

New Mountain Finance Corp
Form 10-Q
August 05, 2015
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended June 30, 2015

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

Commission
File Number
814-00832

Exact name of registrant as specified in its charter, address of principal executive
offices, telephone numbers and states or other jurisdictions of incorporation or organization

New Mountain Finance Corporation

787 Seventh Avenue, 48th Floor
New York, New York 10019
Telephone: (212) 720-0300
State of Incorporation: Delaware

I.R.S. Employer
Identification Number
27-2978010

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

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

Description	Shares as of August 5, 2015
Common stock, \$0.01 par value	58,161,821

Table of Contents

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2015

TABLE OF CONTENTS

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	3
<u>Item 1.</u>	<u>Financial Statements</u>
	3
	<u>New Mountain Finance Corporation</u>
	<u>Consolidated Statements of Assets and Liabilities as of June 30, 2015 (unaudited) and December 31, 2014 (unaudited)</u>
	3
	<u>Consolidated Statements of Operations for the three months and six months ended June 30, 2015 (unaudited) and June 30, 2014 (unaudited)</u>
	4
	<u>Consolidated Statements of Changes in Net Assets for the six months ended June 30, 2015 (unaudited) and June 30, 2014 (unaudited)</u>
	5
	<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2015 (unaudited) and June 30, 2014 (unaudited)</u>
	6
	<u>Consolidated Schedule of Investments as of June 30, 2015 (unaudited)</u>
	7
	<u>Consolidated Schedule of Investments as of December 31, 2014</u>
	15
	<u>Notes to the Consolidated Financial Statements of New Mountain Finance Corporation</u>
	23
	<u>Report of Independent Registered Public Accounting Firm</u>
	55
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	56
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	84
<u>Item 4.</u>	<u>Controls and Procedures</u>
	85
<u>PART II. OTHER INFORMATION</u>	86
<u>Item 1.</u>	<u>Legal Proceedings</u>
	86
<u>Item 1A.</u>	<u>Risk Factors</u>
	86
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	86
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>
	86
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>
	86
<u>Item 5.</u>	<u>Other Information</u>
	86
<u>Item 6.</u>	<u>Exhibits</u>
	87
	<u>Signatures</u>
	89

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****New Mountain Finance Corporation****Consolidated Statements of Assets and Liabilities****(in thousands, except shares and per share data)**

(unaudited)

	June 30, 2015	December 31, 2014
Assets		
Investments at fair value		
Non-controlled/non-affiliated investments (cost of \$1,181,684 and \$1,422,891, respectively)	\$ 1,172,100	\$ 1,402,210
Non-controlled/affiliated investments (cost \$90,001 and \$23,000, respectively)	89,601	22,461
Controlled investments (cost \$40,437 and \$0, respectively)	47,171	
Total investments at fair value (cost \$1,312,122 and \$1,445,891, respectively)	1,308,872	1,424,671
Securities purchased under collateralized agreements to resell	30,000	30,000
Cash and cash equivalents	24,226	23,445
Deferred financing costs (net of accumulated amortization of \$7,286 and \$5,867, respectively)	13,994	14,052
Interest and dividend receivable	11,456	11,744
Receivable from affiliates	362	490
Receivable from unsettled securities sold		8,912
Other assets	3,191	1,606
Total assets	\$ 1,392,101	\$ 1,514,920
Liabilities		
Holdings Credit Facility	\$ 359,858	\$ 468,108
Convertible Notes	115,000	115,000
SBA-guaranteed debentures	55,000	37,500
NMFC Credit Facility	38,000	50,000
Incentive fee payable	5,057	4,803
Management fee payable	4,951	5,144
Interest payable	1,360	1,352
Deferred tax liability	1,129	493
Capital gains incentive fee payable	490	
Payable to affiliates	460	822
Payable for unsettled securities purchased		26,460
Other liabilities	2,470	3,068
Total liabilities	583,775	712,750
Commitments and contingencies (see Note 9)		
Net assets		

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

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 58,161,821 and 57,997,890 shares issued and outstanding, respectively		582	580
Paid in capital in excess of par		819,570	817,129
Accumulated undistributed net investment income		2,380	2,530
Accumulated undistributed net realized gains on investments		660	14,131
Net unrealized (depreciation) appreciation of investments (net of provision for taxes of \$1,129 and \$493, respectively)		(14,866)	(32,200)
Total net assets	\$	808,326	\$ 802,170
Total liabilities and net assets	\$	1,392,101	\$ 1,514,920
Number of shares outstanding		58,161,821	57,997,890
Net asset value per share	\$	13.90	\$ 13.83

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

Table of Contents

New Mountain Finance Corporation

Consolidated Statements of Operations

(in thousands, except shares and per share data)

(unaudited)

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Investment income(1)				
From non-controlled/non-affiliated investments:				
Interest income	\$ 33,767	\$ 18,788	\$ 65,621	\$ 18,788
Dividend income	201	972	102	972
Other income	320	705	1,877	705
From non-controlled/affiliated investments:				
Interest income	1,183		2,226	
Dividend income	951		1,809	
Other income	308	4	622	4
From controlled investments:				
Interest income	520		970	
Dividend income	643		1,191	
Other income	12		23	
Investment income allocated from New Mountain Finance Holdings, L.L.C.(2)				
Interest income		12,847		40,515
Dividend income		279		2,368
Other income		113		795
Total investment income	37,905	33,708	74,441	64,147
Expenses				
Incentive fee(1)	5,057	2,747	9,935	2,747
Capital gains incentive fee(1)	9	763	490	763
Total incentive fees(1)	5,066	3,510	10,425	3,510
Management fee(1)	6,198	2,742	12,666	2,742
Interest and other financing expenses(1)	5,598	2,559	11,075	2,559
Professional fees(1)	909	640	1,648	640
Administrative expenses(1)	522	360	1,157	360
Other general and administrative expenses(1)	453	239	882	239
Net expenses allocated from New Mountain Finance Holdings, L.L.C. (2)		6,427		20,808
Total expenses	18,746	16,477	37,853	30,858
Less: management fee waived (see Note 5) (1)	(1,247)		(2,629)	
Less: expenses waived and reimbursed (see Note 5) (1)		(58)	(400)	(58)
Net expenses	17,499	16,419	34,824	30,800
Net investment income before income taxes	20,406	17,289	39,617	33,347
Income tax expense(1)	153		302	
Net investment income	20,253	17,289	39,315	33,347
Net realized (losses) gains:				
Non-controlled/non-affiliated investments(1)	(13,338)	(1,067)	(13,471)	(1,067)
Investments allocated from New Mountain Finance Holdings, L.L.C. (2)		5,860		8,568

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

Net change in unrealized appreciation (depreciation):					
Non-controlled/non-affiliated investments(1)	11,970		5,708	10,508	5,708
Non-controlled/affiliated investments(1)	1,600			728	
Controlled investments(1)	(86)			6,734	
Investments allocated from New Mountain Finance Holdings, L.L.C. (2)					
			(3,742)		940
Provision for taxes(1)	(135)		(386)	(636)	(386)
Net increase in net assets resulting from operations	20,264		23,662	43,178	47,110
Basic earnings per share	\$ 0.35	\$	0.46	\$ 0.74	\$ 0.95
Weighted average shares of common stock outstanding basic (see Note 11)					
	58,076,552		51,595,684	58,037,868	49,343,462
Diluted earnings per share	\$ 0.33	\$	0.44	\$ 0.70	\$ 0.94
Weighted average shares of common stock outstanding diluted (see Note 11)					
	65,313,497		54,292,924	65,265,931	50,699,533
Dividends declared and paid per share	\$ 0.34	\$	0.34	\$ 0.68	\$ 0.68

(1) For the three and six months ended June 30, 2014, the amounts reported relate to the period from May 8, 2014 to June 30, 2014.

(2) For the three and six months ended June 30, 2014, the amounts reported relate to the period from April 1, 2014 to May 7, 2014 and January 1, 2014 to May 7, 2014, respectively.

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)

(unaudited)

	Six months ended	
	June 30, 2015	June 30, 2014
Increase (decrease) in net assets resulting from operations:		
Net investment income(1)	\$ 39,315	\$ 10,477
Net investment income allocated from New Mountain Finance Holdings, L.L.C. (2)		22,870
Net realized losses on investments(1)	(13,471)	(1,067)
Net realized gains on investments allocated from New Mountain Finance Holdings, L.L.C. (2)		8,568
Net change in unrealized appreciation (depreciation) of investments(1)	17,970	5,708
Net change in unrealized appreciation (depreciation) of investments allocated from New Mountain Finance Holdings, L.L.C.(2)		940
Provision for taxes(1)	(636)	(386)
Net increase in net assets resulting from operations	43,178	47,110
Capital transactions		
Net proceeds from shares sold		58,644
Deferred offering costs(1)	59	
Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C.(2)		(250)
Value of shares issued for exchanged units		38,840
Dividends declared to stockholders from net investment income	(39,465)	(33,347)
Dividends declared to stockholders from net realized gains		(615)
Reinvestment of dividends	2,384	2,066
Total net (decrease) increase in net assets resulting from capital transactions	(37,022)	65,338
Net increase in net assets	6,156	112,448
Net assets at the beginning of the period	802,170	650,107
Net assets at the end of the period	\$ 808,326	\$ 762,555

(1) For the six months ended June 30, 2014, the amounts reported relate to the period from May 8, 2014 to June 30, 2014.

(2) For the six months ended June 30, 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 Cash Flows

(in thousands)

(unaudited)

	Six months ended	
	June 30, 2015	June 30, 2014
Cash flows from operating activities		
Net increase in net assets resulting from operations	\$ 43,178	\$ 47,110
Adjustments to reconcile net (increase) decrease in net assets resulting from operations to net cash provided by (used in) operating activities:		
Net investment income allocated from New Mountain Finance Holdings, L.L.C.(2)		(22,870)
Net realized losses on investments(1)	13,471	1,067
Net realized gains on investments allocated from New Mountain Finance Holdings, L.L.C. (2)		(8,568)
Net change in unrealized (appreciation) depreciation of investments(1)	(17,970)	(5,708)
Net change in unrealized (appreciation) depreciation of investments allocated from New Mountain Finance Holdings, L.L.C. (2)		(940)
Amortization of purchase discount(1)	(1,176)	(405)
Amortization of deferred financing costs(1)	1,419	336
Non-cash investment income(1)	(3,209)	(261)
(Increase) decrease in operating assets:		
Cash and cash equivalents from New Mountain Finance Holdings, L.L.C.(3)		957
Purchase of investments and delayed draw facilities(1)	(187,045)	(128,598)
Proceeds from sales and paydowns of investments(1)	315,219	15,698
Cash received for purchase of undrawn portion of revolving credit or delayed draw facilities(1)	54	
Cash paid for purchase of drawn portion of revolving credit facilities(1)	(3,050)	
Cash paid on drawn revolvers(1)	(970)	
Cash repayments on drawn revolvers(1)	475	380
Interest and dividend receivable(1)	288	(1,381)
Receivable from affiliates(1)	128	378
Receivable from unsettled securities sold(1)	8,912	
Other assets(1)	(1,162)	(1,112)
Purchase of investment in New Mountain Finance Holdings, L.L.C.(2)		(58,644)
Distributions from New Mountain Finance Holdings, L.L.C.(2)		15,247
Increase (decrease) in operating liabilities:		
Incentive fee payable(1)	254	(1,695)
Management fee payable(1)	(193)	(1,434)
Interest payable(1)	8	1,195
Deferred tax liability(1)	636	386
Capital gains incentive fee payable(1)	490	763
Payable to affiliates(1)	(362)	269
Payable for unsettled securities purchased(1)	(26,460)	(6,428)
Other liabilities(1)	(658)	(306)
Net cash flows provided by (used in) operating activities	142,277	(154,564)
Cash flows from financing activities		
Net proceeds from shares sold		58,644
Dividends paid	(37,081)	(31,896)
Offering costs paid(1)	(56)	(166)

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

Proceeds from Holdings Credit Facility(1)	138,750	108,469
Repayment of Holdings Credit Facility(1)	(247,000)	(69,600)
Proceeds from NMFC Credit Facility(1)	51,300	
Repayment of NMFC Credit Facility(1)	(63,300)	
Proceeds from Convertible Notes(1)		115,000
Proceeds from SBA-guaranteed debentures(1)	17,500	
Deferred financing costs paid(1)	(1,609)	(4,222)
Net cash flows (used in) provided by financing activities	(141,496)	176,229
Net increase (decrease) in cash and cash equivalents	781	21,665
Cash and cash equivalents at the beginning of the period	23,445	
Cash and cash equivalents at the end of the period	\$ 24,226	\$ 21,665
Supplemental disclosure of cash flow information		
Cash interest paid	\$ 9,303	\$ 965
Income taxes paid	143	
Non-cash operating activities:		
Non-cash activity on investments	\$ 60,652	\$
Non-cash financing activities:		
New Mountain Finance AIV Holdings Corporation exchange of New Mountain Finance Holdings, L.L.C. units for shares	\$	\$ 38,840
Value of shares issued in connection with dividend reinvestment plan	2,384	2,066
Accrual for offering costs(1)	824	1,293
Accrual for deferred financing costs(1)	127	776
Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C.(2)		(250)

(1) For the six months ended June 30, 2014, the amounts reported relate to the period from May 8, 2014 to June 30, 2014.

(2) For the six months ended June 30, 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.

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments

June 30, 2015

(in thousands, except shares)

(unaudited)

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
Non-Controlled/Non-Affiliated Investments							
Funded Debt Investments Australia							
Project Sunshine IV Pty Ltd**							
Media		8.00% (Base Rate +					
	First lien(2)	7.00%)	9/23/2019	\$ 13,244	\$ 13,180	\$ 13,360	1.65%
Total Funded Debt Investments Australia				\$ 13,244	\$ 13,180	\$ 13,360	1.65%
Funded Debt Investments Luxembourg							
Pinnacle Holdco S.à.r.l. / Pinnacle (US) Acquisition Co Limited**							
Software		10.50% (Base Rate +					
	Second lien(2)	9.25%)	7/30/2020	\$ 24,630	\$ 24,329	\$ 22,659	
	Second lien(3)	10.50% (Base Rate +		8,204	8,321	7,547	
		9.25%)	7/30/2020	32,834	32,650	30,206	3.74%
Total Funded Debt Investments Luxembourg				\$ 32,834	\$ 32,650	\$ 30,206	3.74%
Funded Debt Investments Netherlands							
Eiger Acquisition B.V. (Eiger Co-Borrower, LLC)**							
Software		10.13% (Base Rate +					
	Second lien(3)	9.13%)	2/17/2023	\$ 10,000	\$ 9,271	\$ 9,050	1.12%
Total Funded Debt Investments Netherlands				\$ 10,000	\$ 9,271	\$ 9,050	1.12%
Funded Debt Investments United Kingdom							
Air Newco LLC**							
Software		10.50% (Base Rate +					
	Second lien(3)	9.50%)	1/31/2023	\$ 30,000	\$ 29,266	\$ 28,650	3.54%
Total Funded Debt Investments United Kingdom				\$ 30,000	\$ 29,266	\$ 28,650	3.54%
Funded Debt Investments United States							
TIBCO Software Inc.							
Software		6.50% (Base Rate +					
	First lien(2)	5.50%)	12/4/2020	\$ 29,925	\$ 28,543	\$ 29,939	
	Subordinated(3)	11.38%	12/1/2021	15,000	14,589	14,963	
				44,925	43,132	44,902	5.56%
Deltek, Inc.							
Software		9.50% (Base Rate +					
	Second lien(3)	8.50%)	6/26/2023	21,000	20,962	21,210	
	Second lien(2)	9.50% (Base Rate +		20,000	19,610	20,200	
		8.50%)	6/26/2023	41,000	40,572	41,410	5.12%
Ascend Learning, LLC							
Education							
	First lien(2)		7/31/2019	10,795	10,753	10,822	

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

		5.50% (Base Rate + 4.50%)					
	Second lien(3)	9.50% (Base Rate + 8.50%)	11/30/2020	29,000	28,888	28,946	
				39,795	39,641	39,768	4.92%
Kronos Incorporated							
Software	Second lien(2)	9.75% (Base Rate + 8.50%)	4/30/2020	32,641	32,424	33,641	
	Second lien(3)	9.75% (Base Rate + 8.50%)	4/30/2020	5,000	4,958	5,152	
				37,641	37,382	38,793	4.80%
Tolt Solutions, Inc.(15)							
Business Services	First lien(2)	7.00% (Base Rate + 6.00%)	3/7/2019	18,349	18,349	17,866	
	First lien(2)	12.00% (Base Rate + 11.00%)	3/7/2019	18,800	18,800	18,297	
				37,149	37,149	36,163	4.47%
Hill International, Inc.							
Business Services	First lien(2)	7.75% (Base Rate + 6.75%)	9/26/2020	34,738	34,425	34,520	4.27%
TASC, Inc.							
Federal Services	First lien(2)	7.00% (Base Rate + 6.00%)	5/22/2020	30,705	30,333	31,076	
	Second lien(3)	12.00%	5/21/2021	2,000	1,960	2,113	
				32,705	32,293	33,189	4.11%
SRA International, Inc.							
Federal Services	First lien(2)	6.50% (Base Rate + 5.25%)	7/20/2018	31,765	31,149	31,884	3.94%
Navex Global, Inc.							
Software	First lien(4)	5.75% (Base Rate + 4.75%)	11/19/2021	10,494	10,397	10,468	
	First lien(2)	5.75% (Base Rate + 4.75%)	11/19/2021	4,431	4,389	4,420	
	Second lien(4)	9.75% (Base Rate + 8.75%)	11/18/2022	11,953	11,840	11,834	
	Second lien(3)	9.75% (Base Rate + 8.75%)	11/18/2022	5,047	4,999	4,996	
				31,925	31,625	31,718	3.92%
Rocket Software, Inc.							
Software	Second lien(2)	10.25% (Base Rate + 8.75%)	2/8/2019	30,875	30,768	31,094	3.85%
Physio-Control International, Inc.							
Healthcare Products	Second lien(2)	10.00% (Base Rate + 9.00%)	6/5/2023	30,000	29,402	29,850	3.69%
CompassLearning, Inc.(14)							
Education	First lien(2)	8.00% (Base Rate + 6.75%)	11/26/2018	30,000	29,459	29,061	3.60%
Aderant North America, Inc.							
Software	Second lien(2)	10.00% (Base Rate + 8.75%)	6/20/2019	24,000	23,779	24,000	
	Second lien(3)	10.00% (Base Rate + 8.75%)	6/20/2019	5,000	5,072	5,000	
				29,000	28,851	29,000	3.59%
Transtar Holding Company							
Distribution & Logistics	Second lien(2)	10.00% (Base Rate + 8.75%)	10/9/2019	28,300	27,939	27,734	3.43%

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, 2015

(in thousands, except shares)

(unaudited)

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
KeyPoint Government Solutions, Inc. Federal Services	First lien(2)	7.75% (Base Rate + 6.50%)	11/13/2017	\$ 27,609	\$ 27,289	\$ 27,607	3.42%
McGraw-Hill Global Education Holdings, LLC Education	First lien(2)(9)	9.75%	4/1/2021	24,500	24,370	27,073	3.35%
Pelican Products, Inc. Business Products	Second lien(3)	9.25% (Base Rate + 8.25%)	4/9/2021	15,500	15,525	15,423	
	Second lien(2)	9.25% (Base Rate + 8.25%)	4/9/2021	10,000	10,119	9,950	
				25,500	25,644	25,373	3.14%
Confie Seguros Holding II Co. Consumer Services	Second lien(2)	10.25% (Base Rate + 9.00%)	5/8/2019	18,886	18,787	18,815	
	Second lien(3)	10.25% (Base Rate + 9.00%)	5/8/2019	5,571	5,648	5,550	
				24,457	24,435	24,365	3.02%
CRGT Inc. Federal Services	First lien(2)	7.50% (Base Rate + 6.50%)	12/19/2020	24,688	24,457	24,286	3.00%
YP Holdings LLC/Print Media Holdings LLC(10) YP LLC/Print Media LLC Media	First lien(2)	8.00% (Base Rate + 6.75%)	6/4/2018	23,664	23,451	23,901	2.96%
PetVet Care Centers LLC Consumer Services	Second lien(3)	9.75% (Base Rate + 8.75%)	6/17/2021	24,000	23,775	23,760	2.94%
Aricent Technologies Business Services	Second lien(2)	9.50% (Base Rate + 8.50%)	4/14/2022	20,000	19,876	20,100	
	Second lien(3)	9.50% (Base Rate + 8.50%)	4/14/2022	2,550	2,557	2,563	
				22,550	22,433	22,663	2.80%
McGraw-Hill School Education Holdings, LLC Education	First lien(2)	6.25% (Base Rate + 5.00%)	12/18/2019	21,670	21,500	21,801	2.70%
Weston Solutions, Inc. Business Services	Subordinated(4)		7/3/2019	20,923	20,923	21,194	2.62%

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

		16.00% (11.50% + 4.50% PIK)*					
American Pacific Corporation Specialty Chemicals and Materials	First lien(2)	7.00% (Base Rate + 6.00%)	2/27/2019	19,750	19,636	19,972	2.47%
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	2.46%
VetCor Professional Practices LLC Consumer Services	First lien(4)	7.00% (Base Rate + 6.00%)	4/20/2021	19,600	19,407	19,404	
	First lien(3)(11) - Drawn	7.00% (Base Rate + 6.00%)	4/20/2021	495	495	490	
				20,095	19,902	19,894	2.46%
Sierra Hamilton LLC / Sierra Hamilton Finance, Inc.							
Energy	First lien(2)	12.25%	12/15/2018	25,000	25,000	17,750	
	First lien(3)	12.25%	12/15/2018	2,660	1,994	1,889	
				27,660	26,994	19,639	2.43%
Novitex Acquisition, LLC (fka ARSloane Acquisition, LLC)							
Business Services	First lien(2)	7.50% (Base Rate + 6.25%)	7/7/2020	19,850	19,512	18,858	2.33%
First American Payment Systems, L.P. Business Services	Second lien(2)	10.75% (Base Rate + 9.50%)	4/12/2019	18,643	18,396	18,549	2.29%
AgKnowledge Holdings Company, Inc. Business Services	Second lien(2)	9.25% (Base Rate + 8.25%)	7/23/2020	18,500	18,338	17,792	2.20%
Vertafore, Inc. Software	Second lien(2)	9.75% (Base Rate + 8.25%)	10/27/2017	13,855	13,850	14,045	
	Second lien(3)	9.75% (Base Rate + 8.25%)	10/27/2017	2,000	2,016	2,028	
				15,855	15,866	16,073	1.99%
Permian Tank & Manufacturing, Inc. Energy	First lien(2)	10.50%	1/15/2018	24,357	24,525	15,710	1.94%
MailSouth, Inc. (d/b/a Mspark) Media	First lien(2)	6.75% (Base Rate + 5.00%)	12/14/2016	15,956	15,533	15,079	1.87%
GSDM Holdings Corp. Healthcare Services	Subordinated(4)	10.00%	6/23/2020	15,000	14,869	14,710	1.82%
Vision Solutions, Inc. Software	Second lien(2)	9.50% (Base Rate + 8.00%)	7/23/2017	14,000	13,972	14,000	1.73%
SW Holdings, Inc. Business Services	Second lien(4)	9.75% (Base Rate + 8.75%)	12/30/2021	13,500	13,365	13,365	1.65%
American Tire Distributors, Inc. Distribution & Logistics	Subordinated(3)	10.25%	3/1/2022	10,000	10,000	10,725	1.33%

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, 2015

(in thousands, except shares)

(unaudited)

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
PowerPlan Holdings, Inc. Software	Second lien(2)	10.75% (Base Rate + 9.75%)	2/23/2023	\$ 10,000	\$ 9,903	\$ 9,900	1.22%
Smile Brands Group Inc. Healthcare Services	First lien(2)	7.50% (Base Rate + 6.25%)	8/16/2019	12,251	12,125	9,382	1.16%
Harley Marine Services, Inc. Distribution & Logistics	Second lien(2)	10.50% (Base Rate + 9.25%)	12/20/2019	9,000	8,856	8,910	1.10%
Vitera Healthcare Solutions, LLC Software	First lien(2)	6.00% (Base Rate + 5.00%)	11/4/2020	1,970	1,954	1,976	
	Second lien(2)	9.25% (Base Rate + 8.25%)	11/4/2021	7,000	6,911	6,895	
				8,970	8,865	8,871	1.10%
QC McKissock Investment, LLC(17) McKissock, LLC Education	First lien(2)	7.50% (Base Rate + 6.50%)	8/5/2019	4,899	4,857	4,795	
	First lien(2)	7.50% (Base Rate + 6.50%)	8/5/2019	3,163	3,136	3,096	
	First lien(2)(11) Drawn	7.50% (Base Rate + 6.50%)	8/5/2019	576	571	564	
				8,638	8,564	8,455	1.05%
TTM Technologies, Inc.** Business Products	First lien(2)	6.00% (Base Rate + 5.00%)	5/31/2021	8,000	7,723	7,970	0.99%
Brock Holdings III, Inc. Industrial Services	Second lien(2)	10.00% (Base Rate + 8.25%)	3/16/2018	7,000	6,943	6,790	0.84%
Sotera Defense Solutions, Inc. (Global Defense Technology & Systems, Inc.) Federal Services	First lien(2)	9.00% (Base Rate + 7.50%)	4/21/2017	6,909	6,867	6,426	0.79%
Immucor, Inc. Healthcare Services	Subordinated(2)(9)	11.13%	8/15/2019	5,000	4,959	5,325	0.66%
Packaging Coordinators, Inc.(12) Healthcare Products	Second lien(3)	9.00% (Base Rate + 8.00%)	8/1/2022	5,000	4,955	4,950	0.61%
GCA Services Group, Inc. Business Services	Second lien(3)		11/1/2020	4,000	3,970	3,985	0.49%

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

		9.25% (Base Rate + 8.00%)					
Sophia Holding Finance LP / Sophia Holding Finance Inc.							
Software	Subordinated(3)	9.63%	12/1/2018	3,500	3,502	3,557	0.44%
York Risk Services Holding Corp.							
Business Services	Subordinated(3)	8.50%	10/1/2022	3,000	3,000	2,654	0.33%
Synarc-Biocore Holdings, LLC							
Healthcare Services	Second lien(3)	9.25% (Base Rate + 8.25%)	3/10/2022	2,500	2,478	2,313	0.29%
Education Management Corporation(22)							
Education Management II LLC							
Education	First lien(2)	5.50% (Base Rate + 4.50%)	7/2/2020	250	237	189	
	First lien(3)	5.50% (Base Rate + 4.50%)	7/2/2020	141	134	107	
	First lien(2)	8.50% (Base Rate + 1.00% + 6.50% PIK)*	7/2/2020	423	356	272	
	First lien(3)	8.50% (Base Rate + 1.00% + 6.50% PIK)*	7/2/2020	239	201	153	
				1,053	928	721	0.09%
ATI Acquisition Company (fka Ability Acquisition, Inc.)(13)							
Education							
	First lien(2)	17.25% (Base Rate + 10.00% + 4.00% PIK)(8)*	6/30/2012 Past Due	1,665	1,434		
	First lien(2)	17.25% (Base Rate + 10.00% + 4.00% PIK)(8)*	6/30/2012 Past Due	103	94		
				1,768	1,528		%
Total Funded Debt Investments United States				\$ 1,069,029	\$ 1,058,033	\$ 1,045,579	129.35%
Total Funded Debt Investments				\$ 1,155,107	\$ 1,142,400	\$ 1,126,845	139.40%

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, 2015

(in thousands, except shares)

(unaudited)

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
Equity United Kingdom							
Packaging Coordinators, Inc.(12)							
PCI Pharma Holdings UK Limited**							
Healthcare Products	Ordinary shares(2)			19,427	\$ 580	\$ 1,175	0.15%
Total Shares United Kingdom					\$ 580	\$ 1,175	0.15%
Equity United States							
Crowley Holdings Preferred, LLC							
Distribution & Logistics	Preferred shares(3)(20)	12.00% (10.00% + 2.00% PIK)*		36,080	\$ 36,080	\$ 35,839	4.43%
TWDiamondback Holdings Corp.(18)							
Distribution & Logistics	Preferred shares(4)			200	2,000	2,000	0.25%
Education Management Corporation(22)							
Education	Preferred shares(2)			3,331	200	150	
	Preferred shares(3)			1,879	113	85	
	Ordinary shares(2)			2,994,065	100	180	
	Ordinary shares(3)			1,688,976	56	101	
					469	516	0.06%
Ancora Acquisition LLC(13)							
Education	Preferred shares(6)			372	83	394	0.05%
Total Shares United States					\$ 38,632	\$ 38,749	4.79%
Total Shares					\$ 39,212	\$ 39,924	4.94%
Warrants United States							
YP Holdings LLC/Print Media Holdings LLC(10)							
YP Equity Investors LLC							
Media	Warrants(5)			5	\$	\$ 5,304	0.66%
ASP LCG Holdings, Inc.							
Education	Warrants(3)			622	37	270	0.03%
Alion Science and Technology Corporation							
Federal Services	Warrants(3)			6,000	293		%
Ancora Acquisition LLC(13)							
Education	Warrants(6)			20			%
Total Warrants United States					\$ 330	\$ 5,574	0.69%
Total Funded Investments					\$ 1,181,942	\$ 1,172,343	145.03%
Unfunded Debt Investments United States							
TWDiamondback Holdings Corp.(18)							
Diamondback Drugs of Delaware, L.L.C. (TWDiamondback II Holdings LLC)							
Distribution & Logistics	First lien(3)(11) Undrawn		2/16/2016	\$ 2,158	\$	\$	

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

	First lien(4)(11) Undrawn	2/16/2016	605				
			2,763				%
VetCor Professional Practices LLC							
Consumer Services	First lien(3)(11) Undrawn	4/20/2021	2,205	(27)	(22)		
	First lien(4)(11) Undrawn	5/12/2017	2,700	(27)	(27)		
			4,905	(54)	(49)	(0.01)%	
QC McKissock Investment, LLC(17)							
McKissock, LLC							
Education	First lien(2)(11) Undrawn	12/31/2015	2,304	(23)	(49)	(0.01)%	
MailSouth, Inc. (d/b/a Mspark)							
Media	First lien(3)(11) Undrawn	12/14/2016	1,900	(181)	(145)	(0.01)%	
Total Unfunded Debt Investments			\$ 11,872	\$ (258)	\$ (243)	(0.03)%	
Total Non-Controlled/Non-Affiliated Investments			\$ 1,181,684	\$ 1,172,100	145.00%		

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, 2015
(in thousands, except shares)

(unaudited)

Non-Controlled/Affiliated Investments(23)							
Tenawa Resource Holdings LLC(16)							
Energy	First lien(3)	10.50% (Base Rate + 8.00%)	5/12/2019	\$ 40,000	\$ 39,853	\$ 39,820	4.93%
Edmentum, Inc. (fka Plato, Inc.)(Archipelago Learning, Inc.)							
	Subordinated(3)	8.50% PIK*	6/9/2020	3,660	3,652	3,660	
	Subordinated(3)	10.00% PIK*	6/9/2020	3,243	3,243	2,654	
Total Funded Debt Investments United States				\$ 63,136	\$ 62,981	\$ 59,974	7.42%
NMFC Senior Loan Program I LLC**							
Tenawa Resource Holdings LLC(16)							
Energy	Ordinary shares(7)			4,000,000	4,000	4,000	0.49%
Education	Ordinary shares(2)			107,143	9	1,218	
					20	2,627	0.32%
Unfunded Debt Investments United States							
Edmentum, Inc. (fka Plato, Inc.)(Archipelago Learning, Inc.)							
Total Unfunded Debt Investments United States				\$ 1,830	\$		%
Controlled Investments(24)							
UniTek Global Services, Inc.							

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

	First lien(3)	8.50% (Base Rate + 7.50%)	1/13/2019	4,060	4,060	4,060	
	Subordinated(2)	15.00% PIK*	7/13/2019	1,429	1,429	1,429	
				21,097	21,097	21,097	2.61%
Equity United States							
Business Services	Preferred shares(2)(21)			15,608,672	\$ 13,227	\$ 13,391	
	Ordinary shares(2)			2,096,477	1,925	7,037	
					19,340	26,074	3.23%
Total Funded Investments					\$ 40,437	\$ 47,171	5.84%

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, 2015
(in thousands, except shares)

(unaudited)

Unfunded Debt Investments - United States				
Business Services	First lien(3)(11)	Undrawn	1/13/2019	\$ 2,048 \$
				\$
				2,806 %
Total Controlled Investments				\$ 40,437 \$ 47,171 5.84%
Total Investments				\$ 1,312,122 \$ 1,308,872 161.92%

(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, 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.

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

- (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) 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.
- (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 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.

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, 2015
(in thousands, except shares)

(unaudited)

(16) The Company holds investments in two related entities of Tenawa Resource Holdings LLC. The Company holds 5.05% 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 35,000.

(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.

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

(23) 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 June 30, 2015 along with transactions during the six months ended June 30, 2015 in which the issuer was a non-controlled/affiliated investment is as follows:

Portfolio Company (1)	Fair Value at December 31, 2014	Gross Additions (cost)(A)	Gross Redemptions (cost)(B)	Net Realized Gains (Losses)	Net Change In Unrealized Appreciation (Depreciation)	Fair Value at June 30, 2015	Interest Income	Dividend Income	Other Income
Edmentum Ultimate Holdings, LLC/Edmentum Inc.	\$	\$ 23,148	\$	\$	\$ (367)	\$ 22,781	\$ 129	\$	\$
NMFC Senior Loan Program I LLC	22,461				539	23,000		1,809	597
Tenawa Resource Holdings LLC		43,264			556	43,820	2,097		25
Total Non-Controlled/Affiliated Investments	\$ 22,461	\$ 66,412	\$	\$	\$ 728	\$ 89,601	\$ 2,226	\$ 1,809	\$ 622

(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 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.

(24) 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 June 30, 2015 along with transactions during the six months ended June 30, 2015 in which the issuer was a controlled investment is as follows:

Portfolio Company (1)	Fair Value at December 31, 2014	Gross Additions (cost)(A)	Gross Redemptions (cost)(B)	Net Realized Gains (Losses)	Net Change In Unrealized Appreciation (Depreciation)	Fair Value at June 30, 2015	Interest Income	Dividend Income	Other Income
UniTek Global Services, Inc.	\$	\$ 41,272	\$ (835)	\$	\$ 6,734	\$ 47,171	\$ 970	\$ 1,191	\$ 23
Total Controlled Investments	\$	\$ 41,272	\$ (835)	\$	\$ 6,734	\$ 47,171	\$ 970	\$ 1,191	\$ 23

(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.

* All or a portion of interest contains PIK interest.

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

** 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, 2015, 8.1% of the Company's total assets were non-qualifying assets.

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

[Table of Contents](#)

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

June 30, 2015

(unaudited)

	June 30, 2015 Percent of Total Investments at Fair Value
Investment Type	
First lien	44.22%
Second lien	40.98%
Subordinated	7.07%
Equity and other	7.73%
Total investments	100.00%

	June 30, 2015 Percent of Total Investments at Fair Value
Industry Type	
Software	25.76%
Business Services	18.10%
Education	11.52%
Federal Services	9.43%
Distribution & Logistics	8.03%
Energy	6.05%
Consumer Services	5.19%
Media	4.39%
Healthcare Products	2.75%
Business Products	2.55%
Healthcare Services	2.42%
Investment Fund	1.76%
Specialty Chemicals and Materials	1.53%
Industrial Services	0.52%
Total investments	100.00%

	June 30, 2015 Percent of Total Investments at Fair Value
Interest Rate Type	
Floating rates	83.72%
Fixed rates	16.28%
Total investments	100.00%

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

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments

December 31, 2014

(in thousands, except shares)

Non-Controlled/Non-Affiliated Investments						
Project Sunshine IV Pty Ltd**						
Total Funded Debt Investments Australia						
				\$	17,689	\$ 17,594 \$ 17,888 2.23%
Pinnacle Holdco S.à.r.l. / Pinnacle (US) Acquisition Co Limited**						
	Second lien(3)	10.50% (Base Rate + 9.25%)	7/30/2020		8,204	8,317 7,629
Evergreen Skills Lux S.À.R.L.**						
Total Funded Debt Investments Luxembourg						
				\$	37,834	\$ 37,513 \$ 35,271 4.39%
Ascend Learning, LLC						
	Second lien(3)	9.50% (Base Rate + 8.50%)	11/30/2020		29,000	28,881 28,855
TIBCO Software Inc.**						
	Subordinated(3)	11.38%	12/1/2021		15,000	14,567 14,550
Global Knowledge Training LLC						
Deltek, Inc.						

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

	Second lien(3)	10.00% (Base Rate + 8.75%)	10/10/2019	1,000	990	1,008	
Tenawa Resource Holdings LLC(16)							
Energy	First lien(3)	10.50% (Base Rate + 8.00%)	5/12/2019	40,000	39,838	39,820	4.96%
Software	Second lien(2)	9.75% (Base Rate + 8.50%)	4/30/2020	32,641	32,407	33,355	
				37,641	37,362	38,464	4.80%
Education	First lien(2)(9)	9.75%	4/1/2021	24,500	24,362	27,195	
				34,363	34,003	37,025	4.62%
Business Services	First lien(2)	7.00% (Base Rate + 6.00%)	3/7/2019	18,537	18,538	18,075	
				37,337	37,338	36,615	4.56%
Business Services	Second lien(2)	11.50% (Base Rate + 10.50%)	3/31/2020	35,175	34,848	35,471	4.42%

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

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

December 31, 2014

(in thousands, except shares)

UniTek Global Services, Inc.						
First lien(3)		15.00% PIK (Base Rate + 13.50% PIK)(7)*	4/15/2018	7,772	7,552	5,550
First lien(3)		15.00% PIK (Base Rate + 13.50% PIK)(7)*	4/15/2018	597	580	426
First lien(3)		15.00% PIK (Base Rate + 13.50% PIK)(7)*	4/15/2018	496	482	354
First lien(3)(11) Drawn		10.25% (Base Rate + 4.00% + 5.25% PIK)*	4/15/2016	2,610	2,610	2,610
Envision Acquisition Company, LLC						
Second lien(3)		9.75% (Base Rate + 8.75%)	11/4/2021	9,250	9,305	9,169
Hill International, Inc.						
Meritas Schools Holdings, LLC						
Second lien(2)		10.00% (Base Rate + 9.00%)	1/23/2021	12,000	11,943	11,820
TASC, Inc.						

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

	Second lien(3)	12.00%	5/21/2021	2,000	1,960	1,960
SRA International, Inc.						
Navex Global, Inc.						
	First lien(2)	5.75% (Base Rate + 4.75%)	11/19/2021	4,453	4,409	4,409
	Second lien(3)	9.75% (Base Rate + 8.75%)	11/18/2022	5,047	4,997	4,970
Rocket Software, Inc.						
KeyPoint Government Solutions, Inc.						
CompassLearning, Inc.(14)						
Aderant North America, Inc.						
	Second lien(3)	10.00% (Base Rate + 8.75%)	6/20/2019	5,000	5,070	4,988
Transtar Holding Company						
Pelican Products, Inc.						
	Second lien(2)	9.25% (Base Rate + 8.25%)	4/9/2021	10,000	10,123	9,875

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

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

December 31, 2014

(in thousands, except shares)

YP Holdings LLC(10)							
Media	First lien(2)	8.00% (Base Rate + 6.75%)	6/4/2018	\$ 24,936	\$ 24,678	\$ 25,029	3.12%
Federal Services	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	
				24,457	24,433	24,446	3.05%
Consumer Services	Second lien(3)	9.75% (Base Rate + 8.75%)	6/17/2021	24,000	23,761	23,760	2.96%
Energy	First lien(2)	12.25%	12/15/2018	25,000	25,000	23,250	2.90%
Business Services	Second lien(2)	9.50% (Base Rate + 8.50%)	4/14/2022	20,000	19,871	20,162	
				22,550	22,427	22,733	2.83%
Education	First lien(2)	6.25% (Base Rate + 5.00%)	12/18/2019	21,780	21,594	21,771	2.71%
Business Services	Subordinated(4)	16.00% (11.50% + 4.50% PIK)*	7/3/2019	20,458	20,458	20,828	2.60%
Healthcare Services	First lien(2)	7.00% (Base Rate + 5.50%)	10/6/2016	20,862	20,697	20,732	2.58%
Diamondback Drugs of Delaware, L.L.C.(TWDiamondback II Holdings LLC)							

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

American Pacific Corporation**

Novitex Acquisition, LLC (fka ARSloane Acquisition, LLC)

eResearchTechnology, Inc.

First American Payment Systems, L.P.

Permian Tank & Manufacturing, Inc.

AgKnowledge Holdings Company, Inc.

Vertafore, Inc.

	9.75% (Base					
Second lien(3)	Rate + 8.25%)	10/27/2017	2,000	2,017	2,015	

MailSouth, Inc. (d/b/a Mspark)

Edmentum, Inc. (fka Plato, Inc.)

	11.25% (Base Rate +					
Second lien(3)	9.75%)	5/17/2019	6,150	6,040	3,075	

GSDM Holdings Corp.

Smile Brands Group Inc.

Vision Solutions, Inc.

Harley Marine Services, Inc.

Vitera Healthcare Solutions, LLC

	9.25% (Base					
Second lien(2)	Rate + 8.25%)	11/4/2021	7,000	6,906	6,825	

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

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

December 31, 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
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	First lien(2)	9.88%	1/15/2019	6,651	6,651	7,083	0.88%
Sotera Defense Solutions, Inc. (Global Defense Technology & Systems, Inc.)							
Federal Services	First lien(2)	9.00% (Base Rate + 7.50%)	4/21/2017	7,445	7,387	6,626	0.83%
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%
Packaging Coordinators, Inc.(12)							
Healthcare Products	Second lien(3)	9.00% (Base Rate + 8.00%)	8/1/2022	5,000	4,952	4,925	0.61%
LM U.S. Member LLC (and LM U.S. Corp Acquisition Inc.)							
Business Services	Second lien(2)	8.25% (Base Rate + 7.25%)	1/25/2021	5,000	4,940	4,867	0.61%
Learning Care Group (US) Inc.(17)							
Learning Care Group (US) No. 2 Inc.							
Education	First lien(2)	5.50% (Base Rate + 4.50%)	5/5/2021	4,465	4,424	4,476	0.56%

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

CRC Health Corporation							
Healthcare Services		9.00% (Base Rate + 8.00%)	9/28/2021	4,000	3,925	4,098	0.51%
	Second lien(3)						
GCA Services Group, Inc.							
Business Services		9.25% (Base Rate + 8.00%)	11/1/2020	4,000	3,968	3,955	0.49%
	Second lien(3)						
Sophia Holding Finance LP / Sophia Holding Finance Inc.							
Software	Subordinated(3)	9.63%	12/1/2018	3,500	3,502	3,531	0.44%
York Risk Services Holding Corp.							
Business Services	Subordinated(3)	8.50%	10/1/2022	3,000	3,000	3,011	0.38%
Winebow Holdings, Inc. (Vinter Group, Inc., The)							
Distribution & Logistics	Second lien(3)	8.50% (Base Rate + 7.50%)	1/2/2022	3,000	2,979	2,910	0.36%
Synarc-Biocore Holdings, LLC							
Healthcare Services	Second lien(3)	9.25% (Base Rate + 8.25%)	3/10/2022	2,500	2,477	2,250	0.28%
Education Management LLC**							
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%

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

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

December 31, 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
Equity United Kingdom							
Packaging Coordinators, Inc.(12)							
PCI Pharma Holdings UK Limited**							
Healthcare Products	Ordinary shares(2)			19,427	\$ 580	\$ 1,193	0.15%
Total Shares United Kingdom					\$ 580	\$ 1,193	0.15%
Equity United States							
Crowley Holdings Preferred, LLC							
Distribution & Logistics		12.00%					
	Preferred shares(3)	(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%
Total Shares United States					\$ 40,804	\$ 49,981	6.23%
Total Shares					\$ 41,384	\$ 51,174	6.38%
Warrants United States							
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			%
Total Warrants United States					\$ 1,935	\$ 6,990	0.87%
Total Funded Investments					\$ 1,423,483	\$ 1,402,628	174.85%

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

Unfunded Debt Investments United States							
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)	Undrawn	1/21/2015	2,048			
	First lien(3)(11)	Undrawn	1/21/2015	758			%
McKissock, LLC							
Education	First lien(2)(11)	Undrawn	8/5/2019	2,304	(23)	(37)	%
MailSouth, Inc. (d/b/a Mspark)							
Media	First lien(3)(11)	Undrawn	12/14/2015	1,900	(181)	(156)	(0.02)%

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

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

December 31, 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
Aspen Dental Management, Inc. Healthcare Services	First lien(3)(11) Undrawn		4/6/2016	\$ 5,000	\$ (388)	\$ (225)	(0.03)%
Total Unfunded Debt Investments				\$ 20,198	\$ (592)	\$ (418)	(0.05)%
Total Non-Controlled/Non-Affiliated Investments					\$ 1,422,891	\$ 1,402,210	174.80%
Non-Controlled/Affiliated Investments(19)							
Equity United States							
NMFC Senior Loan Program I LLC**							
Investment in Fund	Membership interest(3)				\$ 23,000	\$ 22,461	2.80%
Total Non-Controlled/Affiliated Investments					\$ 23,000	\$ 22,461	2.80%
Total Investments					\$ 1,445,891	\$ 1,424,671	177.60%

(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, N.A. as Lenders. See Note 7, *Borrowings*, for details.

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

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

- (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.
- (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.

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

(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.

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

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

December 31, 2014

(in thousands, except shares)

(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.

Table of Contents

New Mountain Finance Corporation

Consolidated Schedule of Investments (Continued)

December 31, 2014

	December 31, 2014 Percent of Total Investments at Fair Value
Investment Type	
First lien	47.58%
Second lien	42.41%
Subordinated	4.35%
Equity and other	5.66%
Total investments	100.00%

	December 31, 2014 Percent of Total Investments at Fair Value
Industry Type	
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%

	December 31, 2014 Percent of Total Investments at Fair Value
Interest Rate Type (1)	
Floating rates	87.68%
Fixed rates	12.32%
Total investments	100.00%

(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.

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

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

Table of Contents

Notes to the Consolidated Financial Statements of

New Mountain Finance Corporation

June 30, 2015

(in thousands, except share data)

(unaudited)

Note 1. Formation and Business Purpose

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.

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

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

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.

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.

Table of Contents

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

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

Since NMFC's IPO, and through June 30, 2015, NMFC raised approximately \$374,625 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.

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

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.

Table of Contents

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 six months ended June 30, 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., 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 Association (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, 2015.

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

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

Table of Contents

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 SBA eligible companies. The Company's portfolio may be concentrated in a limited number of industries. As of June 30, 2015, the Company's top five industry concentrations were software, business services, 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. 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 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, 2015.

Investments The Company applies fair value accounting in accordance with GAAP. Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments are reflected on the Company's Consolidated Statements of Assets and Liabilities at fair value, with changes in unrealized gains and losses resulting from changes in fair value reflected in the Company's Consolidated Statements of Operations as Net change in unrealized appreciation (depreciation) of investments and realizations on portfolio investments reflected in the Company's Consolidated Statements of Operations as Net realized gains (losses) on investments .

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

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

Table of Contents

(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;

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.

Table of Contents

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, 2015 and December 31, 2014, the Company held one collateralized agreement to resell with a carrying value of \$30,000, collateralized by a second lien bond in Northstar GOM Holdings Group LLC with a fair value of \$30,000 and guaranteed by a private hedge fund with approximately \$800,000 of assets under management as of June 30, 2015. The private hedge fund has the option to repurchase the collateral from the Company at the par value of the collateralized agreement within a year. The collateralized agreement earned interest at a rate of 15.0% per annum as of June 30, 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 June 30, 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 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, 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 are recognized as income when earned, usually when paid at the closing of the investment and are non-refundable.

Table of Contents

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.

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 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. For the three and six months ended June 30, 2014, the Company recognized a total provision for income taxes of approximately \$386 and \$386, respectively, for the Company's consolidated subsidiaries. For the three and six months ended June 30, 2014, the Company recorded deferred income tax expense of approximately \$386 and \$386, respectively. The Company did not record any current income tax expense for the three and six months ended June 30, 2014. As of June 30, 2015 and December 31, 2014, the Company had \$1,129 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.

Table of Contents

The Company has adopted the Income Taxes topic of the Accounting Standards Codification Topic 740 (ASC 740). ASC 740 provides guidance for income taxes, including how uncertain income tax positions should be recognized, measured, and disclosed in the financial statements. Based on its analysis, the Company has determined that there were no material uncertain income tax positions through December 31, 2014. The 2011, 2012, 2013 and 2014 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 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 asked 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.

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.

Table of Contents

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 six months ended June 30, 2015, the Company adjusted an accounting estimate related to the classification of dividend income for a distribution received from one of the Company's equity investments. Based on updated tax projections received during the quarter ended March 31, 2015, the Company decreased dividend income by \$99 and increased the realized gain by \$99 to agree to the tax treatment on the investment.

Note 3. Investments

At June 30, 2015, the Company's investments consisted of the following:

Investment Cost and Fair Value by Type

	Cost	Fair Value
First lien	\$ 594,938	\$ 578,748
Second lien	537,078	536,409
Subordinated	94,204	92,516
Equity and other	85,902	101,199
Total investments	\$ 1,312,122	\$ 1,308,872

Investment Cost and Fair Value by Industry

	Cost	Fair Value
Software	\$ 335,625	\$ 337,224
Business Services	231,948	236,914
Education	149,704	150,791
Federal Services	122,348	123,392
Distribution & Logistics	104,770	105,103
Energy	95,372	79,169
Consumer Services	68,058	67,970
Media	51,983	57,499
Healthcare Products	34,937	35,975
Business Products	33,367	33,343
Healthcare Services	34,431	31,730
Investment Fund	23,000	23,000
Specialty Chemicals and Materials	19,636	19,972
Industrial Services	6,943	6,790
Total investments	\$ 1,312,122	\$ 1,308,872

At December 31, 2014, the Company's investments consisted of the following:

Investment Cost and Fair Value by Type

	Cost		Fair Value	
First lien	\$	696,994	\$	677,901
Second lien		621,234		604,158
Subordinated		61,344		61,987
Equity and other		66,319		80,625
Total investments	\$	1,445,891	\$	1,424,671

Table of Contents**Investment Cost and Fair Value by Industry**

	Cost	Fair Value
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
Total investments	\$ 1,445,891	\$ 1,424,671

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 for the three and six months ended June 30, 2015 of \$413 and \$851, respectively. 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, 2015, the Company's investments in Edmentum have an aggregate cost basis of \$23,148 and an aggregate fair value of \$22,781.

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, 2015, the Company's investments in EDMC have an aggregate cost basis of \$1,397 and an aggregate fair value of \$1,237.

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 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, 2015, the Company's investments in UniTek have an aggregate

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

cost basis of \$40,437 and an aggregate fair value of \$47,171.

As of June 30, 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 June 30, 2015, the Company's investment had an aggregate cost basis of \$1,611, an aggregate fair value of \$394 and total unearned interest income of \$85 and \$168, respectively, for the three and six months then ended. For the three and six months ended June 30, 2014, total unearned interest income was \$81 and \$161, respectively. As of December 31, 2014, the Company's investment had an aggregate cost basis of \$1,611 and an aggregate fair value of \$402. As of June 30, 2015 and December 31, 2014, unrealized gains (losses) include a fee that the Company would receive upon maturity of the two super priority first lien debt investments.

Table of Contents

As of June 30, 2015, the Company had unfunded commitments on revolving credit facilities and bridge facilities of \$7,983 and \$20,000, respectively. The Company had unfunded commitments in the form of delayed draws or other future funding commitments of \$8,525 as of June 30, 2015. As of June 30, 2015, the Company had commitment letters to purchase debt investments in the aggregate par amount of \$13,000. The unfunded commitments on revolving credit facilities and delayed draws are disclosed on the Company's Consolidated Schedule of Investments as of June 30, 2015.

As of December 31, 2014, the Company had unfunded commitments on revolving credit facilities and bridge facilities of \$8,948 and \$0, respectively. The Company had unfunded commitments in the form of delayed draws or other future funding commitments of \$18,475 as of December 31, 2014. 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 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, 2015, SLP I had total investments with an aggregate fair value of approximately \$350,711, debt outstanding of \$256,126 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 Schedule of Investments as of June 30, 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. 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. For the three and six months ended June 30, 2014, the Company earned approximately \$4 and \$4, respectively, in management fees related to SLP I which is included in other income. As of June 30, 2015 and December 31, 2014, approximately \$296 and \$468, respectively, of management fees related to SLP I was included in receivable from affiliates. 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. The Company earned no dividend income related to SLP I during the three and six months ended June 30, 2014. As of June 30, 2015 and December 31, 2014, approximately \$951 and \$828, respectively, of dividend income related to SLP I was included in interest and dividend receivable.

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.

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.

UniTek is not considered a significant majority-owned unconsolidated subsidiary under Regulation S-X Rule 10-01(b)(1) for the six months ended June 30, 2015.

Table of Contents

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

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

The Company may directly invest in the equity of private companies or in some cases, equity investments could be made in connection with a debt investment. Equity investments may or may not appreciate in value. As a result the Company may not be able to recognize realized gains 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 (Levels I and II) and unobservable (Level III). 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 (Levels II and III) and unobservable inputs (Level III).

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

Table of Contents

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

The following table summarizes the levels in the fair value hierarchy that the Company's portfolio investments fall into as of June 30, 2015:

	Total	Level I	Level II	Level III
First lien	\$ 578,748	\$	\$ 379,283	\$ 199,465
Second lien	536,409		468,542	67,867
Subordinated	92,516		37,224	55,292
Equity and other	101,199	281	235	100,683
Total investments	\$ 1,308,872	\$ 281	\$ 885,284	\$ 423,307

The following table summarizes the levels in the fair value hierarchy that the Company's portfolio investments fall into as of December 31, 2014:

	Total	Level I	Level II	Level III
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
Total investments	\$ 1,424,671	\$	\$ 1,004,990	\$ 419,681

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

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

(1) Includes reorganizations and restructurings.

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

Table of Contents

The following table summarizes the changes in fair value of Level III portfolio investments for the three months ended June 30, 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 June 30, 2014:

	Total	First Lien	Second Lien	Subordinated	Equity and other
Fair value, March 31, 2014	\$ 202,948	\$ 58,973	\$ 73,248	\$ 5,171	\$ 65,556
Total gains or losses included in earnings:					
Net realized gains on investments	5,306			196	5,110
Net change in unrealized (depreciation) appreciation	(1,245)	188	433	(196)	(1,670)
Purchases, including capitalized PIK and revolver fundings	77,151	47,801		15,238	14,112
Proceeds from sales and paydowns of investments	(11,379)	(455)		(5,559)	(5,365)
Transfers into Level III (1)	39,480		39,480		
Fair value, June 30, 2014	\$ 312,261	\$ 106,507	\$ 113,161	\$ 14,850	\$ 77,743
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:	\$ 1,641	\$ 188	\$ 433	\$	\$ 1,020

(1) As of June 30, 2014, the portfolio investments were transferred into Level III from Level II at fair value as of the beginning of the quarter in which the reclassifications occurred.

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

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

(1) Includes reorganizations and restructurings.

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

Table of Contents

The following table summarizes the changes in fair value of Level III portfolio investments for the six months ended June 30, 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 June 30, 2014:

	Total	First Lien	Second Lien	Subordinated	Equity and other
Fair value, December 31, 2013	\$ 153,720	\$ 28,411	\$ 55,538	\$ 5,171	\$ 64,600
Total gains or losses included in earnings:					
Net realized gains on investments	6,824	1,260		196	5,368
Net change in unrealized (depreciation) appreciation	(421)	(329)	645	(196)	(541)
Purchases, including capitalized PIK and revolver fundings	125,229	78,190	17,498	15,238	14,303
Proceeds from sales and paydowns of investments	(12,571)	(1,025)		(5,559)	(5,987)
Transfers into Level III (1)	39,480		39,480		
Fair value, June 30, 2014	\$ 312,261	\$ 106,507	\$ 113,161	\$ 14,850	\$ 77,743
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:	\$ 2,632	\$ 144	\$ 645	\$	\$ 1,843

(1) As of June 30, 2014, the portfolio investments were transferred into Level III from Level II at fair value as of the beginning of the quarter in which the reclassifications 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, 2015 and June 30, 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. The Company invests in revolving credit facilities. These investments are categorized as Level III investments as these assets are not actively traded and their fair values are often implied by the term loans of the respective portfolio companies.

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

Company Performance, Financial Review, and Analysis: Prior to investment, as part of its due diligence process, the Company evaluates the overall performance and financial stability of the portfolio company. Post investment, the Company analyzes each portfolio company's current operating performance and relevant financial trends versus prior year and budgeted results, including, but not limited to, factors affecting its revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) growth, margin trends, liquidity position, covenant compliance and changes to its capital structure. The Company also attempts to identify and subsequently track any developments at the portfolio company, within its customer or vendor base or within the industry or the macroeconomic environment,

generally, that may alter any material element of its original investment thesis. This analysis is specific to each portfolio company. The Company leverages the knowledge gained from its original due diligence process, augmented by this subsequent monitoring, to continually refine its outlook for each of its portfolio companies and ultimately form the valuation of its investment in each portfolio company. When an external event such as a purchase transaction, public offering or subsequent sale occurs, the Company will consider the pricing indicated by the external event to corroborate the private valuation.

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. 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 portfolio company enterprise value. Significant increases or decreases in the multiple will result in an increase or decrease in enterprise value, resulting in an increase or decrease in the fair value estimate of the investment. In applying the market based approach as of June 30, 2015, the Company used the relevant EBITDA multiple ranges set forth in the table below to determine the enterprise value of investments in 17 of its portfolio companies. The Company believes this was a reasonable range in light of current comparable company trading levels and the specific companies involved.

Table of Contents

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, 2015, the Company used the discount ranges set forth in the table below to value investments in 18 of its portfolio companies.

First lien	\$ 199,465	Market approach Income approach	EBITDA multiple Discount rate	5.0x 7.8%	14.0x 14.4%	9.0x 10.2%
Subordinated	55,292	Market approach Income approach	EBITDA multiple Discount rate	5.0x 8.5%	12.5x 17.8%	9.0x 14.5%

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

Based on a comparison to similar BDC credit facilities, the terms and conditions of the Holdings Credit Facility and the NMFC Credit Facility (as defined in Note 7, *Borrowings*) are representative of market. The carrying values of the Holdings Credit Facility and NMFC Credit Facility approximate fair value as of June 30, 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 June 30, 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 June 30, 2015 was \$116,869, 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, 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 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.

Table of Contents

Note 5. Agreements

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

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

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, 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 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 IPO, the Investment Adviser will 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 approximated \$251,508 as of June 30, 2015. The Investment Adviser cannot recoup management fees that the Investment Adviser has previously waived. For the three and six months ended June 30, 2015, management fees waived were approximately \$1,247 and \$2,629, respectively. The Investment Adviser did not waive any management fees during the three and six months ended June 30, 2014.

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, 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, 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.

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

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).

Table of Contents

Pre-Incentive Fee Adjusted Net Investment Income, expressed as a rate of return on the value of the Company's net assets at the end of the immediately preceding calendar quarter, will be compared to a hurdle rate of 2.0% per quarter (8.0% annualized), subject to a catch-up provision measured as of the end of each calendar quarter. The hurdle rate is appropriately pro-rated for any partial periods. The calculation of the Company's incentive fee with respect to the Pre-Incentive Fee Adjusted Net Investment Income for each quarter is as follows:

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

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

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

The following table summarizes the management fees and incentive fees incurred by the Company for the three and six months ended June 30, 2015 and June 30, 2014.

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

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Management fee	\$ 6,198	\$ 2,742	\$ 12,666	\$ 2,742
Management fee allocated from NMF Holdings		1,879		5,983
Less: management fee waiver	(1,247)		(2,629)	
Total management fee	4,951	4,621	10,037	8,725
Incentive fee, excluding accrued capital gains incentive fees	\$ 5,057	\$ 2,747	\$ 9,935	\$ 2,747
Incentive fee, excluding accrued capital gains incentive fees allocated from NMF Holdings		1,882		6,248
Total incentive fee	5,057	4,629	9,935	8,995
Accrued capital gains incentive fees(1)	\$ 9	\$ 763	\$ 490	\$ 763
Accrued capital gains incentive fees allocated from NMF Holdings(1)		523		2,024
Total accrued capital gains incentive fees	9	1,286	490	2,787

(1) As of 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. As of June 30, 2014, approximately \$1,971 of capital gains incentive fees was owed under the Investment Management Agreement by the Company, as cumulative net Adjusted Realized Capital Gains exceeded cumulative Adjusted Unrealized Capital Depreciation.

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

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

The following Consolidated Statements of Operations for the three and six months ended June 30, 2014 is adjusted to reflect this step-up to fair market value.

	Three Months Ended June 30, 2014	Stepped-up Cost Basis Adjustments	Adjusted Three Months Ended June 30, 2014
Investment income			
Interest income(1)	\$ 18,788	\$ (56)	\$ 18,732
Dividend income	972		972
Other income	709		709
Investment income allocated from NMF Holdings			
Interest income(1)	12,847		12,847
Dividend income	279		279
Other income	113		113
Total investment income(2)	33,708	(56)	33,652
Total net expenses pre-incentive fee(3)	10,504		10,504
Pre-Incentive Fee Net Investment Income	23,204	(56)	23,148
Incentive fee(4)	5,915		5,915
Post-Incentive Fee Net Investment Income	17,289	(56)	17,233
Net realized losses on investments	(1,067)	(46)	(1,113)
Net realized gains on investment allocated from NMF Holdings	5,860		5,860
Net change in unrealized appreciation (depreciation) of investments	5,708	102	5,810
Net change in unrealized (depreciation) appreciation of investments allocated from NMF Holdings	(3,742)		(3,742)
Provision for taxes	(386)		(386)
Net increase in net assets resulting from operations	\$ 23,662		\$ 23,662

(1) Includes \$642 in PIK interest from investments.

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

(3) Includes expense waivers and reimbursements of \$58.

(4) For the three months ended June 30, 2014, the Company incurred total incentive fees of \$5,915, of which \$1,286 related to capital gains incentive fees on a hypothetical liquidation basis.

Table of Contents

	Six Months Ended June 30, 2014	Stepped-up Cost Basis Adjustments	Adjusted Six Months Ended June 30, 2014
Investment income			
Interest income(1)	\$ 18,788	\$ (98)	\$ 18,690
Dividend income	972		972
Other income	709		709
Investment income allocated from NMF Holdings			
Interest income(1)	40,515		40,515
Dividend income	2,368		2,368
Other income	795		795
Total investment income(2)	64,147	(98)	64,049
Total net expenses pre-incentive fee(3)	19,018		19,018
Pre-Incentive Fee Net Investment Income	45,129	(98)	45,031
Incentive fee(4)	11,782		11,782
Post-Incentive Fee Net Investment Income	33,347	(98)	33,249
Net realized losses on investments	(1,067)	(184)	(1,251)
Net realized gains on investment allocated from NMF Holdings	8,568		8,568
Net change in unrealized appreciation (depreciation) of investments	5,708	282	5,990
Net change in unrealized appreciation (depreciation) of investments allocated from NMF Holdings	940		940
Provision for taxes	(386)		(386)
Net increase in net assets resulting from operations	\$ 47,110		\$ 47,110

(1) Includes \$1,426 in PIK interest from investments.

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

(3) Includes expense waivers and reimbursements of \$823.

(4) For the six months ended June 30, 2014, the Company incurred total incentive fees of \$11,782, of which \$2,787 related to capital gains incentive fees on a hypothetical liquidation basis.

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 \$4,250 for the

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

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 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. For the three and six months ended June 30, 2014, approximately \$357 and \$747, respectively, of indirect administrative expenses were included in administrative expenses of which \$58 and \$448, respectively, of indirect administrative expenses were waived by the Administrator. As of June 30, 2015 and December 31, 2014, approximately \$324 and \$326, respectively, of indirect administrative expenses were included in payable to affiliates as the expenses were payable to the Administrator.

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

Table of Contents

The Company incurred the following expenses, which were waived by the Administrator or were in excess of the expense cap, for the three and six months ended June 30, 2015 and June 30, 2014:

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Administrative expenses	\$	\$	58	\$
Administrative expenses allocated from NMF Holdings				390
Professional fees				
Professional fees allocated from NMF Holdings				375
Other general and administrative expenses				
Other general and administrative expenses allocated from NMF Holdings				
Total expense reimbursement	\$	\$	58	\$
			400	\$
				823

As of June 30, 2015 and June 30, 2014, no expense waivers and reimbursements were receivable 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.

NMFC entered into a Registration Rights Agreement with Steven B. Klinsky (the Chairman of the Company's board of directors), an entity related to Steven B. Klinsky and the Investment Adviser. Subject to several exceptions, the Investment Adviser has the right to require NMFC to register for public resale under the Securities Act of 1933, as amended (the Securities Act of 1933), all registerable securities that are held by any of them and that they request to be registered. Registerable securities subject to the Registration Rights Agreement are shares of NMFC's common stock issued and any other shares of NMFC's common stock held by the Investment Adviser and any of their transferees. The rights under the Registration Rights Agreement can be conditionally exercised by the Investment Adviser, meaning that prior to the effectiveness of the registration statement related to the shares, the Investment Adviser can withdraw its request to have the shares registered. Investment Adviser may assign its rights to any person that acquires registerable securities subject to the Registration Rights Agreement and who agrees to be bound by the terms of the Registration Rights Agreement. Steven B. Klinsky and a related entity will have the right to piggyback, or include their own registerable securities in such a registration. Shares held by Steven B. Klinsky were registered on a shelf registration statement on Form N-2.

The Investment Adviser may require NMFC to use its reasonable best efforts to register under the Securities Act of 1933 all or any portion of these registerable securities upon a demand request. The demand registration rights are subject to certain limitations.

The Registration Rights Agreement includes limited blackout and suspension periods. In addition, the Investment Adviser may also require NMFC to file a shelf registration statement on Form N-2 for the resale of their registerable securities if NMFC is eligible to use Form N-2 at that time. Holders of registerable securities have piggyback registration rights, which means that these holders may include their respective shares in

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

any future registrations of NMFC's equity securities, whether or not that registration relates to a primary offering by NMFC or a secondary offering by or on behalf of any of NMFC's stockholders. The Investment Adviser and Steven B. Klinsky (and a related entity) have priority over NMFC in any registration that is an underwritten offering.

The Investment Adviser and Steven B. Klinsky (and a related entity) will be responsible for the expenses of any demand registration (including underwriters' discounts or commissions) and their pro-rata share of any piggyback registration. NMFC has agreed to indemnify the Investment Adviser and Steven B. Klinsky (and a related entity) with respect to liabilities resulting from untrue statements or omissions in any registration statement filed pursuant to the Registration Rights Agreement, other than untrue statements or omissions resulting from information furnished to NMFC by such parties. The Investment Adviser and Steven B. Klinsky (and a related entity) have also agreed to indemnify NMFC with respect to liabilities resulting from untrue statements or omissions furnished by them to NMFC relating to them in any registration statement.

Table of Contents

Note 6. Related Parties

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

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

The Company has entered into an Administration Agreement with the Administrator, a wholly-owned subsidiary of New Mountain Capital. The Administrator arranges office space for the Company and provides office equipment and administrative services necessary to conduct their respective day-to-day operations pursuant to the Administration Agreement. The Company reimburses the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations to the Company under the Administration Agreement which includes the fees and expenses associated with performing administrative, finance and compliance functions, and the compensation of the Company's chief financial officer and chief compliance officer and their respective staffs. 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 \$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. The Administrator cannot recoup any expenses that the Administrator has previously waived. 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. For the three and six months ended June 30, 2014, approximately \$357 and \$747, respectively, of indirect administrative expenses were included in administrative expenses of which \$58 and \$448, respectively, of indirect administrative expenses were waived by the Administrator. As of June 30, 2015 and December 31, 2014, approximately \$324 and \$326, 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 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.

Table of Contents

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

The maximum amount of revolving borrowings available under the Holdings Credit Facility is \$495,000, which is the aggregate of the \$280,000 previously available under the Predecessor Holdings Credit Facility (as defined below) and the \$215,000 previously available under the SLF Credit Facility (as defined below). Under the Holdings Credit Facility, NMF Holdings is permitted to borrow up to 25.0%, 45.0% or 70.0% of the purchase price of pledged assets, subject to approval by the 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 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).

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

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, 2015 and the Predecessor Holdings Credit Facility for the three and six months ended June 30, 2014.

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Interest expense	\$ 2,458	\$ 1,648	\$ 5,351	\$ 3,340
Non-usage fee	\$ 151	\$ 92	\$ 207	\$ 151
Amortization of financing costs	\$ 402	\$ 219	\$ 799	\$ 421
Weighted average interest rate	2.6%	2.9%	2.6%	2.9%
Effective interest rate	3.2%	3.5%	3.1%	3.4%
Average debt outstanding	\$ 374,180	\$ 224,660	\$ 411,631	\$ 228,728

Table of Contents

As of June 30, 2015 and December 31, 2014, the outstanding balance on the Holdings Credit Facility was \$359,858 and \$468,108, respectively, and NMF Holdings was in compliance with the applicable covenants in the 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.

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 three and six months ended June 30, 2015 and June 30, 2014.

	Three months ended		Six months ended	
	June 30, 2015(1)	June 30, 2014	June 30, 2015(1)	June 30, 2014
Interest expense	\$	\$ 1,212	\$	\$ 2,413
Non-usage fee	\$	\$ (2)	\$	\$ (2)
Amortization of financing costs	\$	\$ 219	\$	\$ 434
Weighted average interest rate	%	2.2%	%	2.2%
Effective interest rate	%	2.7%	%	2.7%
Average debt outstanding	\$	\$ 215,000	\$	\$ 214,996

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

(1) Not applicable, as the SLF Credit Facility merged with and into the Holdings Credit Facility on December 18, 2014.

(2) For the three and six months ended June 30, 2014, the total non-usage fee was less than \$1.

As of December 31, 2014, the SLF Credit Facility had merged with the Holdings Credit Facility.

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 and Goldman Sachs Bank USA as the Administrative Agent and Collateral Agent, and Goldman Sachs Bank USA, Morgan Stanley, 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 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.

Table of Contents

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% (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, 2015 and June 30, 2014.

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Interest expense	\$ 454	\$	\$ 666	\$
Non-usage fee	\$ 13	\$ 14	\$ 59	\$ 14
Amortization of financing costs	\$ 121	\$ 15	\$ 182	\$ 15
Weighted average interest rate	2.7%	%	2.7%	%
Effective interest rate	3.5%	%	3.7%	%
Average debt outstanding	\$ 67,108	\$	\$ 49,507	\$

As of June 30, 2015 and December 31, 2014, the outstanding balance on the NMFC Credit Facility was \$38,000 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.

The following table summarizes certain key terms related to the convertible features of the Company's *Convertible Notes* as of June 30, 2015.

	June 30, 2015
Initial conversion premium	12.5%
Initial conversion rate(1)	62.7746
Initial conversion price	\$ 15.93
Conversion premium at June 30, 2015	11.7%
Conversion rate at June 30, 2015(1)(2)	63.2794
Conversion price at June 30, 2015(2)(3)	\$ 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 June 30, 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.

Table of Contents

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 more reflected in Note 11, *Earnings Per Share*, the issuance is considered part of the if-converted method for calculation of diluted earnings per share.

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

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

The following table summarizes the interest expense and amortization of financing costs incurred on the Convertible Notes for the three and six months ended June 30, 2015 and June 30, 2014.

	June 30, 2015		June 30, 2014	
Interest expense	\$	1,437	\$	447
Amortization of financing costs	\$	186	\$	57
Effective interest rate		5.7%		5.7%

As of June 30, 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.

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.

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

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, 2015 and December 31, 2014, SBIC LP had regulatory capital of \$55,398 and \$42,168, respectively, and SBA-guaranteed debentures outstanding of \$55,000 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 June 30, 2015.

Issuance Date	Maturity Date	Debenture Amount	Interest Rate	SBA Annual Charge
Fixed SBA-guaranteed debentures				
March 25, 2015	March 1, 2025	\$ 37,500	2.517%	0.355%
Interim SBA-guaranteed debentures				
	September 2025 (1)	17,500	0.639%	0.355%
Total SBA-guaranteed debentures		\$ 55,000		

(1) Estimated maturity date as interim SBA-guaranteed debentures are expected to pool in September 2015.

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.

Table of Contents

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, 2015 and June 30, 2014.

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014(1)	June 30, 2015	June 30, 2014(1)
Interest expense	\$ 293	\$	\$ 393	\$
Amortization of financing costs	\$ 39	\$	\$ 70	\$
Weighted average interest rate	2.5%	%	1.9%	%
Effective interest rate	2.8%	%	2.2%	%
Average debt outstanding	\$ 47,115	\$	\$ 42,334	\$

(1) Not applicable, as SBIC LP did not have any outstanding SBA-guaranteed debentures for the three and six months ended June 30, 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 requirements, including making investments in SBA-eligible businesses, investing at least 25.0% of its investment capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, regulating the types of financing, prohibiting investments in small businesses with certain characteristics or in certain industries and requiring capitalization thresholds that limit distributions to the Company. SBIC LP is subject to an annual periodic examination by an SBA examiner to determine SBIC LP's compliance with the relevant SBA regulations and an annual financial audit of its financial statements that are prepared on a basis of accounting other than GAAP (such as ASC 820) by an independent auditor. As of June 30, 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 as a RIC, among other things, the Company is required to timely distribute to its

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

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, 2015, the Company had unfunded commitments on revolving credit facilities of \$7,983, outstanding bridge financing commitments of \$20,000 and other future funding commitments of \$8,525. 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, 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 Consolidated Schedule of Investments.

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

Table of Contents

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

The Company may from time to time enter into financing commitment letters. As of June 30, 2015 and December 31, 2014, the Company had commitment letters to purchase debt investments in an aggregate par amount of \$13,000 and \$0, respectively, which could require funding in the future.

Note 10. Net Assets

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

	Common Stock Shares	Common Stock Par Amount	Paid in Capital in Excess of Par	Undistributed Net Investment Income	Accumulated Undistributed Net Realized Gains (Losses)	Net Unrealized Appreciation (Depreciation)	Total Net Assets
Balance at December 31, 2014	57,997,890	\$ 580	\$ 817,129	\$ 2,530	\$ 14,131	\$ (32,200)	\$ 802,170
Issuances of common stock	163,931	2	2,382				2,384
Deferred offering costs			59				59
Dividends declared				(39,465)			(39,465)
Net increase (decrease) in net assets resulting from operations				39,315	(13,471)	17,334	43,178
Balance at June 30, 2015	58,161,821	\$ 582	\$ 819,570	\$ 2,380	\$ 660	\$ (14,866)	\$ 808,326

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, 2015 and June 30, 2014:

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Earnings per share - basic				
Numerator for basic earnings per share:	\$ 20,264	\$ 23,662	\$ 43,178	\$ 47,110
Denominator for basic weighted average share:	58,076,552	51,595,684	58,037,868	49,343,462
Basic earnings per share:	\$ 0.35	\$ 0.46	\$ 0.74	\$ 0.95

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

Earnings per share diluted(1)

Numerator for increase in net assets per share	\$	20,264	\$	23,662	\$	43,178	\$	47,110
Adjustment for interest on Convertible Notes and incentive fees, net		1,150		358		2,300		358
Numerator for diluted earnings per share:	\$	21,414	\$	24,020	\$	45,478	\$	47,468
Denominator for basic weighted average share		58,076,552		51,595,684		58,037,868		49,343,462
Adjustment for dilutive effect of Convertible Notes		7,236,945		2,697,240		7,228,063		1,356,071
Denominator for diluted weighted average share		65,313,497		54,292,924		65,265,931		50,699,533
Diluted earnings per share	\$	0.33	\$	0.44	\$	0.70	\$	0.94

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

Table of Contents**Note 12. Financial Highlights**

The following information sets forth the financial highlights for the Company for the six months ended June 30, 2015 and June 30, 2014.

	Six months ended	
	June 30, 2015	June 30, 2014
Per share data(1):		
Net asset value, January 1, 2015 and January 1, 2014, respectively	\$ 13.83	\$ 14.38
Net investment income	0.68	0.21
Net realized and unrealized gains (losses)	0.07	0.09
Net increase (decrease) in net assets resulting from operations allocated from NMF Holdings:		
Net investment income(2)		0.46
Net realized and unrealized gains (losses)(2)		0.19
Total net increase	0.75	0.95
Dividends declared to stockholders from net investment income	(0.68)	(0.67)
Dividends declared to stockholders from net realized gains		(0.01)
Net asset value, June 30, 2015 and June 30, 2014, respectively	\$ 13.90	\$ 14.65
Per share market value, June 30, 2015 and June 30, 2014, respectively	\$ 14.49	\$ 14.86
Total return based on market value(3)	1.58%	3.43%
Total return based on net asset value(4)	5.48%	5.87%
Shares outstanding at end of period	58,161,821	52,062,238
Average weighted shares outstanding for the period	58,037,868	49,343,462
Average net assets for the period	\$ 807,394	\$ 724,234
Ratio to average net assets(5):		
Net investment income	9.82%	9.29%
Total expenses, before waivers/reimbursements	9.53%	8.81%
Total expenses, net of waivers/reimbursements	8.77%	8.58%
Average debt outstanding Holdings Credit Facility(6)	\$ 411,631	\$ 226,905
Average debt outstanding SLF Credit Facility(6)		213,141
Average debt outstanding Convertible Notes(7)	115,000	115,000
Average debt outstanding NMFC Credit Facility	49,507	
Average debt outstanding SBA-guaranteed debentures	42,334	
Asset coverage ratio(8)	257.61%	234.23%
Portfolio turnover(9)	14.01%	11.39%

(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) For the six months ended June 30, 2014, per share data is based on the summation of the per share results of operations items over the outstanding shares for the period in which the respective line items were realized or earned.

(3) 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.

(4) 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.

(5) Ratio to average net assets for the six months ended June 30, 2015 and June 30, 2014, is based on the summation of the results of operations items over the net assets for the period in which the respective line items were realized or earned. For the six months ended June 30, 2014, the Company is reflecting its net investment income and expenses as well as its proportionate share of the Predecessor Operating Company's net investment income and expenses.

Table of Contents

(6) For the six months ended June 30, 2014, average debt outstanding represents the Company's proportionate share of the Predecessor Operating Company's average debt outstanding as well as the Company's average debt outstanding. The average debt outstanding for the six months ended June 30, 2014 at the Holdings Credit Facility and SLF Credit Facility was \$228,728 and \$214,996, respectively.

(7) For the six months ended June 30, 2014, average debt outstanding represents the period from June 3, 2014 (issuance of the Convertible Notes) to June 30, 2014.

(8) 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.

(9) For the six months ended June 30, 2014, portfolio turnover represents the investment activity of the Predecessor Operating Company and the Company.

Note 13. Recent Accounting Standards Updates

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers Topic 606 Summary and Amendments that Create Revenue from Contracts with Customers and Other Assets and Deferred Costs* (ASU 2014-09). ASU 2014-09 establishes a comprehensive and converged standard on revenue recognition to enable financial statement users to better understand and consistently analyze an entity's revenue across industries, transactions and geographies. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new guidance also specifies the accounting for certain costs to obtain or fulfill a contract with a customer. The new guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. Qualitative and quantitative information is required to be disclosed about: (1) contracts with customers, (2) significant judgments and changes in judgments, and (3) assets recognized from costs to obtain or fulfill a contract. The new guidance will apply to all entities. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. Early application is not permitted. The Company is in the process of evaluating the impact that this guidance will have on its consolidated financial statements and disclosures.

In June 2014, the FASB issued Accounting Standards Update No. 2014-11, *Transfers and Servicing Topic 860 Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures* (ASU 2014-11). ASU 2014-11 changes the accounting for repurchase- and resale-to-maturity agreements by requiring that such agreements be recognized as financing arrangements, and requires that a transfer of a financial asset and a repurchase agreement entered into contemporaneously be accounted for separately. ASU 2014-11 requires additional disclosures about certain transferred financial assets accounted for as sales and certain securities financing transactions. The accounting changes and additional disclosures about certain transferred financial assets accounted for as sales are effective for the first interim and annual reporting periods beginning after December 15, 2014. The additional disclosures for securities financing transactions are required for annual reporting periods beginning after December 15, 2014 and for interim reporting periods beginning after March 15, 2015. The adoption of ASU 2014-11

does not have a material impact on the Company's consolidated financial statements and disclosures.

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 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 will be effective for all public entities for interim and annual reporting periods beginning after December 15, 2015. Earlier adoption is permitted. The Company is in the process of evaluating the impact that this guidance will have on its consolidated financial statements and disclosures.

Note 14. Subsequent Events

On August 4, 2015, the Company's board of directors declared a third quarter 2015 distribution of \$0.34 per share payable on September 30, 2015 to holders of record as of September 16, 2015.

Table of Contents

Deloitte & Touche LLP

30 Rockefeller Plaza
New York, NY 10112
USA

Tel: 212 436 2000
Fax: 212 436 5000
www.deloitte.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Boards 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, 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for the three and six month periods ended June 30, 2015 and 2014. 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 as of December 31, 2014, 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 March 2, 2015, we expressed an unqualified

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

opinion on those financial statements and included an explanatory paragraph relating to the restructuring that occurred in 2014.

In our opinion, the information set forth in the statement of assets and liabilities of New Mountain Finance Corporation as of December 31, 2014, is fairly stated, in all material respects, in relation to the statement of assets and liabilities of New Mountain Finance Corporation as of December 31, 2014, from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

August 5, 2015

Table of Contents

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

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

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

Forward-Looking Statements

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

- statements concerning the impact of a protracted decline in the liquidity of credit markets;
- the general economy, including interest and inflation rates, and its impact on the industries in which the Company invests;
- the ability of the Company's portfolio companies to achieve their objectives;
- the Company's ability to make investments consistent with its investment objectives, including with respect to the size, nature and terms of its investments;
- the ability of New Mountain Finance Advisers BDC, L.L.C. (the Investment Adviser) or its affiliates to attract and retain highly talented professionals;
- actual and potential conflicts of interest with the Investment Adviser and other affiliates of New Mountain Capital Group, L.L.C.; and

- the risk factors set forth in *Item 1A. Risk Factors* contained in our annual report on Form 10-K for the year ended December 31, 2014.

Forward-looking statements are identified by their use of such terms and phrases such as anticipate, believe, continue, could, estimate, expect, intend, may, plan, potential, project, seek, should, target, will, would or similar expressions. Actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in *Item 1A. Risk Factors* contained in our annual report on Form 10-K for the year ended December 31, 2014.

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

Overview

NMFC 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).

Table of Contents

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.

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

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

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

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.

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

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

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.

(1) Includes amounts committed, not all of which have been drawn down and invested to-date, as of June 30, 2015, as well as amounts called and returned since inception.

Table of Contents

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, 2015, NMFC raised approximately \$374.6 million in net proceeds from additional offerings of common stock and issued shares of its common stock valued at approximately \$288.4 million 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 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 necessary stockholder consent to authorize the board of directors of AIV Holdings to withdraw AIV Holdings' election to be regulated as a BDC, the withdrawal was filed and became effective upon receipt by the SEC of AIV Holdings' notification of withdrawal on Form N-54C on April 15, 2014. The board of directors of AIV Holdings believed that AIV Holdings met the requirements for filing the notification to withdraw its election to be regulated as a BDC, upon the receipt of the necessary stockholder consent. After the notification of withdrawal of AIV Holdings' BDC election was filed with the SEC, AIV Holdings was no longer subject to the regulatory provisions of the 1940 Act applicable to BDCs generally, including regulations related to insurance, custody, composition of its board of directors, affiliated transactions and any compensation arrangements.

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

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

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

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.

Table of Contents

Current Organization

During the six months ended June 30, 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., 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 Association (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, 2015.

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

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

The Company's investment objective is to generate current income and capital appreciation through the sourcing and origination of debt securities at all levels of the capital structure, including first and second lien debt, notes, bonds and mezzanine securities. In some cases, the Company's investments may also include equity interests. The primary focus is in the debt of defensive growth companies, which are defined as generally exhibiting the following characteristics: (i) sustainable secular growth drivers, (ii) high barriers to competitive entry, (iii) high free cash flow after capital expenditure and working capital needs, (iv) high returns on assets and (v) niche market dominance. Similar to the Company, SBIC LP's investment objective is to generate current income and capital appreciation under the investment criteria used by the Company, however, SBIC LP's investments must be SBA eligible companies. The Company's portfolio may be concentrated in a limited number of industries. As of June 30, 2015, the Company's top five industry concentrations were software, business services, education, federal services and distribution & logistics.

Table of Contents

As of June 30, 2015, the Company's net asset value was \$808.3 million and its portfolio had a fair value of approximately \$1,308.9 million in 65 portfolio companies, with a weighted average Yield to Maturity at Cost of approximately 10.8%. This Yield to Maturity at Cost (Yield to Maturity at Cost) calculation assumes that all investments, including secured collateralized agreements, not on non-accrual are purchased at the adjusted cost on the quarter end date and held until their respective maturities with no prepayments or losses and exited at par at maturity. Adjusted cost reflects the GAAP cost for post-IPO investments and a stepped up cost basis of pre-IPO investments (assuming a step-up to fair market value occurred on the IPO date). This calculation excludes the impact of existing leverage. Yield to Maturity at Cost uses the London Interbank Offered Rate (LIBOR) curves at each quarter's end date. The actual yield to maturity may be higher or lower due to the future selection of the LIBOR contracts by the individual companies in the Company's portfolio or other factors.

Recent Developments

On August 4, 2015, the Company's board of directors declared a third quarter 2015 distribution of \$0.34 per share payable on September 30, 2015 to holders of record as of September 16, 2015.

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

The Company 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 *Borrowings* for additional information on the Company's credit facilities. The Company is an investment company following accounting and reporting guidance as described in Accounting Standards Codification Topic 946, *Financial Services Investment Companies*, (ASC 946). 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 is 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 is 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.

Valuation and Leveling of Portfolio Investments

At all times consistent with GAAP and the 1940 Act, the Company conducts a valuation of assets, which impacts its net asset value.

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 its portfolio investments on a quarterly basis in good faith, including investments that are not publicly traded, those whose market prices are not readily available and any other situation where its portfolio investments require a fair value determination. Security transactions are accounted for on a trade date basis. The Company's quarterly valuation procedures are set forth in more detail below:

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

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

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

Table of Contents

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;

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.

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

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.

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 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 Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* (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);

Table of Contents

- 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 (Levels I and II) and unobservable (Level III). 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 (Levels II and III) and unobservable inputs (Level III).

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, 2015:

(in thousands)	Total	Level I	Level II	Level III
First lien	\$ 578,748	\$	\$ 379,283	\$ 199,465
Second lien	536,409		468,542	67,867
Subordinated	92,516		37,224	55,292
Equity and other	101,199	281	235	100,683
Total investments	\$ 1,308,872	\$ 281	\$ 885,284	\$ 423,307

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.

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. 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 portfolio company enterprise value. Significant increases or decreases in the multiple will result in an increase or decrease in enterprise value, resulting in an increase or decrease in the fair value estimate of the investment. In applying the market based approach as of June 30, 2015, the Company used the relevant EBITDA multiple ranges set forth in the table below to determine the enterprise value of investments in 17 of its portfolio companies. The Company believes this was a reasonable range in light of current comparable company trading levels and the specific companies involved.

Table of Contents

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, 2015, the Company used the discount ranges set forth in the table below to value investments in 18 of its portfolio companies.

(in thousands)				Range		Weighted
Type	Fair Value	Approach	Unobservable Input	Low	High	Average
First lien	\$ 199,465	Market approach	EBITDA multiple	5.0x	14.0x	9.0x
		Income approach	Discount rate	7.8%	14.4%	10.2%
Second lien	67,867	Market approach	EBITDA multiple	8.5x	13.5x	10.6x
		Income approach	Discount rate	11.0%	13.0%	11.7%
		Other	N/A(1)	N/A(1)	N/A(1)	N/A(1)
Subordinated	55,292	Market approach	EBITDA multiple	5.0x	12.5x	9.0x
		Income approach	Discount rate	8.5%	17.8%	14.5%
Equity and other	100,683	Market approach	EBITDA multiple	3.0x	12.0x	6.7x
		Income approach	Discount rate	8.0%	19.1%	13.7%
		Black Scholes analysis	Expected life in years	10.8	10.8	10.8
			Volatility	27.5%	27.5%	27.5%
			Discount rate	2.4%	2.4%	2.4%
	\$ 423,307					

(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 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 is capitalized with \$93.0 million of capital commitments, \$275.0 million of debt from a revolving credit facility and is managed by the Company. The Company's 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, 2015, SLP I had total investments with an aggregate fair value of approximately

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

\$350.7 million, debt outstanding of \$256.1 million and capital that had been called and funded of \$93.0 million. The Company's investment in SLP I is disclosed on the Company's Consolidated Schedule of Investments as of June 30, 2015.

Table of Contents

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. For the three and six months ended June 30, 2015, the Company 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, 2014, the Company earned approximately \$4 thousand and \$4 thousand, respectively, in management fees related to SLP I which is included in other income. As of June 30, 2015 and December 31, 2014, approximately \$0.3 million and \$0.5 million, respectively, of management fees related to SLP I was included in receivable from affiliates. For the three and six months ended June 30, 2015, the Company earned approximately \$0.9 million and \$1.8 million, respectively, of dividend income related to SLP I, which is included in dividend income. The Company earned no dividend income related to SLP I during the three and six months ended June 30, 2014. As of June 30, 2015 and December 31, 2014, approximately \$0.9 million and \$0.8 million, respectively, of dividend income related to SLP I was included in interest and dividend receivable.

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.

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, 2015 and December 31, 2014, the Company held one collateralized agreement to resell with a carrying value of \$30.0 million, collateralized by a second lien bond in Northstar GOM Holdings Group LLC with a fair value of \$30.0 million and guaranteed by a private hedge fund with approximately \$800.0 million of assets under management as of June 30, 2015. The private hedge fund has the option to repurchase the collateral from the Company at the par value of the collateralized agreement within a year. The collateralized agreement earned interest at a rate of 15.0% per annum as of June 30, 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 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, 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

Table of Contents

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 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 are 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. is 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. includes 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 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 their investment in the Predecessor Operating Company.

Monitoring of Portfolio Investments

The Company monitors the performance and financial trends of its portfolio companies on at least a quarterly basis. The Company attempts to identify any developments within the portfolio company, the industry or the macroeconomic environment that may alter any material element of its original investment strategy.

The Company uses an investment rating system to characterize and monitor the credit profile and expected level of returns on each investment in the portfolio. The Company uses 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 the Company will not recoup its original cost basis in the investment and may realize a substantial loss upon exit.

The following table shows the distribution of the Company's investments on the 1 to 4 investment rating scale at fair value as of June 30, 2015:

(in millions) Investment Rating	As of June 30, 2015			
	Par Value(1)	Percent	Fair Value	Percent
Investment Rating 1	\$ 208.2	16.6%	\$ 218.3	16.7%
Investment Rating 2	1,008.2	80.3%	1,063.9	81.3%
Investment Rating 3	37.6	3.0%	26.3	2.0%
Investment Rating 4	1.8	0.1%	0.4	%
	\$ 1,255.8	100.0%	\$ 1,308.9	100.0%

(1) Excludes shares and warrants.

Table of Contents

As of June 30, 2015, all investments in the Company's portfolio had an Investment Rating of 1 or 2 with the exception of four portfolio company names; three portfolio companies with an Investment Rating of 3 and one portfolio company with an Investment Rating of 4.

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 \$30.8 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 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 \$31.6 million, an aggregate fair value of \$16.4 million and total unearned interest income for the three and six months ended June 30, 2015 of \$0.4 million and \$0.8 million, respectively. The extinguishment resulted in a realized loss of \$15.2 million. Post restructuring, the Company's investments in Edmentum have been restored to full accrual status. As of June 30, 2015, the Company's investments in Edmentum have an aggregate cost basis of \$23.1 million and an aggregate fair value of \$22.8 million.

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 \$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 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 \$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, the Company's investments in EDMC are income producing. As of June 30, 2015, the Company's investments in EDMC have an aggregate cost basis of \$1.4 million and an aggregate fair value of \$1.2 million.

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 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 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 \$52.9 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, the Company's investments in UniTek have been restored to full accrual status. As of June 30, 2015, the Company's investments in UniTek have an aggregate cost basis of \$40.4 million and an aggregate fair value of \$47.2 million.

As of June 30, 2015, the Company's 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, 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 payments for the quarter then ended and uncertainty about its ability to pay such amounts in the future. As of June 30, 2015, the Company's 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 total unearned interest income of \$0.1 million and \$0.2 million for the three and six months then ended. For the three and six months ended June 30, 2014, total unearned interest income was \$0.1 million and \$0.2 million, respectively. As of December 31, 2014, the Company's investment had an aggregate cost basis of \$1.6 million and an aggregate fair value of \$0.4 million. As of June 30, 2015 and December 31, 2014, unrealized gains (losses) include a fee that the Company would receive upon maturity of the two super priority first lien debt investments.

Portfolio and Investment Activity

The fair value of the Company's investments was approximately \$1,308.9 million in 65 portfolio companies at June 30, 2015 and approximately \$1,424.7 million in 71 portfolio companies at December 31, 2014.

Table of Contents

The following table shows the Company's portfolio and investment activity for the six months ended June 30, 2015 and June 30, 2014:

(in millions)	Six months ended	
	June 30, 2015	June 30, 2014(1)
New investments in 14 and 23 portfolio companies, respectively	\$ 190.0	\$ 317.0
Debt repayments in existing portfolio companies	262.8	62.7
Sales of securities in 12 and 8 portfolio companies, respectively	52.4	75.8
Change in unrealized appreciation on 37 and 36 portfolio companies, respectively	48.6	17.3
Change in unrealized depreciation on 39 and 32 portfolio companies, respectively	(30.7)	(10.5)

(1) For the six months ended June 30, 2014, amounts represent the investment activity of the Predecessor Operating Company through and including May 7, 2014 and the investment activity of the Company from May 8, 2014 through June 30, 2014.

At June 30, 2015 and June 30, 2014, the Company's weighted average Yield to Maturity at Cost was approximately 10.8% and 10.7%, respectively.

Recent Accounting Standards Updates

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers Topic 606 Summary and Amendments that Create Revenue from Contracts with Customers and Other Assets and Deferred Costs* (ASU 2014-09). ASU 2014-09 establishes a comprehensive and converged standard on revenue recognition to enable financial statement users to better understand and consistently analyze an entity's revenue across industries, transactions and geographies. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new guidance also specifies the accounting for certain costs to obtain or fulfill a contract with a customer. The new guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. Qualitative and quantitative information is required to be disclosed about: (1) contracts with customers, (2) significant judgments and changes in judgments, and (3) assets recognized from costs to obtain or fulfill a contract. The new guidance will apply to all entities. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. Early application is not permitted. The Company is in the process of evaluating the impact that this guidance will have on its consolidated financial statements and disclosures.

In June 2014, the FASB issued Accounting Standards Update No. 2014-11, *Transfers and Servicing Topic 860 Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures* (ASU 2014-11). ASU 2014-11 changes the accounting for repurchase- and resale-to-maturity agreements by requiring that such agreements be recognized as financing arrangements, and requires that a transfer of a financial asset and a repurchase agreement entered into contemporaneously be accounted for separately. ASU 2014-11 requires additional disclosures about certain transferred financial assets accounted for as sales and certain securities financing transactions. The accounting changes

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

and additional disclosures about certain transferred financial assets accounted for as sales are effective for the first interim and annual reporting periods beginning after December 15, 2014. The additional disclosures for securities financing transactions are required for annual reporting periods beginning after December 15, 2014 and for interim reporting periods beginning after March 15, 2015. The adoption of ASU 2014-11 does not have a material impact on the Company's consolidated financial statements and disclosures.

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 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 will be effective for all public entities for interim and annual reporting periods beginning after December 15, 2015. Earlier adoption is permitted. The Company is in the process of evaluating the impact that this guidance will have on its consolidated financial statements and disclosures.

Table of Contents**Results of Operations**

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, 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. The Company tracks the transferred (or fair market) value of each of the Predecessor Operating Company's investments as of the time of the IPO and, for purposes of the incentive fee calculation, adjusts income as if each investment was purchased at the date of the IPO (or stepped up to fair market value). The respective Adjusted Net Investment Income (defined as net investment income adjusted to reflect income as if the cost basis of investments held at the IPO date had stepped-up to fair market value as of the IPO date) is used in calculating both the incentive fee and dividend payments. See *Item 1. Financial Statements Note 5, Agreements* for additional details.

The following table for the Company for the three months ended June 30, 2015 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, 2015	Stepped-up Cost Basis Adjustments	Incentive Fee Adjustments(1)	Adjusted Three Months Ended June 30, 2015
Investment income				
Interest income	\$ 35,470	\$ (33)	\$	\$ 35,437
Dividend income	1,795			1,795
Other income	640			640
Total investment income(2)	37,905	(33)		37,872
Total expenses pre-incentive fee(3)	12,586			12,586
Pre-Incentive Fee Net Investment Income	25,319	(33)		25,286
Incentive fee	5,066		(9)	5,057
Post-Incentive Fee Net Investment Income	20,253	(33)	9	20,229
Net realized losses on investments(4)	(13,338)	(47)		(13,385)
Net change in unrealized appreciation (depreciation) of investments(4)	13,484	80		13,564
Provision for taxes	(135)			(135)
Capital gains incentive fees			(9)	(9)
Net increase in net assets resulting from operations	\$ 20,264			\$ 20,264

(1) For the three months ended June 30, 2015, the Company incurred total incentive fees of \$5.1 million, of which \$9 thousand related to capital gains incentive fees on a hypothetical liquidation basis.

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

(3) Includes management fee waivers of \$1.2 million. No expense waivers and reimbursements were noted for the three months ended June 30, 2015.

(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.

For the three months ended June 30, 2015, the Company had a \$33 thousand adjustment to interest income for amortization, an increase of \$47 thousand to net realized losses 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, 2015, total adjusted investment income of \$37.9 million consisted of approximately \$30.7 million in cash interest from investments, approximately \$1.5 million in PIK interest from investments, approximately \$2.8 million in prepayment fees, net amortization of purchase premiums and discounts of approximately \$0.5 million, approximately \$1.1 million in cash dividends from investments, \$0.7 million in PIK dividends from investments and approximately \$0.6 million in other income. The Company's Adjusted Net Investment Income was \$20.2 million for the three months ended June 30, 2015.

Table of Contents

In accordance with GAAP, for the three months ended June 30, 2015, the Company accrued \$9 thousand of 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, 2015, no actual capital gains incentive fee was owed under the Investment Management Agreement by the Company, as cumulative net Adjusted Realized Gains did not exceed cumulative Adjusted Unrealized Depreciation.

The following table for the Company for the six months ended June 30, 2015 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, 2015	Stepped-up Cost Basis Adjustments	Incentive Fee Adjustments(1)	Adjusted Six Months Ended June 30, 2015
Investment income				
Interest income	\$ 68,817	\$ (66)	\$	\$ 68,751
Dividend income	3,102			3,102
Other income	2,522			2,522
Total investment income(2)	74,441	(66)		74,375
Total expenses pre-incentive fee(3)	24,701			24,701
Pre-Incentive Fee Net Investment Income	49,740	(66)		49,674
Incentive fee	10,425		(490)	9,935
Post-Incentive Fee Net Investment Income	39,315	(66)	490	39,739
Net realized losses on investments(4)	(13,471)	(47)		(13,518)
Net change in unrealized appreciation (depreciation) of investments(4)	17,970	113		18,083
Provision for taxes	(636)			(636)
Capital gains incentive fees			(490)	(490)
Net increase in net assets resulting from operations	\$ 43,178			\$ 43,178

(1) For the six months ended June 30, 2015, the Company incurred total incentive fees of \$10.4 million, of which \$0.5 million related to capital gains incentive fees 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 \$0.4 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.

For the six months ended June 30, 2015, the Company had a \$66 thousand adjustment to interest income for amortization, an increase of \$47 thousand to net realized losses 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 six months ended June 30, 2015, total adjusted investment income of \$74.4 million consisted of approximately \$62.3 million in cash interest from investments, approximately \$2.2 million in PIK interest from investments, approximately \$3.2 million in prepayment fees, net amortization of purchase premiums and discounts of approximately \$1.1 million, approximately \$1.9 million in cash dividends from investments, \$1.2 million in PIK dividends from investments and approximately \$2.5 million in other income. The Company's Adjusted Net Investment Income was \$39.7 million for the six months ended June 30, 2015.

In accordance with GAAP, for the six months ended June 30, 2015, the Company accrued \$0.5 million of 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, 2015, no actual capital gains incentive fee was owed under the Investment Management Agreement by the Company, as cumulative net Adjusted Realized Gains did not exceed cumulative Adjusted Unrealized Depreciation.

Table of Contents**Results of Operations for the Company for the Three Months Ended June 30, 2015 and June 30, 2014***Revenue*

(in thousands)	Three Months Ended		Percentage Change
	June 30, 2015	June 30, 2014	
Interest income	\$ 35,470	\$ 18,788	
Interest income allocated from the Predecessor Operating Company		12,847	
Total interest income	35,470	31,635	12%
Dividend income	1,795	972	
Dividend income allocated from the Predecessor Operating Company		279	
Total dividend income	1,795	1,251	43%
Other income	640	709	
Other income allocated from the Predecessor Operating Company		113	
Total other income	640	822	(22)%
Total investment income	\$ 37,905	\$ 33,708	12%

The Company's total investment income increased by approximately \$4.2 million for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. The 12% increase in total investment income primarily results from an increase in interest income of approximately \$3.8 million from the three months ended June 30, 2014 to the three months ended June 30, 2015 which is attributable to larger invested balances, driven by the proceeds from the October 2014 primary offering of the Company's common stock, the Company's use of leverage from its revolving credit facilities 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 five different portfolio companies held by the Company as of March 31, 2015. In addition, the increase in dividend income during the three months ended June 30, 2015 as compared to the three months ended June 30, 2014 was primarily attributable to distributions from the Company's investment in SLP I and PIK dividend income from an equity position. The decrease in other income during the three months ended June 30, 2015 as compared to the three months ended June 30, 2014, which represents fees that are generally non-recurring in nature, was primarily attributable to lower structuring, amendment and consent fees received from portfolio companies during the three months ended June 30, 2015.

Table of Contents*Operating Expenses*

(in thousands)	Three Months Ended		Percentage Change
	June 30, 2015	June 30, 2014	
Management fee	\$ 6,198	\$ 2,742	
Management fee allocated from the Predecessor Operating Company		1,879	
Less: management fee waiver	(1,247)		
Total management fee	4,951	4,621	7%
Incentive fee	5,057	2,747	
Incentive fee allocated from the Predecessor Operating Company		1,882	
Total incentive fee	5,057	4,629	9%
Capital gains incentive fee(1)	9	763	
Capital gains incentive fee(1) allocated from the Predecessor Operating Company		523	
Total capital gains incentive fee(1)	9	1,286	NM*
Interest and other financing expenses	5,598	2,559	
Interest and other financing expenses allocated from the Predecessor Operating Company		1,408	
Total interest and other financing expenses	5,598	3,967	41%
Professional fees	909	640	
Professional fees allocated from the Predecessor Operating Company		393	
Total professional fees	909	1,033	(12)%
Administrative expenses	522	360	
Administrative expenses allocated from the Predecessor Operating Company		176	
Total administrative expenses	522	536	(3)%
Other general and administrative expenses	453	239	
Other general and administrative expenses allocated from the Predecessor Operating Company		166	
Total other general and administrative expenses	453	405	12%
Total expenses	17,499	16,477	6%
Less: expenses waived and reimbursed		(58)	NM*
Net expenses before income taxes	17,499	16,419	7%
Income tax expense	153		NM*
Net expenses after income taxes	\$ 17,652	\$ 16,419	8%

* Not meaningful.

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

The Company's total net operating expenses increased by approximately \$1.2 million for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. The Company's management fee increased by approximately \$0.3 million, net of a management fee waiver, and incentive fees increased by approximately \$0.4 million for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. The increase in management fee and incentive fee from the three months ended June 30, 2014 to the three months ended

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

June 30, 2015 was attributable to larger invested balances, driven by the proceeds from the October 2014 primary offering of NMFC's common stock and the Company's use of leverage from its revolving credit facilities and the deployment of the June 2014 proceeds from the issuance of \$115.0 million of convertible notes to originate new investments. The Company's capital gains incentive fees decreased by approximately \$1.3 million for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014, which was attributable to lower net Adjusted Realized Capital Gains (Losses) and Adjusted Unrealized Capital Appreciation (Depreciation) of investments during the period due to steady marks on the broader portfolio resulting in a minimal increase to the capital gains incentive fee for the three months ended 2015. As of June 30, 2015, no actual capital gains incentive fee would be owed under the Investment Management Agreement by the Company if the Company had ceased operations as of June 30, 2015, as cumulative net Adjusted Realized Gains did not exceed cumulative Adjusted Unrealized Depreciation.

Table of Contents

Interest and other financing expenses increased by approximately \$1.6 million during the three months ended June 30, 2015, primarily due to the Company's issuance of \$115.0 million of convertible notes and the closing of the NMFC Credit Facility (as defined below) during the second quarter of 2014 and the drawing on SBA-guaranteed debentures beginning during the fourth quarter of 2014. The Company's total professional fees, total administrative expenses and total other general and administrative expenses remained relatively flat for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014.

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

(in thousands)	Three Months Ended		Percentage
	June 30, 2015	June 30, 2014	Change
Net realized losses on investments	\$ (13,338)	\$ (1,067)	
Net realized gains on investments allocated from Predecessor Operating Company		5,860	
Total realized (losses) gains on investments	(13,338)	4,793	NM*
Net change in unrealized appreciation (depreciation) of investments	13,484	5,708	
Net change in unrealized appreciation (depreciation) of investments allocated from Predecessor Operating Company		(3,742)	
Total change in unrealized appreciation (depreciation) of investments	13,484	1,966	NM*
Provision for taxes	(135)	(386)	(65)%
Total net realized gains (losses) and net change in unrealized appreciation (depreciation) of investments	\$ 11	\$ 6,373	NM*

* Not meaningful.

The Company's net realized losses and unrealized gains resulted in a minimal net gain for the three months ended June 30, 2015 compared to the net realized and unrealized gains resulting in a net gain of approximately \$6.4 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 minimal gain for the three months ended June 30, 2015 was primarily driven by the overall decrease in the market prices of the Company's 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. The net gain for the three months ended June 30, 2014 was primarily driven by the overall increase in the market prices of the Company's investments during the period and driven by sales or repayments of investments with fair values in excess of March 31, 2014 valuations, resulting in net realized gains being greater than the reversal of the cumulative net unrealized gains for those investments. In addition, net realized gains were primarily attributable to a gain of \$5.6 million from the sale of the Company's warrant investments in one portfolio company which was offset by a trading loss of approximately \$0.8 million. The provision for income taxes was attributable to three equity investments that are held as of June 30, 2015 in three of the Company's corporate subsidiaries.

Table of Contents**Results of Operations for the Company for the Six Months Ended June 30, 2015 and June 30, 2014***Revenue*

(in thousands)	Six Months Ended		Percentage Change
	June 30, 2015	June 30, 2014	
Interest income	\$ 68,817	\$ 18,788	
Interest income allocated from the Predecessor			
Operating Company		40,515	
Total interest income	68,817	59,303	16%
Dividend income	3,102	972	
Dividend income allocated from the Predecessor			
Operating Company		2,368	
Total dividend income	3,102	3,340	(7)%
Other income	2,522	709	
Other income allocated from the Predecessor			
Operating Company		795	
Total other income	2,522	1,504	68%
Total investment income	\$ 74,441	\$ 64,147	16%

The Company's total investment income increased by approximately \$10.3 million for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014. The 16% increase in total investment income primarily results from an increase in interest income of approximately \$9.5 million from the six months ended June 30, 2014 to the six months ended June 30, 2015 which is attributable to larger invested balances, driven by the proceeds from the October 2014 primary offering of the Company's common stock, the Company's use of leverage from its revolving credit facilities 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 seven different portfolio companies held by the Company as of December 31, 2014. The increase in other income of approximately \$1.0 million during the six months ended June 30, 2015 as compared to the six months ended June 30, 2014, which represents fees that are generally non-recurring in nature, was primarily attributable to structuring, amendment and consent fees received from ten different portfolio companies and management fees from a non-controlled affiliated portfolio company. The decrease in dividend income during the six months ended June 30, 2015 as compared to the six months ended June 30, 2014 was primarily attributable to a large non-recurring distribution from one of the Predecessor Operating Company's warrant investments during the three months ended March 31, 2014.

Table of Contents*Operating Expenses*

(in thousands)	Six Months Ended		Percentage Change
	June 30, 2015	June 30, 2014	
Management fee	\$ 12,666	\$ 2,742	
Management fee allocated from the Predecessor Operating Company		5,983	
Less: management fee waiver	(2,629)		
Total management fee	10,037	8,725	15%
Incentive fee	9,935	2,747	
Incentive fee allocated from the Predecessor Operating Company		6,248	
Total incentive fee	9,935	8,995	10%
Capital gains incentive fee(1)	490	763	
Capital gains incentive fee(1) allocated from the Predecessor Operating Company		2,024	
Total capital gains incentive fee(1)	490	2,787	(82)%
Interest and other financing expenses	11,075	2,559	
Interest and other financing expenses allocated from the Predecessor Operating Company		4,764	
Total interest and other financing expenses	11,075	7,323	51%
Professional fees	1,648	640	
Professional fees allocated from the Predecessor Operating Company		1,238	
Total professional fees	1,648	1,878	(12)%
Administrative expenses	1,157	360	
Administrative expenses allocated from the Predecessor Operating Company		761	
Total administrative expenses	1,157	1,121	3%
Other general and administrative expenses	882	239	
Other general and administrative expenses allocated from the Predecessor Operating Company		555	
Total other general and administrative expenses	882	794	11%
Total expenses	35,224	31,623	11%
Less: expenses waived and reimbursed	(400)	(823)	(51)%
Net expenses before income taxes	34,824	30,800	13%
Income tax expense	302		NM*
Net expenses after income taxes	\$ 35,126	\$ 30,800	14%

* Not meaningful.

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

The Company's total net operating expenses increased by approximately \$4.3 million for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014. The Company's management fee increased by approximately \$1.3 million, net of a management fee waiver, and incentive fees increased by approximately \$0.9 million for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014. The increase in management fee and incentive fee from the six months ended June 30, 2014 to the six months ended June 30, 2015 was

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

attributable to larger invested balances, driven by the proceeds from the October 2014 primary offering of NMFC's common stock and the Company's use of leverage from its revolving credit facilities and the deployment of the June 2014 proceeds from the issuance of \$115.0 million of convertible notes to originate new investments. The Company's capital gains incentive fees decreased by approximately \$2.3 million for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014, which was attributable to lower net Adjusted Realized Capital Gains (Losses) and Adjusted Unrealized Capital Appreciation (Depreciation) of investments during the period due to lower marks on the broader portfolio. As of June 30, 2015, no actual capital gains incentive fee would be owed under the Investment Management Agreement by the Company if the Company had ceased operations as of June 30, 2015, as cumulative net Adjusted Realized Gains did not exceed cumulative Adjusted Unrealized Depreciation.

Table of Contents

Interest and other financing expenses increased by approximately \$3.8 million during the six months ended June 30, 2015, primarily due to the Company's issuance of \$115.0 million of convertible notes and the closing of the NMFC Credit Facility (as defined below) during the second quarter of 2014 and the drawing on SBA-guaranteed debentures beginning during the fourth quarter of 2014. The Company's total professional fees, total administrative expenses and total other general and administrative expenses remained relatively flat for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014. During the six months ended June 30, 2014, the Company 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 the Company. The Company's expenses waived and reimbursed decreased by approximately \$0.4 million for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014 due to the expiration of the expense cap on March 31, 2014.

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

(in thousands)	Six Months Ended		Percentage Change
	June 30, 2015	June 30, 2014	
Net realized losses on investments	\$ (13,471)	\$ (1,067)	
Net realized gains on investments allocated from Predecessor Operating Company		8,568	
Total realized (losses) gains on investments	(13,471)	7,501	NM*
Net change in unrealized appreciation (depreciation) of investments	17,970	5,708	
Net change in unrealized appreciation (depreciation) of investments allocated from Predecessor Operating Company		940	
Total change in unrealized appreciation (depreciation) of investments	17,970	6,648	NM*
Provision for taxes	(636)	(386)	65%
Total net realized gains (losses) and net change in unrealized appreciation (depreciation) of investments	\$ 3,863	\$ 13,763	(72)%

* Not meaningful.

The Company's net realized losses and unrealized gains resulted in a net gain of approximately \$3.9 million for the six months ended June 30, 2015 compared to the net realized and unrealized gains resulting in a net gain of approximately \$13.8 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 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. The net gain for the six months ended June 30, 2014 was primarily driven by the overall increase in the market prices of the Company's investments during the period, a \$5.6 million gain from the sale of the Company's warrant investments in one portfolio company and driven by 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 three equity investments that are held as of June 30, 2015 in three of the Company's corporate subsidiaries.

Liquidity and Capital Resources

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

Since NMFC's IPO, and through June 30, 2015, NMFC raised approximately \$374.6 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. NMFC acquired from the Predecessor Operating Company units of the Predecessor Operating Company equal to the number of shares of NMFC's common stock sold in the additional offerings.

Table of Contents

The Company's 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, 2015 and December 31, 2014, the Company had cash and cash equivalents of approximately \$24.2 million and \$23.4 million, respectively. Cash provided by operating activities for the Company during the six months ended June 30, 2015 was approximately \$142.3 million and cash used in operating activities for the Company for the six months ended June 30, 2014 was approximately \$(154.6) million, which includes the activity allocated from NMF Holdings. We expect that all current liquidity needs by the Company will be met with cash flows from operations and other activities.

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

The maximum amount of revolving borrowings available under the Holdings Credit Facility is \$495.0 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 the 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 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.

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 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.

Table of Contents

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).

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, 2015 and the Predecessor Holdings Credit Facility for the three and six months ended June 30, 2014.

(in million)	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Interest expense	\$ 2.5	\$ 1.6	\$ 5.4	\$ 3.3
Non-usage fee	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.2
Amortization of financing costs	\$ 0.4	\$ 0.2	\$ 0.8	\$ 0.4
Weighted average interest rate	2.6%	2.9%	2.6%	2.9%
Effective interest rate	3.2%	3.5%	3.1%	3.4%
Average debt outstanding	\$ 374.2	\$ 224.7	\$ 411.6	\$ 228.7

As of June 30, 2015 and December 31, 2014, the outstanding balance on the Holdings Credit Facility was \$359.9 million and \$468.1 million, respectively, and NMF Holdings was in compliance with the applicable covenants in the 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 \$215.0 million. 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 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.

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

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).

The following table summarizes the interest expense, non-usage fees and amortization of financing costs incurred on the SLF Credit Facility for the three and six months ended June 30, 2015 and June 30, 2014.

(in millions)	Three months ended		Six months ended	
	June 30, 2015 ⁽¹⁾	June 30, 2014	June 30, 2015 ⁽¹⁾	June 30, 2014
Interest expense	\$	\$	1.2	\$ 2.4
Non-usage fee	\$	\$	(2)	\$ (2)
Amortization of financing costs	\$	\$	0.2	\$ 0.4
Weighted average interest rate		%	2.2%	% 2.2%
Effective interest rate		%	2.7%	% 2.7%
Average debt outstanding	\$	\$	215.0	\$ 215.0

(1) Not applicable, as the SLF Credit Facility merged with and into the Holdings Credit Facility on December 18, 2014.

(2) For the three and six months ended June 30, 2014, the total non-usage fee was less than \$50 thousand.

Table of Contents

As of December 31, 2014, the SLF Credit Facility had merged with the Holdings Credit Facility.

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 and Goldman Sachs Bank USA as the Administrative Agent and Collateral Agent, and Goldman Sachs Bank USA, Morgan Stanley, 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 \$95.0 million, 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 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% (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, 2015 and June 30, 2014.

(in millions)	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Interest expense	\$ 0.5	\$	\$ 0.7	\$
Non-usage fee	\$ (1)	\$ (2)	\$ 0.1	\$ (2)
Amortization of financing costs	\$ 0.1	\$ (2)	\$ 0.2	\$ (2)
Weighted average interest rate	2.7%	%	2.7%	%
Effective interest rate	3.5%	%	3.7%	%
Average debt outstanding	\$ 67.1	\$	\$ 49.5	\$

(1) For the three months ended June 30, 2015, the total non-usage fee was less than \$50 thousand.

(2) For the three and six months ended June 30, 2014, the total non-usage fee and amortization of financing costs were less than \$50 thousand.

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

As of June 30, 2015 and December 31, 2014, the outstanding balance on the NMFC Credit Facility was \$38.0 million and \$50.0 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, the Company closed a private offering of \$115.0 million aggregate principal amount of senior unsecured convertible notes (the *Convertible Notes*), pursuant to an indenture, dated June 3, 2014 (the *Indenture*). The *Convertible Notes* were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933. As of the first anniversary, June 3, 2015, of the *Convertible Notes*, the restrictions under Rule 144A under the Securities Act of 1933 were removed, allowing the *Convertible Notes* to be eligible and freely tradable without restrictions for resale pursuant to Rule 144(b)(1) under the Securities Act of 1933. The *Convertible Notes* bear interest at an annual rate of 5.0%, payable semi-annually in arrears on June 15 and December 15 of each year, which commenced on December 15, 2014. The *Convertible Notes* will mature on June 15, 2019 unless earlier converted or repurchased at the holder's option.

Table of Contents

The following table summarizes certain key terms related to the convertible features of the Company's Convertible Notes as of June 30, 2015.

	June 30, 2015
Initial conversion premium	12.5%
Initial conversion rate(1)	62.7746
Initial conversion price	\$ 15.93
Conversion premium at June 30, 2015	11.7%
Conversion rate at June 30, 2015(1)(2)	63.2794
Conversion price at June 30, 2015(2)(3)	\$ 15.80
Last conversion price calculation date	June 3, 2015

(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, 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 \$1.0 thousand 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 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 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 our subsidiaries and financing vehicles. The issuance is considered part of the if-converted method for calculation of diluted earnings per share.

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

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

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, 2015 and June 30, 2014.

(in millions)	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Interest expense	\$ 1.5	\$ 0.4	\$ 2.9	\$ 0.4
Amortization of financing costs	\$ 0.2	\$ 0.1	\$ 0.4	\$ 0.1
Effective interest rate	5.7%	5.7%	5.7%	5.7%

As of June 30, 2015 and December 31, 2014, 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.

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.

Table of Contents

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, 2015 and December 31, 2014, SBIC LP had regulatory capital of \$55.4 million and \$42.2 million, respectively, and SBA-guaranteed debentures outstanding of \$55.0 million and \$37.5 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 the Company's fixed-rate SBA-guaranteed debentures as of June 30, 2015.

(in millions)					SBA
Issuance Date	Maturity Date	Debt	Amount	Interest Rate	Annual Charge
Fixed SBA-guaranteed debentures					
March 25, 2015	March 1, 2025	\$	37.5	2.517%	0.355%
Interim SBA-guaranteed debentures					
	September 2025(1)		17.5	0.639%	0.355%
Total SBA-guaranteed debentures		\$	55.0		

(1) Estimated maturity date as interim SBA-guaranteed debentures are expected to pool in September 2015.

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, 2015 and June 30, 2014.

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014(1)	June 30, 2015	June 30, 2014(1)
Interest expense	\$ 0.3	\$	\$ 0.4	\$
Amortization of financing costs	\$ (2)	\$	\$ 0.1	\$
Weighted average interest rate	2.5%		1.9%	%
Effective interest rate	2.8%		2.2%	%
Average debt outstanding	\$ 47.1	\$	\$ 42.3	\$

(1) Not applicable, as SBIC LP did not have any outstanding SBA-guaranteed debentures for the three and six months ended June 30, 2014.

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

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

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

Off-Balance Sheet Arrangements

The Company may become a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of its 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, 2015 and December 31, 2014, the Company had outstanding commitments to third parties to fund investments totaling \$16.5 million and \$27.4 million, respectively, under various undrawn revolving credit facilities, delayed draw commitments or other future funding commitments.

Table of Contents

The Company 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, 2015 and December 31, 2014, the Company had commitment letters to purchase debt investments in an aggregate par amount of \$13.0 million and \$0, respectively. As of June 30, 2015 and December 31, 2014, the Company had bridge financing commitments in an aggregate par amount of \$20.0 million and \$0, respectively, which could require funding in the future.

Contractual Obligations

A summary of the Company's significant contractual payment obligations as of June 30, 2015 is as follows:

	Contractual Obligations Payments Due by Period (in millions)				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Holdings Credit Facility(1)	\$ 359.9	\$	\$	\$ 359.9	\$
Convertible Notes(2)	115.0			115.0	
SBA-guaranteed debentures (3)	55.0				55.0
NMFC Credit Facility(4)	38.0			38.0	
Total Contractual Obligations	\$ 567.9	\$	\$	\$ 512.9	\$ 55.0

(1) Under the terms of the \$495.0 million Holdings Credit Facility, all outstanding borrowings under that facility (\$359.9 million as of June 30, 2015) must be repaid on or before December 18, 2019. As of June 30, 2015, there was approximately \$135.1 million of possible capacity remaining under the Holdings Credit Facility.

(2) The \$115.0 million Convertible Notes will mature on June 15, 2019 unless earlier converted or repurchased at the holder's option.

(3) \$37.5 million of the Company's SBA-guaranteed debentures will mature on March 1, 2025 and \$17.5 million of the Company's SBA-guaranteed debentures are estimated to mature in September 2025.

(4) Under the terms of the \$95.0 million NMFC Credit Facility, all outstanding borrowings under that facility (\$38.0 million as of June 30, 2015) must be repaid on or before June 4, 2019. As of June 30, 2015, there was approximately \$57.0 million of possible capacity remaining under the NMFC Credit Facility.

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

The Company has certain contracts under which it has material future commitments. The Company has \$16.5 million of undrawn funding commitments as of June 30, 2015 related to its participation as a lender in revolving credit facilities, delayed draw commitments or other future funding commitments of the Company's portfolio companies. As of June 30, 2015, the Company had bridge financing commitments and commitment letters to purchase debt investments in an aggregate par amount of \$20.0 million and \$13.0 million, which could require funding in the future.

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 the Company 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 its 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.

Table of Contents**Distributions and Dividends**

Dividends declared and paid to stockholders of the Company for the six months ended June 30, 2015 totaled \$39.5 million.

The following table summarizes the Company's quarterly cash distributions, including dividends and returns of capital, if any, per share that have been declared by the Company's board of directors since the Company's IPO:

Fiscal Year Ended	Date Declared	Record Date	Payment Date	Per Share Amount
<i>December 31, 2015</i>				
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
				\$ 0.68
<i>December 31, 2014</i>				
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(1)
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
<i>December 31, 2013</i>				
Fourth Quarter	November 8, 2013	December 17, 2013	December 31, 2013	\$ 0.34
Third Quarter	August 7, 2013	September 16, 2013	September 30, 2013	0.34
Third Quarter	August 7, 2013	August 20, 2013	August 30, 2013	0.12(2)
Second Quarter	May 6, 2013	June 14, 2013	June 28, 2013	0.34
First Quarter	March 6, 2013	March 15, 2013	March 28, 2013	0.34
				\$ 1.48
<i>December 31, 2012</i>				
Fourth Quarter	December 27, 2012	December 31, 2012	January 31, 2013	\$ 0.14(3)
Fourth Quarter	November 6, 2012	December 14, 2012	December 28, 2012	0.34
Third Quarter	August 8, 2012	September 14, 2012	September 28, 2012	0.34
Second Quarter	May 8, 2012	June 15, 2012	June 29, 2012	0.34
Second Quarter	May 8, 2012	May 21, 2012	May 31, 2012	0.23(4)
First Quarter	March 7, 2012	March 15, 2012	March 30, 2012	0.32
				\$ 1.71
<i>December 31, 2011</i>				
Fourth Quarter	November 8, 2011	December 15, 2011	December 30, 2011	\$ 0.30
Third Quarter	August 10, 2011	September 15, 2011	September 30, 2011	0.29
Second Quarter	August 10, 2011	August 22, 2011	August 31, 2011	0.27
				\$ 0.86
Total				\$ 6.21

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

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

- (2) Special dividend related to a distribution received attributable to NMF Holdings investment in YP Equity Investors LLC.

- (3) Special dividend intended to minimize to the greatest extent possible NMFC's U.S. federal income or excise tax liability.

- (4) Special dividend related to estimated realized capital gains attributable to NMF Holdings investments in Lawson Software, Inc. and Infor Lux Bond Company.

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

Table of Contents

The Company intends to pay quarterly distributions to its stockholders and to maintain its status as a RIC. The Company intends to distribute approximately its entire portion of Adjusted Net Investment Income on a quarterly basis and substantially its entire taxable income on an annual basis, except that it may retain certain net capital gains for reinvestment.

The Company maintains an opt out dividend reinvestment plan for its common stockholders. As a result, the Company's stockholders' cash dividends will be automatically reinvested in additional shares of common stock, unless the stockholder elects to receive cash. Cash dividends reinvested in additional shares of the Company's common stock will be automatically reinvested by the Company into additional shares of the Company's common stock. See *Item 1 Financial Statements Note 2, Summary of Significant Accounting Policies* for additional details regarding the Company's dividend reinvestment plan.

Related Parties

The Company has entered into a number of business relationships with affiliated or related parties, including the following:

- The Company has entered into the Investment Management Agreement with the Investment Adviser, a wholly-owned subsidiary of New Mountain Capital. Therefore, New Mountain Capital is entitled to any profits earned by the Investment Adviser, which includes any fees payable to the Investment Adviser under the terms of the Investment Management Agreement, less expenses incurred by the Investment Adviser in performing its services under the Investment Management Agreement.
- The Company has entered into an Administration Agreement with the Administrator, a wholly-owned subsidiary of New Mountain Capital. The Administrator arranges office space for the Company and provides office equipment and administrative services necessary to conduct their respective day-to-day operations pursuant to the Administration Agreement. The Company reimburses the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations to the Company under the Administration Agreement, which includes the fees and expenses associated with performing administrative, finance, and compliance functions, and the compensation of the Company's chief financial officer and chief compliance officer and their respective staffs. 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 expense, trading expenses and management and incentive fees) had been capped at \$4.25 million 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 three and six months

ended June 30, 2015, approximately \$0.3 million and \$0.7 million, respectively, of indirect administrative expenses were included in administrative expenses, of which \$0 and \$0.4 million, respectively, were waived by the Administrator. For the three and six months ended June 30, 2014, approximately \$0.4 million and \$0.7 million, respectively, of indirect administrative expenses were included in administrative expenses, of which \$0.1 and \$0.4 million, respectively, were waived by the Administrator. As of June 30, 2015 and December 31, 2014, approximately \$0.3 million and \$0.3 million, 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 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 .

In addition, 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 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, 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.

Table of Contents**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company is subject to certain financial market risks, such as interest rate fluctuations. During the six months ended June 30, 2015, certain of the loans held in the Company's portfolio had floating interest rates. As of June 30, 2015, approximately 84.2% of investments at fair value (excluding investments on non-accrual, revolvers, delayed draws and non-interest bearing equity investments) represent floating-rate investments with a LIBOR floor (includes investments bearing prime interest rate contracts) and approximately 15.8% of investments at fair value represent fixed-rate investments. Additionally, the Company's 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 the Company's portfolio of investments held on June 30, 2015. Interest expense is calculated based on the terms of the Company's outstanding revolving credit facilities and convertible notes. For the Company's floating rate credit facilities, the Company uses the outstanding balance as of June 30, 2015. Interest expense on the Company's floating rate credit facilities are calculated using the interest rate as of June 30, 2015, adjusted for the hypothetical changes in rates, as shown below. The base interest rate case assumes the rates on the Company's portfolio investments remain unchanged from the actual effective interest rates as of June 30, 2015. These hypothetical calculations are based on a model of the investments in our portfolio, held as of June 30, 2015, and are only adjusted for assumed changes in the underlying base interest rates.

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

Change in Interest Rates	Estimated Percentage Change in Interest Income Net of Interest Expense (unaudited)
-25 Basis Points	0.73%(1)
Base Interest Rate	%
+100 Basis Points	(2.38)%
+200 Basis Points	3.58%
+300 Basis Points	10.16%

(1) Limited to the lesser of the June 30, 2015 LIBOR rates or a decrease of 25 basis points.

The Company was not exposed to any foreign currency exchange risks as of June 30, 2015.

Table of Contents

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of June 30, 2015 (the end of the period covered by this report), we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Act of 1934, as amended). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic United States Securities and Exchange Commission filings is recorded, processed, summarized and reported within the time periods specified in the United States Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

(b) Changes in Internal Controls Over Financial Reporting

Management has not identified any change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

The terms we , us , our and the Company refers to New Mountain Finance Corporation and its consolidated subsidiaries.

Item 1. Legal Proceedings

The Company, the Company's consolidated subsidiaries, the Investment Adviser and the Administrator are not currently subject to any material pending legal proceedings threatened against us as of June 30, 2015. From time to time, we may be a party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our business, financial condition or results of operations.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in *Item 1A. Risk Factors* in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results. There have been no material changes during the six months ended June 30, 2015 to the risk factors discussed in *Item 1A. Risk Factors* in our Annual Report on Form 10-K for the year ended December 31, 2014.

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

We did not engage in unregistered sales of securities during the quarter ended June 30, 2015.

Issuer Purchases of Equity Securities

For the quarter ended June 30, 2015, we did not purchase any common stock in the open market.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

(a) Exhibits

The following exhibits are filed as part of this report or hereby incorporated by reference to exhibits previously filed with the United States Securities and Exchange Commission:

Exhibit Number	Description
3.1(a)	Amended and Restated Certificate of Incorporation of New Mountain Finance Corporation(2)
3.1(b)	Certificate of Change of Registered Agent and/or Registered Office of New Mountain Finance Corporation(3)
3.2	Amended and Restated Bylaws of New Mountain Finance Corporation(2)
4.1	Form of Stock Certificate of New Mountain Finance Corporation(1)
4.2	Indenture by and between New Mountain Finance Corporation, as Issuer, and U.S. Bank National Association, as Trustee, dated June 3, 2014(7)
4.3	Form of Global Note 5.00% Convertible Senior Note Due 2019 (included as part of Exhibit 4.2)(7)
10.1	Second Amended and Restated Loan and Security Agreement, dated as of December 18, 2014, by and among New Mountain Finance Corporation, as the collateral manager, New Mountain Finance Holdings, L.L.C., as the borrower, Wells Fargo Securities, LLC, as administrative agent, and Wells Fargo, National Association, as lender and custodian(9)
10.2	Form of Variable Funding Note of New Mountain Finance Holdings, L.L.C., as the Borrower(1)
10.3	Form of Amended and Restated Account Control Agreement among New Mountain Finance Holdings, L.L.C., Wells Fargo Securities, LLC as the Administrative Agent and Wells Fargo Bank, National Association, as Securities Intermediary(1)
10.4	Form of Senior Secured Revolving Credit Agreement, by and between New Mountain Finance Corporation, as Borrower, and Goldman Sachs Bank USA, as Administrative Agent and Syndication Agent, dated June 4, 2014(8)
10.5	Form of Guarantee and Security Agreement dated June 4, 2014, among New Mountain Finance Corporation, as Borrower, and Goldman Sachs Bank USA, as Administrative Agent(8)
10.6	Amendment No. 1, dated December 29, 2014, to the Senior Secured Revolving Credit Agreement dated June 4, 2014, by and among New Mountain Finance Corporation, as Borrower, and Goldman Bank USA, as Administrative Agent and Syndication Agent(10)
10.7	Amendment No. 2, dated June 26, 2015, to the Senior Secured Revolving Credit Agreement dated June 4, 2014, by and among New Mountain Finance Corporation, as Borrower, and Goldman Bank USA, as Administrative Agent and Issuing Bank(12)
10.8	Investment Advisory and Management Agreement by and between New Mountain Finance Corporation and New Mountain Finance Advisers BDC, LLC(6)
10.9	

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

Form of Safekeeping Agreement among New Mountain Finance Holdings, L.L.C., Wells Fargo Securities, LLC as the Administrative Agent and Wells Fargo Bank, National Association, as Safekeeping Agent(1)

- 10.10 Custody Agreement by and between New Mountain Finance Corporation and U.S. Bank National Association(5)
- 10.11 Second Amended and Restated Administration Agreement(11)
- 10.12 Form of Trademark License Agreement(1)

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

Table of Contents

Exhibit Number	Description
10.13	Amendment No. 1 to Trademark License Agreement(4)
10.14	Form of Registration Rights Agreement(1)
10.15	Form of Indemnification Agreement by and between New Mountain Finance Corporation and each director(1)
10.16	Dividend Reinvestment Plan(2)
11.1	Computation of Per Share Earnings for New Mountain Finance Corporation (included in the notes to the financial statements contained in this report)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
32.1	Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)
32.2	Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)
99.1	Supplemental Financial Information

(1) Previously filed in connection with New Mountain Finance Holdings, L.L.C.'s registration statement on Form N-2 Pre-Effective Amendment No. 3 (File Nos. 333-168280 and 333-172503) filed on May 9, 2011.

(2) Previously filed in connection with New Mountain Finance Corporation's quarterly report on Form 10-Q filed on August 11, 2011.

(3) Previously filed in connection with New Mountain Finance Corporation and New Mountain Finance AIV Holdings Corporation report on Form 8-K filed on August 25, 2011.

(4) Previously filed in connection with New Mountain Finance Corporation's quarterly report on Form 10-Q filed on November 14, 2011.

(5) Previously filed in connection with New Mountain Finance Corporation's registration statement on Form N-2 Post-Effective Amendment No. 2 (File Nos. 333-189706 and 333-189707) filed on April 11, 2014.

(6) Previously filed in connection with New Mountain Finance Corporation's report on Form 8-K filed on May 8, 2014.

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

- (7) Previously filed in connection with New Mountain Finance Corporation's report on Form 8-K filed on June 4, 2014.
- (8) Previously filed in connection with New Mountain Finance Corporation's report on Form 8-K filed on June 10, 2014.
- (9) Previously filed in connection with New Mountain Finance Corporation's report on Form 8-K filed on December 23, 2014.
- (10) Previously filed in connection with New Mountain Finance Corporation's report on Form 8-K filed on January 5, 2015.
- (11) Previously filed in connection with New Mountain Finance Corporation's quarterly report on Form 10-Q filed on May 5, 2015.
- (12) Previously filed in connection with New Mountain Finance Corporation's report on Form 8-K filed on June 30, 2015.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 5, 2015.

NEW MOUNTAIN FINANCE CORPORATION

By: */s/ ROBERT A. HAMWEE*
Robert A. Hamwee
Chief Executive Officer and President
(Principal Executive Officer)

By: */s/ DAVID M. CORDOVA*
David M. Cordova
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)