will receive on the corresponding interest payment date the interest accrued and unpaid on your Additional Convertible Notes for the entire interest period, notwithstanding your conversion of those Additional Convertible Notes prior to the interest payment date, assuming you were the holder of record on the corresponding record date.

Except as described under " Conversion Rate Adjustments", we will not make any payment or other adjustment for dividends on any common stock issued upon conversion of the Additional Convertible Notes.

***Conversion Procedures***

Procedures to be Followed by a Holder

If you hold a beneficial interest in a global note, to convert you must deliver to DTC the appropriate instruction form for conversion pursuant to DTC's conversion program and, if required, pay all documentary, stamp or similar issue or transfer tax, if any.

If you hold a certificated note, to convert you must:

complete and manually sign the conversion notice on the back of the Additional Convertible Notes or a facsimile of the conversion notice;

deliver the completed conversion notice (which is irrevocable) and the Additional Convertible Notes to be converted to the conversion agent;

if required, furnish appropriate endorsements and transfer documents; and

if required, pay all documentary, stamp or similar issue or transfer tax, if any.

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The conversion date will be the date on which you have satisfied all of the foregoing requirements. The Additional Convertible Notes will be deemed to have been converted immediately prior to 5:00 p.m., New York City time, on the conversion date.

You will not be required to pay any documentary, stamp or similar issue or transfer tax relating to the issuance or delivery of our common stock if you exercise your conversion rights, but you will be required to pay any documentary, stamp or similar issue or transfer tax that may be payable relating to any transfer involved in the issuance or delivery of the common stock in a name other than your own. Certificates representing common stock will be issued and delivered only after all applicable documentary, stamp or similar issue or transfer tax, if any, payable by you have been paid in full.

We will not issue fractional shares of our common stock upon conversion of the Additional Convertible Notes. Instead, we will pay cash in lieu of fractional shares based on the closing sale price of our common stock on the conversion date.

*Limitation on Beneficial Ownership*

Notwithstanding the foregoing, no holder of Additional Convertible Notes will be entitled to receive shares of our common stock upon conversion to the extent (but only to the extent) that such receipt would cause such converting holder to become, directly or indirectly, a "beneficial owner" (within the meaning of Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder) of more than 5.0% of the shares of our common stock outstanding at such time (the "Limitation"). Any purported delivery of shares of our common stock upon conversion of Additional Convertible Notes shall be void and have no effect to the extent (but only to the extent) that such delivery would result in the converting holder becoming the beneficial owner of more than the Limitation. If any delivery of shares of our common stock owed to a holder upon conversion of Additional Convertible Notes is not made, in whole or in part, as a result of the Limitation, our obligation to make such delivery shall not be extinguished and we shall deliver such shares as promptly as practicable after any such converting holder gives notice to us that such delivery would not result in it being the beneficial owner of more than 5.0% of the shares of common stock outstanding at such time. The Limitation shall no longer apply following the effective date of any Fundamental Change, as defined in " Fundamental Change Put".

*Conversion Rate Adjustments*

We will adjust the conversion rate for the following events:

- (1) If we issue shares of our common stock as a dividend or distribution on shares of our common stock, or if we effect a share split or share combination of our common stock, the conversion rate will be adjusted based on the following formula:

where,

$CR_1$  = the conversion rate in effect immediately prior to the open of business on the record date for such dividend or distribution or the effective date of such share split or combination, as the case may be;

$CR_0$  = the conversion rate in effect at 5:00 p.m., New York City time, on the trading day immediately preceding the record date for such dividend or distribution or the effective date of such share split or combination, as the case may be;

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$OS_0$  = the number of shares of our common stock outstanding at 5:00 p.m., New York City time, on the trading day immediately preceding the record date for such dividend or distribution or the effective date of such share split or combination; and

$OS_1$  = the number of shares of our common stock that would be outstanding immediately after, and solely as a result of, such dividend, distribution, share split or combination, as the case may be.

(2) If we distribute to all or substantially all holders of our common stock any rights or warrants (other than rights issued pursuant to a stockholders' right plan) entitling them for a period of not more than 60 days from the issuance date for such distribution to subscribe for or purchase shares of our common stock, at a price per share less than the last reported sale price of our common stock on the trading day immediately preceding the declaration date of such distribution, the conversion rate will be increased based on the following formula; provided that the conversion rate will be readjusted to the extent that such rights or warrants are not exercised prior to their expiration:

where,

$CR_1$  = conversion rate in effect immediately prior to the open of business on the record date for such distribution;

$CR_0$  = the conversion rate in effect at 5:00 p.m., New York City time, on the trading day immediately preceding the record date for such distribution;

$OS_0$  = the number of shares of our common stock outstanding at 5:00 p.m. New York City time, on the trading day immediately preceding the record date for such distribution;

X = the total number of shares of our common stock issuable pursuant to such rights or warrants; and

Y = the number of shares of our common stock equal to the aggregate price payable to exercise such rights or warrants, divided by the average of the last reported sale prices of our common stock over the 10 consecutive trading day period ending on the trading day immediately preceding the record date for such distribution.

(3) (a) If we distribute shares of our capital stock, evidences of our indebtedness or other of our assets or property to all or substantially all holders of our common stock, excluding:

dividends or distributions as to which adjustment is required to be effected in clause (1) or (2) above;

dividends or distributions paid exclusively in cash; and

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spin-offs described below in clause (3)(b),  
then the conversion rate will be increased based on the following formula:

where,

- $CR_1$  = conversion rate in effect immediately prior to the open of business on the record date for such distribution;
- $CR_0$  = the conversion rate in effect at 5:00 p.m., New York City time, on the trading day immediately preceding the record date for such distribution;
- $SP_0$  = the average of the last reported sale prices of our common stock over the 10 consecutive trading day period ending on the trading day immediately preceding the record date for such distribution; and
- FMV = the fair market value (as determined by our board of directors or a committee thereof) of the shares of capital stock, evidences of indebtedness, assets or property distributed, with respect to each outstanding share of our common stock as of the open of business on the record date for such distribution.

(b) With respect to an adjustment pursuant to this clause (3) where there has been a payment of a dividend or other distribution on our common stock in shares of capital stock of any class or series, or similar equity interest, of or relating to a subsidiary or other business unit of ours that are listed on a national or regional securities exchange, which is referred to in this prospectus supplement as a "spin-off", the conversion rate will be increased based on the following formula:

where,

- $CR_1$  = conversion rate in effect immediately prior to the open of business on the record date for the spin-off;
- $CR_0$  = the conversion rate in effect at 5:00 p.m., New York City time, on the trading day immediately preceding the record date for the spin-off;
- FMV = the average of the last reported sale prices of the capital stock or similar equity interest distributed to holders of our common stock applicable to one share of our common stock over the first 10 consecutive trading day period immediately following, and including, the third trading day after the record date for such spin-off (such period, the "valuation period"); and
- $MP_0$  = the average of the last reported sale prices of our common stock over the valuation period.

Any adjustment to the conversion rate under this clause (3)(b) will be made immediately after the open of business on the day after the last day of the valuation period, but will be given effect as of the open of business on the record date for the spin-off. Because we will make the adjustment to the conversion rate at the end of the valuation period with retroactive effect, we will delay the settlement of any Additional Convertible Notes where the conversion

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date occurs during the valuation period. In such event, we will deliver shares of our common stock, if any, and any cash in lieu thereof (based on the adjusted conversion rate as described above) on the third business day immediately following the last day of the valuation period.

(4) If we pay any cash dividends or make distributions paid exclusively in cash to all or substantially all holders of our common stock (other than dividends or distributions made in connection with our liquidation, dissolution or winding-up or upon a merger, consolidation or sale, lease, transfer, conveyance or other disposition resulting in a change in the conversion consideration as described under "Change in the Conversion Rights upon Certain Reclassification, Business Combinations, Asset Sales and Corporate Events"), the conversion rate will be increased based on the following formula (other than a regular quarterly cash dividend that does not exceed "T" (as defined below)):

where,

- CR<sub>1</sub> = conversion rate in effect immediately prior to the open of business on the record date for such dividend or distribution;
- CR<sub>0</sub> = the conversion rate in effect at 5:00 p.m., New York City time, on the trading day immediately preceding the record date for such distribution;
- SP<sub>0</sub> = the average of the last reported sale prices of our common stock over the 10 consecutive trading day period ending on the trading day immediately preceding the record date for such distribution;
- T = the dividend threshold amount, which will initially equal \$0.34 per share in any quarterly period; provided that if the dividend or distribution is not a regular quarterly cash dividend, the initial dividend threshold will be deemed to be zero; and
- C = the amount in cash per share we distribute to holders of our common stock in any dividend

The initial dividend threshold is subject to adjustment in a manner inversely proportional to adjustments to the conversion rate; *provided* that no adjustment will be made to the initial dividend threshold for any adjustment to the conversion rate under this clause (4).

Any increase made under this clause (4) shall become effective immediately after the open of business on the ex-dividend date for such dividend or distribution. If such dividend or distribution is not so paid, the conversion rate shall be decreased, effective as of the date our board of directors or a committee thereof determines not to make or pay such dividend or distribution, to be the conversion rate that would then be in effect if such dividend or distribution had not been declared.

If "C" (as defined above) is equal to or greater than "SP0" (as defined above), or if the difference between "SP0" and "C" is less than \$0.01, in lieu of the foregoing increase, each holder of an Additional Convertible Note shall receive, in respect of each \$1,000 principal amount thereof, at the same time and upon the same terms as holders of shares of our common stock, the amount of cash that such holder would have received as if such holder owned a number of shares of our common stock equal to the conversion rate on the record date for such cash dividend or distribution.

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(5) If we or any of our subsidiaries makes a payment in respect of a tender offer or exchange offer for our common stock, to the extent that the cash and value of any other consideration included in the payment per share of our common stock exceeds the last reported sale price of our common stock on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer, the conversion rate will be increased based on the following formula:

where,

- $CR_1$  = the conversion rate in effect at 5:00 p.m. on the day such tender offer or exchange offer expires;
- $CR_0$  = the conversion rate in effect immediately prior to the open of business on the trading day next succeeding the date such tender offer or exchange offer expires;
- $AC$  = the aggregate value of all cash and any other consideration (as determined by our board of directors or a committee thereof) paid or payable for shares purchased in such tender or exchange offer;
- $SP_1$  = the average of the last reported sale prices of our common stock over the 10 consecutive trading day period commencing on, and including, the trading day next succeeding the date such tender or exchange offer expires (the "averaging period");
- $OS_1$  = the number of shares of our common stock outstanding immediately after the close of business on the date such tender or exchange offer expires (after giving effect to such tender offer or exchange offer); and
- $OS_0$  = the number of shares of our common stock outstanding immediately prior to the date such tender or exchange offer expires (prior to giving effect to such tender offer or exchange offer).

Any adjustment to the conversion rate under this clause (5) will be made immediately prior to the open of business on the day following the last day of the averaging period, but will be given effect as of the open of business on the trading day next succeeding the date such tender offer or exchange offer expires. Because we will make the adjustment to the conversion rate at the end of the averaging period with retroactive effect, we will delay the settlement of any Additional Convertible Notes where the conversion date occurs during the averaging period. In such event, we will deliver shares of our common stock, if any, and any cash in lieu thereof (based on the adjusted conversion rate as described above) on the third business day immediately following the last day of the averaging period.

To the extent that any future stockholders' rights plan adopted by us is in effect upon conversion of the Additional Convertible Notes into common stock, you will receive, in addition to the common stock, the rights under the applicable rights agreement unless the rights have separated from our common stock at the time of conversion of the Additional Convertible Notes, in which case, the conversion rate will be adjusted as if we distributed to all holders of our common stock shares of our capital stock, evidences of indebtedness or assets as described above in clause (3), subject to readjustment in the event of the expiration, termination or redemption of such rights.

We will not make any adjustment if holders may participate in the transaction at the same time and upon the same terms as holders of our common stock as a result of holding the Additional

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Convertible Notes, without having to convert their Additional Convertible Notes, as if they had a number of shares of common stock equal to the applicable conversion rate multiplied by the principal amount (expressed in thousands) of Additional Convertible Notes held by such holder, or in certain other cases. Except with respect to a spin-off, in cases where the fair market value of assets, debt securities or certain rights, warrants or options to purchase our securities, applicable to one share of common stock, distributed to stockholders:

equals or exceeds the average closing price of the common stock over the 10 consecutive trading day period ending on the record date for such distribution, or

such average closing price exceeds the fair market value of such assets, debt securities or rights, warrants or options so distributed by less than \$0.01,

rather than being entitled to an adjustment in the conversion price, the holder of Additional Convertible Notes will be entitled to receive upon conversion, in addition to the shares of common stock, the kind and amount of assets, debt securities or rights, warrants or options comprising the distribution that such holder would have received if such holder had converted such Additional Convertible Notes immediately prior to the record date for determining the stockholders entitled to receive the distribution.

To the extent that we are required to make an adjustment pursuant to a distribution that qualifies under two or more of the clauses above, we will adjust the conversion rate pursuant to clause (3)(a) above to the extent it applies.

Except as stated above, we will not adjust the conversion rate for the issuance of our common stock or any securities convertible into or exchangeable for our common stock or carrying the right to purchase any of the foregoing.

If a taxable distribution to holders of our common stock or other transaction occurs that results in any adjustment of the conversion rate (including an adjustment at our option), you may, in certain circumstances, be deemed to have received a distribution subject to U.S. federal income tax as a dividend. In certain other circumstances, the absence of an adjustment may result in a taxable dividend to the holders of our common stock. See "Additional Material Federal Income Tax Considerations Tax Consequences to U.S. Holders of Additional Convertible Notes Constructive distributions" and "Additional Material Federal Income Tax Considerations Tax Consequences to Non-U.S. Holders of Additional Convertible Notes Constructive distributions" in this prospectus supplement.

We will not be required to make an adjustment in the conversion rate unless the adjustment would require a change of at least 1.0% in the conversion rate. However, we will carry forward any adjustment that is less than 1.0% of the conversion rate, take such carried-forward adjustments into account in any subsequent adjustment, and make such carried forward adjustments, regardless of whether the aggregate adjustment is less than 1.0%, (a) annually on the anniversary of the first date of issue of the Convertible Notes, or June 3, and otherwise (b)(1) 10 business days prior to the maturity date of the Additional Convertible Notes or (2) 10 business days prior to any repurchase date, unless such adjustment has already been made.

Without limiting the foregoing, no adjustment to the conversion rate need be made:

(i) upon the issuance of any shares of common stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on our securities and the investment of additional optional amounts in shares of common stock under any plan;

(ii) upon the issuance of any shares of common stock or options or rights to purchase shares of common stock pursuant to any present or future employee, director or consultant

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benefit plan or program or employee stock purchase plan of, or assumed by, us or any of our subsidiaries;

(iii) upon the issuance of any shares of common stock pursuant to any option, warrant, right, or exercisable, exchangeable or convertible security not described in clause (ii) above and outstanding as of the issue date;

(iv) for a change in the par value of the common stock; or

(v) for accrued and unpaid interest (including any additional interest, if applicable).

We will not take any action that would result in an adjustment pursuant to the provisions described in this subsection (" Conversion Rate Adjustments") without complying with Section 312 of the NYSE's Listed Company Manual (which requires stockholder approval of certain issuances of stock), if applicable.

### *Change in the Conversion Rights upon Certain Reclassifications, Business Combinations, Asset Sales and Corporate Events*

If we:

reclassify or change our common stock (other than changes resulting from a subdivision or combination), or

consolidate or merge with or into any person or sell, lease, transfer, convey or otherwise dispose of all or substantially all of our assets and those of our subsidiaries taken as a whole to another person,

and in either case holders of our common stock receive stock, other securities or other property or assets (including cash or any combination thereof) with respect to or in exchange for their common stock, then from and after the effective date of such transaction, each outstanding Additional Convertible Note will, without the consent of any holders of the Additional Convertible Notes, upon the occurrence of such transaction, become convertible in accordance with the procedures described in " Conversion Procedures", into the consideration the holders of our common stock received in such reclassification, change, consolidation, merger, sale, lease, transfer, conveyance or other disposition (such consideration, the "reference property"). If the transaction causes our common stock to be converted into the right to receive more than a single type of consideration (determined based in part upon any form of stockholder election), the reference property into which the Additional Convertible Notes will become convertible will be deemed to be the kind and amount of consideration elected to be received by a majority of our common stock voted for such an election (if electing between two types of consideration) or a plurality of our common stock voted for such an election (if electing between more than two types of consideration), as the case may be. We may not become a party to any such transaction unless its terms are consistent with the foregoing in all material respects.

Table of Contents*Adjustment to Conversion Rate Upon a Non-Stock Change of Control*

If and only to the extent you elect to convert your Additional Convertible Notes in connection with a transaction described under clause (1), (2) or (4) under the definition of a fundamental change described below under "Fundamental Change Put" and determined after giving effect to any exceptions to or exclusions from such definition, but without regard to the proviso in clause (2) of the definition thereof (a "make-whole fundamental change"), pursuant to which 10.0% or more of the consideration for our common stock (other than cash payments for fractional shares and cash payments made in respect of dissenters' appraisal rights) in such make-whole fundamental change transaction consists of cash or securities (or other property) that are not shares of common stock traded or scheduled to be traded immediately following such transaction on the NYSE, the NASDAQ Global Market or the NASDAQ Global Select Market (or any of their respective successors), which we refer to as a "non-stock change of control" we will increase the conversion rate as described below (subject to the limitations described below). The number of additional shares by which the conversion is increased (the "additional shares") will be determined by reference to the table below, based on the date on which the non-stock change of control becomes effective (the "effective date") and the price (the "stock price") paid per share for our common stock in such non-stock change of control. If holders of our common stock receive only cash in such transaction, the price paid per share will be the cash amount paid per share. Otherwise, the stock price shall be the average of the last reported sale prices of our common stock over the five trading-day period ending on, and including, the trading day immediately preceding the effective date of the non-stock change of control. We will notify you of the effective date of any make-whole fundamental change no later than such time that the fundamental change occurs.

A conversion of the Additional Convertible Notes by a holder will be deemed for these purposes to be "in connection with" a non-stock change of control if the conversion notice is received by the conversion agent following the effective date of the non-stock change of control but before the close of business on the business day immediately preceding the related repurchase date (as specified in the repurchase notice described under "Fundamental Change Put").

The number of additional shares will be adjusted in the same manner as and as of any date on which the conversion rate of the Additional Convertible Notes is adjusted as described above under "Conversion Rate Adjustments". The stock prices set forth in the first row of the table below (i.e., the column headers) will be simultaneously adjusted to equal the stock prices immediately prior to such adjustment, multiplied by a fraction, the numerator of which is the conversion rate immediately prior to the adjustment and the denominator of which is the conversion rate as so adjusted.

The following table sets forth the number of additional shares by which the conversion rate shall be increased:

**Share Price and Additional Shares**

<b>Date</b>	<b>\$14.05</b>	<b>\$14.38</b>	<b>\$14.88</b>	<b>\$15.38</b>	<b>\$15.80</b>	<b>\$16.86</b>	<b>\$17.86</b>	<b>\$18.85</b>	<b>\$19.84</b>	<b>\$20.83</b>
<b>June 15, 2016</b>	7.9099	6.9284	5.4046	4.1414	3.2455	1.6619	0.8163	0.3640	0.1397	0.0356
<b>June 15, 2017</b>	7.9099	6.7155	5.1713	3.9000	3.0058	1.4585	0.6655	0.2643	0.0787	0.0000
<b>June 15, 2018</b>	7.9099	6.6301	4.9899	3.6536	2.7299	1.1942	0.4725	0.1458	0.0140	0.0000
<b>June 15, 2019</b>	7.9099	6.2407	3.9234	1.7555	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

The exact stock price and effective dates may not be set forth on the table, in which case, if the stock price is:

between two stock price amounts on the table or the effective date is between two dates on the table, the number of additional shares will be determined by straight-line interpolation

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between the number of additional shares set forth for the higher and lower stock price amounts and the two dates, as applicable, based on a 360-day year;

in excess of \$20.83 per share (subject to adjustment), no additional shares will be issued upon conversion; and

less than \$14.05 per share (subject to adjustment), no additional shares will be issued upon conversion.

Notwithstanding the foregoing, in no event will the total number of shares of common stock issuable upon conversion, exceed 71.1893 per \$1,000 principal amount of the Additional Convertible Notes, subject to the same adjustments as the conversion rate as set forth above under " Conversion Rate Adjustments". Additional shares deliverable as described in this section " Adjustment to Conversion Rate Upon a Non-Stock Change of Control", will be delivered on the settlement date applicable to the relevant conversion.

*Fundamental Change Put*

If a fundamental change (as defined below) occurs at any time prior to the maturity of the Additional Convertible Notes, you will have the right to require us to repurchase, at the repurchase price described below, all or part of your Additional Convertible Notes for which you have properly delivered and not withdrawn a written repurchase notice. The Additional Convertible Notes submitted for repurchase must be \$1,000 in principal amount or integral multiples thereof.

The repurchase price will be payable in cash and will equal 100.0% of the principal amount of the Additional Convertible Notes being repurchased, plus accrued and unpaid interest (including additional interest, if any) to, but excluding, the repurchase date. However, if the repurchase date is after a record date and on or prior to the corresponding interest payment date, the interest (including additional interest, if any) will be paid on the repurchase date to the holder of record on the record date.

We may be unable to repurchase your Additional Convertible Notes in cash upon a fundamental change. Our ability to repurchase the Additional Convertible Notes in cash in the future may be limited by the terms of our then-existing borrowing agreements. Under certain of our existing credit facilities, we would be prohibited from making any such repurchase without consent from the lenders thereunder or a waiver or modification of such requirements. In addition, the occurrence of a fundamental change could cause an event of default under the terms of our then-existing borrowing agreements. We cannot assure you that we would have the financial resources, or would be able to arrange financing, to pay the repurchase price in cash.

A "fundamental change" will be deemed to have occurred when any of the following has occurred:

1. a "person" or "group" within the meaning of Section 13(d) of the Exchange Act, other than us, our subsidiaries and our and their employee benefit plans, has become the direct or indirect beneficial owner of our common equity representing more than 50.0% of the voting power of our common equity and files a Schedule 13D or Schedule TO or any other schedule, form or report under the Exchange Act disclosing such beneficial ownership; or



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2. the consummation of (A) any recapitalization, reclassification or change of our common stock (other than changes resulting from a subdivision or combination or a change solely in par value) as a result of which our common stock would be converted into, or exchanged for, stock, other securities, other property or assets; (B) any share exchange, consolidation or merger of us pursuant to which our common stock will be converted into cash, securities or other property; or (C) any sale, lease or other transfer in one transaction or a series of transactions of all or substantially all of the consolidated assets of us and our subsidiaries, taken as a whole, to any person other than one of our subsidiaries; provided, however, that a transaction described in clause (A) or (B) in which the holders of all classes of our common equity immediately prior to such transaction own, directly or indirectly, more than 50.0% of all classes of common equity of the continuing or surviving corporation or transferee or the parent thereof immediately after such transaction in substantially the same proportions as such ownership immediately prior to such transaction shall not be a fundamental change pursuant to this clause (2); or

3. our stockholders approve any plan or proposal for the liquidation or dissolution of us; or

4. our common stock (or other common stock underlying the Additional Convertible Notes) ceases to be listed or quoted on any of the NYSE, the NASDAQ Global Select Market or the NASDAQ Global Market (or any of their respective successors) for a period of 20 consecutive trading days.

Notwithstanding the foregoing, any transaction or event described in clause (2) above will not constitute a fundamental change if at least 90.0% of the consideration paid for our common stock (excluding cash payments for fractional shares, cash payments made pursuant to dissenters' appraisal rights and cash dividends) consists of shares of common stock (or depositary receipts in respect thereof) traded on the NYSE, the NASDAQ Global Market or the NASDAQ Global Select Market (or any of their respective successors) (or will be so traded or quoted immediately following the completion of the merger or consolidation or such other transaction) and, as a result of such transaction, the Additional Convertible Notes become convertible into the reference property as described under " Conversion Rate Adjustment Change in the Conversion Rights upon Certain Reclassifications, Business Combinations, Asset Sales and Corporate Events" above.

The definition of "fundamental change" includes a phrase relating to the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of our assets and those of our subsidiaries taken as a whole. Although there is a developing body of case law interpreting the phrase "substantially all", there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of Additional Convertible Notes to require us to repurchase the Additional Convertible Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of our assets and those of our subsidiaries taken as a whole to another person or group may be uncertain.

On or before the fifth calendar day after the occurrence of a fundamental change, we will provide to all record holders of the Additional Convertible Notes on the date of the fundamental change at their addresses shown in the register of the applicable note registrar and to beneficial owners to the extent required by applicable law, the Trustee and the paying agent, a written notice of the occurrence of the fundamental change and the resulting repurchase right. Such notice shall state, among other things, the event causing the fundamental change and the procedures you must follow to require us to repurchase your Additional Convertible Notes.

The repurchase date will be a date specified by us in the notice of a fundamental change that is not less than 20 nor more than 35 calendar days after the date of the notice of a fundamental change.

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To exercise your repurchase right, you must deliver, prior to 5:00 p.m., New York City time, on the repurchase date, a written notice to the paying agent of your exercise of your repurchase right (together with the Additional Convertible Notes to be repurchased, if certificated notes have been issued). The repurchase notice must state:

if you hold a beneficial interest in a global note, your repurchase notice must comply with appropriate DTC procedures; if you hold certificated notes, the Additional Convertible Notes certificate numbers;

the portion of the principal amount of the Additional Convertible Notes to be repurchased, which must be \$1,000 or integral multiples thereof; and

that the Additional Convertible Notes are to be repurchased by us pursuant to the applicable provisions of the Additional Convertible Notes and the indenture.

You may withdraw your repurchase notice at any time prior to 5:00 p.m., New York City time, on the repurchase date by delivering a written notice of withdrawal to the paying agent. If a repurchase notice is given and withdrawn during that period, we will not be obligated to repurchase the Additional Convertible Notes listed in the repurchase notice. The withdrawal notice must state:

if you hold a beneficial interest in a global note, your withdrawal notice must comply with appropriate DTC procedures; if you hold certificated notes, the certificate numbers of the withdrawn Additional Convertible Notes;

the principal amount of the withdrawn Additional Convertible Notes; and

the principal amount, if any, which remains subject to the repurchase notice.

Payment of the repurchase price for Additional Convertible Notes for which a repurchase notice has been delivered and not withdrawn is conditioned upon book-entry transfer or delivery of the Additional Convertible Notes, together with necessary endorsements, to the paying agent, as the case may be. Payment of the repurchase price for the Additional Convertible Notes will be made promptly following the later of the repurchase date and the time of book-entry transfer or delivery of the Additional Convertible Notes, as the case may be.

If the paying agent holds on the business day immediately following the repurchase date cash sufficient to pay the repurchase price of the Additional Convertible Notes that holders have elected to require us to repurchase, then, as of the repurchase date:

the Additional Convertible Notes will cease to be outstanding and interest (including additional interest, if any) will cease to accrue, whether or not book-entry transfer of the Additional Convertible Notes has been made or the Additional Convertible Notes have been delivered to the paying agent, as the case may be; and

all other rights of the holders of Additional Convertible Notes will terminate, other than the right to receive the repurchase price upon delivery or transfer of the Additional Convertible Notes.

In connection with any repurchase, we will, to the extent applicable:

comply with the provisions of Rule 13e-4 and any other tender offer rules under the Exchange Act that may be applicable at the time of the offer to repurchase the Additional Convertible Notes;

file a Schedule TO or any other schedule required in connection with any offer by us to repurchase the Additional Convertible Notes; and



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comply with all other federal and state securities laws in connection with any offer by us to repurchase the Additional Convertible Notes.

This fundamental change repurchase right could discourage a potential acquirer of the Company. However, this fundamental change repurchase feature is not the result of management's knowledge of any specific effort to obtain control of us by means of a merger, tender offer, solicitation or otherwise, or part of a plan by management to adopt a series of anti-takeover provisions.

Our obligation to repurchase the Additional Convertible Notes upon a fundamental change would not necessarily afford you protection in the event of a highly leveraged or other transaction involving us that may adversely affect holders. We also could, in the future, enter into certain transactions, including certain recapitalizations, that would not constitute a fundamental change but would increase the amount of our (or our subsidiaries') outstanding debt. The incurrence of significant amounts of additional debt could adversely affect our ability to service our then existing debt, including the Additional Convertible Notes.

***Consolidation, Merger and Sale of Assets by the Company***

The indenture provides that we may not, in a single transaction or a series of related transactions, consolidate with or merge with or into any other person or sell, convey, transfer or lease our property and assets substantially as an entirety to another person, unless:

either (a) we are the continuing corporation or (b) the resulting, surviving or transferee person (if other than us) is a corporation or limited liability company organized and existing under the laws of the United States, any state thereof or the District of Columbia and such person assumes, by a supplemental indenture in a form reasonably satisfactory to the Trustee, all of our obligations under the Additional Convertible Notes, the Convertible Notes and the indenture;

immediately after giving effect to such transaction, no default or event of default has occurred and is continuing; and

we have delivered to the Trustee certain certificates and opinions of counsel satisfactory to it if so requested by the Trustee.

In the event of any transaction described in and complying with the conditions listed in the immediately preceding paragraph in which the Company is not the continuing corporation, the successor person formed or remaining shall succeed, and be substituted for, and may exercise every right and power of, the Company, and the Company shall be discharged from its obligations, under the Additional Convertible Notes and the indenture.

This covenant includes a phrase relating to the sale, conveyance, transfer and lease of the property and assets of the Company "substantially as an entirety". There is no precise, established definition of the phrase "substantially as an entirety" under New York law, which governs the indenture and the Additional Convertible Notes, or under the laws of Delaware, the Company's state of incorporation. Accordingly, the ability of a holder of the Additional Convertible Notes to require us to repurchase the Additional Convertible Notes as a result of a sale, conveyance, transfer or lease of less than all of the property and assets of the Company may be uncertain.

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***Events of Default; Notice and Waiver***

Each of the following shall be "Events of Default" with respect to the Additional Convertible Notes:

we fail to pay any interest (including additional interest, if any) on the Additional Convertible Notes or the Convertible Notes when due and such failure continues for a period of 30 calendar days;

we fail to pay principal of the Additional Convertible Notes or the Convertible Notes when due at maturity, or we fail to pay the repurchase price payable, in respect of any Additional Convertible Notes or Convertible Notes when due;

we fail to deliver shares of common stock upon the conversion of any Additional Convertible Notes or Convertible Notes and such failure continues for five days following the scheduled settlement date for such conversion;

we fail to provide notice of the effective date or actual effective date of a fundamental change on a timely basis as required in the indenture;

we fail to perform or observe any other term, covenant or agreement in the Additional Convertible Notes or the Convertible Notes or the indenture for a period of 60 calendar days after written notice of such failure is given to us by the Trustee or to us and the Trustee by the holders of at least 25.0% in aggregate principal amount of the Additional Convertible Notes and Convertible Notes then outstanding;

a failure to pay principal when due (whether at stated maturity or otherwise) or an uncured default that results in the acceleration of maturity, of any indebtedness for borrowed money of the Company or any of our "significant subsidiaries", which term shall have the meaning specified in Rule 1-02(w) of Regulation S-X), other than subsidiaries that are non-recourse or limited recourse subsidiaries, bankruptcy remote special purpose vehicles and any subsidiaries that are not consolidated with us for GAAP purposes, in an aggregate principal amount in excess of \$30,000,000 (or its foreign currency equivalent), unless such indebtedness is discharged, or such acceleration is rescinded, stayed or annulled, within a period of 30 calendar days after written notice of such failure is given to us by the Trustee or to us and the Trustee by the holders of at least 25.0% in aggregate principal amount of the Additional Convertible Notes and Convertible Notes then outstanding;

a final judgment for the payment of \$50,000,000 or more (excluding any amounts covered by insurance) rendered against us or any of our significant subsidiaries (which term shall have the meaning specified in Rule 1-02(w) of Regulation S-X), other than subsidiaries that are non-recourse or limited recourse subsidiaries, bankruptcy remote special purpose vehicles and any subsidiaries that are not consolidated with us for GAAP purposes, which judgment is not discharged or stayed within 60 days after (i) the date on which the right to appeal thereof has expired if no such appeal has commenced, or (ii) the date on which all rights to appeal have been extinguished; or

certain events involving our bankruptcy, insolvency or reorganization of the Company or any of our "significant subsidiaries", which term shall have the meaning specified in Rule 1-02(w) of Regulation S-X), other than subsidiaries that are non-recourse or limited recourse subsidiaries, bankruptcy remote special purpose vehicles and any subsidiaries that are not consolidated with us for GAAP purposes.

We are required to notify the Trustee promptly upon becoming aware of the occurrence of any default under the indenture known to us. The Trustee is then required within 90 calendar days of being notified by us of the occurrence of any default to give to the registered holders of the

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Additional Convertible Notes notice of all uncured defaults known to it. However, the Trustee may withhold notice to the holders of the Additional Convertible Notes of any default, except defaults in payment of principal or interest (including additional interest, if any) on the Additional Convertible Notes, if the Trustee, in good faith, determines that the withholding of such notice is in the interests of the holders. We are also required to deliver to the Trustee, on or before a date not more than 120 calendar days after the end of each fiscal year, a written statement as to compliance with the indenture, including whether or not any default has occurred.

If an event of default specified in the last bullet point listed above occurs and continues, the principal amount and accrued and unpaid interest (including additional interest, if any) on the Additional Convertible Notes and Convertible Notes then outstanding will automatically become due and payable. If any other event of default occurs and is continuing, the Trustee or the holders of at least 25.0% in aggregate principal amount of Additional Convertible Notes and Convertible Notes then outstanding may declare the aggregate principal amount and accrued and unpaid interest (including additional interest, if any) on the Additional Convertible Notes and Convertible Notes then outstanding to be due and payable. Thereupon, the Trustee may, in its discretion, proceed to protect and enforce the rights of the holders of the Additional Convertible Notes and Convertible Notes by appropriate judicial proceedings.

After a declaration of acceleration, but before a judgment or decree for payment of the money due has been obtained by the Trustee, the holders of a majority in aggregate principal amount of Additional Convertible Notes and Convertible Notes then outstanding, by written notice to us and the Trustee, may rescind and annul such declaration if:

we have paid (or deposited with the Trustee a sum sufficient to pay) (1) all overdue interest (including additional interest, if any) on all Additional Convertible Notes; (2) the principal amount of any Additional Convertible Notes that have become due otherwise than by such declaration of acceleration; (3) to the extent that payment of such interest is lawful, interest upon overdue interest (including additional interest, if any); and (4) all sums paid or advanced by the Trustee under the indenture and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and

all events of default, other than the non-payment of the principal amount and any accrued and unpaid interest (including additional interest, if any) that have become due solely by such declaration of acceleration, have been cured or waived.

The holders of a majority of the aggregate principal amount of Additional Convertible Notes and Convertible Notes then outstanding will have the right to direct the time, method and place of any proceedings for any remedy available to the Trustee, subject to limitations specified in the indenture.

No holder of the Additional Convertible Notes may pursue any remedy under the indenture, except in the case of a default in the payment of principal or interest (including additional interest, if any) on the Additional Convertible Notes, unless:

the holder has given the Trustee written notice of an event of default;

the holders of at least 25.0% in aggregate principal amount of the Additional Convertible Notes and Convertible Notes then outstanding make a written request to the Trustee to pursue the remedy, and offer security or indemnity reasonably satisfactory to it against any costs, liability or expense of the Trustee;

the Trustee fails to comply with the request within 60 calendar days after receipt of the request and offer of indemnity; and

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the Trustee does not receive an inconsistent direction from the holders of a majority in aggregate principal amount of the Additional Convertible Notes and Convertible Notes then outstanding.

Notwithstanding the foregoing, the indenture provides, if we so elect, that the sole remedy for an event of default relating to the failure to comply with the reporting obligations in the indenture, and for any failure to comply with the requirements of Section 314(a)(1) of the Trust Indenture Act of 1939, as amended (which also relate to the provision of reports), will, at our option, for the 90 days after the occurrence of such an event of default consist exclusively of the right to receive additional interest on the Additional Convertible Notes at an annual rate equal to 0.25% of the principal amount of the Additional Convertible Notes and for the 90 days beginning on, and including, the 91st day after the occurrence of such an event of default consist exclusively of the right to receive additional interest on the Additional Convertible Notes at an annual rate equal to 0.50% of the principal amount of the Additional Convertible Notes. In the event we do not elect to pay the additional interest upon an event of default in accordance with this paragraph, the Additional Convertible Notes will be subject to acceleration as provided above. The additional interest will accrue on all Additional Convertible Notes and Convertible Notes then outstanding from and including the date on which an event of default relating to a failure to comply with the reporting obligations in the indenture first occurs to but not including the 181st day thereafter (or such earlier date on which the event of default relating to the reporting obligations shall have been cured or waived). On such 181st day (or earlier, if the event of default relating to the reporting obligations is cured or waived prior to such 181st day), such additional interest will cease to accrue and the Additional Convertible Notes will be subject to acceleration as provided above if the event of default is continuing. The provisions of the indenture described in this paragraph will not affect the rights of holders of Additional Convertible Notes in the event of the occurrence of any other event of default.

*Waiver*

The holders of a majority in aggregate principal amount of the Additional Convertible Notes and Convertible Notes then outstanding may, on behalf of the holders of all the Additional Convertible Notes and Convertible Notes, waive any past default or event of default under the indenture and its consequences, except:

our failure to pay principal of or interest (including additional interest, if any) on any Additional Convertible Notes or Convertible Notes when due;

our failure to convert any Additional Convertible Notes or Convertible Notes into common stock as required by the indenture;

our failure to pay the repurchase price on the repurchase date in connection with a holder exercising its repurchase rights; or

our failure to comply with any of the provisions of the indenture that would require the consent of the holder of each outstanding Additional Convertible Note and Convertible Note affected.

***Modification***

*Changes Requiring Approval of Each Affected Holder*

The indenture (including the terms and conditions of the Additional Convertible Notes) may not be modified or amended without the written consent or the affirmative vote of the holder of each Additional Convertible Note affected by such change to:

change the maturity of any Additional Convertible Notes;

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reduce the rate or extend the time for payment of interest (including additional interest, if any) on any Additional Convertible Notes;

reduce the principal amount of any Additional Convertible Notes;

reduce any amount payable upon repurchase of any Additional Convertible Notes;

impair the right of a holder to receive payment with respect to any Additional Convertible Notes or to institute suit for payment of any Additional Convertible Notes;

change the currency in which any Additional Convertible Notes is payable;

change our obligation to repurchase any Additional Convertible Notes upon a fundamental change in a manner adverse to the rights of the holders;

affect the right of a holder to convert any Additional Convertible Notes into shares of our common stock or reduce the number of shares of our common stock or any other property, receivable upon conversion pursuant to the terms of the indenture;

change our obligation to maintain an office or agency in New York City;

subject to specified exceptions, modify certain provisions of the indenture relating to modification of the indenture or waiver under the indenture; or

reduce the percentage of the Additional Convertible Notes required for consent to any modification of the indenture that does not require the consent of each affected holder.

*Changes Requiring Majority Approval*

The indenture (including the terms and conditions of the Additional Convertible Notes) may be modified or amended, except as described above, with the written consent or affirmative vote of the holders of a majority in aggregate principal amount of the Additional Convertible Notes and Convertible Notes then outstanding.

*Changes Requiring No Approval*

The indenture (including the terms and conditions of the Additional Convertible Notes) may be modified or amended by us and the Trustee, without the consent of the holder of any Additional Convertible Notes, to, among other things:

provide for conversion rights of holders of the Additional Convertible Notes and our repurchase obligations in connection with a fundamental change in the event of any reclassification of our common stock, merger or consolidation, or sale, conveyance, transfer or lease of our property and assets substantially as an entity;

secure the Additional Convertible Notes;



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provide for the assumption of our obligations to the holders of the Additional Convertible Notes in the event of a merger or consolidation, or sale, conveyance, transfer or lease of our property and assets substantially as an entirety;

surrender any right or power conferred upon us;

add to our covenants for the benefit of the holders of the Additional Convertible Notes;

cure any ambiguity or correct or supplement any inconsistent or otherwise defective provision contained in the indenture;

conform the provisions of the indenture to the description of the Additional Convertible Notes contained in this prospectus supplement;

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make any provision with respect to matters or questions arising under the indenture that we may deem necessary or desirable and that shall not be inconsistent with provisions of the indenture; provided that such change or modification does not, in the good faith opinion of our board of directors, adversely affect the interests of the holders of the Additional Convertible Notes in any material respect;

increase the conversion rate; provided, that the increase will not adversely affect the interests of the holders of the Additional Convertible Notes;

adding guarantees of obligations under the Additional Convertible Notes;

make such changes as may be necessary or desirable to allow us to issue additional notes as described under " Additional Notes" provided, that any such change will not materially adversely affect the interests of the holders of the Additional Convertible Notes; and

provide for a successor trustee.

*Other*

The consent of the holders of Additional Convertible Notes is not necessary under the indenture to approve the particular form of any proposed modification or amendment. It is sufficient if such consent approves the substance of the proposed modification or amendment. After a modification or amendment under the indenture becomes effective, we are required to mail to the holders a notice briefly describing such modification or amendment. However, the failure to give such notice to all the holders, or any defect in the notice, will not impair or affect the validity of the modification or amendment.

*Additional Convertible Notes Not Entitled to Consent*

Any Additional Convertible Notes held by us or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with us shall be disregarded (from both the numerator and the denominator) for purposes of determining whether the holders of the requisite aggregate principal amount of the Additional Convertible Notes and Convertible Notes then outstanding have consented to a modification, amendment or waiver of the terms of the indenture.

***Repurchase and Cancellation***

We may, to the extent permitted by law, repurchase any Additional Convertible Notes in the open market or by tender offer at any price or by private agreement. Any Additional Convertible Notes repurchased by us may, at our option, be surrendered to the Trustee for cancellation, but may not be reissued or resold by us. Any Additional Convertible Notes surrendered for cancellation may not be reissued or resold and will be promptly cancelled and no longer outstanding under the indenture.

***Information Concerning the Trustee and Common Stock Transfer Agent and Note Registrar***

We have appointed U.S. Bank National Association, the Trustee under the indenture, as paying agent, conversion agent, note registrar and custodian for the Additional Convertible Notes. The Trustee or its affiliates may also provide other services to us in the ordinary course of their business. The indenture contains certain limitations on the rights of the Trustee, if it or any of its affiliates is then our creditor, to obtain payment of claims in certain cases or to realize on certain property received on any claim as security or otherwise. The Trustee and its affiliates will be permitted to engage in other transactions with us. However, if the Trustee or any affiliate continues

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to have any conflicting interest and a default occurs with respect to the Additional Convertible Notes, the Trustee must eliminate such conflict or resign.

American Stock Transfer & Trust Company is the transfer agent and registrar for our common stock.

### ***Governing Law***

The Additional Convertible Notes and the indenture shall be governed by, and construed in accordance with, the laws of the State of New York.

### ***Calculations in Respect of the Additional Convertible Notes***

Except as otherwise provided herein, we will be responsible for making all calculations called for under the Additional Convertible Notes. These calculations include, but are not limited to, determinations of the sale price of our common stock, accrued interest payable on the Additional Convertible Notes and the conversion rate and conversion price. We or our agents will make all these calculations in good faith and, absent manifest error, such calculations will be final and binding on holders of the Additional Convertible Notes. We will provide a schedule of these calculations to each of the Trustee and the conversion agent, and each of the Trustee and conversion agent is entitled to rely upon the accuracy of our calculations without independent verification. The Trustee will forward these calculations to any holder of the Additional Convertible Notes upon the request of that holder.

### ***Form, Denomination and Registration***

The Additional Convertible Notes will be issued:

in fully registered form;

without interest coupons; and

in denominations of \$1,000 principal amount and integral multiples of \$1,000.

### ***Global Notes, Book-Entry Form***

The Additional Convertible Notes will be evidenced by one or more global notes. We will deposit the global notes with DTC and register the global notes in the name of Cede & Co. as DTC's nominee. Except as set forth below, a global note may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee.

Beneficial interests in a global note may be held through organizations that are participants in DTC (called "participants"). Transfers between participants will be effected in the ordinary way in accordance with DTC rules and will be settled in clearing house funds. The laws of some states require that certain persons take physical delivery of securities in definitive form. As a result, the ability to transfer beneficial interests in the global notes to such persons may be limited.

Beneficial interests in a global note held by DTC may be held only through participants, or certain banks, brokers, dealers, trust companies and other parties that clear through or maintain a custodial relationship with a participant, either directly or indirectly (called "indirect participants"). So long as Cede & Co., as the nominee of DTC, is the registered owner of a global note, Cede & Co. for all purposes will be considered the sole holder of such global note. Except as provided below, owners of beneficial interests in a global note will:

not be entitled to have certificates registered in their names;

not receive physical delivery of certificates in definitive registered form; and



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not be considered holders of the global note.

We will pay principal of and interest (including additional interest, if any) on, and the repurchase price of, a global note to Cede & Co., as the registered owner of the global note, by wire transfer of immediately available funds on the maturity date, each interest payment date or repurchase date, as the case may be. Neither we, the Trustee nor any paying agent will be responsible or liable:

for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in a global note; or

for maintaining, supervising or reviewing any records relating to the beneficial ownership interests.

DTC has advised us that it will take any action permitted to be taken by a holder of the Additional Convertible Notes, including the presentation of the Additional Convertible Notes for conversion, only at the direction of one or more participants to whose account with DTC interests in the global notes are credited, and only in respect of the principal amount of the Additional Convertible Notes represented by the global notes as to which the participant or participants has or have given such direction.

DTC has advised us that it is:

a limited purpose trust company organized under the laws of the State of New York, and a member of the Federal Reserve System;

a "clearing corporation" within the meaning of the Uniform Commercial Code; and

a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes to the accounts of its participants. Participants include securities brokers, dealers, banks, trust companies and clearing corporations and other organizations. Some of the participants or their representatives, together with other entities, own DTC. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

DTC has agreed to the foregoing procedures to facilitate transfers of interests in a global note among participants. However, DTC is under no obligation to perform or continue to perform these procedures, and may discontinue these procedures at any time. We will issue the Additional Convertible Notes in definitive certificated form if DTC notifies us that it is unwilling or unable to continue as depository or DTC ceases to be a clearing agency registered under the Exchange Act and a successor depository is not appointed by us within 90 days. In addition, beneficial interests in a global note may be exchanged for definitive certificated notes upon request by or on behalf of DTC in accordance with customary procedures following the request of a beneficial owner seeking to enforce its rights under such Additional Convertible Notes or the indenture. The indenture permits us to determine at any time and in our sole discretion that Additional Convertible Notes shall no longer be represented by global notes. DTC has advised us that, under its current practices, it would notify its participants of our request, but will only withdraw beneficial interests from the global note at the request of each DTC participant. We would issue definitive certificates in exchange for any such beneficial interests withdrawn.

Neither we, the Trustee, the note registrar, paying agent nor conversion agent will have any responsibility or liability for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

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**ADDITIONAL MATERIAL FEDERAL INCOME TAX CONSIDERATIONS**

The following is a summary of certain U.S. federal income tax considerations relating to the purchase, ownership, disposition and conversion of the Additional Convertible Notes, our qualification and taxation as a RIC for U.S. federal income tax purposes and the ownership and disposition of shares of our common stock into which the Additional Convertible Notes may be converted. This summary is based upon the Code, Treasury Regulations and judicial decisions and administrative interpretations thereof, all as of the date hereof and all of which are subject to change or differing interpretations, possibly with retroactive effect. The U.S. federal income tax laws addressed in this summary are highly technical and complex, and certain aspects of their application are not entirely clear. In addition, certain U.S. federal income tax consequences described in this summary depend upon certain factual matters, including (without limitation) the value and tax basis ascribed to NMFC's assets and the manner in which NMFC operates, and certain complicated tax accounting calculations. No ruling from the Internal Revenue Service ("IRS") has been or will be sought regarding any matter discussed herein. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax aspects set forth below.

This discussion applies only to a beneficial owner of Additional Convertible Notes that acquires the Additional Convertible Notes pursuant to this offering for a price equal to the price of the Additional Convertible Notes shown on the front cover of the prospectus supplement, and who holds the Additional Convertible Notes and our common stock as capital assets (generally, property held for investment). This discussion does not address any U.S. federal estate or gift tax consequences or any state, local or non-U.S. tax consequences. In addition, this discussion does not address all aspects of U.S. federal income taxation that may be applicable to investors in light of their particular circumstances, or to investors subject to special treatment under U.S. federal income tax law, including, but not limited to:

banks, insurance companies or other financial institutions;

persons subject to the alternative minimum tax;

cooperatives;

tax-exempt organizations and accounts;

retirement plans and trusts;

dealers in securities;

traders in securities that elect to mark to market;

RICs and real estate investment trusts;

certain U.S. expatriates;

controlled foreign corporations and passive foreign investment companies;

U.S. Holders (as defined below) whose functional currency is not the U.S. dollar;

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persons deemed to sell the Additional Convertible Notes or our common stock under the constructive sale provisions of the Code;

persons that hold the Additional Convertible Notes or our common stock as part of a straddle, hedge, synthetic security, conversion transaction, wash sale or other integrated investment; or

partnerships (or entities or arrangements treated as partnerships for U.S. federal income tax purposes).

If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) owns Additional Convertible Notes or our common stock, the tax treatment of

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a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partners in a partnership that owns the Additional Convertible Notes or our common stock should consult their tax advisors as to the particular U.S. federal income tax consequences applicable to them.

As used herein, the term "U.S. Holder" means a beneficial owner of an Additional Convertible Note or common stock that is for U.S. federal income tax purposes:

an individual who, for U.S. federal income tax purposes, is a citizen or resident of the United States;

a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any State thereof or the District of Columbia;

an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust, if (i) a U.S. court is able to exercise primary supervision over the trust's administration and one or more "United States persons" (as defined in the Code) have the authority to control all substantial decisions of such trust, or (ii) the trust has in effect a valid election to be treated as a "United States person" (as defined in the Code).

As used herein, the term "Non-U.S. Holder" means a beneficial owner of an Additional Convertible Note or common stock that is not a U.S. Holder or a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes). A "Non-U.S. Holder" does not include an individual present in the United States for 183 days or more in the taxable year of disposition of the Additional Convertible Notes or common stock. Such a holder is encouraged to consult his or her own tax advisor regarding U.S. federal income tax consequences of the sale, exchange or other taxable disposition of the Additional Convertible Notes or common stock. For the purposes of this summary, U.S. Holders and Non-U.S. Holders are referred to collectively as "Holders".

We encourage Holders to consult their tax advisors regarding the specific consequences of an investment in the Additional Convertible Notes, conversion of the Additional Convertible Notes into our common stock or ownership of our common stock, including tax reporting requirements, the applicability of U.S. federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

### ***Qualified Reopening***

We intend to treat, for U.S. federal income tax purposes, the issuance of the Additional Convertible Notes as a "qualified reopening" of our 5.00% Convertible Notes due 2019 that were issued on June 3, 2014 with an issue price of 100% of their principal amount. Accordingly, we intend to treat the Additional Convertible Notes offered hereby as having the same issue date and the same issue price as those previously issued Convertible Notes. The remainder of this summary assumes this treatment.

### ***Pre-Issuance Accrued Interest***

A portion of the price paid for the Additional Convertible Notes is attributable to the amount of unpaid interest on the Additional Convertible Notes that has accrued from June 15, 2016 (the "pre-issuance accrued interest"). Pursuant to certain Treasury Regulations, we intend to treat a portion of the first interest payment on the Additional Convertible Notes as a return of the pre-issuance accrued interest, rather than an amount payable on such Additional Convertible Notes. A U.S. Holder should be able to treat a portion of the first interest payment on the Additional Convertible Notes as a non-taxable return of the pre-issuance accrued interest paid by the U.S.



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Holder, rather than as taxable interest, as if the U.S. Holder purchased a debt instrument on the secondary market between interest payment dates. U.S. Holders should consult their own tax advisors concerning the tax treatment of the pre-issuance accrued interest on the Additional Convertible Notes.

*Tax Consequences to U.S. Holders of Additional Convertible Notes*

The following is a summary of certain U.S. federal income tax consequences that will apply to you if you are a U.S. Holder. Certain U.S. federal income tax consequences to Non-U.S. Holders are described under "Tax Consequences to Non-U.S. Holders of Additional Convertible Notes" below.

*Payments of interest*

A U.S. Holder generally will be required to recognize interest (other than pre-issuance accrued interest as described above) as ordinary income at the time it is paid or accrued on the Additional Convertible Notes in accordance with its regular method of accounting for U.S. federal income tax purposes.

*Additional interest*

We may be required to make payments of additional interest to Holders of the Additional Convertible Notes under certain circumstances described under "Description of the Notes", and if we fail to comply with certain reporting obligations as described under "Description of the Notes - Events of Default; Notice and Waiver". Although the issue is not free from doubt, we intend to take the position that the possibility of such payments should not result in the Additional Convertible Notes being treated as "contingent payment debt instruments", or CPDIs, under the applicable Treasury Regulations. Therefore, if we become obligated to make such payments, we intend to take the position that such payments would be treated as ordinary interest income and taxed as described under "Payments of interest" above. Our position is not binding on the IRS, and if the IRS were to assert successfully the contrary position that the Additional Convertible Notes were properly treated as CPDIs, a U.S. Holder would be required to accrue interest income based upon a "comparable yield", regardless of the Holder's method of accounting and regardless of the amount of cash interest we actually pay, and such yield likely would be higher than the stated interest on the Additional Convertible Notes. In addition, any gain on the sale, exchange, redemption or other taxable disposition of Additional Convertible Notes treated as CPDIs (including any gain recognized on the conversion of an Additional Convertible Note treated as a CPDI) would be recharacterized as ordinary income instead of capital gain. U.S. Holders should consult their tax advisors regarding the tax consequences of the Additional Convertible Notes being treated as CPDIs. The remainder of this discussion assumes that the Additional Convertible Notes properly are treated as not CPDIs.

*Amortizable Bond Premium*

If a U.S. Holder purchases an Additional Convertible Note for an amount (excluding any amount attributable to pre-issuance accrued interest described above) in excess of its stated principal amount, the U.S. Holder will be considered to have purchased the Additional Convertible Note with a "premium" equal to such excess. If so, a U.S. Holder generally may elect to amortize the premium over the remaining term of the Additional Convertible Notes on a constant yield method as an offset to interest when includible in income under the U.S. Holder's regular accounting method. If a U.S. Holder makes this election, the U.S. Holder will be required to reduce the U.S. Holder's adjusted tax basis in the Additional Convertible Notes by the amount of the premium amortized. If the U.S. Holder does not elect to amortize the premium, that premium will decrease the gain or increase the loss the U.S. Holder would otherwise recognize on disposition of

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the Additional Convertible Notes. An election to amortize premium will also apply to all other taxable debt instruments held or subsequently acquired by the U.S. Holder on or after the first day of the first taxable year for which the election is made. Such an election may not be revoked without the consent of the IRS. U.S. Holders should consult their own tax advisors about this election.

*Sale, exchange, redemption, retirement or other taxable disposition of the Additional Convertible Notes*

Except as provided below under " Conversion of the Additional Convertible Notes", upon the sale, exchange, redemption, retirement or other taxable disposition of an Additional Convertible Note, a U.S. Holder generally will recognize capital gain or loss in an amount equal to the difference between (1) the sum of cash plus the fair market value of all other property received on such disposition (except to the extent such cash or property is attributable to accrued but unpaid interest, which, to the extent not previously included in income, generally will be taxable as ordinary income or is attributable to pre-issuance accrued interest, as discussed above) and (2) its adjusted tax basis in the Additional Convertible Note. A U.S. Holder's adjusted tax basis in an Additional Convertible Note generally will equal the price the U.S. Holder paid for the Additional Convertible Note (excluding any amount attributable to the pre-issuance accrued interest described above), reduced by any amortized premium. Such capital gain or loss will be long-term capital gain or loss if, at the time of such taxable disposition, the U.S. Holder has held the Additional Convertible Note for more than one year. Long term capital gains recognized by non-corporate U.S. Holders generally are subject to preferential rates of U.S. federal income taxation. The deductibility of capital losses is subject to limitations.

*Conversion of the Additional Convertible Notes*

A U.S. Holder generally will not recognize any gain or loss upon the conversion of the Additional Convertible Notes (other than upon the receipt of cash in lieu of a fractional share). The U.S. Holder's adjusted tax basis in the common stock received in such a conversion generally will be the same as its adjusted tax basis in the Additional Convertible Notes surrendered (other than tax basis that is properly allocable to a fractional share). The U.S. Holder's holding period for such common stock received in such a conversion will include its holding period for the Additional Convertible Notes that were converted.

The amount of gain or loss recognized on the receipt of cash in lieu of a fractional share generally will be equal to the difference between the amount of such cash received in respect of the fractional share and the portion of the U.S. Holder's adjusted tax basis in the common stock received in the conversion (as described above) that is properly allocable to the fractional share. The U.S. Holder's tax basis in a fractional share will be determined by allocating its tax basis in the Additional Convertible Notes surrendered between the common stock received upon conversion and the fractional share, in accordance with their respective fair market values.

Upon the conversion of an Additional Convertible Note, the U.S. Holder will receive a cash payment representing accrued and unpaid interest to, but not including, the conversion date. Such interest (other than pre-issuance accrued interest, as discussed above) generally will be taxable as ordinary income in the manner described above (under " Tax Consequences to U.S. Holders of Additional Convertible Notes Payments of interest").

*Constructive distributions*

The conversion rate of the Additional Convertible Notes will be adjusted in certain circumstances. Under Section 305(c) of the Code, an adjustment (or the failure to make an adjustment) that has the effect of increasing a U.S. Holder's proportionate interest in our assets or earnings may in some circumstances result in a deemed distribution to such U.S. Holder for U.S.

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federal income tax purposes. Adjustments to the conversion rate made pursuant to a bona fide reasonable adjustment formula that has the effect of preventing the dilution of the interest of the U.S. Holders of the Additional Convertible Notes, however, generally will not be deemed to result in such a distribution.

Certain of the possible conversion rate adjustments provided in the Additional Convertible Notes will not qualify as being pursuant to such a bona fide reasonable adjustment formula. If such adjustments occur, a U.S. Holder will be deemed to have received a distribution even though it has not received any cash or property as a result of such adjustments.

Generally, deemed distributions on the Additional Convertible Notes would constitute dividends (and would be included in income as ordinary dividend income) to the extent made out of our current and accumulated earnings and profits, as determined under U.S. federal income tax rules. It is unclear whether such dividends would be eligible for the dividends-received deduction or the reduced maximum rate applicable to qualified dividend income. Distributions in excess of our current and accumulated earnings and profits first will reduce a U.S. Holder's adjusted tax basis in the Additional Convertible Notes and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. Holder. U.S. Holders are urged to consult their tax advisors concerning the tax treatment of such constructive dividends.

***Tax Consequences to Non-U.S. Holders of Additional Convertible Notes***

The following is a summary of certain U.S. federal income tax consequences that will apply to you if you are a Non-U.S. Holder of the Additional Convertible Notes. A beneficial owner of an Additional Convertible Note or common stock that is not a partnership for U.S. federal income tax purposes or a U.S. Holder is referred to herein as a "Non-U.S. Holder".

*Payments of interest*

Subject to the discussion below under " Backup Withholding and Information Reporting" and " Foreign Account Tax Compliance Act", payments of principal and interest on the Additional Convertible Notes to a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax, provided that, in the case of interest the Non-U.S. Holder:

does not own, actually or constructively, 10.0% or more of the total combined voting power of all classes of our stock entitled to vote;

is not a "controlled foreign corporation" with respect to which we are, directly or indirectly, a "related person"; and

provides its name and address, and certifies, under penalties of perjury, that it is not a U.S. person (on a properly completed IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable, or substantially similar substitute form), or holds its Additional Convertible Notes through certain foreign intermediaries and satisfies the certification requirements of applicable Treasury Regulations.

If a Non-U.S. Holder does not qualify for an exemption under these rules, interest income from the Additional Convertible Notes may be subject to withholding tax at the rate of 30.0% (or lower applicable treaty rate).

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If a Non-U.S. Holder's conduct of a U.S. trade or business and interest is effectively connected with the conduct of that U.S. trade or business (although exempt from the 30.0% withholding tax so long as the Non-U.S. Holder provides the applicable withholding agent with a properly completed IRS Form W-8ECI or substantially similar substitute form stating that interest on the Additional Convertible Notes is effectively connected with the Non-U.S. Holder's conduct of a U.S. trade or business) will be subject to U.S. federal income tax on a net basis at the rates applicable to U.S. persons generally. In addition, if such Non-U.S. Holder is a foreign corporation, it may also be subject to a 30.0% (or lower applicable treaty rate) branch profits tax on its effectively connected earnings and profits for the taxable year, subject to adjustments.

A Non-U.S. Holder that is not eligible for relief under one of the exceptions described above may qualify for an exemption from, or a reduced rate of, U.S. federal income and withholding tax under a U.S. income tax treaty. In general, this exemption or reduced rate of tax applies only if the Non-U.S. Holder provides the applicable withholding agent with a properly completed IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable, or substantially similar substitute form.

*Sale, exchange, redemption or other taxable disposition of the Additional Convertible Notes*

Subject to the discussion below under " Backup Withholding and Information Reporting" and " Foreign Account Tax Compliance Act", any gain recognized on the sale, exchange, redemption or other taxable disposition of the Additional Convertible Notes (except with respect to accrued and unpaid interest, which would be taxed as described under " Tax Consequences to Non-U.S. Holders of Additional Convertible Notes Payments of interest" above) generally will not be subject to U.S. federal income tax unless any of the following is true:

the Non-U.S. Holder's investment in the Additional Convertible Notes is effectively connected with its conduct of a U.S. trade or business;

the Non-U.S. Holder is a nonresident alien individual present in the United States for 183 or more days in the taxable year within which the sale, exchange, redemption or other disposition takes place and certain other requirements are met; or

we are or have been a "U.S. real property holding corporation" (a "USRPHC") for U.S. federal income tax purposes at any time during the shorter of your holding period and the 5-year period ending on the date of disposition of the Additional Convertible Notes.

If a Non-U.S. Holder is a Holder described in the first bullet point above, the net gain derived from the sale, exchange, redemption or other taxable disposition of its Additional Convertible Notes generally will be subject to U.S. federal income tax on a net basis at the rates applicable to U.S. persons generally. In addition, if such Non-U.S. Holder is a foreign corporation, it may also be subject to a 30.0% (or lower applicable treaty rate) branch profits tax on its effectively connected earnings and profits for the taxable year, subject to adjustments. If a Non-U.S. Holder is a Holder described in the second bullet point above, it will be subject to a flat 30.0% U.S. federal income tax on the gain derived from the sale, exchange, redemption or other taxable disposition of its Additional Convertible Notes, which may be offset by U.S. source capital losses, even though it is not considered a resident of the United States.

With respect to the third bullet point above, we believe that we are not and do not anticipate becoming a USRPHC for U.S. federal income tax purposes. If we were to be treated as a USRPHC either presently or in the future, any gain recognized upon a sale, exchange or other taxable disposition of an Additional Convertible Note would be subject to tax in the same manner as an investment described in the first bullet point above, unless certain requirements prescribed under the Treasury Regulations applicable to USRPHCs are met.

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Non-U.S. Holders should consult any applicable income tax treaties that may provide for different rules. In addition, Non-U.S. Holders are urged to consult their tax advisors regarding the tax consequences of the purchase, ownership and disposition of the Additional Convertible Notes.

*Conversion of the Additional Convertible Notes*

A Non-U.S. Holder generally will not recognize any gain or loss upon the conversion of the Additional Convertible Notes (other than upon the receipt of cash in lieu of a fractional share). Such Non-U.S. Holder's adjusted tax basis in the common stock received in such a conversion generally will be the same as its adjusted tax basis in the Additional Convertible Notes surrendered (other than tax basis that is properly allocable to a fractional share). The Non-U.S. Holder's holding period for such common stock will include its holding period for the Additional Convertible Notes that were converted.

To the extent a Non-U.S. Holder recognizes any gain on the receipt of cash in lieu of a fractional share, such gain would be taxed as described in " Tax Consequences to Non-U.S. Holders of Additional Convertible Notes Sale, exchange, redemption, retirement or other taxable disposition of the Additional Convertible Notes". The Non-U.S. Holder's tax basis in a fractional share will be determined by allocating its tax basis in the Additional Convertible Notes surrendered between the common stock received upon conversion and the fractional share, in accordance with their respective fair market values.

Upon the conversion of an Additional Convertible Note, the U.S. Holder will receive a cash payment representing accrued and unpaid interest to, but not including, the conversion date. Such interest generally will be treated in the manner described above (under " Tax Consequences to Non-U.S. Holders of Additional Convertible Notes Payments of interest").

*Constructive distributions*

As described above in " Tax Consequences to U.S. Holders of Additional Convertible Notes Constructive distributions", certain of the possible conversion rate adjustments provided in the Additional Convertible Notes may result in a deemed distribution to a Non-U.S. Holder for U.S. federal income tax purposes, notwithstanding the fact that the Non-U.S. Holder did not receive an actual distribution of cash or property. Any such constructive distribution received by a Non-U.S. Holder with respect to the Additional Convertible Notes will be subject to withholding of U.S. federal income tax in the same manner as distributions of our investment company taxable income to Non-U.S. Holders of our common stock as described under " Taxation of Non-U.S. Stockholders Common Stock". If we pay withholding taxes on a Non-U.S. Holder's behalf as a result of an adjustment to the conversion rate of the Additional Convertible Notes, we may, at our option, set off such payments against payments of cash and common stock on the Additional Convertible Notes. Non-U.S. Holders are urged to consult their tax advisors with respect to the U.S. federal income tax consequences resulting from an adjustment to the conversion rate of the Additional Convertible Notes.

*Our Election to be Taxed as a RIC*

We have elected to be treated, and intend to comply with the requirements to continue to qualify annually, as a RIC under Subchapter M of the Code. As a RIC, we generally will not pay corporate-level U.S. federal income taxes on any net ordinary income or capital gains that we timely distribute to our stockholders as dividends. Rather, dividends distributed by us generally will be taxable to our stockholders, and any net operating losses, foreign tax credits and other tax attributes of ours generally will not pass through to our stockholders, subject to special rules for certain items such as net capital gains and qualified dividend income recognized by us. See " Taxation of U.S. Stockholders" and " Taxation of Non-U.S. Stockholders" below.

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To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, to qualify as a RIC, we must distribute to our stockholders, for each taxable year, at least 90.0% of our "investment company taxable income", which is generally our net ordinary income plus the excess of realized net short-term capital gains over realized net long-term capital losses (the "Annual Distribution Requirement").

### *Taxation as a RIC*

If we:

qualify as a RIC; and

satisfy the Annual Distribution Requirement,

then we will not be subject to U.S. federal income tax on the portion of our income that is timely distributed (or is deemed to be timely distributed) to our stockholders. If we fail to qualify as a RIC, we will be subject to U.S. federal income tax at the regular corporate rates on our income and capital gains.

We will be subject to a 4.0% nondeductible U.S. federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98.0% of our net ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income recognized, but not distributed and on which we did not pay corporate-level U.S. federal income tax, in preceding years (the "Excise Tax Avoidance Requirement"). While we intend to make distributions to our stockholders in each taxable year that will be sufficient to avoid any federal excise tax on our earnings, there can be no assurance that we will be successful in entirely avoiding this tax.

In order to qualify as a RIC for U.S. federal income tax purposes, we must, among other things:

continue to qualify as a BDC under the 1940 Act at all times during each taxable year;

derive in each taxable year at least 90.0% of our gross income from dividends, interest, payments with respect to loans of certain securities, gains from the sale of stock or other securities or foreign currencies, net income from certain "qualified publicly traded partnerships", or other income derived with respect to our business of investing in such stock or securities (the "90.0% Income Test"); and

diversify our holdings so that at the end of each quarter of the taxable year:

at least 50.0% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5.0% of the value of our assets or more than 10.0% of the outstanding voting securities of the issuer; and

no more than 25.0% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of: (1) one issuer, (2) two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades, or (3) businesses or of certain "qualified publicly traded partnerships" (the "Diversification Tests").

NMF Holdings is treated as a disregarded entity for U.S. federal income tax purposes. As a result, NMF Holdings will itself not be subject to U.S. federal income tax and, for U.S. federal income tax purposes, we will take into account all of NMF Holdings' assets and items of income, gain, loss, deduction and credit. In the remainder of this discussion, except as otherwise indicated, references to "we", "us", "our" and "NMFC" include NMF Holdings.



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SBIC GP and SBIC LP are treated as disregarded entities for U.S. federal income tax purposes. As a result, both SBIC GP and SBIC LP will themselves not be subject to U.S. federal income tax and, for U.S. federal income tax purposes, we will take into account all of SBIC GP's and SBIC LP's assets and items of income, gain, loss, deduction and credit. In the remainder of this discussion, except as otherwise indicated, references to "we", "us", "our" and "NMFC" include SBIC GP and SBIC LP.

NMF Ancora, NMF QID and NMF YP are Delaware corporations. NMF Ancora, NMF QID and NMF YP are not consolidated for income tax purposes and may each incur U.S. federal, state and local income tax expense with respect to their respective income and expenses earned from investment activities.

A RIC is limited in its ability to deduct expenses in excess of its "investment company taxable income" (which is, generally, ordinary income plus the excess of realized net short-term capital gains over realized net long-term capital losses). If our expenses in a given year exceed our investment company taxable income, we would experience a net operating loss for that year. However, a RIC is not permitted to carry forward net operating losses to subsequent years and such net operating losses do not pass through to its stockholders. In addition, expenses can be used only to offset investment company taxable income, not net capital gain. A RIC may not use any net capital losses (that is, realized capital losses in excess of realized capital gains) to offset the RIC's investment company taxable income, but may carry forward such losses, and use them to offset capital gains, indefinitely. Due to these limits on the deductibility of expenses and net capital losses, we may for tax purposes have aggregate taxable income for several years that we are required to distribute and that is taxable to its stockholders even if such income is greater than the aggregate net income we actually earned during those years. In such event, NMFC may liquidate certain of its investments, if necessary. NMFC may recognize gains or losses from such liquidations. In the event that NMFC recognizes net capital gains from such transactions, you may receive a larger capital gain distribution than you would have received in the absence of such transactions.

For U.S. federal income tax purposes, we may be required to include in our taxable income certain amounts that we have not yet received in cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with PIK interest or, in certain cases, increasing interest rates or issued with warrants), we must include in our taxable income in each year the portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. We may also have to include in our taxable income other amounts that we have not yet received in cash, such as accruals on a contingent payment debt instrument or deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. Because original issue discount or other amounts accrued will be included in our investment company taxable income for the year of accrual and before we receive any corresponding cash payments, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we would not have received any corresponding cash payment.

Accordingly, to enable us to satisfy the Annual Distribution Requirement, we may need to sell some of our assets at times and/or at prices that we would not consider advantageous, we may need to raise additional equity or debt capital or we may need to forego new investment opportunities or otherwise take actions that are disadvantageous to our business (or be unable to take actions that are advantageous to our business). If we are unable to obtain cash from other sources to enable us to satisfy the Annual Distribution Requirement, we may fail to qualify for the U.S. federal income tax benefits allowable to RICs and, thus, become subject to a corporate level U.S. federal income tax (and any applicable state and local taxes).



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Because we intend to use debt financing, we may be prevented by financial covenants contained in our debt financing agreements from making distributions to our shareholders. In addition, under the 1940 Act, we are generally not permitted to make distributions to our shareholders while our debt obligations and other senior securities are outstanding unless certain "asset coverage" tests are met. See "Regulation Senior Securities" in the accompanying prospectus. Limits on distributions to our shareholders may prevent us from satisfying the Annual Distribution Requirement and, therefore, may jeopardize our qualification for taxation as a RIC, or subject us to the 4.0% federal excise tax.

Although we do not presently expect to do so, we may borrow funds and sell assets in order to make distributions to our stockholders that are sufficient for us to satisfy the Annual Distribution Requirement. However, our ability to dispose of assets may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

***Failure of NMFC to Qualify as a RIC***

If we fail to satisfy the 90.0% Income Test or the Diversification Tests for any taxable year or quarter of such taxable year, we may nevertheless continue to qualify as a RIC for such year if certain relief provisions of the Code apply (which may, among other things, require us to pay certain corporate-level U.S. federal income taxes or to dispose of certain assets). If we fail to qualify for treatment as a RIC and such relief provisions do not apply to us, we will be subject to U.S. federal income tax on all of our taxable income at regular corporate rates (and also will be subject to any applicable state and local taxes), regardless of whether we make any distributions to our stockholders. Distributions would not be required. However, if distributions were made, any such distributions would be taxable to our stockholders as ordinary dividend income and, subject to certain limitations under the Code, any such distributions may be eligible for the 20.0% maximum rate applicable to non-corporate taxpayers to the extent of our current or accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends-received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain.

Subject to a limited exception applicable to RICs that qualified as such under Subchapter M of the Code for at least one year prior to disqualification and that requalify as a RIC no later than the second year following the non-qualifying year, we could be subject to tax on any unrealized net built-in gains in the assets held by us during the period in which we failed to qualify as a RIC that are recognized during the five-year period (or shorter applicable period) after our requalification as a RIC, unless we made a special election to pay corporate-level U.S. federal income tax on such built-in gain at the time of our requalification as a RIC. We may decide to be taxed as a regular corporation even if we would otherwise qualify as a RIC if we determine that treatment as a corporation for a particular year would be in our best interests.

***Investments General***

Certain of our investment practices may be subject to special and complex U.S. federal income tax provisions that may, among other things, (1) treat dividends that would otherwise constitute qualified dividend income as non-qualified dividend income, (2) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (3) convert lower-taxed long-term capital gains into higher-taxed short-term capital gains or ordinary income, (4) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited), (5) cause us to recognize income or gains without receipt of a corresponding distribution of cash, (6) adversely

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affect the time as to when a purchase or sale of stock or securities is deemed to occur, (7) adversely alter the characterization of certain complex financial transactions and (8) produce income that will not be qualifying income for purposes of the 90.0% Income Test. We intend to monitor our transactions and may make certain tax elections to mitigate the potential adverse effect of these provisions, but there can be no assurance that any adverse effects of these provisions will be mitigated.

***Passive Foreign Investment Companies***

If we purchase shares in a "passive foreign investment company" (a "PFIC"), we may be subject to U.S. federal income tax on any "excess distribution" received on, or any gain from the disposition of, such shares even if such income is distributed by it as a taxable dividend to its stockholders. Additional charges in the nature of interest generally will be imposed on us in respect of deferred taxes arising from any such excess distribution or gain. If we invest in a PFIC and elect to treat the PFIC as a "qualified electing fund" under the Code (a "QEF"), in lieu of the foregoing requirements, we will be required to include in income each year our proportionate share of the ordinary earnings and net capital gain of the QEF, even if such income is not distributed by the QEF. Alternatively, we may be able to elect to mark-to-market at the end of each taxable year our shares in a PFIC; in this case, we will recognize as ordinary income any increase in the value of such shares, and as ordinary loss any decrease in such value to the extent that any such decrease does not exceed prior increases included in our income. Under either election, we may be required to recognize in a year income in excess of distributions from PFICs and our proceeds from dispositions of PFIC stock during that year, and such income will nevertheless be subject to the Annual Distribution Requirement and will be taken into account for purposes of the 4.0% excise tax. See " Taxation of NMFC as a RIC" above.

***Foreign Currency Transactions***

Under Section 988 of the Code, gains or losses attributable to fluctuations in exchange rates between the time we accrue income, expenses or other liabilities denominated in a foreign currency and the time we actually collect such income or pay such expenses or liabilities are generally treated as ordinary income or loss. Similarly, gains or losses on foreign currency forward contracts and the disposition of debt obligations denominated in a foreign currency, to the extent attributable to fluctuations in exchange rates between the acquisition and disposition dates, are also treated as ordinary income or loss.

The remainder of this discussion assumes that we qualify as a RIC for each taxable year.

***Taxation of U.S. Stockholders***

The following discussion only applies to stockholders that are U.S. Holders (referred to herein as "U.S. stockholders"). Prospective stockholders that are not U.S. Holders (referred to herein as "Non-U.S. stockholders") should refer to " Taxation of Non-U.S. Stockholders" below.

***Distributions***

Distributions by NMFC generally are taxable to U.S. stockholders as ordinary income or capital gains. Distributions of NMFC's "investment company taxable income" (which is, generally, NMFC's net ordinary income plus realized net short-term capital gains in excess of realized net long-term capital losses) will be taxable as ordinary income to U.S. stockholders to the extent of NMFC's current or accumulated earnings and profits, whether paid in cash or reinvested in additional common stock. To the extent that such distributions paid by NMFC to non-corporate stockholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions ("Qualifying Dividends") may be eligible for a maximum tax rate of 20.0%. In this regard, it is anticipated that distributions paid by NMFC generally will not be

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attributable to dividends received by NMFC and, therefore, generally will not qualify for the 20.0% maximum rate applicable to Qualifying Dividends. Distributions of NMFC's net capital gains (which are generally NMFC's realized net long-term capital gains in excess of realized net short-term capital losses) properly reported by NMFC as "capital gain dividends" in written statements furnished to its stockholders will be taxable to a U.S. stockholder as long-term capital gains that are currently taxable at a maximum rate of 20.0% in the case of individuals, trusts or estates, regardless of the U.S. stockholder's holding period for his, her or its common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in excess of NMFC's earnings and profits first will reduce a U.S. stockholder's adjusted tax basis in such stockholder's common stock and, after the adjusted tax basis is reduced to zero, will constitute capital gains to such U.S. stockholder.

NMFC may retain some or all of its realized net long-term capital gains in excess of realized net short-term capital losses, but designate the retained net capital gain as a "deemed distribution". In that case, among other consequences, (i) NMFC will pay tax on the retained amount, (ii) each U.S. stockholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder, and (iii) the U.S. stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by NMFC. Because NMFC expects to pay tax on any retained net capital gains at the regular corporate tax rate, and because that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual U.S. stockholders will be treated as having paid will exceed the tax they owe on the capital gain distribution and such excess generally may be refunded or claimed as a credit against the U.S. stockholder's other U.S. federal income tax obligations. The amount of the deemed distribution net of such tax will be added to the U.S. stockholder's cost basis for his, her or its common stock. In order to utilize the deemed distribution approach, NMFC must provide written notice to its stockholders prior to the expiration of 60 days after the close of the relevant taxable year. NMFC cannot treat any of its investment company taxable income as a "deemed distribution".

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain dividends paid for that year, NMFC may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If NMFC makes such an election, the U.S. stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by NMFC in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by its U.S. stockholders on December 31 of the year in which the dividend was declared.

If an investor purchases shares of NMFC's common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though economically it may represent a return of his, her or its investment.

NMFC or the applicable withholding agent will send to each of its U.S. stockholders, as promptly as possible after the end of each calendar year, a notice reporting the amounts includible in such U.S. stockholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the U.S. federal tax status of each year's distributions from NMFC generally will be reported to the IRS (including the amount of dividends, if any, that are Qualifying Dividends eligible for the 20.0% maximum rate). Dividends paid by NMFC generally will not be eligible for the dividends-received deduction or the preferential tax rate applicable to Qualifying Dividends because NMFC's income generally will not consist of dividends. Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. stockholder's particular situation.

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*Alternative minimum tax*

As a RIC, NMFC will be subject to alternative minimum tax, also referred to as "AMT", but any items that are treated differently for AMT purposes must be apportioned between NMFC and its U.S. stockholders, and this may affect the U.S. stockholders' AMT liabilities. Although Treasury Regulations explaining the precise method of apportionment have not yet been issued, such items generally will be apportioned in the same proportion that dividends paid to each U.S. stockholder bear to NMFC's taxable income (determined without regard to the dividends paid deduction), unless a different method for a particular item is warranted under the circumstances.

*Dividend reinvestment plan*

Under the dividend reinvestment plan, if a U.S. stockholder owns shares of NMFC's common stock registered in the U.S. stockholder's own name, the U.S. stockholder will have all cash distributions automatically reinvested in additional shares of NMFC's common stock unless the U.S. stockholder opts out of the dividend reinvestment plan by delivering a written, phone or internet notice to the plan administrator at least three days prior to the payment date of the next dividend or distribution. See "Dividend Reinvestment Plan" in the accompanying prospectus. Any distributions reinvested under the plan will nevertheless remain taxable to the U.S. stockholder. The U.S. stockholder will have an adjusted tax basis in the additional shares of NMFC's common stock purchased through the plan equal to the amount of the reinvested distribution. The additional shares will have a new holding period commencing on the day following the day on which the shares are credited to the U.S. stockholder's account.

*Dispositions*

A U.S. stockholder generally will recognize taxable gain or loss if the U.S. stockholder sells or otherwise disposes of his, her or its shares of NMFC's common stock. The amount of gain or loss will be measured by the difference between such stockholder's adjusted tax basis in the common stock sold and the amount of the proceeds received in exchange. Any gain or loss arising from such sale or disposition generally will be treated as long-term capital gain or loss if the U.S. stockholder has held his, her or its shares for more than one year; otherwise, any such gain or loss will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of NMFC's common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of NMFC's common stock may be disallowed if other shares of NMFC's common stock are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition. In general, non-corporate U.S. stockholders currently are subject to a maximum U.S. federal income tax rate of 20.0% on their recognized net capital gain (i.e., the excess of realized net long-term capital gains over realized net short-term capital losses), including any long-term capital gain derived from an investment in shares of NMFC's common stock. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. In addition, individuals with income in excess of \$200,000 (\$250,000 in the case of married individuals filing jointly) and certain estates and trusts are subject to an additional 3.8% tax on their "net investment income", which generally includes net income from interest, dividends, annuities, royalties and rents, and net capital gains (other than certain amounts earned from trades or businesses). Corporate U.S. stockholders currently are subject to U.S. federal income tax on net capital gain at the maximum 35.0% rate also applied to ordinary income. Non-corporate U.S. stockholders with net capital losses for a year (i.e., capital losses in excess of capital gains) generally may deduct up to \$3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate U.S. stockholder in excess of \$3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate U.S.

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stockholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

*Tax Shelter Reporting Regulations*

Under applicable Treasury Regulations, if a U.S. stockholder recognizes a loss with respect to NMFC's common stock of \$2.0 million or more for a non-corporate U.S. stockholder or \$10.0 million or more for a corporate U.S. stockholder in any single taxable year (or a greater loss over a combination of years), the U.S. stockholder must file with the IRS a disclosure statement on Form 8886. Direct U.S. stockholders of portfolio securities are in many cases excepted from this reporting requirement, but under current guidance, U.S. stockholders of a RIC are not excepted. Future guidance may extend the current exception from this reporting requirement to U.S. stockholders of most or all RICs. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. U.S. stockholders should consult their own tax advisers to determine the applicability of these regulations in light of their individual circumstances.

*Taxation of Non-U.S. Stockholders*

The following discussion applies only to Non-U.S. stockholders. Whether an investment in shares of NMFC's common stock is appropriate for a Non-U.S. stockholder will depend upon that person's particular circumstances. An investment in shares of NMFC's common stock by a Non-U.S. stockholder may have adverse tax consequences to such Non-U.S. stockholder. Non-U.S. stockholders should consult their tax advisers before investing in NMFC's common stock.

*Distributions; dispositions*

Subject to the discussion in " Foreign Account Tax Compliance Act" below, distributions of NMFC's "investment company taxable income" to Non-U.S. stockholders (including interest income and realized net short-term capital gains in excess of realized long-term capital losses, which generally would be free of withholding if paid to Non-U.S. stockholders directly) will be subject to withholding of U.S. federal income tax at a 30.0% rate (or lower rate provided by an applicable income tax treaty) to the extent of NMFC's current or accumulated earnings and profits, unless an applicable exception applies. If the distributions are effectively connected with a U.S. trade or business of the Non-U.S. stockholder (and, if required by an applicable income tax treaty, are attributable to a U.S. permanent establishment of the Non-U.S. stockholder), NMFC will not be required to withhold U.S. federal income tax if the Non-U.S. stockholder complies with applicable certification and disclosure requirements, although the distributions will be subject to U.S. federal income tax at the rates applicable to U.S. persons. (Special certification requirements apply to a Non-U.S. stockholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisers.)

Dividends with respect to any taxable year of NMFC beginning on or before December 31, 2013 were not subject to withholding of U.S. federal income tax to the extent the dividends were properly reported by NMFC as "interest-related dividends" or "short-term capital gain dividends". Under this exemption, interest-related dividends and short-term capital gain dividends generally represent distributions of interest or short-term capital gains that would not have been subject to withholding of U.S. federal income tax at the source if they had been received directly by a foreign person, and that satisfy certain other requirements. This exemption expired on December 31, 2013 and no assurance can be given as to whether this exemption will be extended for taxable years after 2013. In addition, no assurance can be given as to whether any of NMFC's distributions will be of the type that would be eligible for this exemption from withholding tax or, if eligible, will be reported as such by NMFC.

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Subject to the discussion in " Foreign Account Tax Compliance Act" below, actual or deemed distributions of NMFC's net capital gains to a Non-U.S. stockholder, and gains realized by a Non-U.S. stockholder upon the sale of NMFC's common stock, will not be subject to federal income or withholding tax unless the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. stockholder (and, if required by an applicable income tax treaty, are attributable to a U.S. permanent establishment of the Non-U.S. stockholder).

If NMFC distributes its net capital gains in the form of deemed rather than actual distributions, a Non-U.S. stockholder will be entitled to a U.S. federal income tax credit or tax refund equal to the stockholder's allocable share of the tax NMFC pays on the capital gains deemed to have been distributed. In order to obtain the refund, the Non-U.S. stockholder must obtain a U.S. taxpayer identification number and file a U.S. federal income tax return, even if the Non-U.S. stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a U.S. federal income tax return. For a corporate Non-U.S. stockholder, both distributions (actual or deemed) and gains realized upon the sale of NMFC's common stock that are effectively connected with a U.S. trade or business may, under certain circumstances, be subject to an additional "branch profits tax" at a 30.0% rate (or at a lower rate if provided for by an applicable income tax treaty). Accordingly, investment in shares of NMFC's common stock may not be appropriate for a Non-U.S. stockholder.

*Dividend reinvestment plan*

Under NMFC's dividend reinvestment plan, if a Non-U.S. stockholder owns shares of NMFC's common stock registered in the Non-U.S. stockholder's own name, the Non-U.S. stockholder will have all cash distributions automatically reinvested in additional shares of NMFC's common stock unless it opts out of the dividend reinvestment plan by delivering a written, phone or internet notice to the plan administrator at least three days prior to the payment date of the next dividend or distribution. See "Dividend Reinvestment Plan" in the accompanying prospectus. If the distribution is a distribution of NMFC's investment company taxable income, is not reported by NMFC as a short-term capital gain dividend or interest-related dividend, if applicable, and is not effectively connected with a U.S. trade or business of the Non-U.S. stockholder (or, if required by an applicable income tax treaty, is not attributable to a U.S. permanent establishment of the Non-U.S. stockholder), the amount distributed (to the extent of NMFC's current or accumulated earnings and profits) will be subject to withholding of U.S. federal income tax at a 30.0% rate (or lower rate provided by an applicable income tax treaty) and only the net after-tax amount will be reinvested in NMFC's common stock. If the distribution is effectively connected with a U.S. trade or business of the Non-U.S. stockholder (and, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment of the Non-U.S. stockholder), the full amount of the distribution generally will be reinvested in NMFC's common stock and will nevertheless be subject to U.S. federal income tax at the ordinary income rates applicable to U.S. persons. The Non-U.S. stockholder will have an adjusted tax basis in the additional shares of NMFC's common stock purchased through the plan equal to the amount of the reinvested distribution. The additional shares will have a new holding period commencing on the day following the day on which the shares are credited to the Non-U.S. stockholder's account.

***Backup Withholding and Information Reporting***

*U.S. Holders*

Information returns are required to be provided to a U.S. Holder and filed with the IRS in connection with payments or interest (or constructive distributions) on the Additional Convertible Notes, dividends on the common stock and proceeds received from a sale or other disposition of the Additional Convertible Notes or common stock to a U.S. Holder unless the U.S. Holder is an exempt recipient. U.S. Holders may also be subject to backup withholding on these payments in respect of the Additional Convertible Notes or common stock unless such U.S. Holder provides its taxpayer identification number to the applicable withholding agent and otherwise complies with applicable requirements of the backup withholding rules or provides proof of an applicable exemption.

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*Non-U.S. Holders*

Information returns are required to be provided to a Non-U.S. Holder and filed with the IRS in connection with payments of interest (or constructive distributions) on the Additional Convertible Notes and payment of dividends on the common stock to Non-U.S. Holders. Unless a Non-U.S. Holder complies with certification procedures to establish that it is not a United States person, information returns may also need to be filed with the IRS in connection with the proceeds from a sale or other disposition of an Additional Convertible Note or share of common stock. A Non-U.S. Holder may be subject to backup withholding on these payments unless it complies with certification procedures to establish that it is not a United States person or otherwise establishes that it is eligible for an exemption. The certification procedures required to claim the exemption from withholding tax on interest described above under "Tax Consequences to Non-U.S. Holders of Additional Convertible Notes Payments of interest" will satisfy the certification requirements necessary to avoid backup withholding as well.

Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against a U.S. Holder's or Non-U.S. Holder's U.S. federal income tax liability, if any, provided the required information is timely furnished to the IRS.

**Foreign Account Tax Compliance Act**

Sections 1471 through 1474 of the Code (commonly known as "FATCA") generally impose a withholding tax of 30% on (i) certain payments of U.S. source interest, dividends and other fixed or determinable annual or periodical gains, profits, and income and (ii) beginning after December 31, 2018, payments of gross proceeds from the sale, exchange, redemption, retirement or other taxable disposition of property of a type that can produce U.S. source interest or dividends, in each case, to foreign financial institutions ("FFIs") unless such FFIs enter into an agreement with the U.S. Treasury to report certain required information with respect to accounts held by U.S. persons (or held by foreign entities that have U.S. persons as substantial owners), or such FFIs reside in a jurisdiction that has entered into an intergovernmental agreement with the IRS to provide such information and such FFIs comply with the terms of such intergovernmental agreement and any enabling legislation or administrative authority with respect to such intergovernmental agreement. The information required to be reported includes the identity and taxpayer identification number of each account holder that is a U.S. person and transaction activity within the holder's account. In addition, subject to certain exceptions, this legislation also imposes a 30% withholding on payments to foreign entities that are not financial institutions unless such foreign entities certify that they do not have any greater than 10% U.S. owner or provides the withholding agent with identifying information on each greater than 10% U.S. owner. Depending on the status of a Non-U.S. stockholder and the status of the intermediaries through which they hold their shares, Non-U.S. stockholders could be subject to this 30% withholding tax with respect to distributions on their shares of our common stock and proceeds from the sale of their shares of our common stock. Under certain circumstances, a Non-U.S. stockholder might be eligible for refunds or credits of such taxes.

The applicable Treasury Regulations provide that FATCA generally does not apply to debt obligations that are issued pursuant to a "qualified reopening" of a debt obligation that was issued before July 1, 2014. The previously issued Convertible Notes were issued prior to July 1, 2014, and, as noted above under "Additional Material Federal Income Tax Considerations - Qualified Reopening", we intend, for U.S. federal income tax purposes, to treat the Additional Convertible Notes offered hereby as issued pursuant to a "qualified reopening" of the previously issued Convertible Notes. Thus, under the applicable Treasury Regulations, FATCA should not apply to the Convertible Notes, or the Additional Convertible Notes offered hereby, unless they are modified and deemed reissued for U.S. federal income tax purposes in the future. The exemption does not apply

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to shares of our common stock and, accordingly, withholding under FATCA will apply to dividends on, and gross proceeds from the disposition of, our common stock. If FATCA withholding were to apply, we will not pay any additional amounts to U.S. Holders or Non-U.S. Holders in respect of any amounts withheld. Prospective purchasers of the Additional Convertible Notes should consult their own tax advisors regarding these withholding and reporting provisions.

*Certain State, Local and Foreign Tax Matters*

We and our stockholders may be subject to state, local or foreign taxation in various jurisdictions in which we or they transact business, own property or reside. The state, local or foreign tax treatment of us and our stockholders may not conform to the federal income tax treatment discussed above. In particular, our investments in foreign securities may be subject to foreign withholding taxes. The imposition of any such state, local or foreign taxes would reduce cash available for distribution to our stockholders and our stockholders would not be entitled to claim a credit or deduction with respect to such taxes. Prospective investors should consult with their own tax advisers regarding the application and effect of state, local and foreign income and other tax laws on an investment in shares of our common stock.



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**UNDERWRITING**

Wells Fargo Securities, LLC, Goldman, Sachs & Co. and Morgan Stanley & Co. LLC are acting as representatives of each of the underwriters named below. Subject to the terms and conditions set forth in a firm commitment underwriting agreement among us and the underwriters, we have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us the principal amount of Additional Convertible Notes set forth opposite its name below.

Underwriter	Principal Amount of Additional Convertible Notes
Wells Fargo Securities, LLC	\$
Goldman, Sachs & Co.	
Morgan Stanley & Co. LLC	
Total	\$

Subject to the terms and conditions set forth in the underwriting agreement, the underwriters have agreed, severally and not jointly, to purchase all of the Additional Convertible Notes sold under the underwriting agreement if any of the Additional Convertible Notes are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the underwriters and their controlling persons against certain liabilities in connection with this offering, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the Additional Convertible Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Additional Convertible Notes, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

***Commissions and Discounts***

The representatives have advised us that the underwriters propose initially to offer the Additional Convertible Notes to the public at the public offering price set forth on the cover page of this prospectus supplement. After the initial offering, the public offering price or any other term of the offering may be changed.

The following table shows the per Additional Convertible Note and total underwriting discount to be paid to the underwriters by us. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase up to an additional \$5,250,000 principal amount of Additional Convertible Notes.

	No Exercise	Full Exercise
Per Additional Convertible Note	\$	\$
Total	\$	\$

The expenses of the offering, not including the underwriting discount, are estimated at \$0.4 million and are payable by us.

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***Option to Purchase More Additional Convertible Notes***

If the underwriters sell more Additional Convertible Notes than the total principal amount of Additional Convertible Notes set forth in the table above, the underwriters have an option to purchase up to an additional \$5,250,000 principal amount of Additional Convertible Notes. They may exercise that option with respect to the Additional Convertible Notes within a 13-day period from the date of this prospectus supplement. If any Additional Convertible Notes are purchased pursuant to this option, the underwriters will severally purchase such Additional Convertible Notes in approximately the same proportion as set forth in the table above and will offer such Additional Convertible Notes on the same terms as those on which the Additional Convertible Notes are being offered.

***Re-Opening of a Prior Issue of Convertible Notes***

The Additional Convertible Notes are a re-opening of a prior issue of securities with no established trading market. We do not intend to apply for listing of the Additional Convertible Notes on any national securities exchange or for inclusion of the Additional Convertible Notes on any automated dealer quotation system. We have been advised by the underwriters that they presently intend to make a market in the Additional Convertible Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the Additional Convertible Notes or that an active public market for the Additional Convertible Notes will develop. If an active public trading market for the Additional Convertible Notes does not develop, the market price and liquidity of the Additional Convertible Notes may be adversely affected. If the Additional Convertible Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

***Lock-Up Agreements***

We have agreed that we will not (i) offer, sell, contract to sell, pledge, grant any option to purchase, exchange, convert, make any short sale or otherwise dispose, except as provided in the underwriting agreement, of any the Additional Convertible Notes or securities that are substantially similar to the Additional Convertible Notes or our common stock, including but not limited to any options or warrants to purchase shares of our common stock, or any securities that are convertible into or exchangeable for, or that represent the right to receive, our common stock (other than pursuant to a dividend reinvestment plan described in this prospectus supplement and the accompanying prospectus) or (ii) publicly announce an intention to effect any transaction specified in clause (i), without the prior written consent of the representatives, for a period of 15 days after the date of this prospectus supplement.

Our directors and certain of our executive officers have agreed that they will not (i) offer, sell, contract to sell, pledge, grant any option to purchase, exchange, convert, make any short sale or otherwise dispose of any shares of our common stock, or any options or warrants to purchase any shares of our common stock, or any securities convertible into, exchangeable for or that represent the right to receive shares of our common stock, whether now owned or hereinafter acquired, owned directly by the such director or executive officer (including holding as a custodian) or with respect to which such director or executive officer has beneficial ownership within the rules of the SEC or (ii) publicly announce an intention to effect any transaction specified in clause (i), without, in each case, the prior written consent of the representatives for a period of 15 days after the date of this prospectus supplement, except that (a) such director or executive officer may transfer common stock as a bona fide gift or gifts, provided that the donee or donees thereof agree to be bound in writing by the restrictions set forth in the lock-up agreement, and (b) such director or executive

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officer may transfer common stock to any trust for the direct or indirect benefit of such director or executive officer or the immediate family of such director or executive officer, provided that the trustee of the trust agrees to be bound in writing by the restrictions set forth in the lock-up agreement, and provided further that any such transfer shall not involve a disposition for value.

The representatives, in their sole discretion, may release the shares of our common stock and other securities subject to the lock-up agreements described above in whole or in part at any time with or without notice. When determining whether or not to release our common stock and other securities from lock-up agreements, the representatives will consider, among other factors, the holder's reasons for requesting the release, the number of shares of our common stock and other securities for which the release is being requested and market conditions at the time.

***Price Stabilization, Short Positions***

In connection with the offering, the underwriters may purchase and sell the Additional Convertible Notes or our common stock in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater principal amount of Additional Convertible Notes than they are required to purchase in the offering. The underwriters must close out any short position by purchasing Additional Convertible Notes in the open market. A short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the Additional Convertible Notes in the open market after pricing that could adversely affect investors who purchase in the offering. In addition, in these stabilizing transactions the underwriters may purchase our common stock prior to the pricing of this offering and, if market participants short sell the Additional Convertible Notes prior to pricing, the underwriters may purchase Additional Convertible Notes from the short sellers.

Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Additional Convertible Notes or preventing or retarding a decline in the market price of the Additional Convertible Notes. As a result, the price of the Additional Convertible Notes may be higher than the price that might otherwise exist in the open market.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased Additional Convertible Notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

Any of these activities may cause the price of the Additional Convertible Notes to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be affected in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time without any notice relating thereto.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Additional Convertible Notes. In addition, neither we nor any of the underwriters make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

***Electronic Offer, Sale and Distribution of Additional Convertible Notes***

The underwriters may make prospectuses available in electronic (PDF) format. A prospectus in electronic (PDF) format may be made available on a web site maintained by the underwriters, and the underwriters may distribute such prospectuses electronically. The underwriters may allocate a

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limited principal amount of the Additional Convertible Notes for sale to their online brokerage customers.

***Other Relationships***

Certain of the underwriters and their affiliates have engaged, and may in the future engage, in commercial banking, financial advisory, investment banking and other services with us or our affiliates in the ordinary course of their business for which they have received, or may in the future receive, customary fees and commissions.

The underwriters or their affiliates may also trade in our securities, securities of our portfolio companies or other financial instruments related thereto for their own accounts or for the account of others and may extend loans or financing directly or through derivative transactions to us, our affiliates or any of our portfolio companies.

We may purchase securities of third parties from the underwriters or their affiliates after the offering. However, we have not entered into any agreement or arrangement regarding the acquisition of any such securities, and we may not purchase any such securities. We would only purchase any such securities if among other things we identified securities that satisfied our investment needs and completed our due diligence review of such securities.

After the date of this prospectus supplement, the underwriters and their affiliates may from time to time obtain information regarding specific portfolio companies or us that may not be available to the general public. Any such information is obtained by the underwriters and their affiliates in the ordinary course of their business and not in connection with the offering of the Additional Convertible Notes. In addition, after the offering period for the sale of the Additional Convertible Notes, the underwriters or their affiliates may develop analyses or opinions related to us, our affiliates or our portfolio companies and buy or sell interests in one or more of our portfolio companies on behalf of their proprietary or client accounts and may engage in competitive activities. There is no obligation on behalf of these parties to disclose their respective analyses, opinions or purchase and sale activities regarding any portfolio company or regarding us to the holders of our Additional Convertible Notes or any other persons.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. In particular, certain directly or indirectly held registered broker-dealers, investment advisors, and bank subsidiaries of Wells Fargo & Company, an affiliate of Wells Fargo Securities, LLC, an underwriter in this offering, hold approximately 9.0% of our common stock. Certain of the underwriters or their affiliates that have a lending relationship with us routinely hedge, and certain other of the underwriters or their affiliates may hedge their credit exposure to us consistent with their customary risk management policies. Typically, such underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Additional Convertible Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Additional Convertible Notes offered hereby. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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Proceeds of this offering will be used to repay outstanding indebtedness under our credit facilities. Affiliates of Wells Fargo Securities, LLC are lenders under the Holdings Credit Facility and affiliates of Goldman, Sachs & Co. and Morgan Stanley & Co. LLC are lenders under the NMFC Credit Facility. Accordingly, affiliates of Wells Fargo Securities, LLC, Goldman, Sachs & Co., and Morgan Stanley & Co. LLC may receive more than 5.0% of the net proceeds of this offering to the extent such proceeds are used to temporarily repay outstanding indebtedness under the Holdings Credit Facility or the NMFC Credit Facility.

The principal business address of Wells Fargo Securities, LLC is 550 South Tryon Street, Charlotte, NC 28202. The principal business address of Goldman, Sachs & Co. is 200 West Street, New York, New York 10282. The principal business address of Morgan Stanley & Co. LLC is 1585 Broadway, New York, NY 10036.

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**LEGAL MATTERS**

Certain legal matters regarding the Additional Convertible Notes offered hereby will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, District of Columbia. Certain legal matters in connection with the Additional Convertible Notes offered hereby will be passed upon for the underwriters by Fried, Frank, Harris, Shriver & Jacobson LLP, New York, New York. Fried, Frank, Harris, Shriver & Jacobson LLP represents New Mountain Capital, L.L.C. and its portfolio companies from time to time in the ordinary course of business.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

With respect to the unaudited interim financial information of New Mountain Finance Corporation as of June 30, 2016 and for the three and six month periods ended June 30, 2016 and 2015, which is included in this prospectus supplement, Deloitte & Touche LLP, an independent registered public accounting firm, has applied limited procedures in accordance with the standards of the Public Company Accounting Oversight Board (United States) for a review of such information. However, as stated in their report included in this prospectus supplement, they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. Deloitte & Touche LLP are not subject to the liability provisions of Section 11 of the Securities Act for their reports on the unaudited interim financial information because those reports are not "reports" or a "part" of the Registration Statement prepared or certified by an accountant within the meaning of Sections 7 and 11 of the Act.

The consolidated financial statements and the related information included in the Senior Securities table and the effectiveness of internal control over financial reporting, included in this prospectus supplement, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports appearing herein and elsewhere in the registration statement. Such financial statements and information included in the Senior Securities table have been so included in reliance upon the reports of such firm, given their authority as experts in accounting and auditing.

The principal business address of Deloitte & Touche LLP is 30 Rockefeller Center Plaza, New York, New York 10112.

**AVAILABLE INFORMATION**

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the Additional Convertible Notes offered by this prospectus supplement and the accompanying prospectus. The registration statement contains additional information about us and the Additional Convertible Notes being offered by this prospectus supplement and the accompanying prospectus.

We are required to file with or submit to the SEC annual, quarterly and current reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, District of Columbia 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC, which are available on the SEC's website at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, 100 F Street, N.E.,

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Washington, District of Columbia 20549. This information will also be available free of charge by contacting us at 787 Seventh Avenue, 48th Floor, New York, New York 10019, by telephone at (212) 720-0300, or on our website at <http://www.newmountainfinance.com>. Information contained on our website or on the SEC's web site about us is not incorporated into this prospectus supplement and the accompanying prospectus and you should not consider information contained on our website or on the SEC's website to be part of this prospectus supplement and the accompanying prospectus.

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Table of Contents**New Mountain Finance Corporation****Consolidated Statements of Assets and Liabilities****(in thousands, except shares and per share data)****(unaudited)**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>		
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
<b>Total assets</b>	<b>\$ 1,584,601</b>	<b>\$ 1,588,146</b>
<b>Liabilities</b>		
<b>Borrowings</b>		
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

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Other liabilities	2,521	2,060
<b>Total liabilities</b>	<b>741,276</b>	<b>751,238</b>
<b>Commitments and contingencies (See Note 9)</b>		
<b>Net assets</b>		
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
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)
<b>Total net assets</b>	<b>\$ 843,325</b>	<b>\$ 836,908</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,584,601</b>	<b>\$ 1,588,146</b>
Number of shares outstanding	63,756,888	64,005,387
<b>Net asset value per share</b>	<b>\$ 13.23</b>	<b>\$ 13.08</b>

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

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## 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, 2016	June 30, 2015	June 30, 2016	June 30, 2015
<b>Investment income</b>				
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
<b>Expenses</b>				
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

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<b>Net investment income</b>	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)
<b>Net realized and unrealized gains (losses)</b>	<b>22,861</b>	<b>11</b>	<b>9,345</b>	<b>3,863</b>
<b>Net increase in net assets resulting from operations</b>	<b>\$ 44,693</b>	<b>\$ 20,264</b>	<b>\$ 52,744</b>	<b>\$ 43,178</b>
<b>Basic earnings per share</b>	<b>\$ 0.70</b>	<b>\$ 0.35</b>	<b>\$ 0.83</b>	<b>\$ 0.74</b>
Weighted average shares of common stock outstanding basic (See Note 11)	63,839,920	58,076,552	63,887,036	58,037,868
<b>Diluted earnings per share</b>	<b>\$ 0.64</b>	<b>\$ 0.33</b>	<b>\$ 0.77</b>	<b>\$ 0.70</b>
Weighted average shares of common stock outstanding diluted (See Note 11)	71,117,051	65,313,497	71,164,167	65,265,931
<b>Dividends declared and paid per share</b>	<b>\$ 0.34</b>	<b>\$ 0.34</b>	<b>\$ 0.68</b>	<b>\$ 0.68</b>

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

Table of Contents**New Mountain Finance Corporation****Consolidated Statements of Changes in Net Assets****(in thousands, except shares and per share data)****(unaudited)**

	<b>Six Months Ended</b>	
	<b>June 30, 2016</b>	<b>June 30, 2015</b>
<b>Increase (decrease) in net assets resulting from operations:</b>		
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)
<b>Net increase in net assets resulting from operations</b>	<b>52,744</b>	<b>43,178</b>
<b>Capital transactions</b>		
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)	
<b>Total net decrease in net assets resulting from capital transactions</b>	<b>(46,327)</b>	<b>(37,022)</b>
<b>Net increase in net assets</b>	<b>6,417</b>	<b>6,156</b>
<b>Net assets at the beginning of the period</b>	<b>836,908</b>	<b>802,170</b>
<b>Net assets at the end of the period</b>	<b>\$ 843,325</b>	<b>\$ 808,326</b>
<b>Capital share activity</b>		
Shares issued from reinvestment of dividends		163,931
Shares repurchased under repurchase program	(248,499)	
<b>Net (decrease) increase in shares outstanding</b>	<b>(248,499)</b>	<b>163,931</b>

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

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## New Mountain Finance Corporation

## Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

## Six Months Ended

	June 30, 2016	June 30, 2015
<b>Cash flows from operating activities</b>		
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)
<b>(Increase) decrease in operating assets:</b>		
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)
<b>Increase (decrease) in operating liabilities:</b>		
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)
<b>Net cash flows provided by operating activities</b>	<b>72,571</b>	<b>142,277</b>

<b>Cash flows from financing activities</b>		
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	
Deferred financing costs paid	(1,488)	(1,609)
Repurchase of shares under repurchase program	(2,948)	
<b>Net cash flows used in financing activities</b>	<b>(68,206)</b>	<b>(141,496)</b>
<b>Net increase in cash and cash equivalents</b>	<b>4,365</b>	<b>781</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>30,102</b>	<b>23,445</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>\$ 34,467</b>	<b>\$ 24,226</b>

**Supplemental disclosure of cash flow information**

Cash interest paid	\$ 10,960	\$ 9,303
Income taxes paid	3	143
<b>Non-cash operating activities:</b>		
Non-cash activity on investments	\$ 167	\$ 60,652
<b>Non-cash financing activities:</b>		
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.

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## 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
<b>Non-Controlled/Non-Affiliated Investments</b>							
<b>Funded Debt Investments</b>							
<b>Australia</b>							
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%
<b>Total Funded Debt Investments Australia</b>				<b>\$ 7,755</b>	<b>\$ 7,725</b>	<b>\$ 7,523</b>	<b>0.89%</b>
<b>Funded Debt Investments</b>							
<b>Luxembourg</b>							
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	
				32,834	32,678	22,983	2.73%
<b>Total Funded Debt Investments Luxembourg</b>				<b>\$ 32,834</b>	<b>\$ 32,678</b>	<b>\$ 22,983</b>	<b>2.73%</b>
<b>Funded Debt Investments</b>							
<b>Netherlands</b>							
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%



<b>Total Funded Debt</b>											
<b>Investments</b>	<b>Netherlands</b>				\$	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%
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**Total Funded Debt**

<b>Investments</b>	<b>United Kingdom</b>				\$	32,500	\$	31,774	\$	30,265	3.59%
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**Funded Debt Investments****United States**

## 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%

## Delttek, 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%
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## 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	
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Second	10.00%				
lien(3)	(L + 9.00%/M)	10/20/2023	20,200	19,444	19,960

			40,200	38,690	39,722	4.71%
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The accompanying notes are an integral part of these consolidated financial statements.

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## 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)		6/17/2021	24,000	23,804	24,329	

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		10.25%					
		(L + 9.25%/Q)					
	Second lien(3)	10.50%	6/17/2021	6,500	6,438	6,630	
		(L + 9.50%/Q)					
				30,500	30,242	30,959	3.67%
Rocket Software, Inc.							
Software	Second lien(2)	10.25%	2/8/2019	30,875	30,793	30,810	3.65%
		(L + 8.75%/Q)					
VetCor Professional Practices LLC							
Consumer Services	First lien(4)	7.25%	4/20/2021	19,404	19,241	19,598	
		(L + 6.25%/Q)					
	First lien(2)	7.25%	4/20/2021	7,832	7,676	7,911	
		(L + 6.25%/Q)					
	First lien(4)(11)	7.25%	4/20/2021	2,265	2,244	2,288	
	Drawn	(L + 6.25%/Q)					
	First lien(3)(11)	7.25%	4/20/2021	675	668	682	
	Drawn	(L + 6.25%/Q)					
				30,176	29,829	30,479	3.61%
CompassLearning, Inc.(15)							
Education	First lien(2)	8.00%	11/26/2018	30,000	29,605	29,828	3.54%
		(L + 6.75%/Q)					
Integro Parent Inc.							
Business Services	First lien(2)	6.75%	10/31/2022	18,887	18,538	18,604	
		(L + 5.75%/Q)					
	First lien(2)	6.75%	10/31/2022	1,019	1,000	1,003	
		(L + 5.75%/Q)					
	Second lien(3)	10.25%	10/30/2023	10,000	9,906	9,650	
		(L + 9.25%/Q)					
				29,906	29,444	29,257	3.47%
Ryan, LLC							
Business Services	First lien(2)	6.75%	8/7/2020	26,600	26,263	26,069	3.09%
		(L + 5.75%/M)					
DigiCert Holdings, Inc.							
Software	First lien(2)	6.00%	10/21/2021	24,875	24,200	24,752	2.94%
		(L + 5.00%/Q)					
Precyse Acquisition Corp.							
Healthcare Services	Second lien(2)	10.75%	4/20/2023	25,000	24,570	24,563	2.91%
		(L + 9.75%/Q)					
AAC Holding Corp.							
Education	First lien(2)	8.25%	9/30/2020	24,621	24,299	24,253	2.88%
		(L + 7.25%/M)					
KeyPoint Government Solutions, Inc.							
Federal Services	First lien(2)		11/13/2017	24,143	23,977	24,023	2.85%

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7.75%  
(L + 6.50%/Q)

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

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## 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
<b>Pelican Products, Inc.</b>							
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%
<b>EN Engineering, LLC</b>							
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%
<b>TWDiamondback Holdings Corp.(18) Diamondback Drugs of Delaware, L.L.C. (TWDiamondback II Holdings LLC)</b>							
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%
<b>Vision Solutions, Inc.</b>							
Software	First lien(2)	7.50% (L + 6.50%/Q)	6/16/2022	22,500	22,276	22,275	2.64%

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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%
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%

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

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## 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
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%
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	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.							

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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	
	Second lien(3)	12.00% (L + 10.75%/Q)(8)	10/9/2019	9,564	2,889	2,869	
				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%

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

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## 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
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%
Solera LLC / Solera Finance, Inc.							
Software Packaging Coordinators, Inc.(13)	Subordinated(3)	10.50%/S	3/1/2024	5,000	4,757	5,280	0.63%
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)	5.50% (L + 4.50%/Q)	7/2/2020	141	135	39	
	First lien(2)	8.50% (L + 1.00% + 6.50% PIK/Q)*	7/2/2020	452	394	27	
	First lien(3)	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)

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**

**\$ 1,268,323 \$ 1,245,097 \$ 1,186,963 140.74%**

**Total Funded Debt  
Investments**

**\$ 1,351,412 \$ 1,326,611 \$ 1,257,184 149.07%**

**Equity United  
Kingdom**

Packaging  
Coordinators, Inc.(13)  
PCI Pharma Holdings  
UK Limited\*\*

Healthcare Products	Ordinary shares(2)			19,427 \$	578 \$	2,528	0.30%
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**Total Shares United  
Kingdom**

**\$ 578 \$ 2,528 0.30%**

**Equity United States**

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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	Preferred shares(4)		200	2,000	2,664 0.32%
TW-NHME Holdings Corp.(23)					
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.

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## 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	
					469	132	0.01%
<b>Total Shares</b>	<b>United States</b>			<b>\$ 55,817</b>	<b>\$ 57,129</b>	<b>6.77%</b>	
<b>Total Shares</b>				<b>\$ 56,395</b>	<b>\$ 59,657</b>	<b>7.07%</b>	
<b>Warrants</b>	<b>United States</b>						
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			%
<b>Total Warrants</b>	<b>United States</b>			<b>\$ 854</b>	<b>\$ 5,132</b>	<b>0.61%</b>	

<b>Total Funded Investments</b>				<b>\$ 1,383,860</b>	<b>\$ 1,321,973</b>	<b>156.75%</b>
<b>Unfunded Debt Investments</b>						
<b>United States</b>						
VetCor Professional Practices LLC						
Consumer Services	First lien(3)(11)					
	Undrawn	4/20/2021	\$ 2,025	\$ (20)	\$ 20	
	First lien(4)(11)					
	Undrawn	5/12/2017	425	(4)	4	
	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)	%
<b>Total Unfunded Debt Investments</b>			<b>\$ 10,068</b>	<b>\$ (121)</b>	<b>(16)</b>	<b>%</b>
<b>Total Non-Controlled/Non-Affiliated Investments</b>				<b>\$ 1,383,739</b>	<b>\$ 1,321,957</b>	<b>156.75%</b>
<b>Non-Controlled/Affiliated Investments(24)</b>						
<b>Funded Debt Investments</b>						
<b>United States</b>						



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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%

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

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## 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
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%
<b>Total Funded Debt Investments</b>	<b>United States</b>			<b>\$ 65,916</b>	<b>\$ 65,794</b>	<b>\$ 61,969</b>	<b>7.35%</b>
<b>Equity</b>	<b>United States</b>						
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%

Tenawa Resource Holdings LLC(16)					
QID NGL LLC					
Energy	Ordinary shares(7)		5,290,997	5,291	3,137 0.37%

<b>Total Shares</b>	<b>United States</b>		<b>\$ 28,311</b>	<b>\$ 30,351</b>	<b>3.60%</b>
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**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	\$ 878	\$ \$ %

<b>Total Unfunded Debt Investments</b>			<b>\$ 878</b>	<b>\$</b>	<b>%</b>
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<b>Total Non-Controlled/Affiliated Investments</b>			<b>\$ 94,105</b>	<b>\$ 92,320</b>	<b>10.95%</b>
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**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%

<b>Total Funded Debt Investments</b>	<b>United States</b>		<b>\$ 19,179</b>	<b>\$ 19,179</b>	<b>\$ 19,452</b>	<b>2.31%</b>
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**Equity United States**

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<b>UniTek Global Services, Inc.</b>				
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%
<b>NMFC Senior Loan Program II LLC**</b>				
Investment Fund	Membership interest(3)		27,790	27,790
				3.30%
<b>Total Shares</b>	<b>United States</b>		<b>\$ 49,960</b>	<b>\$ 64,332</b>
				<b>7.63%</b>
<b>Total Funded Investments</b>			<b>\$ 69,139</b>	<b>\$ 83,784</b>
				<b>9.94%</b>

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

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## 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
<b>Unfunded Debt Investments</b>							
<b>United States</b>							
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			%
<b>Total Unfunded Debt Investments</b>				\$ 2,806	\$		%
<b>Total Controlled Investments</b>				\$ 69,139	\$ 83,784		9.94%
<b>Total Investments</b>				\$ 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)

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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.
- (11) 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.
- (12) 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.



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**New Mountain Finance Corporation**

**Consolidated Schedule of Investments (Continued)**

**June 30, 2016**

**(in thousands, except shares)**

**(unaudited)**

- (13) The Company holds investments in Packaging Coordinators, Inc. and one related entity of Packaging 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.
- (14) The Company holds investments in ATI Acquisition Company and Ancora Acquisition LLC. The Company has 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.
- (16) The Company holds investments in two related entities of Tenawa Resource Holdings LLC. The Company holds 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.
- (17) The Company holds investments in QC McKissock Investment, LLC and one related entity of QC McKissock 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.
- (18) The Company holds investments in TWDiamondback Holdings Corp. and one related entity of TWDiamondback 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 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.
- (22) 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.

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)**

- (24) 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 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:

Category	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
te mentum Inc.	\$ 22,782	\$ 5,042		\$	\$ (612)	\$ 27,212	\$ 1,104	\$
n Program	21,914				906	22,820		
	42,591	16			(319)	42,288	2,105	
<b>ffiliated</b>	<b>\$ 87,287</b>	<b>\$ 5,058</b>		<b>\$</b>	<b>\$ (25)</b>	<b>\$ 92,320</b>	<b>\$ 3,209</b>	<b>\$</b>

- (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.

- (25)

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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:

	<b>Fair Value at December 31, 2015</b>	<b>Gross Additions(A)</b>	<b>Gross Redemptions(B)</b>	<b>Net Realized Gains (Losses)</b>	<b>Net Change In Unrealized Appreciation (Depreciation)</b>	<b>Fair Value at June 30, 2016</b>	<b>Interest Income</b>	<b>Dividend Income</b>
Inc. \$	47,422 \$	1,680 \$	(1,585)\$	\$	8,477 \$	55,994 \$	985 \$	1,461 \$
Senior program		27,790				27,790		
and								
nts \$	<b>47,422 \$</b>	<b>29,470 \$</b>	<b>(1,585)\$</b>	<b>\$</b>	<b>8,477 \$</b>	<b>83,784 \$</b>	<b>985 \$</b>	<b>1,461 \$</b>

(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.

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

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**New Mountain Finance Corporation**

**Consolidated Schedule of Investments (Continued)**

**June 30, 2016**

**(unaudited)**

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

<b>Industry Type</b>	<b>June 30, 2016 Percent of Total Investments at Fair Value</b>
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%
<b>Total investments</b>	<b>100.00%</b>

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

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

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## 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
<b>Non-Controlled/Non-Affiliated Investments</b>							
<b>Funded Debt Investments</b>							
<b>Australia</b>							
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%
<b>Total Funded Debt Investments Australia</b>				<b>\$ 10,800</b>	<b>\$ 10,752</b>	<b>\$ 10,314</b>	<b>1.23%</b>
<b>Funded Debt Investments</b>							
<b>Luxembourg</b>							
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	
				32,834	32,663	26,103	3.12%
<b>Total Funded Debt Investments Luxembourg</b>				<b>\$ 32,834</b>	<b>\$ 32,663</b>	<b>\$ 26,103</b>	<b>3.12%</b>
<b>Funded Debt Investments</b>							
<b>Netherlands</b>							
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%
				<b>\$ 10,000</b>	<b>\$ 9,303</b>	<b>\$ 9,049</b>	<b>1.08%</b>

**Total Funded Debt**  
**Investments Netherlands**
**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	
	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%



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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%

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

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## 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
<b>Ascend Learning, LLC</b>							
Education	Second lien(3)	9.50% (L + 8.50%/Q)	11/30/2020	\$ 34,727	\$ 34,352	\$ 33,077	3.95%
<b>CRGT Inc.</b>							
Federal Services	First lien(2)	7.50% (L + 6.50%/Q)	12/19/2020	33,261	33,030	32,928	3.93%
<b>Physio-Control International, Inc.</b>							
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%
<b>Valet Waste Holdings, Inc.</b>							
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%
<b>Rocket Software, Inc.</b>							
Software	Second lien(2)	10.25% (L + 8.75%/Q)	2/8/2019	30,875	30,781	30,759	3.68%
<b>TASC, Inc.</b>							
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%

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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%
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%

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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%
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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%
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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	
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	First lien(2)(11) Drawn	8.50% (P + 5.00%/Q)	6/30/2021	1,223	1,211	1,179	
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				22,544	22,332	21,733	2.60%
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The accompanying notes are an integral part of these consolidated financial statements.

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## 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
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%
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 TWDiamondback Holdings Corp.(18) Diamondback Drugs of Delaware, L.L.C. (TWDiamondback II Holdings LLC)	Subordinated(4)	16.00%/Q	7/3/2019	20,000	20,000	19,430	2.32%
Distribution & Logistics	First lien(4)	9.75% (L + 8.75%/Q)	11/19/2019	19,895	19,895	19,117	2.28%

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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	First lien(2)	8.00% (L + 6.75%/M)	6/4/2018	18,320	18,182	17,679	2.11%
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%

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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%
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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%

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

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## 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
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%
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%



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QC McKissock Investment, LLC(17)							
McKissock, LLC							
Education	First lien(2)	7.50% (L + 6.50%/Q)	8/5/2019	4,875	4,838	4,707	
	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%
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.							

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Business Services Synarc-Biocore Holdings, LLC	Subordinated(3)	8.50%/S	10/1/2022	3,000	3,000	2,471	0.30%
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 Education Management Corporation(22)	Subordinated(3)	9.00%/S	9/30/2023	2,000	1,933	1,940	0.23%
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%

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

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## 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
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		%
<b>Total Funded Debt Investments United States</b>				<b>\$ 1,314,464</b>	<b>\$ 1,297,775</b>	<b>\$ 1,237,175</b>	<b>147.83%</b>
<b>Total Funded Debt Investments</b>				<b>\$ 1,400,598</b>	<b>\$ 1,382,229</b>	<b>\$ 1,314,004</b>	<b>157.01%</b>
<b>Equity United Kingdom</b>							
Packaging Coordinators, Inc.(13)							
PCI Pharma Holdings UK Limited**							
Healthcare Products	Ordinary shares(2)			19,427 \$	578 \$	1,612	0.19%
<b>Total Shares United Kingdom</b>				<b>\$</b>	<b>578 \$</b>	<b>1,612</b>	<b>0.19%</b>
<b>Equity United States</b>							
Crowley Holdings Preferred, LLC				52,058 \$	51,518 \$	51,911	6.20%

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Distribution & Logistics	Preferred shares(3)(20)	12.00% (10.00% + 2.00% PIK/Q)*				
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%
<b>Total Shares</b>	<b>United States</b>			<b>\$ 55,070</b>	<b>\$ 55,635</b>	<b>6.65%</b>
<b>Total Shares</b>				<b>\$ 55,648</b>	<b>\$ 57,247</b>	<b>6.84%</b>
<b>Warrants United States</b>						
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	ASP LCG Holdings, Inc.	Warrants(3)	10/23/2025	94,672	817	817 0.10%
Education	Ancora Acquisition LLC(14)	Warrants(3)	5/5/2026	622	37	610 0.07%
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)	%

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

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## 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
NetCor 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)%
OC McKissock Investment, LLC(17) McKissock, LLC Education	First lien(2)(11) Undrawn		12/31/2015	1,862	(19)	(64)	(0.01)%
MailSouth, Inc. (d/b/a Mspark) Media	First lien(3)(11) Undrawn		12/14/2016	1,900	(181)	(79)	(0.01)%
EN Engineering, L.L.C. Business Services	First lien(2)(11) Undrawn		12/30/2016	2,348	(12)	(85)	(0.01)%
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)	
	First lien(4)(11) Undrawn		2/16/2016	605		(24)	
				2,763		(108)	(0.01)%
<b>Total Unfunded Debt Investments</b>				<b>\$ 18,567</b>	<b>\$ (316)</b>	<b>(467)</b>	<b>(0.05)%</b>

<b>Total Non-Controlled/Non-Affiliated Investments</b>					<b>\$ 1,438,415</b>	<b>\$ 1,377,515</b>	<b>164.60%</b>
<b>Non-Controlled/Affiliated Investments(25)</b>							
<b>Funded Debt Investments</b>							
<b>United States</b>							
Renawa Resource Holdings LLC(16)							
Renawa Resource Management LLC							
Energy	First lien(3)	10.50% (Base + 8.00%/Q)	5/12/2019	\$ 40,000	\$ 39,869	\$ 38,813	4.64%
Momentum 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%
<b>Total Funded Debt Investments</b>	<b>United States</b>			<b>\$ 60,875</b>	<b>\$ 60,736</b>	<b>\$ 55,577</b>	<b>6.64%</b>
<b>Equity United States</b>							
MFC Senior Loan Program LLC**							
Investment Fund	Membership interest(3)				\$ 23,000	\$ 21,914	2.62%
Momentum 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%
Renawa Resource Holdings LLC(16)							
MID NGL LLC							
Energy	Ordinary shares(7)			5,290,997	5,291	3,778	0.45%
<b>Total Shares</b>	<b>United States</b>			<b>\$ 28,311</b>	<b>\$ 31,921</b>	<b>\$ 31,921</b>	<b>3.81%</b>
<b>Unfunded Debt Investments</b>							
<b>United States</b>							

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)%
<b>Total Unfunded Debt</b>						
<b>Investments</b>			<b>\$ 4,881</b>	<b>\$</b>	<b>(211)</b>	<b>(0.02)%</b>
<b>Total</b>						
<b>Non-Controlled/Affiliated</b>						
<b>Investments</b>				<b>\$ 89,047</b>	<b>\$ 87,287</b>	<b>10.43%</b>

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



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## 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
<b>Controlled Investments(26)</b>							
<b>Funded Debt Investments</b>							
<b>United States</b>							
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	
				20,546	20,546	20,135	2.40%
<b>Total Funded Debt Investments</b>							
<b>United States</b>							
				\$ 20,546	\$ 20,546	\$ 20,135	2.40%
<b>Equity United States</b>							
UniTek Global Services, Inc.							
Business Services	Preferred shares(2)(21)			16,680,037	\$ 14,299	\$ 13,870	
	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%
<b>Total Shares</b>					
<b>United States</b>		\$	20,708	\$	27,312
					3.26%
<b>Total Funded</b>					
<b>Investments</b>		\$	41,254	\$	47,447
					5.66%
<b>Unfunded Debt</b>					
<b>Investments</b>					
<b>United States</b>					
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)
					%
<b>Total Unfunded</b>					
<b>Debt</b>					
<b>Investments</b>		\$	2,806	\$	(25)
					%
<b>Total Controlled</b>					
<b>Investments</b>		\$	41,254	\$	47,422
					5.66%
<b>Total</b>					
<b>Investments</b>		\$	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.

- (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.

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

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**New Mountain Finance Corporation**

**Consolidated Schedule of Investments (Continued)**

**December 31, 2015**

**(in thousands, except shares)**

- (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 December 31, 2015.
- (11) 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 the impact of paydowns and cash paid for drawn revolvers or delayed draws.
- (12) 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.
- (13) The Company holds investments in Packaging Coordinators, Inc. and one related entity of Packaging 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.
- (14) The Company holds investments in ATI Acquisition Company and Ancora Acquisition LLC. The Company has 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.
- (16) The Company holds investments in two related entities of Tenawa Resource Holdings LLC. The Company holds 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.

- (17) The Company holds investments in QC McKissock Investment, LLC and one related entity of QC McKissock 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.
- (18) The Company holds investments in TWDiamondback Holdings Corp. and one related entity of TWDiamondback 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.
- (22) 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.

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

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**New Mountain Finance Corporation**

**Consolidated Schedule of Investments (Continued)**

**December 31, 2015**

**(in thousands, except shares)**

(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.

(25) 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 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:

	<b>Fair Value at December 31, 2014</b>	<b>Gross Additions(A)</b>	<b>Gross Redemptions(B)</b>	<b>Net Realized Gains (Losses)</b>	<b>Net Change In Unrealized Appreciation (Depreciation)</b>	<b>Fair Value at December 31, 2015</b>	<b>Interest Income</b>
ntum Inc.	\$ 22,461	\$ 23,937	\$ (3,050)	\$	\$ 1,895	\$ 22,782	\$ 1,171
					(547)	21,914	
		44,572			(1,981)	42,591	4,231
<b>liated</b>	<b>\$ 22,461</b>	<b>\$ 68,509</b>	<b>\$ (3,050)</b>	<b>\$</b>	<b>\$ (633)</b>	<b>\$ 87,287</b>	<b>\$ 5,402</b>

(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 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.

(26)

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, 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:

	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
	\$	\$ 42,780	\$ (1,526)	\$	\$ 6,168	\$ 47,422	\$ 2,007	\$ 2,559
	\$	\$ 42,780	\$ (1,526)	\$	\$ 6,168	\$ 47,422	\$ 2,007	\$ 2,559

(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 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.

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

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Table of Contents**New Mountain Finance Corporation****Consolidated Schedule of Investments (Continued)****December 31, 2015**

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

<b>Industry Type</b>	<b>December 31, 2015 Percent of Total Investments at Fair Value</b>
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%
<b>Total investments</b>	<b>100.00%</b>

<b>Interest Rate Type</b>	<b>December 31, 2015 Percent of Total Investments at Fair Value</b>
Floating rates	86.26%

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Fixed rates	13.74%
Total investments	100.00%

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

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**Notes 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

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**June 30, 2016**

**(in thousands, except share data)**

**(unaudited)**

**Note 1. Formation and Business Purpose (Continued)**

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.

***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

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**Note 1. Formation and Business Purpose (Continued)**

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.

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**Note 1. Formation and Business Purpose (Continued)**

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 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

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**Note 1. Formation and Business Purpose (Continued)**

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").

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

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\*

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

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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

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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

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**Note 1. Formation and Business Purpose (Continued)**

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.

**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

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**Note 2. Summary of Significant Accounting Policies (Continued)**

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;



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**Notes to the Consolidated Financial Statements of  
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**Note 2. Summary of Significant Accounting Policies (Continued)**

- c. 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
- d. 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. 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 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

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**Note 2. Summary of Significant Accounting Policies (Continued)**

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

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**Note 2. Summary of Significant Accounting Policies (Continued)**

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 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

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**Note 2. Summary of Significant Accounting Policies (Continued)**

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.

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

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**Note 2. Summary of Significant Accounting Policies (Continued)**

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



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**Note 2. Summary of Significant Accounting Policies (Continued)**

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.

**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.

Table of Contents**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)****June 30, 2016****(in thousands, except share data)****(unaudited)****Note 3. Investments**

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

**Investment Cost and Fair Value by Type**

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

**Investment Cost and Fair Value by Industry**

	<b>Cost</b>	<b>Fair Value</b>
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
<b>Total investments</b>	<b>\$ 1,546,983</b>	<b>\$ 1,498,061</b>

Table of Contents**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)****June 30, 2016****(in thousands, except share data)****(unaudited)****Note 3. Investments (Continued)**

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

**Investment Cost and Fair Value by Type**

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

**Investment Cost and Fair Value by Industry**

	<b>Cost</b>	<b>Fair Value</b>
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
<b>Total investments</b>	<b>\$ 1,568,716</b>	<b>\$ 1,512,224</b>

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.

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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

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**Notes to the Consolidated Financial Statements of  
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**(in thousands, except share data)**

**(unaudited)**

**Note 3. Investments (Continued)**

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 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.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

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**Note 3. Investments (Continued)**

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.

Table of Contents**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)****June 30, 2016****(in thousands, except share data)****(unaudited)****Note 3. Investments (Continued)**

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.

***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

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**June 30, 2016**

**(in thousands, except share data)**

**(unaudited)**

**Note 3. Investments (Continued)**

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.



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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**June 30, 2016**

(in thousands, except share data)

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**Note 3. Investments (Continued)**

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:

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
<b>Summary of Operations:</b>				
<b>Net sales</b>	\$ 71,567	\$ 66,702	\$ 139,910	\$ 133,024
Cost of goods sold	54,839	54,108	107,275	110,315
<b>Gross profit</b>	16,728	12,594	32,635	22,709
Other expenses	13,712	12,205	27,905	28,772
<b>Net income (loss) from continuing operations before extraordinary items</b>	3,016	389	4,730	(6,063)
Loss from discontinued operations				
<b>Net income (loss)</b>	\$ 3,016	\$ 389	\$ 4,730	\$ (6,063)
<i>Investment risk factors</i>				

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.

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**Notes to the Consolidated Financial Statements of  
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**Note 3. Investments (Continued)**

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

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New Mountain Finance Corporation (Continued)****June 30, 2016****(in thousands, except share data)****(unaudited)****Note 4. Fair Value (Continued)**

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.

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

	<b>Total</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>
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
<b>Total investments</b>	<b>\$ 1,498,061</b>	<b>\$ 118</b>	<b>\$ 677,201</b>	<b>\$ 820,742</b>

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

	<b>Total</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>
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
<b>Total investments</b>	<b>\$ 1,512,224</b>	<b>\$ 316</b>	<b>\$ 811,921</b>	<b>\$ 699,987</b>

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

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**Note 4. Fair Value (Continued)**

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
<b>Fair value, March 31, 2016</b>	\$ 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 <sup>(1)</sup>	56,128	19,255	36,873		
Transfers out of Level III <sup>(1)</sup>	(24,314)	(24,314)			
<b>Fair Value, June 30, 2016</b>	\$ 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
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- (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.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

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**Note 4. Fair Value (Continued)**

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
<b>Fair value, March 31, 2015</b>	\$ 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 <sup>(1)</sup>	65,290	20,150	23,893	20,397	850
Proceeds from sales and paydowns of investments <sup>(1)</sup>	(60,373)	(2,100)	(58,277)		4
Transfers into Level III <sup>(2)</sup>	28,333	28,333			
<b>Fair Value, June 30, 2015</b>	\$ 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.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**June 30, 2016**

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(unaudited)

**Note 4. Fair Value (Continued)**

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
<b>Fair value, December 31, 2015</b>	\$ 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 <sup>(1)</sup>	92,163	19,255	72,908		
Transfers out of Level III <sup>(1)</sup>	(24,314)	(24,314)			
<b>Fair Value, June 30, 2016</b>	<b>\$ 820,742</b>	<b>\$ 331,531</b>	<b>\$ 288,137</b>	<b>\$ 41,734</b>	<b>\$ 159,340</b>

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
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(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.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

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(in thousands, except share data)

(unaudited)

**Note 4. Fair Value (Continued)**

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
<b>Fair value, December 31, 2014</b>	\$ 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 <sup>(1)</sup>	125,293	45,504	36,243	22,827	20,719
Proceeds from sales and paydowns of investments <sup>(1)</sup>	(158,767)	(42,540)	(102,177)		(14,050)
Transfers into Level III <sup>(2)</sup>	28,333	28,333			
<b>Fair Value, June 30, 2015</b>	\$ 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.

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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

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**Notes to the Consolidated Financial Statements of  
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**Note 4. Fair Value (Continued)**

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.

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

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**Notes to the Consolidated Financial Statements of  
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**Note 4. Fair Value (Continued)**

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
	22,275	Other	N/A <sup>(1)</sup>	N/A <sub>(1)</sub>	N/A <sub>(1)</sub>	N/A <sub>(1)</sub>	
Second lien	157,473	Market & income approach	EBITDA multiple	6.5x	16.0x	11.5x	
			Discount rate	9.5%	13.1%	11.3%	
		118,769	Market quote	Broker quote	N/A	N/A	N/A
	11,895	Other	N/A <sup>(1)</sup>	N/A <sub>(1)</sub>	N/A <sub>(1)</sub>	N/A <sub>(1)</sub>	
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%
			2,528	Other	N/A <sup>(1)</sup>	N/A <sub>(1)</sub>	N/A <sub>(1)</sub>
	\$ 820,742						

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(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.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

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**Note 4. Fair Value (Continued)**

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%	
		30,719	Market quote	Broker quote	N/A	N/A	N/A
	17,664	Other	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	
Second lien	88,977	Market & income approach	EBITDA multiple	6.5x	16.0x	12.3x	
			Discount rate	10.0%	14.2%	12.7%	
		41,544	Market quote	Broker quote	N/A	N/A	N/A
	52,237	Other	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	
Subordinated	38,459	Market & income approach	EBITDA multiple	4.5x	9.0x	7.6x	
			Discount rate	10.0%	19.4%	17.7%	
		15,000	Other	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>
Equity and other	121,453	Market & income approach	EBITDA multiple	2.5x	12.0x	6.3x	
			Discount rate	8.0%	21.3%	14.6%	
		1,427	Black Scholes analysis	Expected life in years	9.8	10.3	10.0
				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

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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

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**Note 4. Fair Value (Continued)**

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.

**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

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**Notes to the Consolidated Financial Statements of  
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**Note 5. Agreements (Continued)**

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 Realized Capital Gains") or losses ("Adjusted Realized Capital Losses") and unrealized

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**Notes to the Consolidated Financial Statements of  
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**Note 5. Agreements (Continued)**

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.



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**Notes to the Consolidated Financial Statements of  
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**Note 5. Agreements (Continued)**

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)
<b>Total management fee</b>	<b>5,577</b>	<b>4,951</b>	<b>11,094</b>	<b>10,037</b>
Incentive fee, excluding accrued capital gains incentive fees	\$ 5,449	\$ 5,057	\$ 10,834	\$ 9,935
Accrued capital gains incentive fees <sup>(1)</sup>	\$	\$ 9	\$	\$ 490

(1)

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

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.

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**Note 5. Agreements (Continued)**

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.

	<b>Three Months Ended June 30, 2016</b>	<b>Stepped-up Cost Basis Adjustments</b>	<b>Adjusted Three Months Ended June 30, 2016</b>
<b>Investment income</b>			
Interest income <sup>(1)</sup>	\$ 38,412	\$ (35)	\$ 38,377
Dividend income <sup>(2)</sup>	1,721		1,721
Other income	1,357		1,357
<b>Total investment income<sup>(3)</sup></b>	<b>41,490</b>	<b>(35)</b>	<b>41,455</b>
Total expenses pre-incentive fee <sup>(4)</sup>	14,209		14,209
<b>Pre-Incentive Fee Net Investment Income</b>	<b>27,281</b>	<b>(35)</b>	<b>27,246</b>
Incentive fee <sup>(5)</sup>	5,449		5,449
<b>Post-Incentive Fee Net Investment Income</b>	<b>21,832</b>	<b>(35)</b>	<b>21,797</b>
Net realized gains (losses) on investments <sup>(6)</sup>	865	(86)	779
Net change in unrealized appreciation (depreciation) of investments <sup>(6)</sup>	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
<b>Net increase in net assets resulting from operations</b>	<b>\$ 44,693</b>		<b>\$ 44,693</b>

(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.
- (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.

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## Note 5. Agreements (Continued)

	Six Months Ended June 30, 2016	Stepped-up Cost Basis Adjustments	Adjusted Six Months Ended June 30, 2016
<b>Investment income</b>			
Interest income <sup>(1)</sup>	\$ 76,202	\$ (64)	\$ 76,138
Dividend income <sup>(2)</sup>	3,360		3,360
Other income	2,904		2,904
<b>Total investment income<sup>(3)</sup></b>	<b>82,466</b>	<b>(64)</b>	<b>82,402</b>
Total expenses pre-incentive fee <sup>(4)</sup>	28,233		28,233
<b>Pre-Incentive Fee Net Investment Income</b>	<b>54,233</b>	<b>(64)</b>	<b>54,169</b>
Incentive fee <sup>(5)</sup>	10,834		10,834
<b>Post-Incentive Fee Net Investment Income</b>	<b>43,399</b>	<b>(64)</b>	<b>43,335</b>
Net realized gains (losses) on investments <sup>(6)</sup>	1,041	(124)	917
Net change in unrealized appreciation (depreciation) of investments <sup>(6)</sup>	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
<b>Net increase in net assets resulting from operations</b>	<b>\$ 52,744</b>		<b>\$ 52,744</b>

(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.

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**Notes to the Consolidated Financial Statements of  
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**Note 5. Agreements (Continued)**

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.

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

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

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

(3)

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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.

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(in thousands, except share data)

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## Note 5. Agreements (Continued)

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

(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

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**Notes to the Consolidated Financial Statements of  
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**(in thousands, except share data)**

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**Note 5. Agreements (Continued)**

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.

**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.

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**Notes to the Consolidated Financial Statements of  
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**(in thousands, except share data)**

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**Note 6. Related Parties (Continued)**

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

Table of Contents**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)****June 30, 2016****(in thousands, except share data)****(unaudited)****Note 7. Borrowings (Continued)**

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% 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.

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**Notes to the Consolidated Financial Statements of  
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**Note 7. Borrowings (Continued)**

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

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**Note 7. Borrowings (Continued)**

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.

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).

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**Notes to the Consolidated Financial Statements of  
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**Note 7. Borrowings (Continued)**

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, 2016	June 30, 2015	June 30, 2016	June 30, 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.

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**Note 7. Borrowings (Continued)**

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 <sup>(1)</sup>		62.7746
Initial conversion price	\$	15.93
Conversion premium at June 30, 2016		11.7%
Conversion rate at June 30, 2016 <sup>(1)(2)</sup>		63.2794
Conversion price at June 30, 2016 <sup>(2)(3)</sup>	\$	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.



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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.

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**Notes to the Consolidated Financial Statements of  
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**Note 7. Borrowings (Continued)**

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
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.

**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

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**Note 7. Borrowings (Continued)**

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

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**Note 7. Borrowings (Continued)**

life of the SBA-guaranteed debentures. The following table summarizes the Company's SBA-guaranteed debentures as of June 30, 2016.

<b>Issuance Date</b>	<b>Maturity Date</b>	<b>Debenture Amount</b>	<b>Interest Rate</b>	<b>SBA Annual Charge</b>
<b>Fixed SBA-guaranteed debentures:</b>				
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%
March 23, 2016	March 1, 2026	13,950	2.507%	0.742%
<b>Interim SBA-guaranteed debentures:</b>				
	September 1, 2026 <sup>(1)</sup>	1,000	0.950%	0.742%
	September 1, 2026 <sup>(1)</sup>	3,000	0.907%	0.742%
<b>Total SBA-guaranteed debentures</b>		<b>\$ 121,745</b>		

(1)

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

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.

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2016</b>	<b>June 30, 2015</b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>
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

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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

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**June 30, 2016**

**(in thousands, except share data)**

**(unaudited)**

**Note 7. Borrowings (Continued)**

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

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**June 30, 2016**

**(in thousands, except share data)**

**(unaudited)**

**Note 9. Commitments and Contingencies (Continued)**

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.

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	Accumulated Undistributed Net Investment	Accumulated Undistributed Net Realized	Net Unrealized (Depreciation)
Shares	Par Amount	at Cost	Excess of Par	Income	Gains (Losses)	Appreciation
64,005,387	\$ 640	\$	\$ 899,713	\$ 4,164	\$ 1,342	\$(68,951)
(248,499)		(2,948)				
			38	(43,417)		
				43,399	1,041	8,304

16	63,756,888 \$	640 \$	(2,948)\$	899,751 \$	4,146 \$	2,383 \$	(60,647)\$
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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**June 30, 2016**

(in thousands, except share data)

(unaudited)

**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
<b>Earnings per share basic</b>				
Numerator for basic earnings per share:	\$ 44,693	\$ 20,264	\$ 52,744	\$ 43,178
Denominator for basic weighted average share:	63,839,920	58,076,552	63,887,036	58,037,868
Basic earnings per share:	\$ 0.70	\$ 0.35	\$ 0.83	\$ 0.74
<b>Earnings per share diluted<sup>(1)</sup></b>				
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	63,839,920	58,076,552	63,887,036	58,037,868
Adjustment for dilutive effect of Convertible Notes	7,277,131	7,236,945	7,277,131	7,228,063
Denominator for diluted weighted average share	71,117,051	65,313,497	71,164,167	65,265,931
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.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**June 30, 2016**

(in thousands, except share data)

(unaudited)

**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.

	<b>Six Months Ended</b>	
	<b>June 30, 2016</b>	<b>June 30, 2015</b>
<b>Per share data<sup>(1)</sup>:</b>		
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
<b>Total net increase</b>	<b>0.83</b>	<b>0.75</b>
Dividends declared to stockholders from net investment income	(0.68)	(0.68)
<b>Net asset value, June 30, 2016 and June 30, 2015, respectively</b>	<b>\$ 13.23</b>	<b>\$ 13.90</b>
Per share market value, June 30, 2016 and June 30, 2015, respectively	\$ 12.90	\$ 14.49
Total return based on market value <sup>(2)</sup>	4.36%	1.58%
Total return based on net asset value <sup>(3)</sup>	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 Note <sup>(4)</sup>	50,000	
Asset coverage ratio <sup>(5)</sup>	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.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**June 30, 2016**

**(in thousands, except share data)**

**(unaudited)**

**Note 12. Financial Highlights (Continued)**

- (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.

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

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**June 30, 2016**

**(in thousands, except share data)**

**(unaudited)**

**Note 13. Recent Accounting Standards Updates (Continued)**

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.

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**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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
New Mountain Finance Corporation and subsidiaries  
New York, New York

We have audited the accompanying consolidated statements of assets and liabilities of New Mountain Finance Corporation and subsidiaries (the "Company"), including the consolidated schedules of investments, as of December 31, 2015 and 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended December 31, 2015 and the consolidated financial highlights for the period from May 19, 2011 (commencement of operations) to December 31, 2011 and for the years ended December 31, 2015, 2014, 2013 and 2012. These financial statements and financial highlights are the responsibility of the management of the Company. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements and consolidated financial highlights referred to above present fairly, in all material respects, the financial position of New Mountain Finance Corporation and subsidiaries as of December 31, 2015 and 2014, and the results of their operations, changes in their net assets, and their cash flows for each of the three years in the period ended December 31, 2015 and the financial highlights for the period from May 19, 2011 (commencement of operations) to December 31, 2011 and for the years ended December 31, 2015, 2014, 2013 and 2012 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on the criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February, 29, 2016, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

New York, New York  
February 29, 2016

Table of Contents**New Mountain Finance Corporation****Consolidated Statements of Assets and Liabilities****(in thousands, except shares and per share data)**

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>		
Investments at fair value		
Non-controlled/non-affiliated investments (cost of \$1,438,415 and \$1,422,891, respectively)	\$ 1,377,515	\$ 1,402,210
Non-controlled/affiliated investments (cost \$89,047 and \$23,000, respectively)	87,287	22,461
Controlled investments (cost of \$41,254 and \$0, respectively)	47,422	
Total investments at fair value (cost \$1,568,716 and \$1,445,891, respectively)	1,512,224	1,424,671
Securities purchased under collateralized agreements to resell (cost of \$30,000 and \$30,000, respectively)	29,704	30,000
Cash and cash equivalents	30,102	23,445
Deferred financing costs (net of accumulated amortization of \$8,822 and \$5,867, respectively)	13,992	14,052
Interest and dividend receivable	13,832	11,744
Receivable from affiliates	360	490
Receivable from unsettled securities sold		8,912
Other assets	1,924	1,606
<b>Total assets</b>	<b>\$ 1,602,138</b>	<b>\$ 1,514,920</b>
<b>Liabilities</b>		
Holdings Credit Facility	\$ 419,313	\$ 468,108
SBA-guaranteed debentures	117,745	37,500
Convertible Notes	115,000	115,000
NMFC Credit Facility	90,000	50,000
Incentive fee payable	5,622	4,803
Management fee payable	5,466	5,144
Payable for unsettled securities purchased	5,441	26,460
Interest payable	2,343	1,352
Deferred tax liability	1,676	493
Payable to affiliates	564	822
Other liabilities	2,060	3,068
<b>Total liabilities</b>	<b>765,230</b>	<b>712,750</b>
<b>Commitments and contingencies (See Note 9)</b>		
<b>Net assets</b>		
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, and 64,005,387 and 57,997,890 shares issued and outstanding, respectively	640	580
Paid in capital in excess of par	899,713	817,129
Accumulated undistributed net investment income	4,164	2,530
Accumulated undistributed net realized gains on investments	1,342	14,131
Net unrealized (depreciation) appreciation (net of provision for taxes of \$1,676 and \$493, respectively)	(68,951)	(32,200)
<b>Total net assets</b>	<b>\$ 836,908</b>	<b>\$ 802,170</b>



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<b>Total liabilities and net assets</b>	\$	1,602,138	\$	1,514,920
Number of shares outstanding		64,005,387		57,997,890
<b>Net asset value per share</b>	\$	13.08	\$	13.83

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

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Table of Contents**New Mountain Finance Corporation****Consolidated Statements of Operations**

(in thousands, except shares and per share data)

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Investment income(1)</b>			
From non-controlled/non-affiliated investments:			
Interest income	\$ 132,665	\$ 85,123	\$
Dividend income	(407)	1,243	
Other income	5,996	4,023	
From non-controlled/affiliated investments:			
Interest income	5,402		
Dividend income	3,619	1,066	
Other income	1,965	468	
From controlled investments:			
Interest income	2,007		
Dividend income	2,559		
Other income	49		
<b>Investment income allocated from New Mountain Finance Holdings, L.L.C.(2)</b>			
Interest income		40,515	84,925
Dividend income		2,368	3,567
Other income		795	2,384
<b>Total investment income</b>	<b>153,855</b>	<b>135,601</b>	<b>90,876</b>
<b>Expenses</b>			
Incentive fee(1)	20,591	12,070	
Capital gains incentive fee(1)		(8,573)	
<b>Total incentive fees(1)</b>	<b>20,591</b>	<b>3,497</b>	
Management fee(1)	25,858	13,593	
Interest and other financing expenses(1)	23,374	13,269	
Professional fees(1)	3,214	2,390	
Administrative expenses(1)	2,450	1,470	
Other general and administrative expenses(1)	1,665	1,138	
Net expenses allocated from New Mountain Finance Holdings, L.L.C.(2)		20,808	40,355
<b>Total expenses</b>	<b>77,152</b>	<b>56,165</b>	<b>40,355</b>
Less: management fee waived (see Note 5)(1)	(5,219)	(686)	
Less: expenses waived and reimbursed (see Note 5)(1)	(733)	(380)	

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Net expenses	71,200	55,099	40,355
Net investment income before income taxes	82,655	80,502	50,521
Income tax expense(1)	160	436	
<b>Net investment income</b>	<b>82,495</b>	<b>80,066</b>	<b>50,521</b>
Net realized (losses) gains:			
Non-controlled/non-affiliated investments(1)	(12,789)	357	
Investments allocated from New Mountain Finance Holdings, L.L.C.(2)		8,568	5,427
Net change in unrealized (depreciation) appreciation:			
Non-controlled/non-affiliated investments(1)	(40,807)	(43,324)	
Non-controlled/affiliated investments(1)	(633)	(539)	
Controlled investments(1)	6,168		
Securities purchased under collateralized agreements to resell(1)	(296)		
Investments allocated from New Mountain Finance Holdings, L.L.C.(2)		940	6,016
Investment in New Mountain Finance Holdings, L.L.C.(2)			(44)
Provision for taxes(1)	(1,183)	(493)	
<b>Net realized and unrealized (losses) gains</b>	<b>(49,540)</b>	<b>(34,491)</b>	<b>11,399</b>
<b>Net increase in net assets resulting from operations</b>	<b>\$ 32,955</b>	<b>\$ 45,575</b>	<b>\$ 61,920</b>
Basic earnings per share	\$ 0.55	\$ 0.88	\$ 1.76
Weighted average shares of common stock outstanding basic (See Note 12)	59,715,290	51,846,164	35,092,722
Diluted earnings per share	\$ 0.55	\$ 0.86	\$ 1.76
Weighted average shares of common stock outstanding diluted (See Note 12)	66,968,089	56,157,835	35,092,722
Dividends declared and paid per share	\$ 1.36	\$ 1.48	\$ 1.48

(1) For the year ended December 31, 2014, the amounts reported relate to the period from May 8, 2014 to December 31, 2014.

(2) For the year ended December 31, 2014, the amounts reported relate to the period from January 1, 2014 to May 7, 2014.

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

Table of Contents**New Mountain Finance Corporation****Consolidated Statements of Changes in Net Assets****(in thousands, except share data)**

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Increase (decrease) in net assets resulting from operations:</b>			
Net investment income <sup>(1)</sup>	\$ 82,495	\$ 57,196	\$
Net investment income allocated from New Mountain Finance Holdings, L.L.C. <sup>(2)</sup>		22,870	50,521
Net realized (losses) gains on investments <sup>(1)</sup>	(12,789)	357	
Net realized gains on investments allocated from New Mountain Finance Holdings, L.L.C. <sup>(2)</sup>		8,568	5,427
Net change in unrealized (depreciation) appreciation of investments <sup>(1)</sup>	(35,272)	(43,863)	
Net change in unrealized (depreciation) appreciation of securities purchased under collateralized agreements to resell <sup>(1)</sup>	(296)		
Net change in unrealized appreciation (depreciation) of investments allocated from New Mountain Finance Holdings, L.L.C. <sup>(2)</sup>		940	6,016
Net change in unrealized (depreciation) appreciation of investment in New Mountain Finance Holdings, L.L.C. <sup>(2)</sup>			(44)
Provision for taxes <sup>(1)</sup>	(1,183)	(493)	
<b>Net increase in net assets resulting from operations</b>	<b>32,955</b>	<b>45,575</b>	<b>61,920</b>
<b>Capital transactions</b>			
Net proceeds from shares sold	79,415	141,157	100,040
Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C. <sup>(2)</sup>		(250)	(281)
Deferred offering costs <sup>(1)</sup>	(285)	(476)	
Value of shares issued for exchanged units		38,840	193,262
Dividends declared to stockholders from net investment income	(81,002)	(71,365)	(50,521)
Dividends declared to stockholders from net realized gains		(6,247)	(1,323)
Reinvestment of dividends	3,655	4,829	5,084
<b>Total net increase in net assets resulting from capital transactions</b>	<b>1,783</b>	<b>106,488</b>	<b>246,261</b>
<b>Net increase in net assets</b>	<b>34,738</b>	<b>152,063</b>	<b>308,181</b>
<b>Net assets at the beginning of the period</b>	<b>802,170</b>	<b>650,107</b>	<b>341,926</b>
<b>Net assets at the end of the period<sup>(3)</sup></b>	<b>\$ 836,908</b>	<b>\$ 802,170</b>	<b>\$ 650,107</b>
<b>Capital share activity</b>			
Shares sold	5,750,000	9,775,000	7,000,000
Shares issued for exchanged units		2,671,938	13,550,000
Shares issued from reinvestment of dividends	257,497	326,197	348,504
<b>Net increase in shares outstanding</b>	<b>6,007,497</b>	<b>12,773,135</b>	<b>20,898,504</b>

- (1) For the year ended December 31, 2014, the amounts reported relate to the period from May 8, 2014 to December 31, 2014.
- (2) For the year ended December 31, 2014, the amounts reported relate to the period from January 1, 2014 to May 7, 2014.
- (3) For the years ended December 31, 2015, December 31, 2014 and December 31, 2013, includes accumulated undistributed net investment income of \$4,164, \$2,530 and \$0, respectively.

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

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## New Mountain Finance Corporation

## Consolidated Statements of Cash Flows

(in thousands)

Years Ended December 31,

	2015	2014	2013
<b>Cash flows from operating activities</b>			
Net increase in net assets resulting from operations	\$ 32,955	\$ 45,575	\$ 61,920
Adjustments to reconcile net (increase) decrease in net assets resulting from operations to net cash (used in) provided by operating activities:			
Net investment income allocated from New Mountain Finance Holdings, L.L.C.(2)		(22,870)	(50,521)
Net realized losses (gains) on investments(1)	12,789	(357)	
Net realized gains on investments allocated from New Mountain Finance Holdings, L.L.C.(2)		(8,568)	(5,427)
Net change in unrealized depreciation (appreciation) of investments(1)	35,272	43,863	
Net change in unrealized depreciation (appreciation) of securities purchased under collateralized agreements to resell	296		
Net change in unrealized (appreciation) depreciation of investments allocated from New Mountain Finance Holdings, L.L.C.(2)		(940)	(6,016)
Net change in unrealized depreciation (appreciation) in New Mountain Finance Holdings, L.L.C.(2)			44
Amortization of purchase discount(1)	(2,511)	(1,721)	
Amortization of deferred financing costs(1)	2,955	1,713	
Non-cash investment income(1)	(5,978)	(3,479)	
<b>(Increase) decrease in operating assets:</b>			
Cash and cash equivalents from New Mountain Finance Holdings, L.L.C.(3)		957	
Purchase of investments and delayed draw facilities(1)	(609,667)	(529,540)	
Proceeds from sales and paydowns of investments(1)	483,936	261,747	
Cash received for purchase of undrawn portion of revolving credit or delayed draw facilities(1)	157	29	
Cash paid for purchase of drawn portion of revolving credit facilities(1)	(3,227)	(2,548)	
Cash paid for drawn revolvers(1)	(4,376)		
Cash repayments on drawn revolvers(1)	6,052	380	
Cash paid for securities purchased under collateralized agreements to resell(1)		(30,000)	
Interest and dividend receivable(1)	(2,088)	(207)	
Receivable from affiliates(1)	130	(106)	
Receivable from unsettled securities sold(1)	8,912	(8,912)	
Other assets(1)	(156)	196	
Purchase of investment in New Mountain Finance Holdings, L.L.C.(2)		(58,644)	(100,040)
Distributions from New Mountain Finance Holdings, L.L.C.(2)		15,247	50,165
<b>Increase (decrease) in operating liabilities(1):</b>			

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Incentive fee payable	819	(1,522)	
Management fee payable	322	(911)	
Payable for unsettled securities purchased	(21,019)	17,054	
Interest payable	991	1,259	
Deferred tax liability	1,183	493	
Payable to affiliates	(258)	589	
Capital gains incentive fee payable		(8,573)	
Other liabilities	(836)	225	
<b>Net cash flows used in operating activities</b>	<b>(63,347)</b>	<b>(289,571)</b>	<b>(49,875)</b>
<b>Cash flows from financing activities</b>			
Net proceeds from shares sold	79,415	141,157	100,040
Dividends paid	(77,347)	(72,783)	(50,165)
Offering costs paid(1)	(325)	(478)	
Proceeds from Holdings Credit Facility(1)	400,355	384,721	
Repayment of Holdings Credit Facility(1)	(449,150)	(314,400)	
Proceeds from SBA-guaranteed debentures(1)	80,245	37,500	
Proceeds from Convertible Notes(1)		115,000	
Proceeds from NMFC Credit Facility(1)	148,800	72,000	
Repayment of NMFC Credit Facility(1)	(108,800)	(22,000)	
Proceeds from SLF Credit Facility(1)		21,255	
Repayment of SLF Credit Facility(1)		(37,700)	
Deferred financing costs paid(1)	(3,189)	(11,256)	
<b>Net cash flows provided by financing activities</b>	<b>70,004</b>	<b>313,016</b>	<b>49,875</b>
<b>Net increase in cash and cash equivalents</b>	<b>6,657</b>	<b>23,445</b>	
<b>Cash and cash equivalents at the beginning of the period</b>	<b>23,445</b>		
<b>Cash and cash equivalents at the end of the period</b>	<b>\$ 30,102</b>	<b>\$ 23,445</b>	<b>\$</b>

**Supplemental disclosure of cash flow information**

Cash interest paid	\$ 18,683	\$ 9,924	\$
Income taxes paid	217	437	
<b>Non-cash operating activities:</b>			
Non-cash activity on investments	\$ 60,652	\$	\$
<b>Non-cash financing activities:</b>			
New Mountain Finance AIV Holdings Corporation exchange of New Mountain Finance Holdings, L.L.C. units for shares	\$	\$ 38,840	\$ 193,262
Value of shares issued in connection with dividend reinvestment plan	3,655	4,829	5,084
Accrual for offering costs(1)	638	516	
Accrual for deferred financing costs(1)	81	375	
Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C(2)		(250)	(281)
SLF Credit Facility merger with the Holdings Credit Facility(1)		198,555	

(1)

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For the year ended December 31, 2014, the amounts reported relate to the period from May 8, 2014 to December 31, 2014.

(2)

For the year ended December 31, 2014, the amounts reported relate to the period from January 1, 2014 to May 7, 2014.

(3)

Represents the cash and cash equivalent balance of New Mountain Finance Holdings, L.L.C.'s at the date of restructuring. See Note 1, *Formation and Business Purpose*.

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

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## 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
<b>Non-Controlled/Non-Affiliated Investments</b>							
<b>Funded Debt Investments</b>							
<b>Australia</b>							
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%
<b>Total Funded Debt Investments Australia</b>				<b>\$ 10,800</b>	<b>\$ 10,752</b>	<b>\$ 10,314</b>	<b>1.23%</b>
<b>Funded Debt Investments</b>							
<b>Luxembourg</b>							
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	
				32,834	32,663	26,103	3.12%
<b>Total Funded Debt Investments Luxembourg</b>				<b>\$ 32,834</b>	<b>\$ 32,663</b>	<b>\$ 26,103</b>	<b>3.12%</b>
<b>Funded Debt Investments</b>							
<b>Netherlands</b>							
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%
				<b>\$ 10,000</b>	<b>\$ 9,303</b>	<b>\$ 9,049</b>	<b>1.08%</b>

**Total Funded Debt****Investments Netherlands****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%
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**Total Funded Debt****Investments United Kingdom****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	
	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%
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## ProQuest LLC

Business Services	Second lien(3)	10.00% (L + 9.00%/M)	12/15/2022	35,000	34,302	34,300	4.10%
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The accompanying notes are an integral part of these consolidated financial statements.

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## 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
<b>Navex Global, Inc.</b>							
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%
<b>Ascend Learning, LLC</b>							
Education	Second lien(3)	9.50% (L + 8.50%/Q)	11/30/2020	34,727	34,352	33,077	3.95%
<b>CRGT Inc.</b>							
Federal Services	First lien(2)	7.50% (L + 6.50%/Q)	12/19/2020	33,261	33,030	32,928	3.93%
<b>Physio-Control International, Inc.</b>							
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%
<b>Valet Waste Holdings, Inc.</b>							
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%

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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%
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%

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<b>Confie Seguros Holding II Co.</b>							
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%
<b>AAC Holding Corp.</b>							
Education	First lien(2)	8.25% (L + 7.25%/M)	9/30/2020	25,000	24,640	24,110	2.88%
<b>Transtar Holding Company</b>							
Distribution & Logistics	Second lien(2)	10.00% (L + 8.75%/Q)	10/9/2019	28,300	27,974	23,630	2.82%
<b>PetVet Care Centers LLC</b>							
Consumer Services	Second lien(3)	9.75% (L + 8.75%/Q)	6/17/2021	24,000	23,789	23,149	2.77%

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

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## 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
<b>EN Engineering, L.L.C.</b>							
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%
<b>Aricent Technologies</b>							
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%
<b>McGraw-Hill School Education Holdings, LLC</b>							
Education	First lien(2)	6.25% (L + 5.00%/M)	12/18/2019	21,560	21,408	21,237	2.54%
<b>VetCor Professional Practices LLC</b>							
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%
<b>IT'SUGAR LLC</b>							
Retail	First lien(4)		10/23/2019	21,000	20,215	20,183	2.41%

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10.50%  
(L + 9.50%/Q)

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%
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							



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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%

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

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## 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
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%
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%

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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)							
McKissock, LLC	Education	First lien(2)	7.50% (L + 6.50%/Q)	8/5/2019	4,875	4,838	4,707
		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%
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)		3/16/2018	7,000	6,953	5,443	0.65%

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		10.00%					
		(L + 8.25%/Q)					
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%
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%

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

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## 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
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		
<b>Total Funded Debt Investments United States</b>				<b>\$ 1,314,464</b>	<b>\$ 1,297,775</b>	<b>\$ 1,237,175</b>	<b>147.83%</b>
<b>Total Funded Debt Investments</b>				<b>\$ 1,400,598</b>	<b>\$ 1,382,229</b>	<b>\$ 1,314,004</b>	<b>157.01%</b>

<b>Equity United Kingdom</b>						
Packaging Coordinators, Inc.(13)						
PCI Pharma Holdings UK Limited**						
Healthcare Products	Ordinary shares(2)		19,427 \$	578 \$	1,612	0.19%
<b>Total Shares United Kingdom</b>			<b>\$ 578 \$</b>	<b>1,612</b>	<b>0.19%</b>	
<b>Equity United States</b>						
Crowley Holdings Preferred, LLC						
Distribution & Logistics	Preferred shares(3)(20)	12.00% (10.00% + 2.00% PIK/Q)*	52,058 \$	51,518 \$	51,911	6.20%
FWDiamondback Holdings Corp.(18)						
Distribution & Logistics	Preferred shares(4)		200	2,000	2,000	0.24%
FW-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%
<b>Total Shares United States</b>			<b>\$ 55,070 \$</b>	<b>55,635</b>	<b>6.65%</b>	
<b>Total Shares</b>			<b>\$ 55,648 \$</b>	<b>57,247</b>	<b>6.84%</b>	
<b>Warrants United States</b>						

YP Holdings LLC / Print Media Holdings LLC(12)						
YP Equity Investors, LLC Media	Warrants(5)	5/8/2022	5	\$	\$ 5,304	0.63%
T'SUGAR LLC Retail	Warrants(3)	10/23/2025	94,672		817	0.10%
ASP LCG Holdings, Inc. Education	Warrants(3)	5/5/2026	622		37	0.07%
Ancora Acquisition LLC(14) Education	Warrants(6)	8/12/2020	20			
<b>Total Warrants United States</b>				\$	<b>854 \$ 6,731</b>	<b>0.80%</b>
<b>Total Funded Investments</b>				\$	<b>1,438,731 \$ 1,377,982</b>	<b>164.65%</b>

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

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2015

(in thousands, except shares)

Portfolio Company, Location Industry(1)	Type of Investment	Interest Rate(10)	Maturity/Expiration Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Perce of Ne Asse
<b>Consolidated Debt Investments</b>							
<b>United States</b>							
Investment Holdings, LLC							
Healthcare Services	First lien(3)(11) Undrawn		7/2/2021	\$ 2,047	\$ (20)	(20)	
Online, Inc. (Internet Retailer, Inc.)							
Online, Inc.	First lien(3)(11) Undrawn		8/4/2021	1,000	(10)	(23)	
Waste Holdings, Inc.							
Business Services	First lien(3)(11) Undrawn		9/24/2021	3,000	(38)	(42)	
For Professional Services 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.
McKissock Investment, LLC(17)							
McKissock, LLC							
Investment	First lien(2)(11) Undrawn		12/31/2015	1,862	(19)	(64)	(0.
South, Inc. (d/b/a Mspark)							
South, Inc.	First lien(3)(11) Undrawn		12/14/2016	1,900	(181)	(79)	(0.
Engineering, L.L.C.							
Business Services	First lien(2)(11) Undrawn		12/30/2016	2,348	(12)	(85)	(0.
Diamondback Holdings (18)							



Diamondback Drugs of Wyare, L.L.C. Diamondback II ings LLC)							
Distribution & Logistics							
	First lien(3)(11)						
	Undrawn		2/16/2016	2,158		(84)	
	First lien(4)(11)						
	Undrawn		2/16/2016	605		(24)	
				2,763		(108)	(0.
<b>Unfunded Debt</b>							
<b>Investments</b>				\$	18,567	\$ (316)	(467) (0.
<b>Controlled/Non-Affiliated</b>							
<b>Investments</b>					\$ 1,438,415	\$ 1,377,515	164.
<b>Controlled/Affiliated</b>							
<b>Investments(25)</b>							
<b>Unfunded Debt Investments</b>							
<b>United States</b>							
Iva Resource ings LLC(16)							
Iva Resource agement LLC							
	First lien(3)	10.50%					
		(Base + 8.00%/Q)	5/12/2019	\$ 40,000	\$ 39,869	\$ 38,813	4.
ntum Ultimate ings, LLC(19)							
	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.
<b>Funded Debt</b>							
<b>Investments United States</b>				\$	60,875	\$ 60,736	\$ 55,577 6.

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

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## 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
<b>Equity United States</b>							
MFC Senior Loan Program I LLC**	Membership interest(3)				\$ 23,000	\$ 21,914	2.62%
Edmentum Ultimate Holdings, LLC(19)	Ordinary shares(3)			123,968	11	3,341	
Education	Ordinary shares(2)			107,143	9	2,888	
					20	6,229	0.74%
Renawa Resource Holdings LLC(16)							
ED NGL LLC							
Energy	Ordinary shares(7)			5,290,997	5,291	3,778	0.45%
<b>Total Shares</b>	<b>United States</b>				<b>\$ 28,311</b>	<b>\$ 31,921</b>	<b>3.81%</b>
<b>Unfunded Debt</b>							
<b>Investments United States</b>							
Edmentum Ultimate Holdings, LLC(19)	Second lien(3)(11) Undrawn		6/9/2020	\$ 4,881	\$	\$ (211)	(0.02)%
Edmentum, Inc. (fka Edmentum, Inc.) (Archipelago Learning, Inc.)							
Education							
<b>Total Unfunded Debt</b>				<b>\$ 4,881</b>	<b>\$</b>	<b>\$ (211)</b>	<b>(0.02)%</b>
<b>Investments</b>				<b>\$ 4,881</b>	<b>\$</b>	<b>\$ (211)</b>	<b>(0.02)%</b>

<b>Total Non-Controlled/Affiliated Investments</b>					\$ 89,047	\$ 87,287	10.43%
<b>Controlled Investments(26)</b>							
<b>Funded Debt Investments</b>							
<b>United States</b>							
niTek 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	
				20,546	20,546	20,135	2.40%
<b>Total Funded Debt Investments United States</b>				\$ 20,546	\$ 20,546	\$ 20,135	2.40%
<b>Equity United States</b>							
niTek Global Services, Inc.							
Business Services							
	Preferred shares(2)(21)			16,680,037	\$ 14,299	\$ 13,870	
	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%
<b>Total Shares United States</b>				\$ 20,708	\$ 27,312		3.26%
<b>Total Funded Investments</b>				\$ 41,254	\$ 47,447		5.66%

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

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## 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
<b>Unfunded Debt Investments</b>							
<b>United States</b>							
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)	%
<b>Total Unfunded Debt Investments</b>							
				\$ 2,806	\$	(25)	%
<b>Total Controlled Investments</b>							
				\$ 41,254	\$	47,422	5.66%
<b>Total Investments</b>							
				\$ 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)

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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 December 31, 2015.
- (11) 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 the impact of paydowns and cash paid for drawn revolvers or delayed draws.
- (12) 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.
- (13) The Company holds investments in Packaging Coordinators, Inc. and one related entity of Packaging 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 accompanying notes are an integral part of these consolidated financial statements.

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**New Mountain Finance Corporation**

**Consolidated Schedule of Investments (Continued)**

**December 31, 2015**

**(in thousands, except shares)**

- (14) The Company holds investments in ATI Acquisition Company and Ancora Acquisition LLC. The Company has 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.
- (16) The Company holds investments in two related entities of Tenawa Resource Holdings LLC. The Company holds 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.
- (17) The Company holds investments in QC McKissock Investment, LLC and one related entity of QC McKissock 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.
- (18) The Company holds investments in TWDiamondback Holdings Corp. and one related entity of TWDiamondback 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 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.

- (22) 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.



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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2015

(in thousands, except shares)

- (25) 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 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:

	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	Divi Inc
ny(1)								
ate								
mentum Inc.	\$	\$ 23,937	\$ (3,050)	\$	1,895	\$ 22,782	\$ 1,171	\$
an Program	22,461				(547)	21,914		
		44,572			(1,981)	42,591	4,231	
<b>Affiliated</b>	<b>\$ 22,461</b>	<b>\$ 68,509</b>	<b>\$ (3,050)</b>	<b>\$</b>	<b>(633)</b>	<b>\$ 87,287</b>	<b>\$ 5,402</b>	<b>\$</b>

- (A) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, payment-in-kind ("PIK") 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.

- (26) 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

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securities of the 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:

	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
Inc.	\$	\$ 42,780	\$ (1,526)	\$	6,168 \$	47,422 \$	2,007 \$	2,559 \$
ed ents	\$	\$ 42,780	\$ (1,526)	\$	6,168 \$	47,422 \$	2,007 \$	2,559 \$

(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 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.

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**New Mountain Finance Corporation**

**Consolidated Schedule of Investments (Continued)**

**December 31, 2015**

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

<b>Industry Type</b>	<b>December 31, 2015 Percent of Total Investments at Fair Value</b>
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%
<b>Total investments</b>	<b>100.00%</b>

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

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments

December 31, 2014

(in thousands, except shares)

Portfolio Company, Location and Industry(1)	Type of Investment	Interest Rate	Maturity Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
<b>Non-Controlled/Non-Affiliated Investments</b>							
<b>Funded Debt Investments</b>							
<b>Australia</b>							
Project Sunshine IV Pty Ltd**							
Media	First lien(2)	8.00% (Base Rate + 7.00%)	9/23/2019	\$ 17,689	\$ 17,594	\$ 17,888	2.23%
<b>Total Funded Debt Investments Australia</b>				<b>\$ 17,689</b>	<b>\$ 17,594</b>	<b>\$ 17,888</b>	<b>2.23%</b>
<b>Funded Debt Investments</b>							
<b>Luxembourg</b>							
Pinnacle Holdco S.à r.l. / Pinnacle (US) Acquisition Co Limited**							
Software	Second lien(2)	10.50% (Base Rate + 9.25%)	7/30/2020	\$ 24,630	\$ 24,319	\$ 22,905	
	Second lien(3)	10.50% (Base Rate + 9.25%)	7/30/2020	8,204	8,317	7,629	
				32,834	32,636	30,534	3.80%
Evergreen Skills Lux S.À R.L.**							
Education	Second lien(3)	9.25% (Base Rate + 8.25%)	4/28/2022	5,000	4,877	4,737	0.59%
<b>Total Funded Debt Investments Luxembourg</b>				<b>\$ 37,834</b>	<b>\$ 37,513</b>	<b>\$ 35,271</b>	<b>4.39%</b>
<b>Funded Debt Investments</b>							
<b>United States</b>							

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Ascend Learning, LLC							
Education	First lien(2)	6.00% (Base Rate + 5.00%)	7/31/2019	\$ 14,888	\$ 14,824	\$ 14,813	
	Second lien(3)	9.50% (Base Rate + 8.50%)	11/30/2020	29,000	28,881	28,855	
				43,888	43,705	43,668	5.44%
TIBCO Software Inc.**							
Software	First lien(2)	6.50% (Base Rate + 5.50%)	12/4/2020	30,000	28,512	29,100	
	Subordinated(3)	11.38%	12/1/2021	15,000	14,567	14,550	
				45,000	43,079	43,650	5.44%
Global Knowledge Training LLC							
Education	Second lien(2)	12.00% (Base Rate + 8.75%)	10/21/2018	41,450	41,137	41,786	5.21%
Delttek, Inc.							
Software	Second lien(2)	10.00% (Base Rate + 8.75%)	10/10/2019	40,000	39,989	40,300	
	Second lien(3)	10.00% (Base Rate + 8.75%)	10/10/2019	1,000	990	1,008	
				41,000	40,979	41,308	5.15%
Tenawa Resource Holdings LLC(16)							
Tenawa Resource Management LLC							
Energy	First lien(3)	10.50% (Base Rate + 8.00%)	5/12/2019	40,000	39,838	39,820	4.96%
Kronos Incorporated							
Software	Second lien(2)	9.75% (Base Rate + 8.50%)	4/30/2020	32,641	32,407	33,355	
	Second lien(3)	9.75% (Base Rate + 8.50%)	4/30/2020	5,000	4,955	5,109	
				37,641	37,362	38,464	4.80%
McGraw-Hill Global Education Holdings, LLC							
Education	First lien(2)(9)	9.75%	4/1/2021	24,500	24,362	27,195	
	First lien(2)	5.75% (Base Rate + 4.75%)	3/22/2019	9,863	9,641	9,830	
				34,363	34,003	37,025	4.62%

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

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2014

(in thousands, except shares)

Portfolio Company, Location and Industry(1)	Type of Investment	Interest Rate	Maturity Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
Tolt Solutions, Inc.(15)							
Business Services	First lien(2)	7.00% (Base Rate + 6.00%)	3/7/2019	\$ 18,537	\$ 18,538	\$ 18,075	
	First lien(2)	12.00% (Base Rate + 11.00%)	3/7/2019	18,800	18,800	18,540	
				37,337	37,338	36,615	4.56%
Acrisure, LLC							
Business Services	Second lien(2)	11.50% (Base Rate + 10.50%)	3/31/2020	35,175	34,848	35,471	4.42%
UniTek Global Services, Inc.							
Business Services	First lien(2)	15.00% PIK (Base Rate + 13.50% PIK)(7)*	4/15/2018	20,596	20,104	14,706	
	First lien(3)	15.00% PIK (Base Rate + 13.50% PIK)(7)*	4/15/2018	7,772	7,552	5,550	
	First lien(2)	15.00% PIK (Base Rate + 13.50% PIK)(7)*	4/15/2018	6,271	6,116	4,478	
	First lien(3)	15.00% PIK (Base Rate + 13.50% PIK)(7)*	4/15/2018	597	580	426	
	First lien(2)	15.00% PIK (Base Rate + 13.50% PIK)(7)*	4/15/2018	5,213	5,083	3,722	
	First lien(3)	15.00% PIK (Base Rate + 13.50% PIK)(7)*	4/15/2018	496	482	354	
	First lien(3)(11) Drawn	9.50% (Base Rate + 7.50% + 1.00% PIK)*	1/21/2015	3,381	3,381	3,381	



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	First lien(3)(11) Drawn	10.25% (Base Rate + 4.00% + 5.25% PIK)*	4/15/2016	2,610	2,610	2,610	
				46,936	45,908	35,227	4.39%
Envision Acquisition Company, LLC							
Healthcare Services	Second lien(2)	9.75% (Base Rate + 8.75%)	11/4/2021	26,000	25,603	25,772	
	Second lien(3)	9.75% (Base Rate + 8.75%)	11/4/2021	9,250	9,305	9,169	
				35,250	34,908	34,941	4.37%
Hill International, Inc.							
Business Services	First lien(2)	7.75% (Base Rate + 6.75%)	9/26/2020	34,913	34,574	34,215	4.27%
Meritas Schools Holdings, LLC							
Education	First lien(2)	7.00% (Base Rate + 5.75%)	6/25/2019	21,658	21,487	21,549	
	Second lien(2)	10.00% (Base Rate + 9.00%)	1/23/2021	12,000	11,943	11,820	
				33,658	33,430	33,369	4.16%
TASC, Inc.							
Federal Services	First lien(2)	6.50% (Base Rate + 5.50%)	5/22/2020	30,860	30,454	30,108	
	Second lien(3)	12.00%	5/21/2021	2,000	1,960	1,960	
				32,860	32,414	32,068	4.00%
SRA International, Inc.							
Federal Services	First lien(2)	6.50% (Base Rate + 5.25%)	7/20/2018	31,765	31,059	31,805	3.96%
Navex Global, Inc.							
Software	First lien(4)	5.75% (Base Rate + 4.75%)	11/19/2021	10,547	10,442	10,441	
	First lien(2)	5.75% (Base Rate + 4.75%)	11/19/2021	4,453	4,409	4,409	
	Second lien(4)	9.75% (Base Rate + 8.75%)	11/18/2022	11,953	11,834	11,775	
	Second lien(3)	9.75% (Base Rate + 8.75%)	11/18/2022	5,047	4,997	4,970	
				32,000	31,682	31,595	3.94%
Rocket Software, Inc.							

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Software	Second lien(2)	10.25% (Base Rate + 8.75%)	2/8/2019	30,875	30,756	30,875	3.85%
KeyPoint Government Solutions, Inc.							
Federal Services	First lien(2)	7.75% (Base Rate + 6.50%)	11/13/2017	29,342	28,937	29,359	3.66%
CompassLearning, Inc.(14)							
Education	First lien(2)	8.00% (Base Rate + 6.75%)	11/26/2018	30,000	29,391	29,184	3.64%

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

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2014

(in thousands, except shares)

Portfolio Company, Location and Industry(1)	Type of Investment	Interest Rate	Maturity Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
Aderant North America, Inc.							
Software	Second lien(2)	10.00% (Base Rate + 8.75%)	6/20/2019	\$ 24,000	\$ 23,767	\$ 23,940	
	Second lien(3)	10.00% (Base Rate + 8.75%)	6/20/2019	5,000	5,070	4,988	
				29,000	28,837	28,928	3.61%
Transtar Holding Company							
Distribution & Logistics Pelican Products, Inc.	Second lien(2)	10.00% (Base Rate + 8.75%)	10/9/2019	28,300	27,906	27,946	3.48%
Business Products	Second lien(3)	9.25% (Base Rate + 8.25%)	4/9/2021	15,500	15,531	15,306	
	Second lien(2)	9.25% (Base Rate + 8.25%)	4/9/2021	10,000	10,123	9,875	
				25,500	25,654	25,181	3.14%
YP Holdings LLC(10) YP LLC							
Media CRGT Inc.	First lien(2)	8.00% (Base Rate + 6.75%)	6/4/2018	24,936	24,678	25,029	3.12%
Federal Services Confie Seguros Holding II Co.	First lien(2)	7.50% (Base Rate + 6.50%)	12/19/2020	25,000	24,750	24,750	3.09%
Consumer Services	Second lien(2)	10.25% (Base Rate + 9.00%)	5/8/2019	18,886	18,786	18,877	
	Second lien(3)	10.25% (Base Rate + 9.00%)	5/8/2019	5,571	5,647	5,569	

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				24,457	24,433	24,446	3.05%
PetVet Care Centers LLC							
Consumer Services	Second lien(3)	9.75% (Base Rate + 8.75%)	6/17/2021	24,000	23,761	23,760	2.96%
Sierra Hamilton LLC / Sierra Hamilton Finance, Inc.							
Energy	First lien(2)	12.25%	12/15/2018	25,000	25,000	23,250	2.90%
Aricent Technologies							
Business Services	Second lien(2)	9.50% (Base Rate + 8.50%)	4/14/2022	20,000	19,871	20,162	
	Second lien(3)	9.50% (Base Rate + 8.50%)	4/14/2022	2,550	2,556	2,571	
				22,550	22,427	22,733	2.83%
McGraw-Hill School Education Holdings, LLC							
Education	First lien(2)	6.25% (Base Rate + 5.00%)	12/18/2019	21,780	21,594	21,771	2.71%
Weston Solutions, Inc.							
Business Services	Subordinated(4)	16.00% (11.50% + 4.50% PIK)*	7/3/2019	20,458	20,458	20,828	2.60%
Aspen Dental Management, Inc.							
Healthcare Services	First lien(2)	7.00% (Base Rate + 5.50%)	10/6/2016	20,862	20,697	20,732	2.58%
TWDiamondback Holdings Corp.(18) Diamondback Drugs of Delaware, L.L.C. (TWDiamondback II Holdings LLC)							
Distribution & Logistics	First lien(4)	9.75% (Base Rate + 8.75%)	11/19/2019	19,895	19,895	19,895	2.48%
American Pacific Corporation**							
Specialty Chemicals and Materials	First lien(2)	7.00% (Base Rate + 6.00%)	2/27/2019	19,850	19,722	19,825	2.47%
Novitex Acquisition, LLC (fka ARSloane Acquisition, LLC)							
Business Services	First lien(2)	7.50% (Base Rate + 6.25%)	7/7/2020	19,950	19,592	19,152	2.39%
eResearchTechnology, Inc.							
Healthcare Services	First lien(2)	6.00% (Base Rate + 4.75%)	5/2/2018	19,059	18,521	19,083	2.38%
First American Payment Systems, L.P.							

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Business Services	Second lien(2)	10.75% (Base Rate + 9.50%)	4/12/2019	18,643	18,369	18,457	2.30%
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The accompanying notes are an integral part of these consolidated financial statements.

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2014

(in thousands, except shares)

Portfolio Company, Location and Industry(1)	Type of Investment	Interest Rate	Maturity Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
Permian Tank & Manufacturing, Inc.							
Energy	First lien(2)	10.50%	1/15/2018	\$ 24,357	\$ 24,555	\$ 18,390	2.29%
AgKnowledge Holdings Company, Inc.							
Business Services	Second lien(2)	9.25% (Base Rate + 8.25%)	7/23/2020	18,500	18,326	17,814	2.22%
Vertafore, Inc.							
Software	Second lien(2)	9.75% (Base Rate + 8.25%)	10/27/2017	13,855	13,852	13,959	
	Second lien(3)	9.75% (Base Rate + 8.25%)	10/27/2017	2,000	2,017	2,015	
				15,855	15,869	15,974	1.99%
MailSouth, Inc. (d/b/a Mspark)							
Media	First lien(2)	6.75% (Base Rate + 4.99%)	12/14/2016	16,778	16,190	15,771	1.97%
Edmentum, Inc.(fka Plato, Inc.)							
Education	Second lien(2)	11.25% (Base Rate + 9.75%)	5/17/2019	25,000	24,713	12,500	
	Second lien(3)	11.25% (Base Rate + 9.75%)	5/17/2019	6,150	6,040	3,075	
				31,150	30,753	15,575	1.94%
GSDM Holdings Corp.							
Healthcare Services	Subordinated(4)	10.00%	6/23/2020	15,000	14,860	14,642	1.83%
Smile Brands Group Inc.							

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Healthcare Services Vision Solutions, Inc.	First lien(2)	7.50% (Base Rate + 6.25%)	8/16/2019	14,319	14,154	13,746	1.71%
Software Harley Marine Services, Inc.	Second lien(2)	9.50% (Base Rate + 8.00%)	7/23/2017	14,000	13,966	13,580	1.69%
Distribution & Logistics Vitera Healthcare Solutions, LLC	Second lien(2)	10.50% (Base Rate + 9.25%)	12/20/2019	9,000	8,843	8,910	1.11%
Software	First lien(2)	6.00% (Base Rate + 5.00%)	11/4/2020	1,980	1,964	1,970	
	Second lien(2)	9.25% (Base Rate + 8.25%)	11/4/2021	7,000	6,906	6,825	
				8,980	8,870	8,795	1.10%
McKissock, LLC QC McKissock Investment, LLC							
Education	First lien(2)	7.50% (Base Rate + 6.50%)	8/5/2019	4,923	4,877	4,844	
	First lien(2)	7.50% (Base Rate + 6.50%)	8/5/2019	3,178	3,149	3,127	
	First lien(2)(11) Drawn	7.50% (Base Rate + 6.50%)	8/5/2019	576	570	567	
				8,677	8,596	8,538	1.06%
Asurion, LLC (fka Asurion Corporation)							
Business Services	Second lien(3)	8.50% (Base Rate + 7.50%)	3/3/2021	5,000	4,934	4,987	
	Second lien(2)	8.50% (Base Rate + 7.50%)	3/3/2021	3,000	2,957	2,993	
				8,000	7,891	7,980	0.99%
Physio-Control International, Inc.							
Healthcare Products Sotera Defense Solutions, Inc. (Global Defense Technology & Systems, Inc.)	First lien(2)	9.88%	1/15/2019	6,651	6,651	7,083	0.88%
Federal Services	First lien(2)	9.00% (Base Rate + 7.50%)	4/21/2017	7,445	7,387	6,626	0.83%

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Brock Holdings III, Inc.							
Industrial Services	Second lien(2)	10.00% (Base Rate + 8.25%)	3/16/2018	7,000	6,934	5,548	0.69%
Immucor, Inc.							
Healthcare Services	Subordinated(2)(9)	11.13%	8/15/2019	5,000	4,957	5,425	0.68%
Virtual Radiologic Corporation							
Healthcare Information Technology	First lien(2)	7.25% (Base Rate + 5.50%)	12/22/2016	5,963	5,931	4,979	0.62%

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

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2014

(in thousands, except shares)

Portfolio Company, Location and Industry(1)	Type of Investment	Interest Rate	Maturity Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
Packaging Coordinators, Inc.(12)							
Healthcare Products LM U.S. Member LLC (and LM U.S. Corp Acquisition Inc.)	Second lien(3)	9.00% (Base Rate + 8.00%)	8/1/2022	\$ 5,000	\$ 4,952	\$ 4,925	0.61%
Business Services Learning Care Group (US) Inc.(17) Learning Care Group (US) No. 2 Inc.	Second lien(2)	8.25% (Base Rate + 7.25%)	1/25/2021	5,000	4,940	4,867	0.61%
Education CRC Health Corporation	First lien(2)	5.50% (Base Rate + 4.50%)	5/5/2021	4,465	4,424	4,476	0.56%
Healthcare Services GCA Services Group, Inc.	Second lien(3)	9.00% (Base Rate + 8.00%)	9/28/2021	4,000	3,925	4,098	0.51%
Business Services Sophia Holding Finance LP / Sophia Holding Finance Inc.	Second lien(3)	9.25% (Base Rate + 8.00%)	11/1/2020	4,000	3,968	3,955	0.49%
Software York Risk Services Holding Corp.	Subordinated(3)	9.63%	12/1/2018	3,500	3,502	3,531	0.44%
Business Services Winebow Holdings, Inc. (Vinter Group, Inc., The)	Subordinated(3)	8.50%	10/1/2022	3,000	3,000	3,011	0.38%
Distribution & Logistics	Second lien(3)	8.50% (Base Rate + 7.50%)	1/2/2022	3,000	2,979	2,910	0.36%

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Synarc-Biocore Holdings, LLC

Healthcare Services Education Management LLC**	Second lien(3)	9.25% (Base Rate + 8.25%)	3/10/2022	2,500	2,477	2,250	0.28%
Education	First lien(2)	9.25% PIK (Base Rate + 8.00% PIK)*	3/30/2018	1,944	1,902	880	
	First lien(3)	9.25% PIK (Base Rate + 8.00% PIK)*	3/30/2018	1,097	1,085	496	
				3,041	2,987	1,376	0.17%

ATI Acquisition Company (fka Ability Acquisition, Inc.)(13)

Education	First lien(2)	17.25% (Base Rate + 10.00% + 4.00% PIK)(7)*	6/30/2012 Past Due	1,665	1,434	216	
	First lien(2)	17.25% (Base Rate + 10.00% + 4.00% PIK)(7)*	6/30/2012 Past Due	103	94	103	
				1,768	1,528	319	0.04%

**Total Funded Debt Investments United States**

**\$ 1,338,642 \$ 1,325,057 \$ 1,291,305 160.98%**

**Total Funded Debt Investments**

**\$ 1,394,165 \$ 1,380,164 \$ 1,344,464 167.60%**

**Equity United Kingdom**

Packaging Coordinators, Inc.(12) PCI Pharma Holdings UK Limited\*\*

Healthcare Products	Ordinary shares(2)			19,427 \$	580 \$	1,193	0.15%
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**Total Shares United Kingdom**

**\$ 580 \$ 1,193 0.15%**

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

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2014

(in thousands, except shares)

Portfolio Company, Location and Industry(1)	Type of Investment	Interest Rate	Maturity Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
<b>Equity United States</b>							
Crowley Holdings Preferred, LLC							
Distribution & Logistics	Preferred shares(3)	12.00% (10.00% + 2.00% PIK)*		35,721	\$ 35,721	\$ 35,721	4.45%
Global Knowledge Training LLC							
Education	Ordinary shares(2)			2		8	
	Preferred shares(2)			2,423		9,739	
						9,747	1.22%
Tenawa Resource Holdings LLC(16)							
QID NGL LLC							
Energy	Ordinary shares(3)			3,000,000	\$ 3,000	\$ 2,430	0.30%
TWDiamondback Holdings Corp.(18)							
Distribution & Logistics	Preferred shares(4)			200	2,000	2,000	0.25%
Ancora Acquisition LLC(13)							
Education	Preferred shares(6)			372	83	83	0.01%
<b>Total Shares United States</b>					<b>\$ 40,804</b>	<b>\$ 49,981</b>	<b>6.23%</b>
<b>Total Shares</b>					<b>\$ 41,384</b>	<b>\$ 51,174</b>	<b>6.38%</b>

<b>Warrants United States</b>					
Storapod Holding Company, Inc.					
Consumer Services	Warrants(3)	360,129	\$ 156	\$ 4,142	0.51%
YP Holdings LLC(10)					
YP Equity Investors, LLC					
Media	Warrants(5)	5		2,549	0.32%
Learning Care Group (US) Inc.(17)					
ASP LCG Holdings, Inc.					
Education	Warrants(3)	622	37	299	0.04%
UniTek Global Services, Inc.					
Business Services	Warrants(3)	1,014,451(8)	1,449		%
Alion Science and Technology Corporation					
Federal Services	Warrants(3)	6,000	293		%
Ancora Acquisition LLC(13)					
Education	Warrants(6)	20			%
<b>Total Warrants United States</b>			<b>\$ 1,935</b>	<b>\$ 6,990</b>	<b>0.87%</b>
<b>Total Funded Investments</b>			<b>\$ 1,423,483</b>	<b>\$ 1,402,628</b>	<b>174.85%</b>
<b>Unfunded Debt Investments United States</b>					
TWDiamondback Holdings Corp.(18)					
Diamondback Drugs of Delaware, L.L.C. (TWDiamondback II Holdings LLC)					
Distribution & Logistics	First lien(4)(11) Undrawn	5/19/2015	\$ 2,763	\$	%
UniTek Global Services, Inc.					
Business Services	First lien(3)(11) Undrawn	1/21/2015	5,425		
	First lien(3)(11)	1/21/2015	2,048		

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Undrawn		
First		
lien(3)(11)		
Undrawn	1/21/2015	758

%

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2014

(in thousands, except shares)

Portfolio Company, Location and Industry(1)	Type of Investment	Interest Rate	Maturity Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Net Assets
<b>McKissock, LLC</b>							
Education	First lien(2)(11) Undrawn		8/5/2019	\$ 2,304	\$ (23)	\$ (37)	%
<b>MailSouth, Inc. (d/b/a Mspark)</b>							
Media	First lien(3)(11) Undrawn		12/14/2015	1,900	(181)	(156)	(0.02)%
<b>Aspen Dental Management, Inc.</b>							
Healthcare Services	First lien(3)(11) Undrawn		4/6/2016	5,000	(388)	(225)	(0.03)%
<b>Total Unfunded Debt Investments</b>				<b>\$ 20,198</b>	<b>\$ (592)</b>	<b>(418)</b>	<b>(0.05)%</b>
<b>Total Non-Controlled/Non-Affiliated Investments</b>				<b>\$ 1,422,891</b>	<b>\$ 1,402,210</b>	<b>174.80%</b>	
<b>Non-Controlled/Affiliated Investments(19)</b>							
<b>Equity United States</b>							
<b>NMFC Senior Loan Program I LLC**</b>							
Investment in Fund	Membership interest(3)			\$ 23,000	\$ 22,461		2.80%
<b>Total Non-Controlled/Affiliated Investments</b>				<b>\$ 23,000</b>	<b>\$ 22,461</b>	<b>2.80%</b>	
<b>Total Investments</b>				<b>\$ 1,445,891</b>	<b>\$ 1,424,671</b>	<b>177.60%</b>	

- (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 and Morgan Stanley Bank, N.A. 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 or a portion of the investment is on non-accrual status. See Note 3, *Investments*, for details.
- (8) The Company holds 1,014,451 warrants in UniTek Global Services, Inc., which represents a 4.41% equity ownership on a fully diluted basis.
- (9) Securities are registered under the Securities Act.
- (10) The Company holds investments in two related entities of YP 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, a subsidiary of YP Holdings LLC.
- (11) 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 the impact of paydowns and cash paid for drawn revolvers or delayed draws.

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**New Mountain Finance Corporation**

**Consolidated Schedule of Investments (Continued)**

**December 31, 2014**

**(in thousands, except shares)**

- (12) The Company holds investments in Packaging Coordinators, Inc. and one related entity of Packaging 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.
- (13) The Company holds investments in ATI Acquisition Company and Ancora Acquisition LLC. The Company has 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.
- (14) The Company holds an investment in CompassLearning, Inc. that is structured as a first lien last out term loan.
- (15) The Company holds two first lien investments in Tolt Solutions, Inc. The debt investment with an interest rate at base rate + 6.00% is structured as a first lien first out debt investment. The debt investment with an interest rate at base rate + 11.00% is structured as a first lien last out debt investment.
- (16) The Company holds investments in two related entities of Tenawa Resource Holdings LLC. The Company holds 4.76% 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.
- (17) The Company holds investments in two wholly-owned subsidiaries of Learning Care Group (US) Inc. The Company has a debt investment in Learning Care Group (US) No. 2 Inc. and holds warrants to purchase common stock of ASP LCG Holdings, Inc.
- (18) The Company holds investments in TWDiamondback Holdings Corp. and one related entity of TWDiamondback 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) 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 of the investment but not controlling the company.

\*

All or a portion of interest contains payment-in-kind ("PIK").

\*\*

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.

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

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2014

<u>Investment Type</u>	December 31, 2014 Percent of Total Investments at Fair Value
First lien	47.58%
Second lien	42.41%
Subordinated	4.35%
Equity and other	5.66%
Total investments	100.00%

<u>Industry Type</u>	December 31, 2014 Percent of Total Investments at Fair Value
Software	20.16%
Business Services	18.27%
Education	17.68%
Federal Services	8.75%
Healthcare Services	8.05%
Distribution & Logistics	6.83%
Energy	5.89%
Media	4.29%
Consumer Services	3.67%
Business Products	1.77%
Investment in Fund	1.58%
Specialty Chemicals and Materials	1.39%
Healthcare Products	0.93%
Industrial Services	0.39%
Healthcare Information Technology	0.35%
Total investments	100.00%

<u>Interest Rate Type<sup>(1)</sup></u>	December 31, 2014 Percent of Total Investments at Fair Value
Floating rates	87.68%
Fixed rates	12.32%
Total investments	100.00%

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(1)

The categories in this table have been corrected for a transposition error in the Company's Form 10-K for the year ended December 31, 2014, as filed with the United States Securities and Exchange Commission on March 2, 2015, wherein the categories were inversely reported.

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

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation**

**December 31, 2015**

**(in thousands, except share data)**

**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 (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")

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 1. Formation and Business Purpose (Continued)**

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.

***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.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 1. Formation and Business Purpose (Continued)**

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 December 31, 2015, 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.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 1. Formation and Business Purpose (Continued)**

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 2014 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***

During the year ended December 31, 2015, the Company established a wholly-owned subsidiary, NMF QID NGL Holdings, Inc. ("NMF QID"). The Company's wholly-owned subsidiaries, NMF Ancora Holdings Inc. ("NMF Ancora"), 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 the 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.,



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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 1. Formation and Business Purpose (Continued)**

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").

The diagram below depicts the Company's organizational structure as of December 31, 2015.

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\*

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

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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 December 31, 2015, the Company's top five industry concentrations were software, business services, education, distribution & logistics and federal services.



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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**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. Prior to the Restructuring, the Predecessor Operating Company consolidated its wholly-owned subsidiary, NMF SLF. NMFC and AIV Holdings did not consolidate the Predecessor Operating Company. Prior to the Restructuring, NMFC and AIV Holdings applied investment company master-feeder financial statement presentation, as described in ASC 946 to their interest in the Predecessor Operating Company. NMFC and AIV Holdings observed that it was also industry practice to follow the presentation prescribed for a master fund-feeder fund structure in ASC 946 in instances in which a master fund was owned by more than one feeder fund and that such presentation provided stockholders of NMFC and AIV Holdings with a clearer depiction of their investment in the master fund.

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. Prior to the IPO, an affiliate of the Predecessor Entities paid a majority of the management and incentive fees. Historical operating expenses do not reflect the allocation of certain professional fees, administrative and other expenses that have been incurred following the completion of the IPO. Accordingly, the Predecessor Operating Company's historical operating expenses are not comparable to its operating expenses after the completion of the IPO.

The Company's consolidated financial statements are prepared in accordance with GAAP and pursuant to the requirements for reporting on Form 10-K and Article 6 of Regulation S-X. In the opinion of management, all adjustments, consisting solely of normal recurring accruals considered necessary for the fair presentation of financial statements have been included.

**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

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 2. Summary of Significant Accounting Policies (Continued)**

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;



**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 2. Summary of Significant Accounting Policies (Continued)**

- c. 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
- d. 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. 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 the Company's investments may fluctuate from period to period and the fluctuations could be material.

Prior to the Restructuring, NMFC was a holding company with no direct operations of its own, and its sole asset was its ownership in the Predecessor Operating Company. Prior to the completion of the underwritten secondary public offering on February 3, 2014, AIV Holdings was a holding company with no direct operations of its own, and its sole asset was its ownership in the Predecessor Operating Company. NMFC's and AIV Holdings' investments in the Predecessor Operating Company were carried at fair value and represented the respective pro-rata interest in the net assets of the Predecessor Operating Company as of the applicable reporting date. NMFC and AIV Holdings valued their ownership interest on a quarterly basis, or more frequently if required under the 1940 Act.

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 December 31, 2015 and December 31, 2014, the Company held one collateralized agreement to resell with a cost basis of \$30,000 and \$30,000, respectively, and a carrying value of \$29,704 and

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 2. Summary of Significant Accounting Policies (Continued)**

\$30,000, respectively, collateralized by a second lien bond in Northstar GOM Holdings Group LLC with a fair value of \$29,704 and \$30,000, respectively, and guaranteed by a private hedge fund with approximately \$716,590 and \$769,390, respectively, of assets under management. 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 earned interest at a weighted average rate of 15.0% per annum as of December 31, 2015 and December 31, 2014.

**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 December 31, 2015 and December 31, 2014.

**Revenue recognition**

The Company's revenue recognition policies are as follows:

**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

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 2. Summary of Significant Accounting Policies (Continued)**

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 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.

Prior to the Restructuring, NMFC's revenue recognition policies were as follows:

*Revenue, expenses, and capital gains (losses):* At each quarterly valuation date, the Predecessor Operating Company's investment income, expenses, net realized gains (losses), and net increase (decrease) in unrealized appreciation (depreciation) were allocated to NMFC based on its pro-rata interest in the net assets of the Predecessor Operating Company. This was recorded on NMFC's Statements of Operations. Realized gains and losses were recorded upon sales of NMFC's investments in the Predecessor Operating Company. Net change in unrealized appreciation (depreciation) of investment in New Mountain Finance Holdings, L.L.C. was the difference between the net asset value per share and the closing price per share for shares issued as part of the dividend reinvestment plan on the dividend payment date. This net change in unrealized appreciation (depreciation) of investment in New Mountain Finance Holdings, L.L.C. included the unrealized appreciation (depreciation) from the IPO. NMFC used the proceeds from its IPO and Concurrent Private Placement to purchase units in the Predecessor Operating Company at \$13.75 per unit (its IPO price per share). At the IPO date, \$13.75 per unit represented a discount to the actual net asset value per unit of the Predecessor Operating Company. As a result, NMFC experienced immediate unrealized appreciation on its investment.

All expenses, including those of NMFC, were paid and recorded by the Predecessor Operating Company. Expenses were allocated to NMFC based on its pro-rata ownership interest. In addition, the Predecessor Operating Company paid all of the offering costs related to the IPO and subsequent offerings. NMFC recorded its portion of the offering costs as a direct reduction to net assets and the cost of its investment in the Predecessor Operating Company.

*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 using the straight-line method over the stated life of the related borrowing. See Note 7, *Borrowings*, for details.



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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 2. Summary of Significant Accounting Policies (Continued)**

**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 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 year ended December 31, 2015, the Company recognized a total provision for income taxes of \$1,343 for the Company's consolidated subsidiaries. For the year ended December 31, 2015, the Company recorded current income tax expense of approximately \$160 and deferred income tax expense of approximately \$1,183, which excludes a deferred tax benefit of \$520 attributable to one of the Company's consolidated subsidiaries. For the year ended December 31, 2014, the Company recognized a total provision for income taxes of \$929 for the Company's consolidated subsidiaries. For the year ended December 31, 2014, the Company recorded current income tax expense of approximately \$436 and deferred income tax expense of approximately \$493.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 2. Summary of Significant Accounting Policies (Continued)**

As of December 31, 2015 and December 31, 2014, the Company had \$1,676 and \$493, 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 December 31, 2015, the Company had a deferred tax asset of \$520 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, a full valuation allowance of \$520 has been recorded against the deferred tax asset.

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

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 2. Summary of Significant Accounting Policies (Continued)**

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.

**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.

**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. During the year ended December 31, 2015, the Company adjusted accounting estimates related to the classification of dividend income for distributions received from three of the Company's equity investments. Based on updated tax projections received during the year ended December 31, 2015, the Company decreased dividend income by \$533, which decreased the equity investments cost basis by \$3 and increased the realized gain by \$530 to agree to the tax treatment on the equity investments.

Table of Contents**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)****December 31, 2015****(in thousands, except share data)****Note 3. Investments**

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

**Investment Cost and Fair Value by Type**

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

**Investment Cost and Fair Value by Industry**

	<b>Cost</b>	<b>Fair Value</b>
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
<b>Total investments</b>	<b>\$ 1,568,716</b>	<b>\$ 1,512,224</b>

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 3. Investments (Continued)**

At December 31, 2014, the Company's investments consisted of the following:

**Investment Cost and Fair Value by Type**

	<b>Cost</b>	<b>Fair Value</b>
First lien	\$ 696,994	\$ 677,901
Second lien	621,234	604,158
Subordinated	61,344	61,987
Equity and other	66,319	80,625
<b>Total investments</b>	<b>\$ 1,445,891</b>	<b>\$ 1,424,671</b>

**Investment Cost and Fair Value by Industry**

	<b>Cost</b>	<b>Fair Value</b>
Software	\$ 287,538	\$ 287,234
Business Services	273,088	260,325
Education	256,522	251,916
Federal Services	124,840	124,608
Healthcare Services	114,111	114,692
Distribution & Logistics	97,344	97,382
Energy	92,393	83,890
Media	58,281	61,081
Consumer Services	48,350	52,348
Business Products	25,654	25,181
Investment in Fund	23,000	22,461
Specialty Chemicals and Materials	19,722	19,825
Healthcare Products	12,183	13,201
Industrial Services	6,934	5,548
Healthcare Information Technology	5,931	4,979
<b>Total investments</b>	<b>\$ 1,445,891</b>	<b>\$ 1,424,671</b>

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

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extinguishment resulted in a realized loss of \$15,199. Post restructuring, the Company's investments in Edmentum

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 3. Investments (Continued)**

have been restored to full accrual status. As of December 31, 2015, the Company's investments in Edmentum have an aggregate cost basis of \$20,887 and an aggregate fair value of \$22,782.

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 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 December 31, 2015, the Company's investments in EDMC have an aggregate cost basis of \$1,428 and an aggregate fair value of \$511.

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 December 31, 2015, the Company's investments in UniTek have an aggregate cost basis of \$41,254 and an aggregate fair value of \$47,422.

As of December 31, 2015, 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 December 31, 2015, the Company's investment had an aggregate cost basis of \$1,611, an aggregate fair value of \$393 and total unearned interest income of \$83 for the year then ended. As of December 31, 2014, the Company's investments had an aggregate cost basis of \$1,611, an aggregate fair value of \$402 and total unearned interest income of \$329 for the year then ended. As of December 31, 2015 and December 31, 2014, unrealized gains (losses) include a fee that the Company would recognize upon realization of the two super priority first lien debt investments.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 3. Investments (Continued)**

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. As of December 31, 2015, the Company did not have any commitment letters to purchase debt investments. 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.

As of December 31, 2014, the Company had unfunded commitments on revolving credit facilities and bridge facilities of \$8,948 and \$0, respectively. As of December 31, 2014, the Company had unfunded commitments in the form of delayed draws or other future funding commitments of \$18,475. As of December 31, 2014, the Company did not have any commitment letters to purchase debt investments. The unfunded commitments on revolving credit facilities and delayed draws are disclosed on the Company's Consolidated Schedule of Investments as of December 31, 2014.

***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 "Agreement") and will continue in existence until June 10, 2019, subject to earlier termination pursuant to certain terms of the Agreement. The term may be extended for up to one year pursuant to certain terms of the 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 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. As of December 31, 2014, SLP I had total investments with an aggregate fair value of approximately \$369,194, debt outstanding of \$266,916 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 December 31, 2015 and December 31, 2014.

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 years ended December 31, 2015 and



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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 3. Investments (Continued)**

December 31, 2014, the Company earned approximately \$1,215 and \$468, respectively, in management fees related to SLP I which is included in other income. As of December 31, 2015 and December 31, 2014, approximately \$311 and \$468, respectively, of management fees related to SLP I was included in receivable from affiliates. For the years ended December 31, 2015 and December 31, 2014, the Company earned approximately \$3,619 and \$1,066, respectively, of dividend income related to SLP I, which is included in dividend income. As of December 31, 2015 and December 31, 2014, approximately \$918 and \$828, respectively, of dividend income related to SLP I was included in interest and dividend receivable. The Company did not earn management fees or dividend income for the year ended December 31, 2013.

**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.

In accordance with Regulation S-X Rules 3-09 and 4-08(g), the Company evaluates its unconsolidated controlled portfolio companies as significant subsidiaries under the respective rules. As of December 31, 2015, UniTek was considered a significant unconsolidated subsidiary under Regulation S-X Rule 4-08(g). Based on the requirements under Regulation S-X Rule 4-08(g), the summarized consolidated financial information of UniTek is shown below:

<b>Balance Sheet:</b>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Current assets	\$ 78,202	\$ 84,473
Noncurrent assets	125,241	124,858
<b>Total assets</b>	<b>\$ 203,443</b>	<b>\$ 209,331</b>
Current liabilities	36,167	268,091
Noncurrent liabilities	123,361	2,638
<b>Total liabilities</b>	<b>\$ 159,528</b>	<b>\$ 270,729</b>
<b>Total equity</b>	<b>\$ 43,915</b>	<b>\$ (61,398)</b>

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 3. Investments (Continued)**

	<b>Years Ended December 31,</b>		
<b>Summary of Operations:</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Net sales</b>	\$ 269,893	\$ 334,139	\$ 471,933
Cost of goods sold	218,331	291,672	387,376
<b>Gross profit</b>	51,562	42,467	84,557
Other expenses	58,863	116,612	135,048
<b>Net loss from continuing operations before extraordinary items</b>	(7,301)	(74,145)	(50,491)
Loss from discontinued operations			(1,582)
<b>Net loss</b>	\$ (7,301)	\$ (74,145)	\$ (52,073)

**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

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 4. Fair Value (Continued)**

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.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 4. Fair Value (Continued)**

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

	<b>Total</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>
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
<b>Total investments</b>	<b>\$ 1,512,224</b>	<b>\$ 316</b>	<b>\$ 811,921</b>	<b>\$ 699,987</b>

The following table summarizes the levels in the fair value hierarchy that the Company's portfolio investments fall into as of December 31, 2014:

	<b>Total</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>
First lien	\$ 677,901	\$	\$ 508,721	\$ 169,180
Second lien	604,158		469,752	134,406
Subordinated	61,987		26,517	35,470
Equity and other	80,625			80,625
<b>Total investments</b>	<b>\$ 1,424,671</b>	<b>\$</b>	<b>\$ 1,004,990</b>	<b>\$ 419,681</b>

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

(in thousands, except share data)

**Note 4. Fair Value (Continued)**

The following table summarizes the changes in fair value of Level III portfolio investments for the year ended December 31, 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 December 31, 2015:

	Total	First Lien	Second Lien	Subordinated	Equity and other
<b>Fair value, December 31, 2014</b>	\$ 419,681	\$ 169,180	\$ 134,406	\$ 35,470	\$ 80,625
Total gains or losses included in earnings:					
Net realized (losses) gains on investments	(12,730)	(10,895)	(14,542)		12,707
Net change in unrealized appreciation (depreciation) of investments	12,348	7,048	6,575	(4,797)	3,522
Purchases, including capitalized PIK and revolver fundings <sup>(1)</sup>	418,208	237,731	116,135	23,709	40,633
Proceeds from sales and paydowns of investments <sup>(1)</sup>	(205,103)	(84,346)	(105,227)	(923)	(14,607)
Transfers into Level III <sup>(2)</sup>	95,190	49,779	45,411		
Transfers out of Level III <sup>(2)</sup>	(27,607)	(27,607)			
<b>Fair value, December 31, 2015</b>	\$ 699,987	\$ 340,890	\$ 182,758	\$ 53,459	\$ 122,880

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:	\$ (999)	\$ (4,332)	\$ (7,384)	\$ (4,797)	\$ 15,514
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(1) Includes reorganizations and restructurings.

(2) As of December 31, 2015, the portfolio companies 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 reclassifications occurred.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

(in thousands, except share data)

**Note 4. Fair Value (Continued)**

The following table summarizes the changes in fair value of Level III portfolio investments for the year ended December 31, 2014, 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 December 31, 2014:

	Total	First Lien	Second Lien	Subordinated	Equity and other
<b>Fair value, December 31, 2013</b>	\$ 153,720	\$ 28,411	\$ 55,538	\$ 5,171	\$ 64,600
Total gains or losses included in earnings:					
Net realized gains on investments	7,329	1,260	581	196	5,292
Net change in unrealized (depreciation) appreciation of investments	(20,922)	(12,451)	(16,043)	(33)	7,605
Purchases, including capitalized PIK and revolver fundings	265,112	114,940	85,719	35,695	28,758
Proceeds from sales and paydowns of investments	(74,968)	(1,233)	(42,130)	(5,559)	(26,046)
Transfers into Level III <sup>(1)(2)</sup>	109,610	38,253	70,941		416
Transfers out of Level III <sup>(1)</sup>	(20,200)		(20,200)		
<b>Fair value, December 31, 2014</b>	\$ 419,681	\$ 169,180	\$ 134,406	\$ 35,470	\$ 80,625
Unrealized (depreciation) appreciation for the period relating to those Level III assets that were still held by the Company at the end of the period:	\$ (17,254)	\$ (11,978)	\$ (15,404)	\$ 163	\$ 9,965

(1)

As of December 31, 2014, the portfolio investments were transferred into Level III from Level II or Level I and out of Level III into Level II at fair value as of the beginning of the quarter in which the reclassifications occurred.

(2)

During the year ended December 31, 2014, the valuation methodology for two portfolio companies changed due to the portfolio companies' deterioration in operating results and as such, these portfolio companies were transferred into Level III from Level II during the year then ended.

Except as noted in the tables above, there were no other transfers in or out of Level I, II, or III during the years ended December 31, 2015 and December 31, 2014. 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 transfers into Level III occur based on the increase or decrease in the availability of certain observable inputs. The Company invests in



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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 4. Fair Value (Continued)**

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.

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



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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 4. Fair Value (Continued)**

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 December 31, 2015 and December 31, 2014, 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 December 31, 2015 and December 31, 2014, 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 December 31, 2015 were as follows:

<u>Type</u>	<b>Fair Value as of</b>		<b>Unobservable Input</b>	<b>Range</b>		<b>Weighted Average</b>	
	<b>December 31, 2015</b>	<b>Approach</b>		<b>Low</b>	<b>High</b>		
First lien	\$ 292,507	Market & income approach	EBITDA multiple	4.5x	15.5x	10.0x	
			Discount rate	7.3%	13.9%	11.0%	
		30,719	Market quote	Broker quote	N/A	N/A	N/A
	17,664	Other	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	
Second lien	88,977	Market & income approach	EBITDA multiple	6.5x	16.0x	12.3x	
			Discount rate	10.0%	14.2%	12.7%	
		41,544	Market quote	Broker quote	N/A	N/A	N/A
	52,237	Other	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	
Subordinated	38,459	Market & income approach	EBITDA multiple	4.5x	9.0x	7.6x	
			Discount rate	10.0%	19.4%	17.7%	
		15,000	Other	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>
Equity and other	121,453	Market & income approach	EBITDA multiple	2.5x	12.0x	6.3x	
			Discount rate	8.0%	21.3%	14.6%	
		1,427	Black Scholes analysis	Expected life in years	9.8	10.3	10.0
				Volatility	27.0%	30.3%	28.9%
				Discount rate	2.1%	2.1%	2.1%

\$ 699,987

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(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.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

(in thousands, except share data)

**Note 4. Fair Value (Continued)**

The unobservable inputs used in the fair value measurement of the Company's Level III investments as of December 31, 2014 were as follows:

<u>Type</u>	Fair Value as of December 31, 2014	Approach	Unobservable Input	Range		
				Low	High	Weighted Average
First lien	\$ 169,180	Market & income approach	EBITDA multiple	6.5x	12.0x	8.6x
			Discount rate	8.2%	16.5%	12.0%
Second lien	92,620	Market & income approach	EBITDA multiple	5.5x	15.5x	10.6x
			Discount rate	11.0%	16.0%	12.7%
	41,786	Other	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>
Subordinated	35,470	Market & income approach	EBITDA multiple	8.0x	12.0x	10.0x
			Discount rate	10.7%	17.7%	14.7%
Equity and other	66,437	Market & income approach	EBITDA multiple	7.0x	12.0x	8.1x
			Discount rate	8.0%	15.0%	12.9%
		9,747	Other	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>
	4,441	Black Scholes analysis	Expected life in years	11.3	11.3	11.3
			Volatility	31.6%	31.6%	31.6%
			Discount rate	2.3%	2.3%	2.3%
	\$ 419,681					

(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 December 31, 2015, 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 December 31, 2015 based on a comparison of market interest rates for the Company's borrowings and similar entities. The fair value of the Holdings Credit Facility, NMFC Credit Facility and SBA-guaranteed debentures are considered Level III. The fair value of the Convertible Notes (as defined in Note 7, *Borrowings*) as of

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December 31, 2015 was \$112,988, 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 December 31, 2015 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

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 4. Fair Value (Continued)**

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.

**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 December 31, 2015 and December 31, 2014 was approximately \$304,899 and \$313,455, respectively. The Investment Adviser cannot recoup management fees that the Investment Adviser has previously waived. For the years ended

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**Notes to the Consolidated Financial Statements of  
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**December 31, 2015**

**(in thousands, except share data)**

**Note 5. Agreements (Continued)**

December 31, 2015 and December 31, 2014, management fees waived were approximately \$5,219 and \$686. No management fees were waved during the year ended December 31, 2013, as the SLF Credit Facility was in existence during this period.

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 December 31, 2015), 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 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

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**(in thousands, except share data)**

**Note 5. Agreements (Continued)**

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.

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**Notes to the Consolidated Financial Statements of  
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**December 31, 2015**

**(in thousands, except share data)**

**Note 5. Agreements (Continued)**

The following table summarizes the management fees and incentive fees incurred by the Company for the years ended December 31, 2015, December 31, 2014 and December 31, 2013.

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Management fee	\$ 25,858	\$ 13,593	\$
Management fee allocated from NMF Holdings <sup>(2)</sup>		5,983	11,812
Less: management fee waiver	(5,219)	(686)	
<b>Total management fee</b>	<b>20,639</b>	<b>18,890</b>	<b>11,812</b>
Incentive fee, excluding accrued capital gains incentive fees	\$ 20,591	\$ 12,070	\$
Incentive fee, excluding accrued capital gains incentive fees allocated from NMF Holdings <sup>(2)</sup>		6,248	13,050
<b>Total incentive fee</b>	<b>20,591</b>	<b>18,318</b>	<b>13,050</b>
Accrued capital gains incentive fees <sup>(1)</sup>	\$	\$ (8,573)	\$
Accrued capital gains incentive fees allocated from NMF Holdings <sup>(1)(2)</sup>		2,024	2,351
<b>Total accrued capital gains incentive fees</b>		<b>(6,549)</b>	<b>2,351</b>

(1)

As of December 31, 2015 and December 31, 2014, no actual capital gains incentive fee was owed under the Investment Management Agreement by the Company, as cumulative net Adjusted Realized Capital Gains did not exceed cumulative Adjusted Unrealized Capital Depreciation. As of December 31, 2013, approximately \$1,113 of capital gains incentive fees was owed under the Investment Management Agreement by the Predecessor Operating Company, as cumulative net Adjusted Realized Capital Gains exceeded cumulative Adjusted Unrealized Capital Depreciation and was paid during the year ended December 31, 2014.

(2)

For the year ended December 31, 2013, the Company is reflecting its proportionate share of the Predecessor Operating Company's management, incentive and capital gains incentive fees. For the year ended December 31, 2013, the management, incentive and accrued capital gains incentive fees at NMF Holdings were \$14,905, \$16,502 and \$3,229, respectively.

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.



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**Notes to the Consolidated Financial Statements of  
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**December 31, 2015**

(in thousands, except share data)

**Note 5. Agreements (Continued)**

The following Consolidated Statement of Operations for the year ended December 31, 2015 is adjusted to reflect this step-up to fair market value.

	Year Ended December 31, 2015	Stepped-up Cost Basis Adjustments	Adjusted Year Ended December 31, 2015
<b>Investment income</b>			
Interest income <sup>(1)</sup>	\$ 140,074	\$ (131)	\$ 139,943
Dividend income <sup>(2)</sup>	5,771		5,771
Other income	8,010		8,010
<b>Total investment income<sup>(3)</sup></b>	<b>153,855</b>	<b>(131)</b>	<b>153,724</b>
Total expenses pre-incentive fee <sup>(4)</sup>	50,769		50,769
<b>Pre-Incentive Fee Net Investment Income</b>	<b>103,086</b>	<b>(131)</b>	<b>102,955</b>
Incentive fee <sup>(5)</sup>	20,591		20,591
<b>Post-Incentive Fee Net Investment Income</b>	<b>82,495</b>	<b>(131)</b>	<b>82,364</b>
Net realized losses on investments <sup>(6)</sup>	(12,789)	(78)	(12,867)
Net change in unrealized (depreciation) appreciation of investments <sup>(6)</sup>	(35,272)	209	(35,063)
Net change in unrealized (depreciation) appreciation of securities purchased under collateralized agreements to resell	(296)		(296)
Provision for taxes	(1,183)		(1,183)
<b>Net increase in net assets resulting from operations</b>	<b>\$ 32,955</b>		<b>\$ 32,955</b>

(1) Includes \$3,942 in PIK interest from investments.

(2) Includes \$2,559 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 \$733 and management fee waivers of \$5,219.
- (5) For the year ended December 31, 2015, the Company incurred total incentive fees of \$20,591, of which none 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 (depreciation) appreciation of investments from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

(in thousands, except share data)

**Note 5. Agreements (Continued)**

The following Consolidated Statement of Operations for the year ended December 31, 2014 is adjusted to reflect this step-up to fair market value.

	Year Ended December 31, 2014	Stepped-up Cost Basis Adjustments	Adjusted Year Ended December 31, 2014
<b>Investment income</b>			
Interest income <sup>(1)</sup>	\$ 85,123	\$ (193)	\$ 84,930
Dividend income	2,309		2,309
Other income	4,491		4,491
<b>Investment income allocated from NMF Holdings</b>			
Interest income <sup>(1)</sup>	40,515		40,515
Dividend income	2,368		2,368
Other income	795		795
<b>Total investment income<sup>(2)</sup></b>	<b>135,601</b>	<b>(193)</b>	<b>135,408</b>
Total expenses pre-incentive fee <sup>(3)</sup>	43,766		43,766
<b>Pre-Incentive Fee Net Investment Income</b>	<b>91,835</b>	<b>(193)</b>	<b>91,642</b>
Incentive fee <sup>(4)</sup>	11,769		11,769
<b>Post-Incentive Fee Net Investment Income</b>	<b>80,066</b>	<b>(193)</b>	<b>79,873</b>
Net realized gains (losses) on investments	357	(456)	(99)
Net realized gains on investment allocated from NMF Holdings	8,568		8,568
Net change in unrealized (depreciation) appreciation of investments <sup>(5)</sup>	(43,863)	649	(43,214)
Net change in unrealized appreciation (depreciation) of investments allocated from NMF Holdings	940		940
Provision for taxes	(493)		(493)
<b>Net increase in net assets resulting from operations</b>	<b>\$ 45,575</b>		<b>\$ 45,575</b>

(1) Includes \$4,644 in PIK interest from investments.

(2)

Includes income from non-controlled/non-affiliated investments.

- (3) Includes expense waivers and reimbursements of \$1,145 and management fee waivers of \$686.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

(in thousands, except share data)

**Note 5. Agreements (Continued)**

- (4) For the year ended December 31, 2014, the Company and the Predecessor Operating Company incurred total incentive fees of \$11,769, of which \$(6,549) is related to a decrease of the capital gains incentive fee accrual on a hypothetical liquidation basis.
- (5) Includes net change in unrealized (depreciation) appreciation of investments from non-controlled/non-affiliated and non-controlled/affiliated investments.

At December 31, 2013, NMFC's only investment was its investment in the Predecessor Operating Company. The following Consolidated Statement of Operations of the Predecessor Operating Company for the year ended December 31, 2013 is adjusted to reflect this step-up to fair market value.

	Year Ended December 31, 2013	Stepped-up Cost Basis Adjustments	Adjusted Year Ended December 31, 2013
<b>Investment income</b>			
Interest income <sup>(1)</sup>	\$ 107,027	\$ (896)	\$ 106,131
Dividend income	5,049		5,049
Other income	2,836		2,836
<b>Total investment income</b>	<b>114,912</b>	<b>(896)</b>	<b>114,016</b>
Total expenses pre-incentive fee <sup>(2)</sup>	31,504		31,504
<b>Pre-Incentive Fee Net Investment Income</b>	<b>83,408</b>	<b>(896)</b>	<b>82,512</b>
Incentive fee <sup>(3)</sup>	19,731		19,731
<b>Post-Incentive Fee Net Investment Income</b>	<b>63,677</b>	<b>(896)</b>	<b>62,781</b>
Net realized gains (losses) on investments	7,253 <sup>(4)</sup>	(3,158)	4,095
Net change in unrealized appreciation (depreciation) of investments	7,994	4,054	12,048
<b>Net increase in members' capital resulting from operations</b>	<b>\$ 78,924</b>		<b>\$ 78,924</b>

(1)

Includes \$3,428 in PIK interest from investments.

(2)

Includes expense waivers and reimbursements of \$3,233.

(3)

For the year ended December 31, 2013, the Predecessor Operating Company incurred total incentive fees of \$19,731, of which \$3,229 related to capital gains incentive fees on a hypothetical liquidation basis.

(4)

Includes \$1,722 of realized gains on investments resulting from the modification of terms on one debt investment that was accounted for as an extinguishment.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 5. Agreements (Continued)**

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, expenses payable to the Administrator by the Company as well as other direct and indirect expenses (excluding interest, other financing expenses, trading expenses and management and incentive fees) had been capped at \$3,500 for the time period from April 1, 2012 to March 31, 2013 and capped at \$4,250 for the time period from April 1, 2013 to March 31, 2014. The expense cap expired on March 31, 2014. Thereafter, 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 years ended December 31, 2015, December 31, 2014 and December 31, 2013, approximately \$1,431, \$1,395 and \$1,180, respectively, of indirect administrative expenses were included in administrative expenses of which \$733, \$770 and \$1,180, respectively, of indirect administrative expenses were waived by the Administrator. As of December 31, 2015 and December 31, 2014, \$374 and \$326, respectively, of indirect administrative expenses were included in payable to affiliates as the expenses were payable to the Administrator.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

(in thousands, except share data)

**Note 5. Agreements (Continued)**

The Company incurred the following expenses, which were waived by the Administrator or were in excess of the expense cap, for the years ended December 31, 2015, December 31, 2014 and December 31, 2013:

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Administrative expenses</b>	\$ 733	\$ 380	\$
Administrative expenses allocated from NMF Holdings		390	1,180
Professional fees			
Professional fees allocated from NMF Holdings		375	1,360
Other general and administrative expenses			
Other general and administrative expenses allocated from NMF Holdings			
<b>Total expense reimbursement</b>	<b>\$ 733</b>	<b>\$ 1,145</b>	<b>\$ 2,540</b>

As of December 31, 2015 and December 31, 2014, no expense waivers and reimbursements were receivable from an affiliate. As of December 31, 2013, \$399 of the expense waivers and reimbursements were allocated from NMF Holdings and were receivable by NMF Holdings from an affiliate.

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.

**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.



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**Notes to the Consolidated Financial Statements of  
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**(in thousands, except share data)**

**Note 6. Related Parties (Continued)**

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.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 7. Borrowings (Continued)**

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.

The Holdings Credit Facility bears interest at a rate of the London Interbank Offered Rate ("LIBOR") plus 2.00% per annum for Broadly Syndicated Loans (as defined in the Loan and Security Agreement) and LIBOR plus 2.75% 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).

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

Table of Contents**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)****December 31, 2015****(in thousands, except share data)****Note 7. Borrowings (Continued)**

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).

The following table summarizes the interest expense, non-usage fees and amortization of financing costs incurred, together, on the Holdings Credit Facility and the Predecessor Holdings Credit Facility for the years ended December 31, 2015, December 31, 2014 and December 31, 2013.

**Years Ended December 31,**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Interest expense	\$ 10,512	\$ 7,147	\$ 5,487
Non-usage fee	\$ 500	\$ 243	\$ 367
Amortization of financing costs	\$ 1,612	\$ 893	\$ 682
Weighted average interest rate	2.6%	2.9%	2.9%
Effective interest rate	3.2%	3.4%	3.6%
Average debt outstanding	\$ 394,945	\$ 244,598	\$ 184,124

As of December 31, 2015 and December 31, 2014, the outstanding balance on the Holdings Credit Facility was \$419,313 and \$468,108, respectively, and as of December 31, 2013, the outstanding balance on the Predecessor Holdings Credit Facility was \$221,849, and NMF Holdings was in compliance with the applicable covenants in the Holdings Credit Facility and Predecessor Holdings Credit Facility on such dates.

*SLF Credit Facility* 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.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 7. Borrowings (Continued)**

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).

The following table summarizes the interest expense, non-usage fees and amortization of financing costs incurred on the SLF Credit Facility for the years ended December 31, 2015, December 31, 2014 and December 31, 2013.

**Years Ended December 31,**

	<b>2015<sup>(1)</sup></b>	<b>2014<sup>(2)</sup></b>	<b>2013</b>
Interest expense	\$	\$ 4,549	\$ 4,891
Non-usage fee	\$	\$ 28	\$ 3
Amortization of financing costs	\$	\$ 846	\$ 864
Weighted average interest rate		%	2.2%
Effective interest rate		%	2.6%
Average debt outstanding	\$	\$ 209,333	\$ 214,317

(1) Not applicable, as the SLF Credit Facility merged with and into the Holdings Credit Facility on December 18, 2014.

(2) For the year ended December 31, 2014, amounts reported relate to the period from January 1, 2014 to December 17, 2014 (date of merger).

As of December 31, 2015 and December 31, 2014, the SLF Credit Facility had merged with the Holdings Credit Facility. As of December 31, 2013, the outstanding balance on the SLF Credit Facility was \$214,668, and NMF SLF was in compliance with the applicable covenants in the SLF Credit Facility on such date.

*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.

The maximum amount of revolving borrowings available under the NMFC Credit Facility is \$95,000, as amended on June 26, 2015. The Company is permitted to borrow at various advance rates depending on the type of portfolio investment as outlined in the Senior Secured

Revolving

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New Mountain Finance Corporation (Continued)****December 31, 2015****(in thousands, except share data)****Note 7. Borrowings (Continued)**

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 years ended December 31, 2015, December 31, 2014 and December 31, 2013.

**Years Ended December 31,**

	<b>2015</b>	<b>2014<sup>(1)</sup></b>	<b>2013<sup>(2)</sup></b>
Interest expense	\$ 1,653	\$ 175	\$
Non-usage fee	\$ 104	\$ 86	\$
Amortization of financing costs	\$ 360	\$ 121	\$
Weighted average interest rate	2.7%	2.7%	%
Effective interest rate	3.5%	3.4%	%
Average debt outstanding	\$ 60,477	\$ 11,227	\$

(1) For the year ended December 31, 2014, amounts reported relate to the period from June 4, 2014 (commencement of the NMFC Credit Facility) to December 31, 2014.

(2) Not applicable, as the NMFC Credit Facility commenced on June 4, 2014.

As of December 31, 2015 and December 31, 2014, the outstanding balance on the NMFC Credit Facility was \$90,000 and \$50,000, 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.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

(in thousands, except share data)

**Note 7. Borrowings (Continued)**

The following table summarizes certain key terms related to the convertible features of the Company's Convertible Notes as of December 31, 2015.

**December 31, 2015**

Initial conversion premium		12.5%
Initial conversion rate <sup>(1)</sup>		62.7746
Initial conversion price	\$	15.93
Conversion premium at December 31, 2015		11.7%
Conversion rate at December 31, 2015 <sup>(1)(2)</sup>		63.2794
Conversion price at December 31, 2015 <sup>(2)(3)</sup>	\$	15.80
Last conversion price calculation date		June 3, 2015

- (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 December 31, 2015 was calculated on the last anniversary of the issuance and will be adjusted 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 12, *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





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**Notes to the Consolidated Financial Statements of  
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**December 31, 2015**

**(in thousands, except share data)**

**Note 7. Borrowings (Continued)**

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 years ended December 31, 2015, December 31, 2014 and December 31, 2013.

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014<sup>(1)</sup></b>	<b>2013<sup>(2)</sup></b>
Interest expense	\$ 5,750	\$ 3,322	\$
Amortization of financing costs	\$ 743	\$ 432	\$
Effective interest rate	5.6%	5.6%	%

(1) For the year ended December 31, 2014, amounts reported relate to the period from June 3, 2014 (commencement of the Convertible Notes) to December 31, 2014.

(2) Not applicable, as the Convertible Notes commenced on June 3, 2014.

As of December 31, 2015 and December 31, 2014, 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.

*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.

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**Notes to the Consolidated Financial Statements of  
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**December 31, 2015**

(in thousands, except share data)

**Note 7. Borrowings (Continued)**

As of December 31, 2015 and December 31, 2014, SBIC LP had regulatory capital of approximately \$72,402 and \$42,168, respectively, and SBA-guaranteed debentures outstanding of \$117,745 and \$37,500, 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 December 31, 2015.

Issuance Date	Maturity Date	Debt Amount	Interest Rate	SBA Annual Charge
<b>Fixed SBA-guaranteed debentures:</b>				
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%
<b>Interim SBA-guaranteed debentures:</b>				
	March 1, 2026 <sup>(1)</sup>	7,000	0.760%	0.742%
	March 1, 2026 <sup>(1)</sup>	6,950	0.887%	0.742%
<b>Total SBA-guaranteed debentures</b>		<b>\$ 117,745</b>		

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

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 years ended December 31, 2015, December 31, 2014 and December 31, 2013.

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014<sup>(1)</sup></b>	<b>2013<sup>(2)</sup></b>
Interest expense	\$ 1,701	\$ 34	\$
Amortization of financing costs	\$ 240	\$ 12	\$
Weighted average interest rate	2.4%	0.9%	%
Effective interest rate	2.7%	1.3%	%
Average debt outstanding	\$ 71,921	\$ 29,167	\$

(1) For the year ended December 31, 2014, amounts reported relate to the period from August 1, 2014 (receipt of the SBIC license) to December 31, 2014. The initial SBA-guaranteed debenture borrowing occurred on

November 17, 2014.

(2)

Not applicable, as the SBIC LP received an SBIC license from the SBA on August 1, 2014.

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

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 7. Borrowings (Continued)**

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 December 31, 2015 and December 31, 2014, 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 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

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 9. Commitments and Contingencies (Continued)**

commitments or delayed draw commitments. 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. As of December 31, 2014, the Company had unfunded commitments on revolving credit facilities of \$8,948, no outstanding bridge financing commitments and other future funding commitments of \$18,475. The unfunded commitments on revolving credit facilities and delayed draws are disclosed on the Company's respective Consolidated Schedules of Investments.

The Company also has revolving borrowings available under the Holdings Credit Facility and the NMFC Credit Facility as of December 31, 2015 and December 31, 2014. See Note 7, *Borrowings*, for details.

The Company may from time to time enter into financing commitment letters. As of December 31, 2015 and December 31, 2014, the Company did not enter into any commitment letters to purchase debt investments which could require funding in the future.

**Note 10. Distributions**

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. During the years ended December 31, 2015, December 31, 2014 and December 31, 2013, the Company's reclassifications of amounts for book purposes arising from permanent book/tax differences related to return of capital distributions were as follows:

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Undistributed net investment income	\$ 141	\$ (6,171)	\$
Distributions in excess of net realized gains		6,397	
Additional paid-in-capital	(141)	(226)	

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

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 10. Distributions (Continued)**

tax character of distributions paid by the Company for the years ended December 31, 2015, December 31, 2014 and December 31, 2013 were estimated to be as follows:

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Ordinary income (non-qualified)	\$ 80,967	\$ 73,968	\$ 44,778
Ordinary income (qualified)		664	2,742
Capital gains		2,754	4,324
Return of capital	35	226	
<b>Total</b>	<b>\$ 81,002</b>	<b>\$ 77,612</b>	<b>\$ 51,844</b>

As of December 31, 2015, December 31, 2014 and December 31, 2013, the costs of investments for the Company for tax purposes were \$1,587,189, \$1,474,075 and \$642,704, respectively.

At December 31, 2015, December 31, 2014 and December 31, 2013, the components of distributable earnings on a tax basis differ from the amounts reflected per the Company's Consolidated Statements of Assets and Liabilities by temporary book/tax differences primarily arising from differences between the tax and book basis of the Company's investment in securities held directly as well as through the Predecessor Operating Company and undistributed income.

As of December 31, 2015, December 31, 2014 and December 31, 2013, the Company's components of accumulated earnings (deficit) on a tax basis were as follows:

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Accumulated capital gains (capital loss carryforwards)	\$ (19,081)	\$	\$
Other temporary differences	2,991	4,775	10,070
Undistributed ordinary income			3,856
Unrealized (appreciation) depreciation	(57,424)	(30,383) <sup>(1)</sup>	2,346
<b>Total</b>	<b>\$ (73,514)</b>	<b>\$ (25,608)</b>	<b>\$ 16,272</b>

(1)

Prior to the Restructuring, the Company's only investment was its investment in the Predecessor Operating Company. After the Restructuring, the Company directly holds the Predecessor Operating Company's investments. As a result, included in unrealized (appreciation) depreciation is \$(10,069) of timing differences attributable to deferred offering costs, built-in gains and other book/tax differences impacting the tax basis of the Predecessor Operating Company's investments. These differences were carried over to the Company, as the new operating company, from the Predecessor Operating Company.

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The Company is 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 net ordinary income earned for the calendar year and (2) 98.2% of its capital gain net income for the one-year period ending October 31 in the calendar year. For the year ended December 31, 2015, the Company does not expect to incur any excise

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2015**

**(in thousands, except share data)**

**Note 10. Distributions (Continued)**

taxes. For the years ended December 31, 2014 and December 31, 2013, the Company did not incur any excise taxes.

The following information is hereby provided with respect to distributions declared during the calendar years ended December 31, 2015, December 31, 2014 and December 31, 2013:

<b>(unaudited)</b>	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Dividends per share	\$ 1.36	\$ 1.48	\$ 1.48
Ordinary dividends	99.96%	96.16%	91.66%
Long-term capital gains	%	3.55%	8.34%
Qualified dividend income	%	0.89%	5.77%
Dividends received deduction	%	%	%
Interest-related dividends <sup>(1)</sup>	90.71%	89.11%	93.05%
Qualified short-term capital gains <sup>(1)</sup>	%	0.47%	%
Return of capital	0.04%	0.29%	%

(1)

Represents the portion of the taxable ordinary dividends eligible for exemption from U.S. withholding tax for nonresident aliens and foreign corporations.

Dividends and distributions that were reinvested through the Company's dividend reinvestment plan are treated, for tax purposes, as if they had been paid in cash. Therefore, stockholders who participated in the dividend reinvestment plan should also refer to the information as provided in the table above.

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New Mountain Finance Corporation (Continued)

December 31, 2015

(in thousands, except share data)

**Note 11. Net Assets**

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

	Common Stock		Paid in Capital in Excess	Accumulated Undistributed Net Investment	Accumulated Undistributed Net Realized	Net Unrealized Appreciation	Total
	Shares	Par Amount	of Par	Income	Gains (Losses)	(Depreciation)	Net Assets
Balance at December 31, 2012	24,326,251	\$ 243	\$ 335,487		\$ 952	\$ 5,244	\$ 341,926
Issuances of common stock	20,898,504	209	298,177				298,386
Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C.			(281)				(281)
Dividends declared				(50,521)	(1,323)		(51,844)
Net increase in net assets resulting from operations				50,521	5,427	5,972	61,920
Balance at December 31, 2013	45,224,755	\$ 452	\$ 633,383		\$ 5,056	\$ 11,216	\$ 650,107
Issuances of common stock	12,773,135	128	184,698				184,826
Deferred offering costs allocated from New Mountain Finance Holdings,			(250)				(250)

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L.L.C.							
Deferred offering costs			(476)				(476)
Dividends declared			(71,365)		(6,247)		(77,612)
Net increase (decrease) in net assets resulting from operations			80,066		8,925	(43,416)	45,575
Tax reclassifications related to return of capital distributions (See Note 10)			(226)	(6,171)	6,397		
Balance at December 31, 2014	57,997,890 \$	580 \$	817,129 \$	2,530 \$	14,131 \$	(32,200)\$	802,170
Issuances of common stock	6,007,497	60	83,010				83,070
Deferred offering costs			(285)				(285)
Dividends declared			(81,002)				(81,002)
Net increase (decrease) in net assets resulting from operations			82,495		(12,789)	(36,751)	32,955
Tax reclassifications related to return of capital distributions (See Note 10)			(141)	141			
Balance at December 31, 2015	64,005,387 \$	640 \$	899,713 \$	4,164 \$	1,342 \$	(68,951)\$	836,908