Dyer Joseph Wendell
Form 4
February 22, 2012

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Dyer Joseph Wendell

(Last) (First) (Middle)

C/O IROBOT CORPORATION, 8 CROSBY DRIVE

(Street)

BEDFORD, MA 01730

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
IROBOT CORP [IRBT]

3. Date of Earliest Transaction (Month/Day/Year)
02/20/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chief Operating Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	02/20/2012		F (1)		1,280	D	$ 26	46,942	D	
Common Stock								100	I	By stepson (2)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
								Date Exercisable	Expiration Date	Title	Amount or Number of Shares		
				Code	V	(A)	(D)						

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Dyer Joseph Wendell C/O IROBOT CORPORATION 8 CROSBY DRIVE BEDFORD, MA 01730			Chief Operating Officer	

Signatures

/s/ Glen D. Weinstein, Attorney-in-Fact	02/22/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Consists of 1,280 shares withheld by iRobot Corporation in order to satisfy the minimum tax withholding obligation of the reporting person.

(2) The reporting person disclaims beneficial ownership of such securities except to the extent of his pecuniary interest therein, if any, and this report shall not be deemed an admission that the reporting person is the beneficial owner of all of the reported shares for purposes of Section 16 or any other purpose.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. style="text-align:left;font-size:10pt;">

15,042

Dentalcorp Perfect Smile ULC

Healthcare Services

5.99% (L + 3.75%)

6/6/2025

11,971

11,941

12,082

Dentalcorp Perfect Smile ULC

Healthcare Services

5.99% (L + 3.75%)

6/6/2025

749

753

756

Drilling Info Holdings, Inc.

Business Services

6.54% (L + 4.25%)

7/30/2025

16,499

16,417

16,478

Financial & Risk US Holdings, Inc.

Business Services

6.01% (L + 3.75%)

10/1/2025

8,000

7,980

7,992

Greenway Health, LLC

Software

6.14% (L + 3.75%)

2/16/2024

14,858

14,869

14,877

Heartland Dental, LLC

Healthcare Services

5.99% (L + 3.75%)

4/30/2025

16,480

16,402

16,508

Idera, Inc.

Software

6.76% (L + 4.50%)

6/28/2024

2,294

2,294

2,322

Market Track, LLC

Business Services

6.64% (L + 4.25%)

6/5/2024

4,839

4,833

4,833

Ministry Brands, LLC

Software

6.24% (L + 4.00%)

12/2/2022

4,607

4,586

4,607

Ministry Brands, LLC

Software

6.24% (L + 4.00%)

12/2/2022

303

301

303

National Intergovernmental Purchasing Alliance Company

Business Services

6.14% (L + 3.75%)

5/23/2025

14,963

14,949

15,019

Navex Topco, Inc.

Software

5.37% (L + 3.25%)

9/5/2025

15,000

14,925

15,006

Navicure, Inc.

Healthcare Services

5.99% (L + 3.75%)

11/1/2024

2,992

2,992

3,007

Netsmart Technologies, Inc.

Healthcare I.T.

5.99% (L + 3.75%)

4/19/2023

10,464

10,464

10,543

Newport Group Holdings II, Inc.

Business Services

5.90% (L + 3.75%)

9/12/2025

5,000

4,975

5,019

NorthStar Financial Services Group, LLC

Software

5.56% (L + 3.50%)

5/25/2025

15,000

14,928

15,047

OEConnection LLC

Business Services

6.25% (L + 4.00%)

11/22/2024

1,834

1,848

1,844

Pathway Vet Alliance LLC

Consumer Services

6.49% (L + 4.25%)

10/10/2024

1,333

1,326

1,336

Pelican Products, Inc.

Business Products

5.60% (L + 3.50%)

5/1/2025

4,988

4,976

4,999

Peraton Corp. (fka MHVC Acquisition Corp.)

Federal Services

7.64% (L + 5.25%)

4/29/2024

12,628

12,565

12,565

Premise Health Holding Corp.

Healthcare Services

6.14% (L + 3.75%)

7/10/2025

13,897

13,828

13,971

Quest Software US Holdings Inc.

Software

6.57% (L + 4.25%)

5/16/2025

15,000

14,928

15,060

Sierra Enterprises, LLC

Food & Beverage

5.99% (L + 3.75%)

11/11/2024

2,488

2,485

2,509

SSH Group Holdings, Inc.

Education

6.59% (L + 4.25%)

7/30/2025

15,000

14,963

15,150

University Support Services LLC (St. George's University Scholastic Services LLC)

Education

5.75% (L + 3.50%)

7/17/2025

3,814

3,795

3,849

VT Topco, Inc.

Business Services

6.09% (L + 3.75%)

8/1/2025

8,000

7,980

8,075

VT Topco, Inc.

Business Services

6.14% (L + 3.75%)

8/1/2025

373

376

377

WP CityMD Bidco LLC

Healthcare Services

5.89% (L + 3.50%)

6/7/2024

14,925

14,925

14,906

YI, LLC

Healthcare Services

6.39% (L + 4.00%)

11/7/2024

3,978

3,992

3,978

YI, LLC

Healthcare Services

6.39% (L + 4.00%)

11/7/2024

480

482

480

Total Funded Investments

$
321,212

$
320,232

$
322,190

Unfunded Investments - First lien

Dentalcorp Perfect Smile ULC

Healthcare Services

—

6/6/2020

$
2,249

$
(6
)

$
21

Drilling Info Holdings, Inc.

Business Services

—

7/30/2020

2,501

(13
)

(6
)
Heartland Dental, LLC

Healthcare Services

—

4/30/2020

2,478

—

4

Ministry Brands, LLC

Software

—

10/18/2019

1,566

(8
)

—

Pathway Vet Alliance LLC

Consumer Services

—

5/25/2020

1,940

(10
)

5

Premise Health Holding Corp.

Healthcare Services

—

7/10/2020

1,103

(3
)

6

University Support Services LLC (St. George's University Scholastic Services LLC)

Education

—

7/17/2019

1,187

—

11

VT Topco, Inc.

Business Services

—

8/1/2020

1,627

(4
)

15

YI, LLC

Healthcare Services

—

11/7/2018

520

2

—

Total Unfunded Investments

$
15,171

$
(42
)

$
56

Total Investments

$
336,383

$
320,190

$
322,246

49

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(1) All interest is payable in cash unless otherwise indicated. A majority of the variable rate debt investments bear interest at a rate that may be determined by reference to the LIBOR (L), the Prime Rate (P) and the alternative base rate (Base). For each investment, the current interest rate provided reflects the rate in effect as of September 30, 2018.

(2) Represents the fair value in accordance with ASC 820. The Company's board of directors does not determine the fair value of the investments held by SLP III.

Below is certain summarized financial information for SLP III as of September 30, 2018 and for the three and nine months ended September 30, 2018:

Selected Balance Sheet Information:	September 30, 2018
Investments at fair value (cost of $320,190)	$ 322,246
Cash and other assets	6,705
Total assets	$ 328,951
Credit facility	$ 218,800
Deferred financing costs	(2,996)
Payable for unsettled securities purchased	22,839
Distribution payable	1,200
Other liabilities	3,465
Total liabilities	243,308
Members' capital	$ 85,643
Total liabilities and members' capital	$ 328,951

Selected Statement of Operations Information:	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018(1)
Interest income	$ 3,170	$ 3,960
Other income	80	102
Total investment income	3,250	4,062
Interest and other financing expenses	1,853	2,427
Other expenses	123	349
Total expenses	1,976	2,776
Net investment income	1,274	1,286
Net realized gains on investments	1	1
Net change in unrealized appreciation (depreciation) of investments	1,438	2,056
Net increase in members' capital	$ 2,713	$ 3,343

(1) SLP III commenced operations on April 25, 2018.

For the three and nine months ended September 30, 2018, the Company earned approximately $960 and $960, respectively, of dividend income related to SLP III, which is included in dividend income. As of September 30, 2018 approximately $960 of dividend income related to SLP III was included in interest and dividend receivable.

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

Unconsolidated Significant Subsidiaries

In accordance with Regulation S-X Rule 10-01(b)(1), the Company evaluates its unconsolidated controlled portfolio companies as significant subsidiaries under this rule. As of September 30, 2018, UniTek Global Services, Inc. (“UniTek”) is

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

UniTek Global Services, Inc.

UniTek is a full service provider of technical services to customers in the wireline telecommunications, satellite television and broadband cable industries in the U.S. and Canada. UniTek’s customers are primarily telecommunication services, satellite television, and broadband cable providers, their contractors, and municipalities and related agencies. UniTek’s customers utilize its services to engineer, build and maintain their network infrastructure and to provide residential and commercial fulfillment services, which is critical to their ability to deliver voice, video and data services to end users.

Summary of Operations	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net Sales	$76,360	$ 79,002	$222,486	$ 207,112
Cost of goods sold	63,592	61,079	182,128	160,932
Gross Profit	12,768	17,923	40,358	46,180
Other expenses	17,555	13,331	44,874	39,396
Net income from continuing operations before extraordinary items	(4,787)	4,592	(4,516)	6,784
Profit (loss) from discontinued operations	29	(797)	22	(3,755)
Net income (loss)	$(4,758)	$ 3,795	$(4,494)	$ 3,029

Investment Risk Factors

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

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

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

Note 4. Fair Value

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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;

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

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

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

The inputs into the determination of fair value require significant judgment or estimation by management and consideration of factors specific to each investment. A review of the fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in the transfer of certain investments within the fair value hierarchy from period to period. Reclassifications impacting the fair value hierarchy are reported as transfers in/out of the respective leveling categories as of the beginning of the period 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 September 30, 2018:

	Total	Level I	Level II	Level III
First lien	$1,030,033	$ —	$143,479	$886,554
Second lien	681,910	—	358,727	323,183
Subordinated	64,606	—	26,262	38,344
Equity and other	518,210	6	—	518,204
Total investments	$2,294,759	$ 6	$528,468	$1,766,285

The following table summarizes the levels in the fair value hierarchy that the Company's portfolio investments fall into as of December 31, 2017:

	Total	Level I	Level II	Level III
First lien	$693,563	$ —	$136,866	$556,697
Second lien	682,950	—	239,868	443,082
Subordinated	70,257	—	43,156	27,101
Equity and other	378,890	16	—	378,874
Total investments	$1,825,660	$ 16	$419,890	$1,405,754

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The following table summarizes the changes in fair value of Level III portfolio investments for the three months ended September 30, 2018, 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 September 30, 2018:

	Total	First Lien	Second Lien	Subordinated	Equity and other
Fair value, June 30, 2018	$1,621,911	$711,078	$381,865	$41,126	$487,842
Total gains or losses included in earnings:					
Net realized gains (losses) on investments	3,259	157	39	—	3,063
Net change in unrealized (depreciation) appreciation	(635)	59	1,392	(111)	(1,975)
Purchases, including capitalized PIK and revolver fundings	411,774	291,004	85,525	908	34,337
Proceeds from sales and paydowns of investments	(242,085)	(122,624)	(110,819)	(3,579)	(5,063)
Transfers into Level III(1)	6,880	6,880	—	—	—
Transfers out of Level III(1)	(34,819)	—	(34,819)	—	—
Fair Value, September 30, 2018	$1,766,285	$886,554	$323,183	$38,344	$518,204
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:	$2,694	$213	$2,058	$(111)	$534

(1) As of September 30, 2018, portfolio investments were transferred into Level III from Level II and out of Level III into Level II at fair value as of the beginning of the period in which the reclassification occurred.

The following table summarizes the changes in fair value of Level III portfolio investments for the three months ended September 30, 2017, 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 September 30, 2017:

	Total	First Lien	Second Lien	Subordinated	Equity and other
Fair value, June 30, 2017	$1,240,023	$502,263	$402,565	$26,677	$308,518
Total gains or losses included in earnings:					
Net realized (losses) gains on investments	(14,273)	(14,433)	160	—	—
Net change in unrealized appreciation (depreciation)	17,054	15,910	4,825	(1,749)	(1,932)
Purchases, including capitalized PIK and revolver fundings(1)	114,959	94,085	—	780	20,094
Proceeds from sales and paydowns of investments(1)	(65,229)	(26,505)	(38,724)	—	—
Transfers into Level III(2)	49,805	23,942	25,856	—	7
Transfers out of Level III (2)	(80,289)	(60,375)	(19,914)	—	—
Fair Value, September 30, 2017	$1,262,050	$534,887	$374,768	$25,708	$326,687
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:	$2,394	$1,370	$4,705	$(1,749)	$(1,932)

(1) Includes reorganizations and restructurings.
(2) As of September 30, 2017, portfolio investments were transferred into Level III from Level II and out of Level III into Level II at fair value as of the beginning of the period in which the reclassification occurred.

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The following table summarizes the changes in fair value of Level III portfolio investments for the nine months ended September 30, 2018, 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 September 30, 2018:

	Total	First Lien	Second Lien	Subordinated	Equity and other
Fair value, December 31, 2017	$1,405,754	$556,697	$443,082	$27,101	$378,874
Total gains or losses included in earnings:					
Net realized gains (losses) on investments	2,242	269	(1,090)	—	3,063
Net change in unrealized appreciation (depreciation)	5,486	(1,324)	(12,189)	(2,644)	21,643
Purchases, including capitalized PIK and revolver fundings	838,984	533,735	166,596	18,966	119,687
Proceeds from sales and paydowns of investments	(420,781)	(239,187)	(171,452)	(5,079)	(5,063)
Transfers into Level III(1)	92,429	92,429	—	—	—
Transfers out of Level III(1)	(157,829)	(56,065)	(101,764)	—	—
Fair Value, September 30, 2018	$1,766,285	$886,554	$323,183	$38,344	$518,204
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:	$9,346	$(471)	$(11,691)	$(2,644)	$24,152

(1) As of September 30, 2018, portfolio investments were transferred into Level III from Level II and out of Level III into Level II at fair value as of the beginning of the period in which the reclassification occurred.

The following table summarizes the changes in fair value of Level III portfolio investments for the nine months ended September 30, 2017, 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 September 30, 2017:

	Total	First Lien	Second Lien	Subordinated	Equity and other
Fair value, December 31, 2016	$1,066,878	$530,601	$324,177	$24,653	$187,447
Total gains or losses included in earnings:					
Net realized (losses) gains on investments	(40,577)	(13,877)	(27,108)	—	408
Net change in unrealized appreciation (depreciation)	42,375	12,352	36,523	(1,201)	(5,299)
Purchases, including capitalized PIK and revolver fundings(1)	484,630	217,592	118,614	2,756	145,668
Proceeds from sales and paydowns of investments(1)	(243,879)	(147,376)	(94,466)	(500)	(1,537)
Transfers into Level III(2)	68,484	19,608	48,876	—	—
Transfers out of Level III(2)	(115,861)	(84,013)	(31,848)	—	—
Fair Value, September 30, 2017	$1,262,050	$534,887	$374,768	$25,708	$326,687
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:	$5,019	$2,847	$8,939	$(1,201)	$(5,566)

(1) Includes reorganizations and restructurings.

(2) As of September 30, 2017, portfolio investments were transferred into Level III from Level II and out of Level III into Level II at fair value as of the beginning of the period in which the reclassification occurred.

Except as noted in the tables above, there were no other transfers in or out of Level I, II, or III during the three and nine months ended September 30, 2018 and September 30, 2017. Transfers into Level III occur as quotations obtained through pricing services are deemed not representative of fair value as of the balance sheet date and such assets are internally valued. As quotations obtained through pricing services are substantiated through additional market sources, investments are transferred out of Level III. In addition, transfers out of Level III and transfers into Level III occur

based on the increase or decrease in the availability of certain observable inputs.
The Company invests in revolving credit facilities. These investments are categorized as Level III investments as these assets are not actively traded and their fair values are often implied by the term loans of the respective portfolio companies.

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

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

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

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

Market Based Approach: The Company may estimate the total enterprise value of each portfolio company by utilizing market value cash flow (EBITDA) multiples of publicly traded comparable companies and comparable transactions. The Company considers numerous factors when selecting the appropriate companies whose trading multiples are used to value its portfolio companies. These factors include, but are not limited to, the type of organization, similarity to the business being valued, and relevant risk factors, as well as size, profitability and growth expectations. The Company may apply an average of various relevant comparable company EBITDA multiples to the portfolio company's latest twelve month ("LTM") EBITDA or projected EBITDA to calculate the enterprise value of the portfolio company. Significant increases or decreases in the EBITDA multiple will result in an increase or decrease in enterprise value, which may result in an increase or decrease in the fair value estimate of the investment. In applying the market based approach as of September 30, 2018 and December 31, 2017, the Company used the relevant EBITDA multiple ranges set forth in the table below to determine the enterprise value of its portfolio companies. The Company believes these were reasonable ranges in light of current comparable company trading levels and the specific portfolio companies involved.

Income Based Approach: The Company also may use a discounted cash flow analysis to estimate the fair value of the investment. Projected cash flows represent the relevant security's contractual interest, fee and principal payments plus the assumption of full principal recovery at the investment's expected maturity date. These cash flows are discounted at a rate established utilizing a yield calibration approach, which incorporates changes in the credit quality (as measured by relevant statistics) of the portfolio company, as compared to changes in the yield associated with comparable credit quality market indices, between the date of origination and the valuation date. Significant increases or decreases in the discount rate would result in a decrease or increase in the fair value measurement. In applying the income based approach as of September 30, 2018 and December 31, 2017, the Company used the discount ranges set forth in the table below to value investments in its portfolio companies.

Explanation of Responses:

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The unobservable inputs used in the fair value measurement of the Company's Level III investments as of September 30, 2018 were as follows:

				Range		
Type	Fair Value as of September 30, 2018	Approach	Unobservable Input	Low	High	Weighted Average
First lien	$594,309	Market & income approach	EBITDA multiple	2.0x	32.0x	12.0x
			Revenue multiple	3.5x	6.5x	5.5x
			Discount rate	6.9 %	14.3 %	9.7 %
	163,957	Market quote	Broker quote	N/A	N/A	N/A
	128,288	Other	N/A(1)	N/A	N/A	N/A
Second lien	105,801	Market & income approach	EBITDA multiple	7.5x	17.0x	12.2x
			Revenue multiple	2.5x	3.3x	2.9x
			Discount rate	11.1%	13.6 %	11.7 %
	217,382	Market quote	Broker quote	N/A	N/A	N/A
Subordinated	38,344	Market & income approach	EBITDA multiple	6.5x	11.0x	10.0x
			Revenue multiple	2.5x	3.3x	2.9x
			Discount rate	8.1 %	22.0 %	19.0 %
Equity and other	517,709	Market & income approach	EBITDA multiple	0.4x	19.0x	12.6x
			Revenue multiple	2.5x	3.3x	2.9x
			Discount rate	7.0 %	25.1 %	12.9 %
	495	Black Scholes analysis	Expected life in years	7.5	7.5	7.5
			Volatility	38.0%	38.0 %	38.0 %
			Discount rate	2.9 %	2.9 %	2.9 %
	$1,766,285					

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

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The unobservable inputs used in the fair value measurement of the Company's Level III investments as of December 31, 2017 were as follows:

Type	Fair Value as of December 31, 2017	Approach	Unobservable Input	Range Low	Range High	Range Weighted Average
First lien	$458,543	Market & income approach	EBITDA multiple	2.0x	20.0x	11.8x
			Revenue multiple	3.5x	8.0x	6.1x
			Discount rate	6.5 %	11.2 %	9.2 %
	98,154	Market quote	Broker quote	N/A	N/A	N/A
Second lien	220,597	Market & income approach	EBITDA multiple	8.0x	16.0x	11.4x
			Discount rate	7.9 %	12.5 %	10.8 %
	215,098	Market quote	Broker quote	N/A	N/A	N/A
	7,387	Other	N/A(1)	N/A	N/A	N/A
Subordinated	27,101	Market & income approach	EBITDA multiple	4.5x	11.8x	9.0x
			Revenue multiple	0.5x	1.0x	0.8x
			Discount rate	7.9 %	14.9 %	12.8 %
Equity and other	377,785	Market & income approach	EBITDA multiple	2.5x	18.0x	9.9x
			Revenue multiple	0.5x	1.0x	0.8x
			Discount rate	7.0 %	23.6 %	14.5 %
	1,089	Black Scholes analysis	Expected life in years	8.3	8.3	8.3
			Volatility	39.4%	39.4 %	39.4 %
			Discount rate	2.4 %	2.4 %	2.4 %
	$1,405,754					

(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 September 30, 2018, as the facilities are continually monitored and examined by both the borrower and the lender and are considered Level III. The carrying value of the SBA-guaranteed debentures, the 2016 Unsecured Notes, the 2017A Unsecured Notes, the 2018A Unsecured Notes and the 2018B Unsecured Note (as defined in Note 7. Borrowings) approximate fair value as of September 30, 2018 based on a comparison of market interest rates for the Company’s borrowings and similar entities and are considered Level III. The fair value of the Convertible Notes and the 5.75% Unsecured Notes (as defined in Note 7. Borrowings) as of September 30, 2018 was $272,880 and $50,000, respectively, 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 September 30, 2018 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.

Note 5. Agreements

The Company entered into an investment advisory and management agreement (the “Investment Management Agreement”) with the Investment Adviser which was most recently re-approved by the Company's board of directors on February 7, 2018. Under the Investment Management Agreement, the Investment Adviser manages the day-to-day operations

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

Since the IPO, the base management fee calculation has deducted the borrowings under the New Mountain Finance SPV Funding, L.L.C. Loan and Security Agreement, as amended and restated, dated October 27, 2010 (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 NMF Holdings Loan and Security Agreement, as amended and restated, dated May 19, 2011, and formed the Holdings Credit Facility on December 18, 2014 (as defined in Note 7. Borrowings). The amendment merged the credit facilities and combined the amount of borrowings previously available. Post credit facility merger and to be consistent with the methodology since the IPO, the Investment Adviser will continue to waive management fees on the leverage associated with those assets that share the same underlying yield characteristics with investments leveraged under the legacy SLF Credit Facility, which as of September 30, 2018 and September 30, 2017 was approximately $446,587 and $321,390, respectively. The Investment Adviser cannot recoup management fees that the Investment Adviser has previously waived. For the three and nine months ended September 30, 2018, management fees waived were approximately $1,766 and $4,583, respectively. For the three and nine months ended September 30, 2017, management fees waived were approximately $1,483 and $4,324, respectively.

The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20.0% of the Company’s “Pre-Incentive Fee Net Investment Income” for the immediately preceding quarter, subject to a “preferred return”, or “hurdle”, and a “catch-up” feature. “Pre-Incentive Fee Net Investment Income” means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, upfront, diligence and consulting fees or other fees that the Company receives from portfolio companies) accrued during the calendar quarter, minus the Company’s operating expenses for the quarter (including the base management fee, expenses payable under an administration agreement, as amended and restated (the “Administration Agreement”), with the Administrator, and any interest expense and distributions paid on any issued and outstanding preferred stock (of which there are none as of September 30, 2018), 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.

Pre-Incentive Fee 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 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 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 Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 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 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 Net Investment Income as if a hurdle rate did not apply when the Company's Pre-Incentive Fee Net Investment Income exceeds 2.5% in any calendar quarter.

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- 20.0% of the amount of the Company's Pre-Incentive Fee 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.

For the three and nine months ended September 30, 2018, no incentive fees were waived. For the three and nine months ended September 30, 2017, incentive fees waived were approximately $0 and $1,800, respectively. The Investment Adviser cannot recoup incentive fees that the Investment Adviser has previously waived.

The second part of the incentive fee 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 realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and 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 realized capital gains and realized capital losses and the cumulative net unrealized capital appreciation and 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 realized capital gains computed net of all realized capital losses and 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 nine months ended September 30, 2018 and September 30, 2017.

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Management fee	$10,018	$ 8,422	$28,011	$ 24,311
Less: management fee waiver	(1,766)	(1,483)	(4,583)	(4,324)
Total management fee	8,252	6,939	23,428	19,987
Incentive fee, excluding accrued capital gains incentive fees	$6,780	$ 6,573	$19,644	$ 18,430
Less: incentive fee waiver	—	—	—	(1,800)
Total incentive fee	6,780	6,573	19,644	16,630
Accrued capital gains incentive fees(1)	$—	$ —	$—	$ —

(1) As of September 30, 2018 and September 30, 2017, no actual capital gains incentive fee was owed under the Investment Management Agreement by the Company, as cumulative net realized capital gains did not exceed cumulative unrealized capital depreciation.

The Company has entered into the Administration Agreement with the Administrator under which the Administrator provides administrative services. The Administrator maintains, or oversees the maintenance of, the Company's consolidated financial records, prepares reports filed with the United States Securities and Exchange Commission (the "SEC"), generally monitors the payment of the Company's expenses and oversees the performance of administrative and professional services rendered by others. The Company will reimburse the Administrator for the Company's allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations to the Company under the Administration Agreement. Pursuant to the Administration Agreement and further restricted by the Company, the Administrator may, in its own discretion, submit to the Company for reimbursement some or all of the expenses that the Administrator has incurred on behalf of the Company during any quarterly period. As a result, the amount of expenses for which the Company will have to reimburse the Administrator may fluctuate in future quarterly periods and there can be no assurance given as to when, or if, the Administrator may determine to limit the expenses that the Administrator submits to the Company for reimbursement in the future. However, it is expected that the Administrator will continue to support part of the expense burden of the Company in the near future and may decide to not calculate and charge through certain overhead related amounts as well as continue to cover some of the indirect costs. The Administrator cannot recoup any expenses that the Administrator has previously waived. For the three and nine months ended September 30, 2018, approximately $515 and $1,725, respectively, of indirect administrative expenses were included in administrative expenses of which $0 and $276, respectively, of indirect administrative expenses were waived by the Administrator. For the three and nine months ended September 30, 2017, approximately $361 and $1,144, respectively, of indirect administrative expenses were included in administrative expenses, of which $0 and $416, respectively, of indirect

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administrative expenses were waived by the Administrator. As of September 30, 2018 and December 31, 2017, approximately $762 and $444, respectively, of indirect administrative expenses were included in payable to affiliates.
The Company, the Investment Adviser and the Administrator have also entered into a Trademark License Agreement, as amended, with New Mountain Capital, pursuant to which New Mountain Capital has agreed to grant the Company, the Investment Adviser and the Administrator a non-exclusive, royalty-free license to use the “New Mountain” and the “New Mountain Finance” names. Under the Trademark License Agreement, as amended, subject to certain conditions, the Company, the Investment Adviser and the Administrator will have a right to use the “New Mountain” and “New Mountain Finance” names, for so long as the Investment Adviser or one of its affiliates remains the investment adviser of the Company. Other than with respect to this limited license, the Company, the Investment Adviser and the Administrator will have no legal right to the “New Mountain” or the “New Mountain Finance” names.

Note 6. Related Parties

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

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

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

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

The Company has adopted a formal code of ethics that governs the conduct of its 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 or in part, to 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. On December 18, 2017, the SEC issued an exemptive order (the “Exemptive Order”), which superseded a prior order issued on June 5, 2017, which permits the Company to co-invest in portfolio companies with certain funds or entities managed by the Investment Adviser or its affiliates in certain negotiated transactions where co-investing would otherwise be prohibited under the 1940 Act, subject to the conditions of the Exemptive Order. Pursuant to the Exemptive Order, the Company is permitted to co-invest with its affiliates if a “required majority” (as defined in Section 57(o) of the 1940 Act) of the Company's independent directors make certain conclusions in connection with a co-investment transaction, including, but not limited to, that (1) the terms of the potential co-investment transaction, including the consideration to be paid, are reasonable and fair to the Company and its stockholders and do not involve overreaching in respect of the Company or its stockholders on the part of any person concerned, and (2) the potential co-investment transaction is consistent with the interests of the Company's stockholders and is consistent with its then-current investment objective and strategies.

Note 7. Borrowings

On March 23, 2018, the Small Business Credit Availability Act (the “SBCA”) was signed into law, which included various changes to regulations under the federal securities laws that impact BDCs. The SBCA included changes to the 1940 Act to allow BDCs to decrease their asset coverage requirement to 150.0% from 200.0% under certain circumstances. On April 12, 2018, the Company's board of directors, including a ‘‘required majority’’ (as such term is defined in Section 57(o) of the 1940 Act) approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCA, and recommended the submission of a proposal for stockholders to approve the application of the 150.0% minimum asset coverage ratio to the Company at a special meeting of stockholders, which was held on June 8, 2018.

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The stockholder proposal was approved by the required votes of the Company's stockholders at such special meeting of stockholders, and thus the Company became subject to the 150.0% minimum asset coverage ratio on June 9, 2018. As a result of the Company's exemptive relief received on November 5, 2014, the Company is permitted to exclude its SBA-guaranteed debentures from the 150.0% asset coverage ratio that the Company is required to maintain under the 1940 Act. The agreements governing the NMFC Credit Facility, the 2018 Convertible Notes and the Unsecured Notes (as defined below) contain certain covenants and terms, including a requirement that the Company not exceed a debt-to-equity ratio of 1.65 to 1.00 at the time of incurring additional indebtedness and a requirement that the Company not exceed a secured debt ratio of 0.70 to 1.00 at any time. As of September 30, 2018, the Company's asset coverage ratio was 185.7%.

Holdings Credit Facility—On December 18, 2014, the Company entered into the Second Amended and Restated Loan and Security Agreement, 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. On October 24, 2017 the Company entered into the Third Amended and Restated Loan and Security Agreement (the "Holdings Credit Facility"), among the Company as the Collateral Manager, NMF Holdings as the Borrower and Wells Fargo Bank, National Association as the Administrative Agent and Collateral Custodian, which extended the maturity date to October 24, 2022.

The maximum amount of revolving borrowings available under the Holdings Credit Facility is $495,000. Under the Holdings Credit Facility, NMF Holdings is permitted to borrow up to 25.0%, 45.0% or 70.0% of the purchase price of pledged assets, subject to approval by Wells Fargo Bank, National Association. 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 LIBOR plus 1.75% per annum for Broadly Syndicated Loans (as defined in the Loan and Security Agreement) and LIBOR plus 2.50% per annum for all other investments. Effective April 1, 2018, the Holdings Credit Facility bears interest at a rate of LIBOR plus 1.75% per annum for Broadly Syndicated Loans (as defined in the Loan and Security Agreement) and LIBOR plus 2.25% per annum for all other investments. The Holdings Credit Facility also charges a non-usage fee, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the Loan and Security Agreement).

The following table summarizes the interest expense, non-usage fees and amortization of financing costs incurred on the Holdings Credit Facility for the three and nine months ended September 30, 2018 and September 30, 2017.

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest expense	$4,002	$ 3,081	$10,719	$ 8,684
Non-usage fee	$146	$ 179	$537	$ 536
Amortization of financing costs	$630	$ 406	$1,870	$ 1,204
Weighted average interest rate	4.2 %	3.4 %	4.1 %	3.3 %
Effective interest rate	5.0 %	4.1 %	5.0 %	4.0 %
Average debt outstanding	$379,235	$ 352,372	$351,421	$ 351,594

As of September 30, 2018 and December 31, 2017, the outstanding balance on the Holdings Credit Facility was $465,963 and $312,363, respectively, and NMF Holdings was in compliance with the applicable covenants in the Holdings Credit Facility on such dates.

NMFC Credit Facility—The Senior Secured Revolving Credit Agreement, as amended (together with the related guarantee and security agreement, the "NMFC Credit Facility"), dated June 4, 2014, among the Company, as the Borrower, Goldman Sachs Bank USA, as the Administrative Agent and Collateral Agent, and Goldman Sachs Bank USA, Morgan Stanley Bank, N.A. and Stifel Bank & Trust, as Lenders, is structured as a senior secured revolving credit facility and matures on June 4, 2019. On February 27, 2018, the Company entered into an amendment to the NMFC Credit Facility, which extended the maturity date to June 4, 2022. On July 5, 2018, the Company further amended the NMFC Credit Facility to include the financial covenants related to the asset coverage discussed above. 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.

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As of September 30, 2018, the maximum amount of revolving borrowings available under the NMFC Credit Facility was $135,000. The Company is permitted to borrow at various advance rates depending on the type of portfolio investment, as outlined in the Senior Secured Revolving Credit Agreement. All fees associated with the origination of the NMFC Credit Facility are capitalized on the Company's Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the NMFC Credit Facility. The NMFC Credit Facility contains certain customary affirmative and negative covenants and events of default, including certain financial covenants related to asset coverage and liquidity and other maintenance covenants.

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

The following table summarizes the interest expense, non-usage fees and amortization of financing costs incurred on the NMFC Credit Facility for the three and nine months ended September 30, 2018 and September 30, 2017.

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest expense	$1,431	$ 205	$3,802	$ 1,278
Non-usage fee	$18	$ 97	$89	$ 212
Amortization of financing costs	$123	$ 99	$356	$ 293
Weighted average interest rate	4.7 %	3.6 %	4.5 %	3.5 %
Effective interest rate	5.1 %	7.3 %	5.0 %	5.0 %
Average debt outstanding	$121,902	$ 21,670	$113,269	$ 48,030

As of September 30, 2018 and December 31, 2017, the outstanding balance on the NMFC Credit Facility was $135,000 and $122,500, respectively, and NMFC was in compliance with the applicable covenants in the NMFC Credit Facility on such dates.

NMNLC Credit Facility—The Revolving Credit Agreement (together with the related guarantee and security agreement, the "NMNLC Credit Facility"), dated September 21, 2018, among NMNLC, as the Borrower, and KeyBank National Association, as the Administrative Agent and Lender, is structured as a senior secured revolving credit facility and matures on September 23, 2019. The NMNLC Credit Facility is guaranteed by the Company and proceeds from the NMNLC Credit Facility may be used for funding of additional acquisition properties.

The NMNLC 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 0.15% per annum (as defined in the Revolving Credit Agreement).

As of September 30, 2018, the maximum amount of revolving borrowings available under the NMNLC Credit Facility was $30,000. As of September 30, 2018, the outstanding balance on the NMNLC Credit Facility was $0 and NMNLC was in compliance with the applicable covenants in the NMNLC Credit Facility on such dates.

Convertible Notes

2014 Convertible Notes—On June 3, 2014, the Company closed a private offering of $115,000 aggregate principal amount of unsecured convertible notes (the "2014 Convertible Notes"), pursuant to an indenture, dated June 3, 2014 (the "2014 Indenture"). The 2014 Convertible Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"). As of June 3, 2015, the restrictions under Rule 144A under the Securities Act were removed, allowing the 2014 Convertible Notes to be eligible and freely tradable without restrictions for resale pursuant to Rule 144(b)(1) under the Securities Act. On September 30, 2016, the Company closed a public offering of an additional $40,250 aggregate principal amount of the 2014 Convertible Notes. These additional 2014 Convertible Notes constitute a further issuance of, rank equally in right of payment with, and form a single series with the $115,000 aggregate principal amount of 2014 Convertible Notes that the Company issued on June 3, 2014.

The 2014 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 2014 Convertible Notes will mature on June 15, 2019 unless earlier converted or repurchased at the holder's option.

The Company may not redeem the 2014 Convertible Notes prior to maturity. No sinking fund is provided for the 2014 Convertible Notes. In addition, if certain corporate events occur, holders of the 2014 Convertible Notes may require the Company to repurchase for cash all or part of their 2014 Convertible Notes at a repurchase price equal to 100.0% of the

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principal amount of the 2014 Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the repurchase date.

The 2014 Indenture contains certain covenants, including covenants requiring the Company to provide financial information to the holders of the 2014 Convertible Notes 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 2014 Indenture.

2018 Convertible Notes—On August 20, 2018, the Company closed a registered public offering of $100,000 aggregate principal amount of unsecured convertible notes (the "2018 Convertible Notes" and together with the 2014 Convertible Notes, the "Convertible Notes"), pursuant to an indenture, dated August 20, 2018, as supplemented by a first supplemental indenture thereto, dated August 20, 2018 (together the "2018A Indenture"). On August 30, 2018, in connection with the registered public offering, the Company issued an additional $15,000 aggregate principal amount of the 2018 Convertible Notes pursuant to the exercise of an overallotment option by the underwriter of the 2018 Convertible Notes.

The 2018 Convertible Notes bear interest at an annual rate of 5.75%, payable semi-annually in arrears on February 15 and August 15 of each year, commencing on February 15, 2019. The 2018 Convertible Notes will mature on August 15, 2023 unless earlier converted, repurchased or redeemed. The Company may not redeem the 2018 Convertible Notes prior to May 15, 2023. On or after May 15, 2023, the Company may redeem the 2018 Convertible Notes for cash, in whole or from time to time in part, at its option at a redemption price, subject to an exception for redemption dates occurring after a record date but on or prior to the interest payment date, equal to the sum of (i) 100% of the principal amount of the 2018 Convertible Notes to be redeemed, (ii) accrued and unpaid interest thereon to, but excluding, the redemption date and (iii) a make-whole premium.

No sinking fund is provided for the 2018 Convertible Notes. Holders of 2018 Convertible Notes may, at their option, convert their 2018 Convertible Notes into shares of the Company's common stock at any time on or prior to the close of business on the business day immediately preceding the maturity date of the 2018 Convertible Notes. In addition, if certain corporate events occur, holders of the 2018 Convertible Notes may require the Company to repurchase for cash all or part of their 2018 Convertible Notes at a repurchase price equal to 100.0% of the principal amount of the 2018 Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the repurchase date.

The 2018A Indenture contains certain covenants, including covenants requiring the Company to provide certain financial information to the holders of the 2018 Convertible Notes and the trustee if the Company ceases to be subject to the reporting requirements of the Exchange Act. The 2018A Indenture also includes additional financial covenants related to asset coverage. These covenants are subject to limitations and exceptions that are described in the 2018A Indenture.

The following table summarizes certain key terms related to the convertible features of the Company's Convertible Notes as of September 30, 2018.

	2014 Convertible Notes	2018 Convertible Notes
Initial conversion premium	12.5 %	10.0 %
Initial conversion rate(1)	62.7746	65.8762
Initial conversion price	$ 15.93	$ 15.18
Conversion premium at September 30, 2018	11.7 %	10.0 %
Conversion rate at September 30, 2018(1)(2)	63.2794	65.8762
Conversion price at September 30, 2018(2)(3)	$ 15.80	$ 15.18
Last conversion price calculation date	June 3, 2018	August 20, 2018

(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 September 30, 2018 was calculated on the last anniversary of the issuance and will be calculated again on the next anniversary, unless the exercise price shall have changed by more than 1.0% before the anniversary.

The conversion rate will be subject to adjustment upon certain events, such as stock splits and combinations, mergers, spin-offs, increases in dividends in excess of $0.34 per share per quarter and certain changes in control. Certain of these adjustments, including adjustments for increases in dividends, are subject to a conversion price floor of $14.05 per share for the 2014 Convertible Notes and $13.80 per share for the 2018 Convertible Notes. In no event will the total number of shares of common stock issuable upon conversion exceed 71.1893 per $1 principal amount of the 2014 Convertible Notes or 72.4637 per

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$1 principal amount of the 2018 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 unsecured obligations and rank senior in right of payment to the Company’s existing and future indebtedness, if any, that is expressly subordinated in right of payment to the Convertible Notes; equal in right of payment to the Company’s existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of the Company’s secured indebtedness (including existing unsecured indebtedness that the Company later secures) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company’s subsidiaries and financing vehicles. As reflected in Note 11. Earnings Per Share, the issuance is considered part of the if-converted method for calculation of diluted earnings per share.

The following table summarizes the interest expense, amortization of financing costs and amortization of premium incurred on the Convertible Notes for the three and nine months ended September 30, 2018 and September 30, 2017.

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest expense	$2,712	$1,941	$6,593	$5,822
Amortization of financing costs	$324	$300	$914	$890
Amortization of premium	$(28)	$(28)	$(83)	$(83)
Weighted average interest rate	5.2%	5.0%	5.1%	5.0%
Effective interest rate	5.7%	5.7%	5.7%	5.7%
Average debt outstanding	$207,750	$155,250	$172,942	$155,250

As of September 30, 2018 and December 31, 2017, the outstanding balance on the Convertible Notes was $270,250 and $155,250, respectively, and NMFC was in compliance with the terms of the 2014 Indenture and 2018A Indenture on such dates, as applicable.

Unsecured Notes

On May 6, 2016, the Company issued $50,000 in aggregate principal amount of five-year unsecured notes that mature on May 15, 2021 (the “2016 Unsecured Notes”), pursuant to a note purchase agreement, dated May 4, 2016, to an institutional investor in a private placement. On September 30, 2016, the Company entered into an amended and restated note purchase agreement (the "NPA") and issued an additional $40,000 in aggregate principal amount of 2016 Unsecured Notes to institutional investors in a private placement. On June 30, 2017, the Company issued $55,000 in aggregate principal amount of five-year unsecured notes that mature on July 15, 2022 (the "2017A Unsecured Notes"), pursuant to the NPA and a supplement to the NPA. On January 30, 2018, the Company issued $90,000 in aggregate principal amount of five year unsecured notes that mature on January 30, 2023 (the "2018A Unsecured Notes") pursuant to the NPA and a second supplement to the NPA. On July 5, 2018, the Company issued $50,000 in aggregate principal amount of five year unsecured notes that mature on June 28, 2023 (the "2018B Unsecured Notes") pursuant to the NPA and a third supplement to the NPA (the "Third Supplement"). The NPA provides for future issuances of unsecured notes in separate series or tranches.

The 2016 Unsecured Notes bear interest at an annual rate of 5.313%, payable semi-annually on May 15 and November 15 of each year, which commenced on November 15, 2016. The 2017A Unsecured Notes bear interest at an annual rate of 4.760%, payable semi-annually on January 15 and July 15 of each year, which commenced on January 15, 2018. The 2018A Unsecured Notes bear interest at an annual rate of 4.870%, payable semi-annually on February 15 and August 15 of each year, which commenced on August 15, 2018. The 2018B Unsecured Notes bear interest at an annual rate of 5.360%, payable semi-annually on January 15 and July 15 of each year, which commences on January 15, 2019. These interest rates are subject to increase in the event that: (i) subject to certain exceptions, the underlying unsecured notes or the Company ceases to have an investment grade rating or (ii) the aggregate amount of the Company’s unsecured debt falls below $150,000. In each such event, the Company has the option to offer to prepay the underlying unsecured notes at par, in which case holders of the underlying unsecured notes who accept the offer would not receive the increased interest rate. In addition, the Company is obligated to offer to prepay the underlying unsecured notes at par if the Investment Adviser, or an affiliate thereof, ceases to be the Company’s investment adviser or if certain change in control events occur with respect to the Investment Adviser.

The NPA contains customary terms and conditions for unsecured notes issued in a private placement, including, without limitation, an option to offer to prepay all or a portion of the unsecured notes under its governance at par (plus a make-whole amount, if applicable), affirmative and negative covenants such as information reporting, maintenance of the Company's status as a BDC under the 1940 Act and a RIC under the Code, minimum stockholders' equity, minimum asset coverage ratio, and prohibitions on certain fundamental changes at the Company or any subsidiary guarantor, as well as customary events of default with customary cure and notice, including, without limitation, nonpayment, misrepresentation in a material respect,

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breach of covenant, cross-default under other indebtedness of the Company or certain significant subsidiaries, certain judgments and orders, and certain events of bankruptcy. The Third Supplement includes additional financial covenants related to asset coverage as well as other terms.

On September 25, 2018, the Company closed a registered public offering of $50,000 in aggregate principal amount of five-year unsecured notes that mature on October 1, 2023 (the "5.75% Unsecured Notes" and together with the 2016 Unsecured Notes, 2017A Unsecured Notes, 2018A Unsecured Notes and 2018B Unsecured Notes, the "Unsecured Notes") pursuant to an indenture, dated August 20, 2018, as supplemented by a second supplemental indenture thereto, dated September 25, 2018 (together, the "2018B Indenture").

The 5.75% Unsecured Notes bear interest at an annual rate of 5.75%, payable quarterly on January 1, April 1, July 1 and October 1 of each year, which commences on January 1, 2019. The 5.75% Unsecured Notes will mature on October 1, 2023 unless earlier redeemed. The 5.75% Unsecured Notes are listed on the New York Stock Exchange and trade under the trading symbol “NMFX.”

The Company may redeem the 5.75% Unsecured Notes, in whole or in part, at any time, or from time to time, at its option on or after October 1, 2020, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption.

No sinking fund is provided for the 5.75% Unsecured Notes and holders of the 5.75% Unsecured Notes have no option to have their 5.75% Unsecured Notes repaid prior to the stated maturity date.

The 2018B Indenture contains certain covenants, including covenants requiring the Company to (i) comply with the asset coverage requirements set forth in Section 18(a)(1)(A) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act as may be applicable to the Company from time to time or any successor provisions, whether or not the Company continues to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to the Company by the SEC and (ii) provide certain financial information to the holders of the 5.75% Unsecured Notes and the trustee if the Company ceases to be subject to the reporting requirements of the Exchange Act. The 2018B Indenture also includes additional financial covenants related to asset coverage. These covenants are subject to limitations and exceptions that are described in the 2018B Indenture.

The 2018B Indenture provides for customary events of default and further provides that the trustee or the holders of 25% in aggregate principal amount of the outstanding 5.75% Unsecured Notes may declare such 5.75% Unsecured Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

The Unsecured Notes are unsecured obligations and rank senior in right of payment to the Company’s existing and future indebtedness, if any, that is expressly subordinated in right of payment to the Unsecured 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.

The following table summarizes the interest expense and amortization of financing costs incurred on the Unsecured Notes for the three and nine months ended September 30, 2018 and September 30, 2017.

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest expense	$3,643	$ 1,850	$9,181	$ 4,248
Amortization of financing costs	$201	$ 145	$537	$ 349
Weighted average interest rate	5.1 %	5.1 %	5.1 %	5.2 %
Effective interest rate	5.3 %	5.5 %	5.4 %	5.7 %
Average debt outstanding	$286,087	$ 145,000	$242,656	$ 108,736

As of September 30, 2018 and December 31, 2017, the outstanding balance on the Unsecured Notes was $335,000 and $145,000, respectively, and the Company was in compliance with the terms of the NPA and the 2018B Indenture as of such dates, as applicable.

SBA-guaranteed debentures—On August 1, 2014 and August 25, 2017, respectively, SBIC I and SBIC II received SBIC licenses from the SBA to operate as SBICs.

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The SBIC licenses allow SBICs 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 I and SBIC II over the Company's stockholders in the event SBIC I and SBIC II are liquidated or the SBA exercises remedies upon an event of default.

The maximum amount of borrowings available under current SBA regulations for a single licensee 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. In June 2018, the U.S. Senate passed the Small Business Investment Opportunity Act, which the President signed into law, that amended the 1958 Act by increasing the individual leverage limit from $150,000 to $175,000, subject to SBA approvals.

As of September 30, 2018 and December 31, 2017, SBIC I had regulatory capital of $75,000 and $75,000, respectively, and SBA-guaranteed debentures outstanding of $150,000 and $150,000, respectively. As of September 30, 2018 and December 31, 2017, SBIC II had regulatory capital of $42,500 and $2,500, respectively, and $15,000 and $0, respectively, of SBA-guaranteed debentures outstanding. 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 September 30, 2018.

Issuance Date	Maturity Date	Debenture Amount	Interest Rate	SBA Annual Charge
Fixed SBA-guaranteed debentures(1):				
March 25, 2015	March 1, 2025	$ 37,500	2.517 %	0.355 %
September 23, 2015	September 1, 2025	37,500	2.829 %	0.355 %
September 23, 2015	September 1, 2025	28,795	2.829 %	0.742 %
March 23, 2016	March 1, 2026	13,950	2.507 %	0.742 %
September 21, 2016	September 1, 2026	4,000	2.051 %	0.742 %
September 20, 2017	September 1, 2027	13,000	2.518 %	0.742 %
March 21, 2018	March 1, 2028	15,255	3.187 %	0.742 %
Fixed SBA-guaranteed debentures(2):				
September 19, 2018	September 1, 2028	15,000	3.548 %	0.222 %
Total SBA-guaranteed debentures		$ 165,000		

(1) SBA-guaranteed debentures are held in SBIC I.
(2) SBA-guaranteed debentures are held in SBIC II.

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 nine months ended September 30, 2018 and September 30, 2017.

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest expense	$1,341	$1,056	$3,750	$2,988
Amortization of financing costs	$139	$114	$391	$319
Weighted average interest rate	3.2 %	3.1 %	3.2 %	3.1 %
Effective interest rate	3.6 %	3.4 %	3.5 %	3.5 %
Average debt outstanding	$164,370	$134,890	$156,271	$127,028

The SBIC program is designed to stimulate the flow of private investor capital into eligible smaller businesses, as defined by the SBA. Under SBA regulations, SBICs are subject to regulatory requirements, including making investments in SBA-eligible businesses, investing at least 25.0% of its investment capital in eligible small businesses, as defined under the

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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. SBICs are subject to an annual periodic examination by an SBA examiner to determine the SBIC'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 September 30, 2018 and December 31, 2017, SBIC I and SBIC II were in compliance with SBA regulatory requirements.

Note 8. Regulation

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

Additionally, as a BDC, the Company must not acquire any assets other than "qualifying assets" specified in the 1940 Act unless, at the time the acquisition is made, at least 70.0% of its total assets are qualifying assets (with certain limited exceptions). In addition, the Company must offer to make available to all eligible portfolio companies managerial assistance.

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 September 30, 2018, the Company had unfunded commitments on revolving credit facilities of $49,735, no outstanding bridge financing commitments and other future funding commitments of $88,849. As of December 31, 2017, the Company had unfunded commitments on revolving credit facilities of $23,716, no outstanding bridge financing commitments and other future funding commitments of $53,712. The unfunded commitments on revolving credit facilities and delayed draws are disclosed on the Company's Consolidated Schedule of Investments.

The Company also has revolving borrowings available under the Holdings Credit Facility, the NMFC Credit Facility and the NMNLC Credit Facility as of September 30, 2018 and December 31, 2017. See Note 7. Borrowings, for details.

The Company may from time to time enter into financing commitment letters. As of September 30, 2018 and December 31, 2017, the Company had commitment letters to purchase investments in the aggregate par amount of $15,787 and $13,907, respectively, which could require funding in the future.

As of September 30, 2018 and December 31, 2017, the Company owed $9,000 and $12,000, respectively, related to a settlement agreement with a trustee of Black Elk Energy Offshore Operations, LLC. The Company began to make semi-annual payments of $3,000 in June 2018 with the final payment due in December 2019. See Item 3. Legal Proceedings in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

As of September 30, 2018, the Company had unfunded commitments related to an equity investment in SLP III of $13,200, which may be funded at the Company's discretion.

Note 10. Net Assets

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

	Common Stock		Paid in Capital in	Accumulated Undistributed Net Investment	Accumulated Undistributed Net Realized (Losses)	Net Unrealized Appreciation	Total
	Shares	Par Amount	Excess of Par	Income	Gains	(Depreciation)	Net Assets
Balance at December 31, 2017	75,935,093	$ 759	$ 1,053,468	$ 39,165	$ (76,681)	$ 18,264	$ 1,034,975

Issuances of common stock	171,279	2	2,328	—	—	—	2,330
Distributions declared	—	—	—	(77,512)	—	—	(77,512)
Net increase (decrease) in net assets resulting from operations	—	—	—	78,574	(3,149)	(1,688)	73,737
Balance at September 30, 2018	76,106,372	$ 761	$ 1,055,796	$ 40,227	$ (79,830)	$ 16,576	$ 1,033,530

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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 nine months ended September 30, 2018 and September 30, 2017:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Earnings per share—basic				
Numerator for basic earnings per share:	$26,760	$ 24,776	$73,737	$ 82,521
Denominator for basic weighted average share:	76,106,372	75,688,429	75,994,068	73,618,794
Basic earnings per share:	$0.35	$ 0.33	$0.97	$ 1.12
Earnings per share—diluted(1)				
Numerator for increase in net assets per share	$26,760	$ 24,776	$73,737	$ 82,521
Adjustment for interest on Convertible Notes and incentive fees, net	2,170	1,553	5,275	4,658
Numerator for diluted earnings per share:	$28,930	$ 26,329	$79,012	$ 87,179
Denominator for basic weighted average share	76,106,372	75,688,429	75,994,068	73,618,794
Adjustment for dilutive effect of Convertible Notes	13,282,627	9,824,127	10,989,629	9,824,127
Denominator for diluted weighted average share	89,388,999	85,512,556	86,983,697	83,442,921
Diluted earnings per share	$0.32	$ 0.31	$0.91	$ 1.04

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

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Note 12. Financial Highlights

The following information sets forth the Company's financial highlights for the nine months ended September 30, 2018 and September 30, 2017.

	Nine Months Ended September 30, 2018	September 30, 2017
Per share data(1):		
Net asset value, January 1, 2018 and January 1, 2017, respectively	$13.63	$13.46
Net investment income	1.03	1.03
Net realized and unrealized gains (losses)(2)	(0.06)	0.14
Total net increase	0.97	1.17
Distributions declared to stockholders from net investment income	(1.02)	(1.02)
Net asset value, September 30, 2018 and September 30, 2017, respectively	$13.58	$13.61
Per share market value, September 30, 2018 and September 30, 2017, respectively	$13.50	$14.25
Total return based on market value(3)	7.38%	8.31%
Total return based on net asset value(4)	7.30%	8.91%
Shares outstanding at end of period	76,106,372	75,805,019
Average weighted shares outstanding for the period	75,994,068	73,618,794
Average net assets for the period	$1,033,068	$1,003,672
Ratio to average net assets:		
Net investment income	10.17%	10.06%
Total expenses, before waivers/reimbursements	12.20%	10.08%
Total expenses, net of waivers/reimbursements	11.57%	9.20%
Average debt outstanding—Holdings Credit Facility	$351,421	$351,594
Average debt outstanding—Unsecured Notes	242,656	108,736
Average debt outstanding—Convertible Notes	172,942	155,250
Average debt outstanding—SBA-guaranteed debentures	156,271	127,028
Average debt outstanding—NMFC Credit Facility	113,269	48,030
Asset coverage ratio(5)	185.68%	248.37%
Portfolio turnover	28.21%	29.67%

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

(2) Includes the accretive effect of common stock issuances per share, which for the nine months ended September 30, 2018 and September 30, 2017 were $0.00 and $0.05, respectively.

(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) 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.

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Note 13. Recent Accounting Standards Updates

In August 2018, the FASB issued Accounting Standards Update No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"). The standard will modify the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period. Early adoption is permitted upon issuance of ASU 2018-13. The Company is permitted to early adopt any removed or modified disclosures upon issuance of ASU 2018-13 and delay adoption of the additional disclosures until their effective date. The Company is in the process of evaluating the impact that this guidance will have on the Company's consolidated financial statements and disclosures.

Note 14. Subsequent Events

The Company’s management has evaluated subsequent events through the date of issuance of the consolidated financial statements included herein. There have been no subsequent events that occurred during such period that would require disclosure in this Form 10-Q or would be required to be recognized in the consolidated financial statements as of and for the nine months ended September 30, 2018, except as discussed below.

On October 17, 2018, in connection with the registered public offering, the Company issued an additional $1,750 aggregate principal amount of the 5.75% Unsecured Notes pursuant to the exercise of an overallotment option by the underwriters of the 5.75% Unsecured Notes.

On November 1, 2018, the Company’s board of directors declared a fourth quarter 2018 distribution of $0.34 per share payable on December 28, 2018 to holders of record as of December 14, 2018.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the board of directors of New Mountain Finance Corporation

Results of Review of Interim Financial Information

We have reviewed the accompanying consolidated statement of assets and liabilities of New Mountain Finance Corporation and subsidiaries (the “Company”), including the consolidated schedule of investments, as of September 30, 2018, and the related consolidated statements of operations for the three-month and nine-month periods ended September 30, 2018 and 2017, and changes in net assets and cash flows for the nine-month periods ended September 30, 2018 and 2017, and the related notes (collectively referred to as the "interim financial information"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it 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) (PCAOB), the consolidated statement of assets and liabilities of the Company, including the consolidated schedule of investments, as of December 31, 2017, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended (not presented herein); and in our report dated February 28, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated statement of assets and liabilities as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated statement of assets and liabilities from which it has been derived.

Basis for Review Results

This interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with standards of the PCAOB. 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 PCAOB, 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.

/s/ DELOITTE & TOUCHE LLP

November 7, 2018

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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").

Forward-Looking Statements

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

- statements concerning the impact of a protracted decline in the liquidity of credit markets;
- the general economy, including interest and inflation rates, and its impact on the industries in which we invest;
- our future operating results, our business prospects and the adequacy of our cash resources and working capital;
- the ability of our portfolio companies to achieve their objectives;
- our ability to make investments consistent with our investment objectives, including with respect to the size, nature and terms of our investments;
- the ability of New Mountain Finance Advisers BDC, L.L.C. (the "Investment Adviser") or its affiliates to attract and retain highly talented professionals;
- actual and potential conflicts of interest with the Investment Adviser and New Mountain Capital L.L.C. ("New Mountain Capital", defined as New Mountain Capital Group, L.P. and its affiliates); and
- the risk factors set forth in Item 1A.—Risk Factors contained in our annual report on Form 10-K for the year ended December 31, 2017 and in this quarterly report on Form 10-Q.

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 si
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, 2017 and in this quarterly report on Form 10-Q.

We have based the forward-looking statements included in this report on information available to us on the date of this report. 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 (the "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

We are a Delaware corporation that was originally incorporated on June 29, 2010 and completed our initial public offering ("IPO") on May 19, 2011. We are a closed-end, non-diversified management investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). We have elected to be treated, and intend to comply with the requirements to continue to qualify annually, as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). NMFC is also registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Since our IPO, and through September 30, 2018, we raised approximately $614.6 million in net proceeds from additional offerings of common stock.

The Investment Adviser is a wholly-owned subsidiary 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. The Investment Adviser manages our day-to-day operations and provides us with investment advisory and management services. New Mountain Finance Administration, L.L.C. (the "Administrator”), a wholly-owned subsidiary of New Mountain Capital, provides the administrative services necessary to conduct our day-to-day operations.

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Our wholly-owned subsidiary, New Mountain Finance Holdings, L.L.C. (“NMF Holdings), is a Delaware limited liability company whose assets are used to secure NMF Holdings’ credit facility. NMF Ancora Holdings Inc. (“NMF Ancora”), NMF QID NGL Holdings, Inc. (“NMF QID”) and NMF YP Holdings Inc. (“NMF YP”), our wholly-owned subsidiaries, are structured as Delaware entities that serve as tax blocker corporations which hold equity or equity-like investments in portfolio companies organized as limited liability companies (or other forms of pass-through entities). We consolidate our tax blocker corporations for accounting purposes. The tax blocker corporations are not consolidated for income tax purposes and may incur income tax expense as a result of their ownership of the portfolio companies. Additionally, our wholly-owned subsidiary, New Mountain Finance Servicing, L.L.C. (“NMF Servicing”), serves as the administrative agent on certain investment transactions. New Mountain Finance SBIC, L.P. (“SBIC I”) and its general partner, New Mountain Finance SBIC G.P., L.L.C. (“SBIC I GP”), were organized in Delaware as a limited partnership and limited liability company, respectively. New Mountain Finance SBIC II, L.P. (“SBIC II”) and its general partner, New Mountain Finance SBIC II G.P., L.L.C. (“SBIC II GP”), were also organized in Delaware as a limited partnership and limited liability company, respectively. SBIC I, SBIC I GP, SBIC II and SBIC II GP are our consolidated wholly-owned direct and indirect subsidiaries. SBIC I and SBIC II received licenses from the United States ("U.S.") Small Business Administration (the “SBA”) to operate as a small business investment company (“SBIC”) under Section 301(c) of the Small Business Investment Act of 1958, as amended (the “1958 Act”). Our wholly-owned subsidiary, New Mountain Net Lease Corporation ("NMNLC"), a Maryland corporation, was formed to acquire commercial real properties that are subject to "triple net" leases and intends to qualify as a real estate investment trust, or REIT, within the meaning of Section 856(a) of the Code.
Our investment objective is to generate current income and capital appreciation through the sourcing and origination of debt securities at all levels of the capital structure, including first and second lien debt, notes, bonds and mezzanine securities. The first lien debt may include traditional first lien senior secured loans or unitranche loans. Unitranche loans combine characteristics of traditional first lien senior secured loans as well as second lien and subordinated loans. Unitranche loans will expose us to the risks associated with second lien and subordinated loans to the extent we invest in the “last out” tranche. In some cases, our investments may also include equity interests.
Our primary focus is in the debt of defensive growth companies, which are defined as generally exhibiting the following characteristics: (i) sustainable secular growth drivers, (ii) high barriers to competitive entry, (iii) high free cash flow after capital expenditure and working capital needs, (iv) high returns on assets and (v) niche market dominance. Similar to us, SBIC I's and SBIC II's investment objectives are to generate current income and capital appreciation under our investment criteria. However, SBIC I's and SBIC II's investments must be in SBA eligible small businesses. Our portfolio may be concentrated in a limited number of industries. As of September 30, 2018, our top five industry concentrations were business services, software, healthcare services, education and investment funds.
As of September 30, 2018, our net asset value was $1,033.5 million and our portfolio had a fair value of approximately $2,294.8 million in 92 portfolio companies, with a weighted average yield to maturity at cost for income producing investments ("YTM at Cost") of approximately 11.0% and a weighted average yield to maturity at cost for all investments ("YTM at Cost for Investments") of approximately 10.9%. The YTM at Cost calculation assumes that all investments, including secured collateralized agreements, not on non-accrual are purchased at cost on the quarter end date and held until their respective maturities with no prepayments or losses and exited at par at maturity. The YTM at Cost for Investments calculation assumes that all investments, including secured collateralized agreements, are purchased as cost on the quarter end date and held until their respective maturities with no prepayments or losses and exited at par at maturity. YTM at Cost and YTM at Cost for Investments calculations exclude the impact of existing leverage. YTM at Cost and YTM at Cost for Investments uses the London Interbank Offered Rate ("LIBOR") curves at each quarter's end date. The actual yield to maturity may be higher or lower due to the future selection of the LIBOR contracts by the individual companies in our portfolio or other factors.
Recent Developments
On October 17, 2018, in connection with the registered public offering, we issued an additional $1.8 million aggregate principal amount of five-year unsecured notes that mature on October 1, 2023 (the "5.75% Unsecured Notes") pursuant to the exercise of an overallotment option by the underwriters of the 5.75% Unsecured Notes.

On November 1, 2018, our board of directors declared a fourth quarter 2018 distribution of $0.34 per share payable on December 28, 2018 to holders of record as of December 14, 2018.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America ("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,

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and revenues and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following items as critical accounting policies.

Basis of Accounting

We consolidate our wholly-owned direct and indirect subsidiaries: NMF Holdings, NMF Servicing, NMNLC, SBIC I, SBIC I GP, SBIC II, SBIC II GP, NMF Ancora, NMF QID and NMF YP. We are an investment company following accounting and reporting guidance as described in Accounting Standards Codification Topic 946, Financial Services—Investment Companies, ("ASC 946").

Valuation and Leveling of Portfolio Investments

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

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

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

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

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

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

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 our senior management;

c. If an investment falls into (3) above for four consecutive quarters and if the investment's par value or its fair value exceeds the materiality threshold, then at least once each fiscal year, the valuation for each portfolio investment for which we do not have a readily available market quotation will be reviewed by an independent valuation firm engaged by our board of directors; and

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

Explanation of Responses:

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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 a commitment not completely funded may result in a negative fair value until it is called and funded.

The values assigned to investments are based upon available information and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot be reasonably determined until the individual positions are liquidated. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may fluctuate from period to period and the fluctuations could be material.

GAAP fair value measurement guidance classifies the inputs used in measuring fair value into three levels as follows:

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

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

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

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

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

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 period in which the reclassifications occur.

The following table summarizes the levels in the fair value hierarchy that our portfolio investments fall into as of September 30, 2018:

(in thousands)	Total	Level I	Level II	Level III
First lien	$1,030,033	$ —	$143,479	$886,554
Second lien	681,910	—	358,727	323,183
Subordinated	64,606	—	26,262	38,344
Equity and other	518,210	6	—	518,204
Total investments	$2,294,759	$ 6	$528,468	$1,766,285

We generally use the following framework when determining the fair value of investments where there are little, if any, market activity or observable pricing inputs. We typically determine the fair value of our performing debt investments utilizing an income approach. Additional consideration is given using a market based approach, as well as reviewing the overall

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underlying portfolio company's performance and associated financial risks. The following outlines additional details on the approaches considered:

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

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

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

Market Based Approach: We may estimate the total enterprise value of each portfolio company by utilizing market value cash flow (EBITDA) multiples of publicly traded comparable companies and comparable transactions. We consider numerous factors when selecting the appropriate companies whose trading multiples are used to value our portfolio companies. These factors include, but are not limited to, the type of organization, similarity to the business being valued, and relevant risk factors, as well as size, profitability and growth expectations. We may apply an average of various relevant comparable company EBITDA multiples to the portfolio company's latest twelve month ("LTM") EBITDA or projected EBITDA to calculate the enterprise value of the portfolio company. Significant increases or decreases in the EBITDA multiple will result in an increase or decrease in enterprise value, which may result in an increase or decrease in the fair value estimate of the investment. In applying the market based approach as of September 30, 2018, we used the relevant EBITDA multiple ranges set forth in the table below to determine the enterprise value of our portfolio companies. We believe these were reasonable ranges in light of current comparable company trading levels and the specific portfolio companies involved.

Income Based Approach: We also may use a discounted cash flow analysis to estimate the fair value of the investment. Projected cash flows represent the relevant security's contractual interest, fee and principal payments plus the assumption of full principal recovery at the investment's expected maturity date. These cash flows are discounted at a rate established utilizing a yield calibration approach, which incorporates changes in the credit quality (as measured by relevant statistics) of the portfolio company, as compared to changes in the yield associated with comparable credit quality market indices, between the date of origination and the valuation date. Significant increases or decreases in the discount rate would result in a decrease or increase in the fair value measurement. In applying the income based approach as of September 30, 2018, we used the discount ranges set forth in the table below to value investments in our portfolio companies.

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The unobservable inputs used in the fair value measurement of our Level III investments as of September 30, 2018 were as follows:

(in thousands)				Range		
Type	Fair Value as of September 30, 2018	Approach	Unobservable Input	Low	High	Weighted Average
First lien	$594,309	Market & income approach	EBITDA multiple	2.0x	32.0x	12.0x
			Revenue multiple	3.5x	6.5x	5.5x
			Discount rate	6.9 %	14.3 %	9.7 %
	163,957	Market quote	Broker quote	N/A	N/A	N/A
	128,288	Other	N/A(1)	N/A	N/A	N/A
Second lien	105,801	Market & income approach	EBITDA multiple	7.5x	17.0x	12.2x
			Revenue multiple	2.5x	3.3x	2.9x
			Discount rate	11.1 %	13.6 %	11.7 %
	217,382	Market quote	Broker quote	N/A	N/A	N/A
Subordinated	38,344	Market & income approach	EBITDA multiple	6.5x	11.0x	10.0x
			Revenue multiple	2.5x	3.3x	2.9x
			Discount rate	8.1 %	22.0 %	19.0 %
Equity and other	517,709	Market & income approach	EBITDA multiple	0.4x	19.0x	12.6x
			Revenue multiple	2.5x	3.3x	2.9x
			Discount rate	7.0 %	25.1 %	12.9 %
	495	Black Scholes analysis	Expected life in years	7.5	7.5	7.5
			Volatility	38.0 %	38.0 %	38.0 %
			Discount rate	2.9 %	2.9 %	2.9 %
	$1,766,285					

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

NMFC Senior Loan Program I LLC

NMFC Senior Loan Program I LLC ("SLP I") was formed as a Delaware limited liability company on May 27, 2014 and commenced operations on June 10, 2014. SLP I is a portfolio company held by us. SLP I is structured as a private investment fund, in which all of the investors are qualified purchasers, as such term is defined under the 1940 Act. Transfer of interests in SLP I is subject to restrictions and, as a result, such interests are not readily marketable. SLP I operates under a limited liability company agreement (the "SLP I Agreement") and will continue in existence until August 31, 2021, subject to earlier termination pursuant to certain terms of the SLP I Agreement. The term may be extended pursuant to certain terms of the SLP I Agreement. SLP I's re-investment period was through July 31, 2018. In September 2018, the re-investment period was extended until August 31, 2019. SLP I invests in senior secured loans issued by companies within our core industry verticals. These investments are typically broadly syndicated first lien loans.

SLP I is capitalized with $93.0 million of capital commitments and $265.0 million of debt from a revolving credit facility and is managed by us. Our capital commitment is $23.0 million, representing less than 25.0% ownership, with third party investors representing the remaining capital commitments. As of September 30, 2018, SLP I had total investments with an aggregate fair value of approximately $328.6 million, debt outstanding of $237.3 million and capital that had been called and funded of $93.0 million. As of December 31, 2017, SLP I had total investments with an aggregate fair value of approximately $348.7 million, debt outstanding of $223.7 million and capital that had been called and funded of $93.0 million. Our investment in SLP I is disclosed on our Consolidated Schedule of Investments as of September 30, 2018 and December 31, 2017.

We, as an investment adviser registered under the Advisers Act, act as the collateral manager to SLP I and are entitled to receive a management fee for our investment management services provided to SLP I. As a result, SLP I is classified as our affiliate. No management fee is charged on our investment in SLP I in connection with the administrative services provided to SLP I. For the three and nine months ended September 30, 2018, we earned approximately $0.3 million and $0.9 million, respectively, in management fees related to SLP I, which is included in other income. For the three and nine months ended

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September 30, 2017, we earned approximately $0.3 million and $0.9 million, respectively, in management fees related to SLP I, which is included in other income. As of September 30, 2018 and December 31, 2017, approximately $0.3 million and $0.3 million, respectively, of management fees related to SLP I was included in receivable from affiliates. For the three and nine months ended September 30, 2018, we earned approximately $0.8 million and $2.4 million, respectively, of dividend income related to SLP I, which is included in dividend income. For the three and nine months ended September 30, 2017, we earned approximately $0.8 million and $2.7 million, respectively, of dividend income related to SLP I, which is included in dividend income. As of September 30, 2018 and December 31, 2017, approximately $0.8 million and $0.8 million, respectively, of dividend income related to SLP I was included in interest and dividend receivable.

NMFC Senior Loan Program II LLC

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

SLP II is capitalized with equity contributions which were called from its members, on a pro-rata basis based on their equity commitments, as transactions are completed. Any decision by SLP II to call down on capital commitments requires approval by the board of managers of SLP II. As of September 30, 2018, we and SkyKnight have committed and contributed $79.4 million and $20.6 million, respectively, of equity to SLP II. Our investment in SLP II is disclosed on our Consolidated Schedule of Investments as of September 30, 2018 and December 31, 2017.

On April 12, 2016, SLP II closed its $275.0 million revolving credit facility with Wells Fargo Bank, National Association, which matures on April 12, 2021 and bears interest at a rate of LIBOR plus 1.75% per annum. Effective April 1, 2018, SLP II's revolving credit facility bears interest at a rate of LIBOR plus 1.60% per annum. As of September 30, 2018 and December 31, 2017, SLP II had total investments with an aggregate fair value of approximately $353.3 million and $382.5 million, respectively, and debt outstanding under its credit facility of $262.4 million and $266.3 million, respectively. As of September 30, 2018 and December 31, 2017, none of SLP II's investments were on non-accrual. Additionally, as of September 30, 2018 and December 31, 2017, SLP II had unfunded commitments in the form of delayed draws of $8.8 million and $4.9 million, respectively. Below is a summary of SLP II's portfolio, along with a listing of the individual investments in SLP II's portfolio as of September 30, 2018 and December 31, 2017:

(in thousands)	September 30, 2018	December 31, 2017
First lien investments (1)	360,933	386,100
Weighted average interest rate on first lien investments (2)	6.55 %	6.05 %
Number of portfolio companies in SLP II	32	35
Largest portfolio company investment (1)	17,183	17,369
Total of five largest portfolio company investments (1)	80,958	81,728

(1) Reflects principal amount or par value of investments.

(2) Computed as the all in interest rate in effect on accruing investments divided by the total principal amount of investments.

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The following table is a listing of the individual investments in SLP II's portfolio as of September 30, 2018:

Portfolio Company and Type of Investment	Industry	Interest Rate (1)	Maturity Date	Principal Amount or Par Value	Cost	Fair Value (2)
Funded Investments - First lien:				(in thousands)	(in thousands)	(in thousands)
Access CIG, LLC	Business Services	5.99% (L + 3.75%)	2/27/2025	$ 8,848	$ 8,806	$ 8,906
ADG, LLC	Healthcare Services	6.99% (L + 4.75%)	9/28/2023	16,905	16,778	16,651
Beaver-Visitec International Holdings, Inc.	Healthcare Products	6.39% (L + 4.00%)	8/21/2023	14,701	14,521	14,774
Brave Parent Holdings, Inc.	Software	6.39% (L + 4.00%)	4/18/2025	15,461	15,406	15,519
CentralSquare Technologies, LLC	Software	5.99% (L + 3.75%)	8/29/2025	15,000	14,963	15,070
CHA Holdings, Inc.	Business Services	6.89% (L + 4.50%)	4/10/2025	9,832	9,786	9,906
CommerceHub, Inc.	Software	5.99% (L + 3.75%)	5/21/2025	2,493	2,482	2,503
Drilling Info Holdings, Inc.	Business Services	6.54% (L + 4.25%)	7/30/2025	11,250	11,202	11,237
FPC Holdings, Inc.	Distribution & Logistics	6.74% (L + 4.50%)	11/18/2022	14,925	14,517	15,069
Greenway Health, LLC	Software	6.14% (L + 3.75%)	2/16/2024	14,812	14,753	14,832
Idera, Inc.	Software	6.75% (L + 4.50%)	6/28/2024	12,523	12,416	12,644
J.D. Power (fka J.D. Power and Associates)	Business Services	6.49% (L + 4.25%)	9/7/2023	13,256	13,213	13,344
Keystone Acquisition Corp.	Healthcare Services	7.64% (L + 5.25%)	5/1/2024	5,346	5,301	5,383
LSCS Holdings, Inc.	Healthcare Services	6.63% (L + 4.25%)	3/17/2025	5,321	5,312	5,321
LSCS Holdings, Inc.	Healthcare Services	6.52% (L + 4.25%)	3/17/2025	1,374	1,371	1,374
Market Track, LLC	Business Services	6.64% (L + 4.25%)	6/5/2024	11,850	11,800	11,835
Medical Solutions Holdings, Inc.	Healthcare Services	5.99% (L + 3.75%)	6/14/2024	4,443	4,424	4,459
Ministry Brands, LLC	Software	6.24% (L + 4.00%)	12/2/2022	2,121	2,113	2,121
Ministry Brands, LLC	Software	6.24% (L + 4.00%)	12/2/2022	303	301	303
Ministry Brands, LLC	Software	6.24% (L + 4.00%)	12/2/2022	12,316	12,267	12,316
Navicure, Inc.	Healthcare Services	5.99% (L + 3.75%)	11/1/2024	2,928	2,915	2,942
	Software		5/25/2025	7,500	7,464	7,523

NorthStar Financial Services Group, LLC		5.56% (L + 3.50%)				
Pathway Vet Alliance LLC (fka Pathway Partners Vet Management Company LLC)	Consumer Services	6.49% (L + 4.25%)	10/10/2024	286	284	286
Pathway Vet Alliance LLC (fka Pathway Partners Vet Management Company LLC)	Consumer Services	6.49% (L + 4.25%)	10/10/2024	9,630	9,586	9,654
Peraton Corp. (fka MHVC Acquisition Corp.)	Federal Services	7.64% (L + 5.25%)	4/29/2024	10,369	10,325	10,317
Poseidon Intermediate, LLC	Software	6.50% (L + 4.25%)	8/15/2022	14,767	14,764	14,841
Premise Health Holding Corp.	Healthcare Services	6.14% (L + 3.75%)	7/10/2025	1,390	1,383	1,397
Project Accelerate Parent, LLC	Business Services	6.37% (L + 4.25%)	1/2/2025	14,925	14,856	15,018
PSC Industrial Holdings Corp.	Industrial Services	5.91% (L + 3.75%)	10/11/2024	10,421	10,329	10,467
Quest Software US Holdings Inc.	Software	6.57% (L + 4.25%)	5/16/2025	15,000	14,928	15,060
Salient CRGT Inc.	Federal Services	7.99% (L + 5.75%)	2/28/2022	13,603	13,505	13,807
Sierra Acquisition, Inc.	Food & Beverage	5.99% (L + 3.75%)	11/11/2024	3,722	3,705	3,754
SSH Group Holdings, Inc.	Education	6.59% (L + 4.25%)	7/30/2025	9,000	8,978	9,090
WP CityMD Bidco LLC	Healthcare Services	5.89% (L + 3.50%)	6/7/2024	14,850	14,819	14,831
YI, LLC	Healthcare Services	6.39% (L + 4.00%)	11/7/2024	1,457	1,462	1,457
YI, LLC	Healthcare Services	6.39% (L + 4.00%)	11/7/2024	12,069	12,059	12,069
Zywave, Inc.	Software	7.34% (L + 5.00%)	11/17/2022	17,183	17,120	17,183
Total Funded Investments				$ 352,180	$ 350,214	$ 353,263
Unfunded Investments - First lien:						
Access CIG, LLC	Business Services	—	2/27/2019	$ 1,108	$ —	$ 7
CHA Holdings, Inc.	Business Services	—	10/10/2019	2,143	(11)	16
Drilling Info Holdings, Inc.	Business Services	—	7/30/2020	2,249	(10)	(6)
Ministry Brands, LLC	Software	—	10/18/2019	1,566	(8)	—
Premise Health Holding Corp.	Healthcare Services	—	7/10/2020	110	—	1
YI, LLC	Healthcare Services	—	11/7/2018	1,577	(8)	—
Total Unfunded Investments				$ 8,753	$ (37)	$ 18
Total Investments				$ 360,933	$ 350,177	$ 353,281

(1)

All interest is payable in cash unless otherwise indicated. A majority of the variable rate debt investments bear interest at a rate that may be determined by reference to the LIBOR (L), the Prime Rate (P) and the alternative base rate (Base). For each investment, the current interest rate provided reflects the rate in effect as of September 30, 2018.

(2) Represents the fair value in accordance with ASC 820. Our board of directors does not determine the fair value of the investments held by SLP II.

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The following table is a listing of the individual investments in SLP II's portfolio as of December 31, 2017:

Portfolio Company and Type of Investment	Industry	Interest Rate (1)	Maturity Date	Principal Amount or Par Value	Cost	Fair Value (2)
Funded Investments - First lien				(in thousands)	(in thousands)	(in thousands)
ADG, LLC	Healthcare Services	6.32% (L + 4.75%)	9/28/2023	$ 17,034	$ 16,890	$ 16,779
ASG Technologies Group, Inc.	Software	6.32% (L + 4.75%)	7/31/2024	7,481	7,446	7,547
Beaver-Visitec International Holdings, Inc.	Healthcare Products	6.69% (L + 5.00%)	8/21/2023	14,812	14,688	14,813
DigiCert, Inc.	Business Services	6.13% (L + 4.75%)	10/31/2024	10,000	9,951	10,141
Emerald 2 Limited	Business Services	5.69% (L + 4.00%)	5/14/2021	1,266	1,211	1,267
Evo Payments International, LLC	Business Services	5.57% (L + 4.00%)	12/22/2023	17,369	17,292	17,492
Explorer Holdings, Inc.	Healthcare Services	5.13% (L + 3.75%)	5/2/2023	2,940	2,917	2,973
Globallogic Holdings Inc.	Business Services	6.19% (L + 4.50%)	6/20/2022	9,677	9,611	9,755
Greenway Health, LLC	Software	5.94% (L + 4.25%)	2/16/2024	14,925	14,858	15,074
Idera, Inc.	Software	6.57% (L + 5.00%)	6/28/2024	12,619	12,499	12,556
J.D. Power (fka J.D. Power and Associates)	Business Services	5.94% (L + 4.25%)	9/7/2023	13,357	13,308	13,407
Keystone Acquisition Corp.	Healthcare Services	6.94% (L + 5.25%)	5/1/2024	5,386	5,336	5,424
Market Track, LLC	Business Services	5.94% (L + 4.25%)	6/5/2024	11,940	11,884	11,940
McGraw-Hill Global Education Holdings, LLC	Education	5.57% (L + 4.00%)	5/4/2022	9,850	9,813	9,844
Medical Solutions Holdings, Inc.	Healthcare Services	5.82% (L + 4.25%)	6/14/2024	6,965	6,932	7,043
Ministry Brands, LLC	Software	6.38% (L + 5.00%)	12/2/2022	2,138	2,128	2,138
Ministry Brands, LLC	Software	6.38% (L + 5.00%)	12/2/2022	7,768	7,735	7,768
Navex Global, Inc.	Software	5.82% (L + 4.25%)	11/19/2021	14,897	14,724	14,971
Navicure, Inc.	Healthcare Services	5.11% (L + 3.75%)	11/1/2024	15,000	14,926	15,000
OEConnection LLC	Business Services	5.69% (L + 4.00%)	11/22/2024	15,000	14,925	14,981
Pathway Partners Vet Management Company LLC	Consumer Services	5.82% (L + 4.25%)	10/10/2024	6,963	6,929	6,980

Pathway Partners Vet Management Company LLC	Consumer Services	5.82% (L + 4.25%)	10/10/2024	291	290	292
Peraton Corp. (fka MHVC Acquisition Corp.)	Federal Services	6.95% (L + 5.25%)	4/29/2024	10,448	10,399	10,526
Poseidon Intermediate, LLC	Software	5.82% (L + 4.25%)	8/15/2022	14,881	14,877	14,955
Project Accelerate Parent, LLC	Business Services	5.94% (L + 4.25%)	1/2/2025	15,000	14,925	15,038
PSC Industrial Holdings Corp.	Industrial Services	5.71% (L + 4.25%)	10/11/2024	10,500	10,398	10,500
Quest Software US Holdings Inc.	Software	6.92% (L + 5.50%)	10/31/2022	9,899	9,775	10,071
Salient CRGT Inc.	Federal Services	7.32% (L + 5.75%)	2/28/2022	14,433	14,310	14,559
Severin Acquisition, LLC	Software	6.32% (L + 4.75%)	7/30/2021	14,888	14,827	14,813
Shine Acquisitoin Co. S.à.r.l / Boing US Holdco Inc.	Consumer Services	4.88% (L + 3.50%)	10/3/2024	15,000	14,964	15,108
Sierra Acquisition, Inc.	Food & Beverage	5.68% (L + 4.25%)	11/11/2024	3,750	3,731	3,789
TMK Hawk Parent, Corp.	Distribution & Logistics	4.88% (L + 3.50%)	8/28/2024	1,671	1,667	1,686
University Support Services LLC (St. George's University Scholastic Services LLC)	Education	5.82% (L + 4.25%)	7/6/2022	1,875	1,875	1,900
Vencore, Inc. (fka SI Organization, Inc., The)	Federal Services	6.44% (L + 4.75%)	11/23/2019	10,686	10,673	10,835
WP CityMD Bidco LLC	Healthcare Services	5.69% (L + 4.00%)	6/7/2024	14,963	14,928	15,009
YI, LLC	Healthcare Services	5.69% (L + 4.00%)	11/7/2024	8,240	8,204	8,230
Zywave, Inc.	Software	6.61% (L + 5.00%)	11/17/2022	17,325	17,252	17,325
Total Funded Investments				$ 381,237	$ 379,098	$ 382,529
Unfunded Investments - First lien						
Pathway Partners Vet Management Company LLC	Consumer Services	—	10/10/2019	$ 2,728	$ (14)	$ 7
TMK Hawk Parent, Corp.	Distribution & Logistics	—	3/28/2018	75	—	1
YI, LLC	Healthcare Services	—	11/7/2018	2,060	(9)	(3)
Total Unfunded Investments				$ 4,863	$ (23)	$ 5
Total Investments				$ 386,100	$ 379,075	$ 382,534

(1) All interest is payable in cash unless otherwise indicated. A majority of the variable rate debt investments bear interest at a rate that may be determined by reference to the LIBOR (L), the Prime Rate (P) and the alternative base rate (Base). For each investment, the current interest rate provided reflects the rate in effect as of December 31, 2017.

(2) Represents the fair value in accordance with ASC 820. Our board of directors does not determine the fair value of the investments held by SLP II.

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Explanation of Responses:

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Below is certain summarized financial information for SLP II as of September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 and September 30, 2017:

Selected Balance Sheet Information:	September 30, 2018	December 31, 2017
	(in thousands)	(in thousands)
Investments at fair value (cost of $350,177 and $379,075, respectively)	$ 353,281	$ 382,534
Cash and other assets	17,417	8,065
Total assets	$ 370,698	$ 390,599
Credit facility	$ 262,370	$ 266,270
Deferred financing costs	(1,526)	(1,966)
Payable for unsettled securities purchased	—	15,964
Distribution payable	3,500	3,500
Other liabilities	2,722	2,891
Total liabilities	267,066	286,659
Members' capital	$ 103,632	$ 103,940
Total liabilities and members' capital	$ 370,698	$ 390,599

Selected Statement of Operations Information:	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(in thousands)	(in thousands)	(in thousands)	(in thousands)
Interest income	$ 6,358	$ 5,858	$ 18,122	$ 16,661
Other income	39	27	97	343
Total investment income	6,397	5,885	18,219	17,004
Interest and other financing expenses	2,686	2,185	7,667	6,108
Other expenses	140	159	504	533
Total expenses	2,826	2,344	8,171	6,641
Net investment income	3,571	3,541	10,048	10,363
Net realized gains on investments	125	223	758	2,145
Net change in unrealized appreciation (depreciation) of investments	(75)	88	(355)	(553)
Net increase in members' capital	$ 3,621	$ 3,852	$ 10,451	$ 11,955

For the three and nine months ended September 30, 2018, we earned approximately $2.7 million and $8.5 million, respectively, of dividend income related to SLP II, which is included in dividend income. For the three and nine months ended September 30, 2017, we earned approximately $3.0 million and $9.6 million, respectively, of dividend income related to SLP II, which is included in dividend income. As of September 30, 2018 and December 31, 2017, approximately $2.7 million and $2.8 million, respectively, of dividend income related to SLP II was included in interest and dividend receivable.

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

NMFC Senior Loan Program III LLC

NMFC Senior Loan Program III LLC ("SLP III") was formed as a Delaware limited liability company and commenced operations on April 25, 2018. SLP III is structured as a private joint venture investment fund between us and SkyKnight Income II, LLC (“SkyKnight II”) and operates under a limited liability company agreement (the "SLP III Agreement"). The purpose of the joint venture is to invest primarily in senior secured loans issued by portfolio companies within the our core industry verticals. These investments are typically broadly syndicated first lien loans. All investment

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decisions must be unanimously approved by the board of managers of SLP III, which has equal representation from us and SkyKnight II. SLP III has a five year investment period and will continue in existence until April 25, 2025. The investment period may be extended for up to one year pursuant to certain terms of the SLP III Agreement.

SLP III is capitalized with equity contributions which are called from its members, on a pro-rata basis based on their equity commitments, as transactions are completed. Any decision by SLP III to call down on capital commitments requires approval by the board of managers of SLP III. As of September 30, 2018, we and SkyKnight II have committed $80.0 million and $20.0 million, respectively, of equity to SLP III. As of September 30, 2018, we and SkyKnight II have contributed $66.8 million and $16.7 million, respectively, of equity to SLP III. Our investment in SLP III is disclosed on the our Consolidated Schedule of Investments as of September 30, 2018.

On May 2, 2018, SLP III closed its $300.0 million revolving credit facility with Citibank, N.A., which matures on May 2, 2023 and bears interest at a rate of LIBOR plus 1.70% per annum. As of September 30, 2018, SLP III had total investments with an aggregate fair value of approximately $322.2 million and debt outstanding under its credit facility of $218.8 million. As of September 30, 2018, none of SLP III's investments were on non-accrual. Additionally, as of September 30, 2018, SLP III had unfunded commitments in the form of delayed draws of $15.2 million. Below is a summary of SLP III's portfolio, along with a listing of the individual investments in SLP III's portfolio as of September 30, 2018:

(in thousands)	September 30, 2018	
First lien investments (1)	336,383	
Weighted average interest rate on first lien investments (2)	6.16	%
Number of portfolio companies in SLP III	34	
Largest portfolio company investment (1)	19,000	
Total of five largest portfolio company investments (1)	82,959	

(1) Reflects principal amount or par value of investment.

(2) Computed as the all in interest rate in effect on accruing investments divided by the total principal amount of investments.

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The following table is a listing of the individual investments in SLP III's portfolio as of September 30, 2018:

Portfolio Company and Type of Investment	Industry	Interest Rate (1)	Maturity Date	Principal Amount or Par Value	Cost	Fair Value (2)
Funded Investments - First lien				(in thousands)	(in thousands)	(in thousands)
Access CIG, LLC	Business Services	5.99% (L + 3.75%)	2/27/2025	$ 1,219	$ 1,219	$ 1,227
Affordable Care Holding Corp.	Healthcare Services	7.04% (L + 4.75%)	10/24/2022	1,028	1,033	1,032
Bracket Intermediate Holding Corp.	Healthcare Services	6.57% (L + 4.25%)	9/5/2025	15,000	14,925	15,000
Brave Parent Holdings, Inc.	Software	6.39% (L + 4.00%)	4/18/2025	14,964	14,911	15,019
CentralSquare Technologies, LLC	Software	5.99% (L + 3.75%)	8/29/2025	15,000	14,963	15,070
Certara Holdco, Inc.	Healthcare I.T.	5.89% (L + 3.50%)	8/15/2024	1,279	1,284	1,283
CommerceHub, Inc.	Software	5.99% (L + 3.75%)	5/21/2025	14,964	14,892	15,019
CRCI Longhorn Holdings, Inc.	Business Services	5.62% (L + 3.50%)	8/8/2025	15,001	14,927	15,042
Dentalcorp Perfect Smile ULC	Healthcare Services	5.99% (L + 3.75%)	6/6/2025	11,971	11,941	12,082
Dentalcorp Perfect Smile ULC	Healthcare Services	5.99% (L + 3.75%)	6/6/2025	749	753	756
Drilling Info Holdings, Inc.	Business Services	6.54% (L + 4.25%)	7/30/2025	16,499	16,417	16,478
Financial & Risk US Holdings, Inc.	Business Services	6.01% (L + 3.75%)	10/1/2025	8,000	7,980	7,992
Greenway Health, LLC	Software	6.14% (L + 3.75%)	2/16/2024	14,858	14,869	14,877
Heartland Dental, LLC	Healthcare Services	5.99% (L + 3.75%)	4/30/2025	16,480	16,402	16,508
Idera, Inc.	Software	6.76% (L + 4.50%)	6/28/2024	2,294	2,294	2,322
Market Track, LLC	Business Services	6.64% (L + 4.25%)	6/5/2024	4,839	4,833	4,833
Ministry Brands, LLC	Software	6.24% (L + 4.00%)	12/2/2022	4,607	4,586	4,607
Ministry Brands, LLC	Software	6.24% (L + 4.00%)	12/2/2022	303	301	303
National Intergovernmental Purchasing Alliance Company	Business Services	6.14% (L + 3.75%)	5/23/2025	14,963	14,949	15,019
Navex Topco, Inc.	Software	5.37% (L + 3.25%)	9/5/2025	15,000	14,925	15,006
Navicure, Inc.	Healthcare Services	5.99% (L + 3.75%)	11/1/2024	2,992	2,992	3,007
Netsmart Technologies, Inc.			4/19/2023	10,464	10,464	10,543

	Healthcare I.T.	5.99% (L + 3.75%)				
Newport Group Holdings II, Inc.	Business Services	5.90% (L + 3.75%)	9/12/2025	5,000	4,975	5,019
NorthStar Financial Services Group, LLC	Software	5.56% (L + 3.50%)	5/25/2025	15,000	14,928	15,047
OEConnection LLC	Business Services	6.25% (L + 4.00%)	11/22/2024	1,834	1,848	1,844
Pathway Vet Alliance LLC	Consumer Services	6.49% (L + 4.25%)	10/10/2024	1,333	1,326	1,336
Pelican Products, Inc.	Business Products	5.60% (L + 3.50%)	5/1/2025	4,988	4,976	4,999
Peraton Corp. (fka MHVC Acquisition Corp.)	Federal Services	7.64% (L + 5.25%)	4/29/2024	12,628	12,565	12,565
Premise Health Holding Corp.	Healthcare Services	6.14% (L + 3.75%)	7/10/2025	13,897	13,828	13,971
Quest Software US Holdings Inc.	Software	6.57% (L + 4.25%)	5/16/2025	15,000	14,928	15,060
Sierra Enterprises, LLC	Food & Beverage	5.99% (L + 3.75%)	11/11/2024	2,488	2,485	2,509
SSH Group Holdings, Inc.	Education	6.59% (L + 4.25%)	7/30/2025	15,000	14,963	15,150
University Support Services LLC (St. George's University Scholastic Services LLC)	Education	5.75% (L + 3.50%)	7/17/2025	3,814	3,795	3,849
VT Topco, Inc.	Business Services	6.09% (L + 3.75%)	8/1/2025	8,000	7,980	8,075
VT Topco, Inc.	Business Services	6.14% (L + 3.75%)	8/1/2025	373	376	377
WP CityMD Bidco LLC	Healthcare Services	5.89% (L + 3.50%)	6/7/2024	14,925	14,925	14,906
YI, LLC	Healthcare Services	6.39% (L + 4.00%)	11/7/2024	3,978	3,992	3,978
YI, LLC	Healthcare Services	6.39% (L + 4.00%)	11/7/2024	480	482	480
Total Funded Investments				$ 321,212	$ 320,232	$ 322,190
Unfunded Investments - First lien						
Dentalcorp Perfect Smile ULC	Healthcare Services	—	6/6/2020	$ 2,249	$ (6)	$ 21
Drilling Info Holdings, Inc.	Business Services	—	7/30/2020	2,501	(13)	(6)
Heartland Dental, LLC	Healthcare Services	—	4/30/2020	2,478	—	4
Ministry Brands, LLC	Software	—	10/18/2019	1,566	(8)	—
Pathway Vet Alliance LLC	Consumer Services	—	5/25/2020	1,940	(10)	5
Premise Health Holding Corp.	Healthcare Services	—	7/10/2020	1,103	(3)	6
University Support Services LLC (St. George's University Scholastic Services LLC)	Education	—	7/17/2019	1,187	—	11

VT Topco, Inc.	Business Services	—	8/1/2020	1,627	(4)	15
YI, LLC	Healthcare Services	—	11/7/2018	520	2	—
Total Unfunded Investments				$ 15,171	$ (42)	$ 56
Total Investments				$ 336,383	$ 320,190	$ 322,246

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(1) All interest is payable in cash unless otherwise indicated. A majority of the variable rate debt investments bear interest at a rate that may be determined by reference to the LIBOR (L), the Prime Rate (P) and the alternative base rate (Base). For each investment, the current interest rate provided reflects the rate in effect as of September 30, 2018.

(2) Represents the fair value in accordance with ASC 820. Our board of directors does not determine the fair value of the investments held by SLP III.

Below is certain summarized financial information for SLP III as of September 30, 2018 and for the three and nine months ended September 30, 2018:

Selected Balance Sheet Information:	September 30, 2018
Investments at fair value (cost of $320,190)	$ 322,246
Cash and other assets	6,705
Total assets	$ 328,951
Credit facility	$ 218,800
Deferred financing costs	(2,996)
Payable for unsettled securities purchased	22,839
Distribution payable	1,200
Other liabilities	3,465
Total liabilities	243,308
Members' capital	$ 85,643
Total liabilities and members' capital	$ 328,951

Selected Statement of Operations Information:	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018(1)
Interest income	$ 3,170	$ 3,960
Other income	80	102
Total investment income	3,250	4,062
Interest and other financing expenses	1,853	2,427
Other expenses	123	349
Total expenses	1,976	2,776
Net investment income	1,274	1,286
Net realized gains on investments	1	1
Net change in unrealized appreciation (depreciation) of investments	1,438	2,056
Net increase in members' capital	$ 2,713	$ 3,343

(1) SLP III commenced operations on April 25, 2018.

For the three and nine months ended September 30, 2018, we earned approximately $1.0 million and $1.0 million, respectively, of dividend income related to SLP III, which is included in dividend income. As of September 30, 2018, approximately $1.0 million of dividend income related to SLP III was included in interest and dividend receivable.

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

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New Mountain Net Lease Corporation

NMNLC was formed to acquire commercial real estate properties that are subject to "triple net" leases. NMNLC's investments are disclosed on our Consolidated Schedule of Investments as of September 30, 2018.

Below is certain summarized property information for NMNLC as of September 30, 2018:

Portfolio Company	Tenant	Lease Expiration Date	Location	Total Square Feet (in thousands)	Fair Value as of September 30, 2018 (in thousands)
NM NL Holdings LP / NM GP Holdco LLC	FXI Inc.	6/30/2038	IN / MS / NM / OR / PA / Mexico	2,122	$ 20,098
NM GLCR LP	Arctic Glacier U.S.A.	2/28/2038	CA	214	14,653
NM CLFX LP	Victor Equipment Company	8/31/2033	TX	423	12,540
NM KRLN LLC	Kirlin Group, LLC	6/30/2029	MD	95	8,554
NM APP Canada Corp.	A.P. Plasman, Inc.	9/30/2031	Canada	436	8,517
NM DRVT LLC	FMH Conveyors, LLC	10/31/2031	AR	195	5,547
NM APP US LLC	Plasman Corp, LLC / A-Brite LP	9/30/2033	AL / OH	261	5,401
NM JRA LLC	J.R. Automation Technologies, LLC	1/31/2031	MI	88	2,251
					$ 77,561

Collateralized agreements or repurchase financings

We follow the guidance in Accounting Standards Codification Topic 860, Transfers and Servicing—Secured Borrowing and Collateral, (“ASC 860”) when accounting for transactions involving the purchases of securities under collateralized agreements to resell (resale agreements). These transactions are treated as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts, as specified in the respective agreements. Interest on collateralized agreements is accrued and recognized over the life of the transaction and included in interest income. As of September 30, 2018 and December 31, 2017, we held one collateralized agreement to resell with a cost basis of $30.0 million and $30.0 million, respectively, and a fair value of $25.2 million and $25.2 million, respectively. The collateralized agreement to resell is guaranteed by a private hedge fund. The private hedge fund is currently in liquidation under the laws of the Cayman Islands. Pursuant to the terms of the collateralized agreement, the private hedge fund was obligated to repurchase the collateral from us at the par value of the collateralized agreement. The private hedge fund has breached its agreement to repurchase the collateral under the collateralized agreement. The default by the private hedge fund did not release the collateral to us, therefore, we do not have full rights and title to the collateral. A claim has been filed with the Cayman Islands joint official liquidators to resolve this matter. The joint official liquidators have recognized our contractual rights under the collateralized agreement. We continue to exercise our rights under the collateralized agreement and continue to monitor the liquidation process of the private hedge fund. The fair value of the collateralized agreement to resell is reflective of the increased risk of the position.

PPVA Black Elk (Equity) LLC

On May 3, 2013, we entered into a collateralized securities purchase and put agreement (the “SPP Agreement”) with a private hedge fund. Under the SPP Agreement, we purchased twenty million Class E Preferred Units of Black Elk Energy Offshore Operations, LLC (“Black Elk”) for $20.0 million with a corresponding obligation of the private hedge fund to repurchase the preferred units for $20.0 million plus other amounts due under the SPP Agreement. The majority owner of Black Elk was the private hedge fund. In August 2014, we received a payment of $20.5 million, the full amount due under the SPP Agreement.

In August 2017, a trustee (the “Trustee”) for Black Elk informed us that the Trustee intended to assert a fraudulent conveyance claim (the “Claim”) against us and one of its affiliates seeking the return of the $20.5 million repayment.

Black Elk filed a Chapter 11 bankruptcy petition pursuant to the United States Bankruptcy Code in August 2015. The Trustee alleges that individuals affiliated with the private hedge fund conspired with Black Elk and others to improperly use proceeds from the sale of certain Black Elk assets to repay, in August 2014, the private hedge fund's obligation to us under the SPP Agreement. We were unaware of these claims at the time the repayment was received. The private hedge fund is currently in liquidation under the laws of the Cayman Islands.

On December 22, 2017, we settled the Trustee's $20.5 million Claim for $16.0 million and filed a claim with the Cayman Islands joint official liquidators of the private hedge fund for $16.0 million that is owed to us under the SPP

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Agreement. The SPP Agreement was restored and is in effect since repayment has not been made. We continue to exercise our rights under the SPP Agreement and continue to monitor the liquidation process of the private hedge fund. During the nine months ended September 30, 2018, we received a $1.5 million payment from our insurance carrier in respect to the settlement. As of September 30, 2018, the SPP Agreement has a cost basis of $14.5 million and a fair value of $12.2 million, which is reflective of the higher inherent risk in this transaction.

Revenue Recognition

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

Interest and dividend income: Interest income, including amortization of premium and discount using the effective interest method, is recorded on the accrual basis and periodically assessed for collectability. Interest income also includes interest earned from cash on hand. Upon the prepayment of a loan or debt security, any prepayment penalties are recorded as part of interest income. We have loans and certain preferred equity investments in the portfolio that contain a payment-in-kind (“PIK”) interest or dividend provision. PIK interest and dividends are accrued and recorded as income at the contractual rates, if deemed collectible. The PIK interest and dividends are added to the principal or share balances on the capitalization dates and generally due at maturity or when redeemed by the issuer. For the three and nine months ended September 30, 2018, we recognized PIK and non-cash interest from investments of approximately $2.5 million and $6.1 million, respectively, and PIK and non-cash dividends from investments of approximately $7.2 million and $21.0 million, respectively. For the three and nine months ended September 30, 2017, we recognized PIK and non-cash interest from investments of approximately $1.5 million and $4.7 million, respectively, and PIK and non-cash dividends from investments of approximately $5.4 million and $11.7 million, respectively.

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

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

Monitoring of Portfolio Investments

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

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

- Investment Rating 1—Investment is performing materially above expectations;
- Investment Rating 2—Investment is performing materially in-line with expectations. All new loans are rated 2 at initial purchase;
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- Investment Rating 3—Investment is performing materially below expectations and while significant loss is not expected, the risk of loss has increased since the original investment; and
- Investment Rating 4—Investment is performing substantially below expectations and risks have increased substantially since the original investment. Payments may be delinquent. There is meaningful possibility that we will not recoup our original cost basis in the investment and may realize a substantial loss upon exit.

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The following table shows the distribution of our investments on the 1 to 4 investment rating scale at fair value as of September 30, 2018:

(in millions)	As of September 30, 2018			
Investment Rating	Cost	Percent	Fair Value	Percent
Investment Rating 1	$153.5	6.8 %	$156.4	6.8 %
Investment Rating 2	2,077.5	91.9 %	2,124.3	92.6 %
Investment Rating 3	13.5	0.6 %	6.8	0.3 %
Investment Rating 4	16.5	0.7 %	7.3	0.3 %
	$2,261.0	100.0%	$2,294.8	100.0%

As of September 30, 2018, all investments in our portfolio had an Investment Rating of 1 or 2 with the exception of three portfolio companies. As of September 30, 2018, one portfolio company had an Investment Rating of 3 and three portfolio companies had an Investment Rating of 4, which includes one portfolio company that had a portion of our investment included in Investment Rating 3 and a portion included in Investment Rating 4.

During the second quarter of 2018, we placed a portion of our second lien position in National HME, Inc. on non-accrual status and wrote down the aggregate fair value of our preferred shares in TW-NHME Holdings Corp. (together with our second lien position, "NHME") to $0. As of September 30, 2018, our investment in the second lien position in NHME had an aggregate cost basis of $28.5 million an aggregate fair value of $13.7 million and total unearned interest income of $0.4 million and $0.8 million, respectively, for the three and nine months then ended.

During the first quarter of 2018, we placed our first lien positions in Education Management II LLC on non-accrual status as the portfolio company announced its intention to wind down and liquidate the business. Our first lien positions and our preferred and commons shares in Education Management Corporation ("EDMC") have an investment rating of 4. As of September 30, 2018, our investments in EDMC with an Investment Rating of 4 had an aggregate cost basis of $1.5 million, an aggregate fair value of less than $0.1 million and total unearned interest income of less than $0.1 million and $0.1 million, respectively, for the three and nine months then ended.

Our preferred shares and warrants in Ancora Acquisition LLC ("Ancora") have an investment rating of 4. As of September 30, 2018, our investments in Ancora had an aggregate cost basis of less than $0.1 million and an aggregate fair value of less than $0.1 million.

Portfolio and Investment Activity

The fair value of our investments was approximately $2,294.8 million in 92 portfolio companies at September 30, 2018 and approximately $1,825.7 million in 84 portfolio companies at December 31, 2017.

The following table shows our portfolio and investment activity for the nine months ended September 30, 2018 and September 30, 2017:

(in millions)	Nine Months Ended September 30, 2018	September 30, 2017
New investments in 57 and 51 portfolio companies, respectively	$1,056.7	$ 809.8
Debt repayments in existing portfolio companies	516.2	483.6
Sales of securities in 10 and 16 portfolio companies, respectively	83.0	58.9
Change in unrealized appreciation on 43 and 55 portfolio companies, respectively	33.8	61.6
Change in unrealized depreciation on 61 and 34 portfolio companies, respectively	(34.5)	(12.9)

Recent Accounting Standards Updates

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

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Results of Operations for the Three Months Ended September 30, 2018 and September 30, 2017

Revenue

(in thousands)	Three Months Ended September 30, 2018	September 30, 2017
Interest income	$40,920	$ 39,638
Total dividend income	13,948	9,870
Other income	5,601	1,728
Total investment income	$60,469	$ 51,236

Our total investment income increased by approximately $9.2 million for the three months ended September 30, 2018 as compared to the three months ended September 30, 2017. For the three months ended September 30, 2018, total investment income of $60.5 million consisted of approximately $35.1 million in cash interest from investments, approximately $2.5 million in PIK and non-cash interest from investments, approximately $2.0 million in prepayment fees, net amortization of purchase premiums and discounts of approximately $1.3 million, approximately $6.8 million in cash dividends from investments, $7.2 million in PIK and non-cash dividends from investments and approximately $5.6 million in other income. The 18% increase in total investment income resulted primarily from increased dividend income and other income. The increase in dividend income of approximately $4.1 million during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017 is primarily due to distributions from our investments in NMNLC, SLP III and PIK and non-cash dividend income from five equity positions. In addition, our increase in interest and dividend income was attributable to larger invested balances which were driven by proceeds from our convertible notes and our unsecured notes issuances to originate new investments as well as rising LIBOR rates. Other income during the three months ended September 30, 2018, which represents fees that are generally non-recurring in nature, was primarily attributable to upfront, amendment and consent fees received from nineteen different portfolio companies and management fees from a non-controlled affiliated portfolio company.

Operating Expenses

(in thousands)	Three Months Ended September 30, 2018	September 30, 2017
Management fee	$10,018	$ 8,422
Less: management fee waiver	(1,766)	(1,483)
Total management fee	8,252	6,939
Incentive fee	6,780	6,573
Interest and other financing expenses	14,759	9,509
Professional fees	2,053	819
Administrative expenses	846	652
Other general and administrative expenses	437	346
Total expenses	33,127	24,838
Less: expenses waived and reimbursed	—	—
Net expenses before income taxes	33,127	24,838
Income tax expense	225	106
Net expenses after income taxes	$33,352	$ 24,944

Our total net operating expenses increased by approximately $8.4 million for the three months ended September 30, 2018 as compared to the three months ended September 30, 2017. Our management fee increased by approximately $1.3 million, net of a management fee waivers for the three months ended September 30, 2018, as compared to the three months ended September 30, 2017. The increase in management fees was attributable to larger invested balances, driven by the proceeds from our convertible notes issuances and unsecured notes issuances as well as our use of leverage from our revolving credit facilities and SBA-guaranteed debentures to originate new investments.

Interest and other financing expenses increased by approximately $5.3 million during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017, primarily due to our issuances of our unsecured notes, higher drawn balances on our SBA-guaranteed debentures and NMFC Credit Facility (as defined below) and

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rising LIBOR rates. Our increase in total professional fees, administrative expenses and total other general and administrative expenses for the three months ended September 30, 2018 as compared to the three months ended September 30, 2017 was mainly attributable to the professional fees incurred relating to evaluating and making investments, as well as on-going monitoring of our investments.

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

(in thousands)	Three Months Ended September 30, 2018	September 30, 2017
Net realized gains (losses) on investments	$3,254	$ (14,216)
Net change in unrealized (depreciation) appreciation of investments	(3,609)	14,643
Net change in unrealized (depreciation) appreciation securities purchased under collateralized agreements to resell	—	(1,549)
Provision for taxes	(2)	(394)
Net realized and unrealized gains (losses)	$(357)	$ (1,516)

Our net realized gains and unrealized losses resulted in a net loss of approximately $0.4 million for the three months ended September 30, 2018 compared to net realized losses and unrealized gains resulting in a net loss of approximately $1.5 million for the same period in 2017. As movement in unrealized appreciation or depreciation can be the result of realizations, we look at net realized and unrealized gains or losses together. The net loss for the three months ended September 30, 2018 was primarily driven by and overall decrease in the market prices of our investments during the period, which was partially offset by a realized gain on the sale of our investment in TWDiamondback Holdings Corp. The provision for income taxes was attributable to equity investments that are held as of September 30, 2018 in three of our corporate subsidiaries. The net loss for the three months ended September 30, 2017 was primarily driven by unrealized depreciation on our securities purchased under collateralized agreements to resell. With the completion of the Sierra Hamilton LLC / Sierra Hamilton Finance, Inc. ("Sierra") restructuring in July 2017, $14.5 million of previously recorded unrealized depreciation related to this investment was realized during the three months ended September 30, 2017.

Results of Operations for the Nine Months Ended September 30, 2018 and September 30, 2017

Revenue

(in thousands)	Nine Months Ended September 30, 2018	September 30, 2017
Interest income	$117,749	$ 111,275
Total dividend income	38,651	26,273
Other income	11,556	7,014
Total investment income	$167,956	$ 144,562

Our total investment income increased by approximately $23.4 million for the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017. For the nine months ended September 30, 2018, total investment income of $168.0 million consisted of approximately $103.4 million in cash interest from investments, approximately $6.1 million in PIK and non-cash interest from investments, approximately $4.3 million in prepayment fees, net amortization of purchase premiums and discounts of approximately $3.9 million, approximately $17.7 million in cash dividends from investments, approximately $21.0 million in PIK and non-cash dividends from investments and approximately $11.6 million in other income. The 16% increase in total investment income primarily resulted from an increase in dividend income of approximately $12.4 million during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017. The increase was primarily due to distributions from our investments in NMNLC, SLP III and PIK and non-cash dividend income from five equity positions. Also contributing to the increase in total investment income is the increased interest income which is attributable to larger invested balances and rising LIBOR rates. Our larger invested balances were driven by the proceeds from our August 2018 Convertible Notes issuance and our July 2018 and January 2018 unsecured notes issuances to originate new investments. Other income during the nine months ended September 30, 2018, which represents fees that are generally non-recurring in nature, was primarily attributable to upfront, amendment and consent fees received from thirty-eight different portfolio companies and management fees from a non-controlled affiliated portfolio company.

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Operating Expenses

(in thousands)	Nine Months Ended September 30, 2018	September 30, 2017
Management fee	$28,011	$ 24,311
Less: management fee waiver	(4,583)	(4,324)
Total management fee	23,428	19,987
Incentive fee	19,644	18,430
Less: incentive fee waiver	—	(1,800)
Total incentive fee	19,644	16,630
Interest and other financing expenses	38,873	26,930
Professional fees	3,455	2,391
Administrative expenses	2,607	2,022
Other general and administrative expenses	1,365	1,214
Total expenses	89,372	69,174
Less: expenses waived and reimbursed	(276)	(474)
Net expenses before income taxes	89,096	68,700
Income tax expense	286	341
Net expenses after income taxes	$89,382	$ 69,041

Our total net operating expenses increased by approximately $20.3 million for the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017. Our management fee increased by approximately $3.4 million, net of a management fee waiver, and our incentive fee increased by approximately $3.0 million, net of an incentive fee waiver, for the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017. The increase in management fees and incentive fees was attributable to larger invested balances, driven by the proceeds from our April 2017 primary offering of our common stock, our convertible notes issuance, our unsecured notes issuances and our use of leverage from our revolving credit facilities and SBA-guaranteed debentures to originate new investments. In addition, our increase in incentive fees was attributable to an incentive fee waiver by the Investment Adviser for the nine months ended September 30, 2017 of approximately $1.8 million.
Interest and other financing expenses increased by approximately $11.9 million during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017, primarily due to our issuances of convertible and unsecured notes, higher drawn balances on our SBA-guaranteed debentures and NMFC Credit Facility (as defined below) and rising LIBOR rates. Our increase in total professional fees, administrative expenses and total other general and administrative expenses for the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017 was mainly attributable to an increase in professional fees relating to evaluating and making investments, as well as on-going monitoring of our investments.

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

(in thousands)	Nine Months Ended September 30, 2018	September 30, 2017
Net realized losses on investments	$(3,149)	$ (39,843)
Net change in unrealized appreciation (depreciation) of investments	(690)	48,700
Net change in unrealized depreciation securities purchased under collateralized agreements to resell	(12)	(2,382)
(Provision) benefit for taxes	(986)	525
Net realized and unrealized gains (losses)	$(4,837)	$ 7,000

Our net realized and unrealized losses resulted in a net loss of approximately $4.8 million for the nine months ended September 30, 2018 compared to net realized losses and unrealized gains resulting in a net gain of approximately $7.0 million for the same period in 2017. As movement in unrealized appreciation or depreciation can be the result of realizations, we look at net realized and unrealized gains or losses together. The net loss for the nine months ended

September 30, 2018 was primarily driven by the realized loss on our investment in American Tire Distributors, Inc. ("ATD"), which was sold during the quarter ended June 30, 2018 due to ATD's reported loss of its largest supplier. The provision for income taxes was attributable

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to equity investments that are held as of September 30, 2018 in three of our corporate subsidiaries. The net gain for the nine months ended September 30, 2017 was primarily driven by the overall increase in the market prices of our investments during the period. With the completion of the Transtar Holding Company and Sierra restructurings in April 2017 and July 2017, respectively, $27.6 million and $14.5 million, respectively, of previously recorded unrealized depreciation related to these investment was realized during the nine months ended September 30, 2017.

Liquidity and Capital Resources

The primary use of existing funds and any funds raised in the future is expected to be for repayment of indebtedness, investments in portfolio companies, cash distributions to our stockholders or for other general corporate purposes. Since our IPO, and through September 30, 2018, we raised approximately $614.6 million in net proceeds from additional offerings of our common stock.

Our liquidity is generated and generally available through advances from the revolving credit facilities, from cash flows from operations, and, we expect, through periodic follow-on equity offerings. In addition, we may from time to time enter into additional debt facilities, increase the size of existing facilities or issue additional debt securities, including unsecured debt and/or debt securities convertible into common stock. Any such incurrence or issuance would be subject to prevailing market conditions, our liquidity requirements, contractual and regulatory restrictions and other factors. In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, calculated pursuant to the 1940 Act, is at least 150.0% after such borrowing. On March 23, 2018, the Small Business Credit Availability Act (the “SBCA”) was signed into law, which included various changes to regulations under the federal securities laws that impact BDCs. The SBCA included changes to the 1940 Act to allow BDCs to decrease their asset coverage requirement to 150.0% from 200.0% under certain circumstances. On April 12, 2018, our board of directors, including a ‘‘required majority’’ (as such term is defined in Section 57(o) of the 1940 Act) approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCA, and recommended the submission of a proposal for stockholders to approve the application of the 150.0% minimum asset coverage ratio to us at a special meeting of stockholders, which was held on June 8, 2018. The stockholder proposal was approved by the required votes of our stockholders at such special meeting of stockholders, and thus we became subject to the 150.0% minimum asset coverage ratio on June 9, 2018. As a result of our exemptive relief received on November 5, 2014, we are permitted to exclude our SBA-guaranteed debentures from the 150.0% asset coverage ratio that the we are required to maintain under the 1940 Act. The agreements governing the NMFC Credit Facility, the 2018 Convertible Notes and the Unsecured Notes (as defined below) contain certain covenants and terms, including a requirement that we not exceed a debt-to-equity ratio of 1.65 to 1.00 at the time of incurring additional indebtedness and a requirement that we not exceed a secured debt ratio of 0.70 to 1.00 at any time. As of September 30, 2018, our asset coverage ratio was 185.7%.

At September 30, 2018 and December 31, 2017, we had cash and cash equivalents of approximately $146.3 million and $34.9 million, respectively. Our cash used in operating activities during the nine months ended September 30, 2018 and September 30, 2017 was approximately $294.7 million and $144.5 million, respectively. We expect that all current liquidity needs will be met with cash flows from operations and other activities.

Borrowings

Holdings Credit Facility—On December 18, 2014, we entered into the Second Amended and Restated Loan and Security Agreement, among us, as the Collateral Manager, NMF Holdings, as the Borrower, Wells Fargo Securities, LLC, as the Administrative Agent and Wells Fargo Bank, National Association, as the Lender and Collateral Custodian, which is structured as a revolving credit facility and matures on December 18, 2019. On October 24, 2017, we entered into the Third Amended and Restated Loan and Security Agreement (the "Holdings Credit Facility"), among us as the Collateral Manager, NMF Holdings as the Borrower and Wells Fargo Bank, National Association as the Administrative Agent and Collateral Custodian, which extended the maturity date to October 24, 2022.

The maximum amount of revolving borrowings available under the Holdings Credit Facility is $495.0 million. Under the Holdings Credit Facility, NMF Holdings is permitted to borrow up to 25.0%, 45.0% or 70.0% of the purchase price of pledged assets, subject to approval by Wells Fargo Bank, National Association. The Holdings Credit Facility is non-recourse to us and is collateralized by all of the investments of NMF Holdings on an investment by investment basis. All fees associated with the origination or upsizing of the Holdings Credit Facility are capitalized on our

Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the Holdings Credit Facility. The Holdings Credit Facility contains certain customary affirmative and negative covenants and events of default. In addition, the Holdings Credit Facility requires us to maintain a minimum asset coverage ratio. The covenants are generally not tied to mark to market fluctuations in the prices of NMF Holdings investments, but rather to the performance of the underlying portfolio companies.

The Holdings Credit Facility bears interest at a rate of LIBOR plus 1.75% per annum for Broadly Syndicated Loans (as defined in the Loan and Security Agreement) and LIBOR plus 2.50% per annum for all other investments. Effective April 1,

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2018, the Holdings Credit Facility bears interest at a rate of LIBOR plus 1.75% per annum for Broadly Syndicated Loans (as defined in the Loan and Security Agreement) and LIBOR plus 2.25% per annum for all other investments. The Holdings Credit Facility also charges a non-usage fee, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the Loan and Security Agreement).

The following table summarizes the interest expense, non-usage fees and amortization of financing costs incurred on the Holdings Credit Facility for the three and nine months ended September 30, 2018 and September 30, 2017.

(in millions)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Interest expense	$4.0	$ 3.1	$10.7	$ 8.7
Non-usage fee	$0.1	$ 0.1	$0.5	$ 0.5
Amortization of financing costs	$0.7	$ 0.4	$1.9	$ 1.2
Weighted average interest rate	4.2 %	3.4 %	4.1 %	3.3 %
Effective interest rate	5.0 %	4.1 %	5.0 %	4.0 %
Average debt outstanding	$379.2	$ 352.4	$351.4	$ 351.6

As of September 30, 2018 and December 31, 2017, the outstanding balance on the Holdings Credit Facility was $466.0 million and $312.4 million, respectively, and NMF Holdings was in compliance with the applicable covenants in the Holdings Credit Facility on such dates.

NMFC Credit Facility—The Senior Secured Revolving Credit Agreement, as amended (together with the related guarantee and security agreement, the "NMFC Credit Facility"), dated June 4, 2014 , among us, as the Borrower, Goldman Sachs Bank USA, as the Administrative Agent and Collateral Agent, and Goldman Sachs Bank USA, Morgan Stanley Bank, N.A. and Stifel Bank & Trust, as Lenders, is structured as a senior secured revolving credit facility and matures on June 4, 2019. On February 27, 2018, we entered into an amendment to the NMFC Credit Facility which extended the maturity date to June 4, 2022. On July 5, 2018, we further amended the NMFC Credit Facility to include the financial covenants related to asset coverage discussed above. The NMFC Credit Facility is guaranteed by certain of our domestic subsidiaries and proceeds from the NMFC Credit Facility may be used for general corporate purposes, including the funding of portfolio investments.

As of September 30, 2018, the maximum amount of revolving borrowings available under the NMFC Credit Facility was $135.0 million. We are permitted to borrow at various advance rates depending on the type of portfolio investment as outlined in the Senior Secured Revolving Credit Agreement. All fees associated with the origination of the NMFC Credit Facility are capitalized on our Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the NMFC Credit Facility. The NMFC Credit Facility contains certain customary affirmative and negative covenants and events of default, including certain financial covenants related to asset coverage and liquidity and other maintenance covenants.

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

The following table summarizes the interest expense, non-usage fees and amortization of financing costs incurred on the NMFC Credit Facility for the three and nine months ended September 30, 2018 and September 30, 2017.

(in millions)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Interest expense	$1.4	$ 0.2	$3.8	$ 1.3
Non-usage fee	$— (1)	$ 0.1	$0.1	$ 0.2
Amortization of financing costs	$0.1	$ 0.1	$0.3	$ 0.3
Weighted average interest rate	4.7 %	3.6 %	4.5 %	3.5 %
Effective interest rate	5.1 %	7.3 %	5.0 %	5.0 %
Average debt outstanding	$121.9	$ 21.7	$113.3	$ 48.0

(1) For the three months ended September 30, 2018, the total non-usage fee was less than $50 thousand.

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As of September 30, 2018 and December 31, 2017, the outstanding balance on the NMFC Credit Facility was $135.0 million and $122.5 million, respectively, and NMFC was in compliance with the applicable covenants in the NMFC Credit Facility on such dates.

NMNLC Credit Facility—The Revolving Credit Agreement (together with the related guarantee and security agreement, the "NMNLC Credit Facility"), dated September 21, 2018, among NMNLC, as the Borrower, and KeyBank National Association, as the Administrative Agent and Lender, is structured as a senior secured revolving credit facility and matures on September 23, 2019. The NMNLC Credit Facility is guaranteed by us and proceeds from the NMNLC Credit Facility may be used for funding of additional acquisition properties.

The NMNLC 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 0.15% per annum (as defined in the Revolving Credit Agreement).

As of September 30, 2018, the maximum amount of revolving borrowings available under the NMNLC Credit Facility was $30.0 million. As of September 30, 2018, the outstanding balance on the NMNLC Credit Facility was $0 and NMNLC was in compliance with the applicable covenants in the NMNLC Credit Facility on such dates.

Convertible Notes

2014 Convertible Notes—On June 3, 2014, we closed a private offering of $115.0 million aggregate principal amount of unsecured convertible notes (the "2014 Convertible Notes"), pursuant to an indenture, dated June 3, 2014 (the "2014 Indenture"). The 2014 Convertible Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"). As of June 3, 2015, the restrictions under Rule 144A under the Securities Act were removed, allowing the 2014 Convertible Notes to be eligible and freely tradable without restrictions for resale pursuant to Rule 144(b)(1) under the Securities Act. On September 30, 2016, we closed a public offering of an additional $40.3 million aggregate principal amount of the 2014 Convertible Notes. These additional 2014 Convertible Notes constitute a further issuance of, rank equally in right of payment with, and form a single series with the $115.0 million aggregate principal amount of 2014 Convertible Notes that we issued on June 3, 2014.

The 2014 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 2014 Convertible Notes will mature on June 15, 2019 unless earlier converted or repurchased at the holder's option.

We may not redeem the 2014 Convertible Notes prior to maturity. No sinking fund is provided for the 2014 Convertible Notes. In addition, if certain corporate events occur, holders of the 2014 Convertible Notes may require us to repurchase for cash all or part of their 2014 Convertible Notes at a repurchase price equal to 100.0% of the principal amount of the 2014 Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the repurchase date.

The 2014 Indenture contains certain covenants, including covenants requiring us to provide financial information to the holders of the 2014 Convertible Notes and the Trustee if we cease to be subject to the reporting requirements of the Exchange Act. These covenants are subject to limitations and exceptions that are described in the 2014 Indenture.

2018 Convertible Notes—On August 20, 2018, we closed a registered public offering of $100.0 million aggregate principal amount of 2018 Convertible Notes (together with the 2017 Convertible Notes, the "Convertible Notes"), pursuant to an indenture, dated August 20, 2018, as supplemented by a first supplemental indenture thereto, dated August 20, 2018 (together the "2018A Indenture"). On August 30, 2018, in connection with the registered public offering, we issued an additional $15.0 million aggregate principal amount of the 2018 Convertible Notes pursuant to the exercise of an overallotment option by the underwriter of the 2018 Convertible Notes.

The 2018 Convertible Notes bear interest at an annual rate of 5.75%, payable semi-annually in arrears on February 15 and August 15 of each year, commencing on February 15, 2019. The 2018 Convertible Notes will mature on August 15, 2023 unless earlier converted, repurchased or redeemed. We may not redeem the 2018 Convertible Notes prior to May 15, 2023. On or after May 15, 2023, we may redeem the 2018 Convertible Notes for cash, in whole or from time to time in part, at its option at a redemption price, subject to an exception for redemption dates occurring after a record date but on or prior to the interest payment date, equal to the sum of (i) 100% of the principal amount of the 2018 Convertible Notes to be redeemed, (ii) accrued and unpaid interest thereon to, but excluding, the redemption date and (iii) a make-whole premium.

No sinking fund is provided for the 2018 Convertible Notes. Holders of 2018 Convertible Notes may, at their option, convert their 2018 Convertible Notes into shares of our common stock at any time on or prior to the close of business on the business day immediately preceding the maturity date of the 2018 Convertible Notes. In addition, if certain corporate events occur, holders of the 2018 Convertible Notes may require us to repurchase for cash all or part of their 2018 Convertible Notes at a repurchase price equal to 100.0% of the principal amount of the 2018 Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the repurchase date.

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The 2018A Indenture contains certain covenants, including covenants requiring us to provide certain financial information to the holders of the 2018 Convertible Notes and the trustee if we cease to be subject to the reporting requirements of the Exchange Act. The 2018A Indenture also includes additional financial covenants related to our asset coverage ratio. These covenants are subject to limitations and exceptions that are described in the 2018A Indenture.

The following table summarizes certain key terms related to the convertible features of our Convertible Notes as of September 30, 2018.

	2014 Convertible Notes	2018 Convertible Notes
Initial conversion premium	12.5 %	10.0 %
Initial conversion rate(1)	62.7746	65.8762
Initial conversion price	$ 15.93	$ 15.18
Conversion premium at September 30, 2018	11.7 %	10.0 %
Conversion rate at September 30, 2018(1)(2)	63.2794	65.8762
Conversion price at September 30, 2018(2)(3)	$ 15.80	$ 15.18
Last conversion price calculation date	June 3, 2018	August 20, 2018

(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 September 30, 2018 was calculated on the last anniversary of the issuance and will be calculated again on the next anniversary, unless the exercise price shall have changed by more than 1.0% before the anniversary.

The conversion rate will be subject to adjustment upon certain events, such as stock splits and combinations, mergers, spin-offs, increases in distributions in excess of $0.34 per share per quarter and certain changes in control. Certain of these adjustments, including adjustments for increases in distributions, are subject to a conversion price floor of $14.05 per share for the 2014 Convertible Notes and $13.80 per share for the 2018 Convertible Notes. In no event will the total number of shares of common stock issuable upon conversion exceed 71.1893 per $1.0 thousand principal amount of the 2014 Convertible Notes or 72.4637 per $1 principal amount of the 2018 Convertible Notes. We have determined that the embedded conversion option in the Convertible Notes is not required to be separately accounted for as a derivative under GAAP.

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

The following table summarizes the interest expense, amortization of financing costs and amortization of premium incurred on the Convertible Notes for the three and nine months ended September 30, 2018 and September 30, 2017.

(in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest expense	$ 2.7	$ 1.9	$ 6.6	$ 5.8
Amortization of financing costs	$ 0.3	$ 0.3	$ 0.9	$ 0.9
Amortization of premium	$ — (1)	$ — (1)	$ (0.1)	$ (0.1)

Weighted average interest rate	5.2 %	5.0 %	5.1 %	5.0 %
Effective interest rate	5.7 %	5.7 %	5.7 %	5.7 %
Average debt outstanding	$ 207.8	$ 155.3	$ 172.9	$ 155.3

(1) For the three months ended September 30, 2018 and September 30, 2017, the total amortization of premium was less than $50 thousand.

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As of September 30, 2018 and December 31, 2017, the outstanding balance on the Convertible Notes was $270.3 million and $155.3 million, respectively, and NMFC was in compliance with the terms of the 2014 Indenture and 2018A Indenture on such dates, as applicable.

Unsecured Notes

On May 6, 2016, we issued $50.0 million in aggregate principal amount of five-year unsecured notes that mature on May 15, 2021 (the “2016 Unsecured Notes”), pursuant to a note purchase agreement, dated May 4, 2016, to an institutional investor in a private placement. On September 30, 2016, we entered into an amended and restated note purchase agreement (the "NPA") and issued an additional $40.0 million in aggregate principal amount of 2016 Unsecured Notes to institutional investors in a private placement. On June 30, 2017, we issued $55.0 million in aggregate principal amount of five-year unsecured notes that mature on July 15, 2022 (the "2017A Unsecured Notes"), pursuant to the NPA and a supplement to the NPA. On January 30, 2018, we issued $90.0 million in aggregate principal amount of five year unsecured notes that mature on January 30, 2023 (the "2018A Unsecured Notes") pursuant to the NPA and a second supplement to the NPA. On July 5, 2018, we issued $50.0 million in aggregate principal amount of five year unsecured notes that mature on June 28, 2023 (the "2018B Unsecured Notes") pursuant to the NPA and a third supplement to the NPA (the "Third Supplement"). The NPA provides for future issuances of unsecured notes in separate series or tranches.

The 2016 Unsecured Notes bear interest at an annual rate of 5.313%, payable semi-annually on May 15 and November 15 of each year, which commenced on November 15, 2016. The 2017A Unsecured Notes bear interest at an annual rate of 4.760%, payable semi-annually on January 15 and July 15 of each year, which commenced on January 15, 2018. The 2018A Unsecured Notes bear interest at an annual rate of 4.870%, payable semi-annually on February 15 and August 15 of each year, which commenced on August 15, 2018. The 2018B Unsecured Notes bear interest at an annual rate of 5.360%, payable semi-annually on January 15 and July 15 of each year, which commences on January 15, 2019. These interest rates are subject to increase in the event that: (i) subject to certain exceptions, the underlying unsecured notes or we cease to have an investment grade rating or (ii) the aggregate amount of our unsecured debt falls below $150,000. In each such event,we have the option to offer to prepay the underlying unsecured notes at par, in which case holders of the underlying unsecured notes who accept the offer would not receive the increased interest rate. In addition, we are obligated to offer to prepay the underlying unsecured notes at par if the Investment Adviser, or an affiliate thereof, ceases to be our investment adviser or if certain change in control events occur with respect to the Investment Adviser.

The NPA contains customary terms and conditions for unsecured notes issued, including, without limitation, an option to offer to prepay all or a portion of the unsecured notes under its governance at par (plus a make-whole amount if applicable), affirmative and negative covenants such as information reporting, maintenance of our status as a BDC under the 1940 Act and a RIC under the Code, minimum stockholders’ equity, minimum asset coverage ratio, and prohibitions on certain fundamental changes at NMFC or any subsidiary guarantor, as well as customary events of default with customary cure and notice, including, without limitation, nonpayment, misrepresentation in a material respect, breach of covenant, cross-default under other indebtedness of NMFC or certain significant subsidiaries, certain judgments and orders, and certain events of bankruptcy. The Third Supplement includes additional financial covenants related to asset coverage as well as other terms.

On September 25, 2018, we closed a registered public offering of $50.0 million in aggregate principal amount of five-year 5.75% Unsecured Notes (together with the 2016 Unsecured Notes, 2017A Unsecured Notes, 2018A Unsecured Notes and 2018B Unsecured Notes, the "Unsecured Notes"), pursuant to an indenture, dated August 20, 2018, as supplemented by a second supplemental indenture thereto, dated September 25, 2018 (together, the "2018B Indenture").

The 5.75% Unsecured Notes bear interest at an annual rate of 5.75%, payable quarterly on January 1, April 1, July 1 and October 1 of each year, which commences on January 1, 2019. The 5.75% Unsecured Notes will mature on October 1, 2023 unless earlier redeemed. The 5.75% Unsecured Notes are listed on the New York Stock Exchange and trade under the trading symbol “NMFX.”

We may redeem the 5.75% Unsecured Notes, in whole or in part, at any time, or from time to time, at our option on or after October 1, 2020, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption.

No sinking fund is provided for the 5.75% Unsecured Notes and holders of the 5.75% Unsecured Notes have no option to have their 5.75% Unsecured Notes repaid prior to the stated maturity date.

The 2018B Indenture contains certain covenants, including covenants requiring us to (i) comply with the asset coverage requirements set forth in Section 18(a)(1)(A) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act as may be applicable to us from time to time or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to us by the SEC and (ii) provide certain

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financial information to the holders of the 5.75% Unsecured Notes and the trustee if we cease to be subject to the reporting requirements of the Exchange Act. The 2018B Indenture also includes additional financial covenants related to asset coverage. These covenants are subject to limitations and exceptions that are described in the 2018B Indenture. The 2018B Indenture provides for customary events of default and further provides that the trustee or the holders of 25% in aggregate principal amount of the outstanding 5.75% Unsecured Notes may declare such 5.75% Unsecured Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

The Unsecured Notes are unsecured obligations and rank senior in right of payment to our existing and future indebtedness, if any, that is expressly subordinated in right of payment to the Unsecured Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness (including existing unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries and financing vehicles.

The following table summarizes the interest expense and amortization of financing costs incurred on the Unsecured Notes for the three and nine months ended September 30, 2018 and September 30, 2017.

(in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest expense	$3.7	$ 1.8	$9.2	$ 4.2
Amortization of financing costs	$0.2	$ 0.1	$0.5	$ 0.3
Weighted average interest rate	5.1 %	5.1 %	5.1 %	5.2 %
Effective interest rate	5.3 %	5.5 %	5.4 %	5.7 %
Average debt outstanding	$286.1	$ 145.0	$242.7	$ 108.7

As of September 30, 2018 and December 31, 2017, the outstanding balance on the Unsecured Notes was $335.0 million and $145.0 million, respectively, and we were in compliance with the terms of the NPA and the 2018B Indenture as of such dates, as applicable.

SBA-guaranteed debentures—On August 1, 2014 and August 25, 2017, respectively, SBIC I and SBIC II received SBIC licenses from the SBA to operate as SBICs.

The SBIC license allows SBICs to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse to us, interest only debentures with interest payable 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 I and SBIC II over our stockholders in the event SBIC I and SBIC II are liquidated or the SBA exercises remedies upon an event of default.

The maximum amount of borrowings available under current SBA regulations for a single licensee 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. In June 2018, the U.S. Senate passed the Small Business Investment Opportunity Act, which the President signed into law, that amended the 1958 Act by increasing the individual leverage limit from $150.0 million to $175.0 million, subject to SBA approvals.

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As of September 30, 2018 and December 31, 2017, SBIC I had regulatory capital of $75.0 million and $75.0 million, respectively, and SBA-guaranteed debentures outstanding of $150.0 million and $150.0 million, respectively. As of September 30, 2018 and December 31, 2017, SBIC II had regulatory capital of $42.5 million and $2.5 million, respectively, and $15.0 million and $0, respectively, of SBA-guaranteed debentures outstanding. The SBA-guaranteed debentures incur upfront fees of 3.425%, which consists of a 1.00% commitment fee and a 2.425% issuance discount, which are amortized over the life of the SBA-guaranteed debentures. The following table summarizes our SBA-guaranteed debentures as of September 30, 2018.

(in millions)

Issuance Date	Maturity Date	Debenture Amount	Interest Rate		SBA Annual Charge	
Fixed SBA-guaranteed debentures(1):						
March 25, 2015	March 1, 2025	$ 37.5	2.517	%	0.355	%
September 23, 2015	September 1, 2025	37.5	2.829	%	0.355	%
September 23, 2015	September 1, 2025	28.8	2.829	%	0.742	%
March 23, 2016	March 1, 2026	13.9	2.507	%	0.742	%
September 21, 2016	September 1, 2026	4.0	2.051	%	0.742	%
September 20, 2017	September 1, 2027	13.0	2.518	%	0.742	%
March 21, 2018	March 1, 2028	15.3	3.187	%	0.742	%
Fixed SBA-guaranteed debentures(2):						
September 19, 2018	September 1, 2028	15.0	3.548	%	0.222	%
Total SBA-guaranteed debentures		$ 165.0				

(1) SBA-guaranteed debentures are held in SBIC I.
(2) SBA-guaranteed debentures are held in SBIC II.

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 nine months ended September 30, 2018 and September 30, 2017.

(in millions)	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017		Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Interest expense	$1.3		$ 1.1		$3.7		$ 3.0	
Amortization of financing costs	$0.1		$ 0.1		$0.4		$ 0.3	
Weighted average interest rate	3.2	%	3.1	%	3.2	%	3.1	%
Effective interest rate	3.6	%	3.4	%	3.5	%	3.5	%
Average debt outstanding	$164.4		$ 134.9		$156.3		$ 127.0	

The SBIC program is designed to stimulate the flow of private investor capital into eligible smaller businesses, as defined by the SBA. Under SBA regulations, SBICs are subject to regulatory requirements, including making investments in SBA-eligible businesses, investing at least 25.0% of its investment capital in eligible small businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, regulating the types of financing, prohibiting investments in small businesses with certain characteristics or in certain industries and requiring capitalization thresholds that limit distributions to us. SBICs are subject to an annual periodic examination by an SBA examiner to determine the SBIC'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 September 30, 2018 and December 31, 2017, SBIC I and SBIC II were in compliance with SBA regulatory requirements.

Off-Balance Sheet Arrangements

We may become a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. As of September 30, 2018 and December 31, 2017, we had outstanding commitments to third parties to fund investments totaling

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$138.6 million and $77.4 million, respectively, under various undrawn revolving credit facilities, delayed draw commitments or other future funding commitments.

We may from time to time enter into financing commitment letters or bridge financing commitments, which could require funding in the future. As of September 30, 2018 and December 31, 2017, we had commitment letters to purchase investments in an aggregate par amount of $15.8 million and $13.9 million, respectively. As of September 30, 2018 and December 31, 2017, we had not entered into any bridge financing commitments which could require funding in the future.

As of September 30, 2018 and December 31, 2017, we owed $9.0 million and $12.0 million, respectively, related to a settlement agreement with a trustee of Black Elk Energy Offshore Operations, LLC. We began to make semi-annual payments of $3.0 million in June 2018, with the final payment due in December 2019.

As of September 30, 2018, we had unfunded commitments related to an equity investment in SLP III of $13.2 million, which may be funded at our discretion.

Contractual Obligations

A summary of our significant contractual payment obligations as of September 30, 2018 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)	$466.0	$ —	$ —	$ 466.0	$ —
Unsecured Notes(2)	335.0	—	90.0	195.0	50.0
SBA-guaranteed debentures(3)	165.0	—	—	—	165.0
Convertible Notes(4)	270.3	155.3	—	115.0	—
NMFC Credit Facility(5)	135.0	—	—	135.0	—
Total Contractual Obligations	$1,371.3	$ 155.3	$ 90.0	$ 911.0	$215.0

(1) Under the terms of the $495.0 million Holdings Credit Facility, all outstanding borrowings under that facility ($466.0 million as of September 30, 2018) must be repaid on or before October 24, 2022. As of September 30, 2018, there was approximately $29.0 million of possible capacity remaining under the Holdings Credit Facility.

(2) $90.0 million of the 2016 Unsecured Notes will mature on May 15, 2021 unless earlier repurchased, $55.0 million of the 2017A Unsecured Notes will mature on July 15, 2022 unless earlier repurchased, $90.0 million of the 2018A Unsecured Notes will mature on January 30, 2023 unless earlier repurchased and $50.0 million of the 2018B Unsecured Notes will mature on June 28, 2023 unless earlier repurchased. $50.0 million of the 5.75% Unsecured Notes will mature on October 1, 2023 unless earlier repurchased.

(3) Our SBA-guaranteed debentures will begin to mature on March 1, 2025.

(4) $155.3 million of the 2014 Convertible Notes will mature on June 15, 2019 unless earlier converted or repurchased at the holder's option and the $115.0 million of the 2018 Convertible Notes will mature on August 15, 2023 unless earlier converted or repurchased at the holder's option or redeemed by us.

(5) Under the terms of the $135.0 million NMFC Credit Facility, all outstanding borrowings under that facility ($135.0 million as of September 30, 2018) must be repaid on or before June 4, 2022. As of September 30, 2018, there was no capacity remaining under the NMFC Credit Facility.

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

We have also entered into the 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 maintain, or oversee the maintenance 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.

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Distributions and Dividends

Distributions declared and paid to stockholders for the nine months ended September 30, 2018 totaled approximately $77.5 million.

The following table reflects cash distributions, including dividends and returns of capital, if any, per share that have been declared by our board of directors for the two most recent fiscal years and the current fiscal year to date:

Fiscal Year Ended	Date Declared	Record Date	Payment Date	Per Share Amount (1)
December 31, 2018				
Third Quarter	August 1, 2018	September 14, 2018	September 28, 2018	$ 0.34
Second Quarter	May 2, 2018	June 15, 2018	June 29, 2018	0.34
First Quarter	February 21, 2018	March 15, 2018	March 29, 2018	0.34
				$ 1.02
December 31, 2017				
Fourth Quarter	November 2, 2017	December 15, 2017	December 28, 2017	$ 0.34
Third Quarter	August 4, 2017	September 15, 2017	September 29, 2017	0.34
Second Quarter	May 4, 2017	June 16, 2017	June 30, 2017	0.34
First Quarter	February 23, 2017	March 17, 2017	March 31, 2017	0.34
				$ 1.36
December 31, 2016				
Fourth Quarter	November 4, 2016	December 15, 2016	December 29, 2016	$ 0.34
Third Quarter	August 2, 2016	September 16, 2016	September 30, 2016	0.34
Second Quarter	May 3, 2016	June 16, 2016	June 30, 2016	0.34
First Quarter	February 22, 2016	March 17, 2016	March 31, 2016	0.34
				$ 1.36

(1) Tax characteristics of all distributions paid are reported to stockholders on Form 1099 after the end of the calendar year. For the years ended December 31, 2017 and December 31, 2016, total distributions were $100.9 million and $88.8 million, respectively, of which the distributions were comprised of approximately 71.50% and 89.46%, respectively, of ordinary income, 0.00% and 0.00%, respectively, of long-term capital gains and approximately 28.50% and 10.54%, respectively, of a return of capital. Future quarterly distributions, if any, will be determined by our board of directors.

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

We maintain an "opt out" dividend reinvestment plan on behalf of our common stockholders, pursuant to which each of our stockholders' cash distributions will be automatically reinvested in additional shares of common stock, unless the stockholder elects to receive cash. See Item 1— Financial Statements—Note 2. Summary of Significant Accounting Policies for additional details regarding our dividend reinvestment plan.

Related Parties

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

- We have entered into the Investment Management Agreement with the Investment Adviser, a wholly-owned subsidiary of New Mountain Capital. Therefore, New Mountain Capital is entitled to any profits earned by the Investment Adviser, which includes any fees payable to the Investment Adviser under the terms of the Investment Management Agreement, less expenses incurred by the Investment Adviser in performing its services under the Investment Management Agreement.
- We have entered into the Administration Agreement with the Administrator, a wholly-owned subsidiary of New Mountain Capital. The Administrator arranges our office space and provides office equipment and administrative services necessary to conduct our respective day-to-day operations pursuant to the Administration Agreement. We

reimburse the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations to us under the Administration Agreement, which includes the fees and expenses associated with

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performing administrative, finance, and compliance functions, and the compensation of our chief financial officer and chief compliance officer and their respective staffs. Pursuant to the Administration Agreement and further restricted by us, the Administrator may, in its own discretion, submit to us for reimbursement some or all of the expenses that the Administrator has incurred on our behalf during any quarterly period. As a result, the amount of expenses for which we will have to reimburse the Administrator may fluctuate in future quarterly periods and there can be no assurance given as to when, or if, the Administrator may determine to limit the expenses that the Administrator submits to us for reimbursement in the future. However, it is expected that the Administrator will continue to support part of our expense burden in the near future and may decide to not calculate and charge through certain overhead related amounts as well as continue to cover some of the indirect costs. The Administrator cannot recoup any expenses that the Administrator has previously waived. For the three and nine months ended September 30, 2018 approximately $0.5 million and $1.7 million, respectively, of indirect administrative expenses were included in administrative expenses, of which approximately $0.0 million and $0.3 million, respectively, of indirect administrative expenses were waived by the Administrator. As of September 30, 2018, $0.8 million of indirect administrative expenses were included in payable to affiliates.

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

In addition, we have adopted a formal code of ethics that governs the conduct of our 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 or in part, to our investment mandates. The Investment Adviser and its affiliates may determine that an investment is appropriate for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, the Investment Adviser or its affiliates may determine that we should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff, and consistent with the Investment Adviser's allocation procedures. On December 18, 2017, the SEC issued an exemptive order (the “Exemptive Order”), which superseded a prior order issued on June 5, 2017, which permits us to co-invest in portfolio companies with certain funds or entities managed by the Investment Adviser or its affiliates in certain negotiated transactions where co-investing would otherwise be prohibited under the 1940 Act, subject to the conditions of the Exemptive Order. Pursuant to the Exemptive Order, we are permitted to co-invest with our affiliates if a “required majority” (as defined in Section 57(o) of the 1940 Act) of our independent directors make certain conclusions in connection with a co-investment transaction, including, but not limited to, that (1) the terms of the potential co-investment transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching in respect of us or our stockholders on the part of any person concerned, and (2) the potential co-investment transaction is consistent with the interests of our stockholders and is consistent with our then-current investment objective and strategies.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to certain financial market risks, such as interest rate fluctuations. During the nine months ended September 30, 2018, certain of the loans held in our portfolio had floating interest rates. As of September 30, 2018, approximately 87.2% of investments at fair value (excluding investments on non-accrual, unfunded debt investments and non-interest bearing equity investments) represent floating-rate investments with a LIBOR floor (includes investments bearing prime interest rate contracts) and approximately 12.8% of investments at fair value represent fixed-rate investments. Additionally, our senior secured revolving credit facilities are also subject to floating interest rates and are currently paid based on one-month floating LIBOR rates.

The following table estimates the potential changes in net cash flow generated from interest income and expenses, should interest rates increase by 100, 200 or 300 basis points, or decrease by 25 basis points. Interest income is calculated as revenue from interest generated from our portfolio of investments held on September 30, 2018. Interest expense is calculated based on the terms of our outstanding revolving credit facilities, convertible notes and unsecured notes. For our floating rate credit facilities, we use the outstanding balance as of September 30, 2018. Interest expense on our floating rate credit facilities is calculated using the interest rate as of September 30, 2018, adjusted for the hypothetical changes in rates, as shown below. The base interest rate case assumes the rates on our portfolio investments remain unchanged from the actual effective interest rates as of September 30, 2018. These hypothetical calculations are based on a model of the investments in our portfolio, held as of September 30, 2018, 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	(2.12	)%
Base Interest Rate	—	%
+100 Basis Points	8.77	%
+200 Basis Points	17.63	%
+300 Basis Points	26.50	%

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Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of September 30, 2018 (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 Exchange Act. 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 our internal control over financial reporting that occurred during the quarter ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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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
There have been no material changes during the nine months ended September 30, 2018 to the Legal Proceedings discussed in Item 3. Legal Proceedings in our Annual Report on Form 10-K for the year ended December 31, 2017. We, and our consolidated subsidiaries, the Investment Adviser and the Administrator are not currently subject to any material pending legal proceedings threatened against us as of September 30, 2018. 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, 2017, 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. Other than as set forth below, there have been no material changes during the nine months ended September 30, 2018 to the risk factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017.

The terms of our credit facilities may contractually limit our ability to incur additional indebtedness.

We will need additional capital to fund new investments and grow our portfolio of investments. We intend to access the capital markets periodically to issue debt or equity securities or borrow from financial institutions in order to obtain such additional capital. We believe that having the flexibility to incur additional leverage could augment the returns to our stockholders and would be in the best interests of our stockholders. Even though our board of directors and our shareholders have approved a resolution permitting us to be subject to a 150.0% asset coverage ratio to be effective as of June 9, 2018, contractual leverage limitations under our existing credit facilities or future borrowings may limit our ability to incur additional indebtedness. Currently, our NMFC Credit Facility restricts our ability to incur additional indebtedness if after incurring such additional debt, our asset coverage ratio would be below 161.0%, amended from 200.0% on July 5, 2018. Also, the NMFC Credit Facility requires that we not exceed a secured debt ratio of 0.70 to 1.00 at any time. We cannot assure you that we will be able to negotiate a change to our credit facilities to allow us to incur additional leverage or that any such an amendment will be available to us on favorable terms. An inability on our part to amend the contractual asset coverage limitation and access additional leverage could limit our ability to take advantage of the benefits described above related to our ability to incur additional leverage and could decrease our earnings, if any, which would have an adverse effect on our results of operations and the value of our shares of common stock.

Recent legislation may allow us to incur additional leverage which could increase the risk of investing in us.

The 1940 Act generally prohibits us from incurring indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200.0% (i.e., the amount of debt may not exceed 50.0% of the value of our assets). However, on March 23, 2018, the Consolidated Appropriations Act of 2018, which includes the SBCA, was signed into law. The SBCA amends the 1940 Act to permit a BDC to reduce the required minimum asset coverage ratio applicable to it from 200.0% to 150.0% (i.e., the amount of debt may not exceed 66.7% of the value of our assets), subject to certain requirements described therein. On April 12, 2018, our board of directors, including a ‘‘required majority’’ (as such term is defined in Section 57(o) of the 1940 Act) approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCA and recommended the submission of a proposal for stockholders to approve the application of the 150.0% minimum asset coverage ratio to us at a special meeting of stockholders, which was held on June 8, 2018. The stockholder proposal was approved by the required votes of our stockholders at such special meeting of stockholders, and thus we became subject to the 150.0% minimum asset coverage ratio on June 9, 2018. Changing the asset coverage ratio permits us to double our leverage, which results in increased leverage risk and increased expenses.

As a result of this legislation, we are able to increase our leverage up to an amount that reduces our asset coverage ratio from 200.0% to 150.0%. Leverage magnifies the potential for loss on investments in our indebtedness and on invested equity capital. As we use leverage to partially finance our investments, you will experience increased risks of investing in our securities. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock

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to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged our business. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net investment income to increase more than it would without the leverage, while any decrease in our income would cause net investment income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to pay common stock dividends, scheduled debt payments or other payments related to our securities. Leverage is generally considered a speculative investment technique.

In addition, in December 2015, the 2016 omnibus spending bill approved by the U.S. Congress and signed into law by the President increased the amount of SBA-guaranteed debentures that affiliated SBIC funds can have outstanding from $225.0 million to $350.0 million, subject to SBA approval. This new legislation may allow us to issue additional SBIC debentures above the $225.0 million of SBA-guaranteed debentures previously permitted pending application for and receipt of additional SBIC licenses. If we incur this additional indebtedness in the future, your risk of an investment in our securities may increase. The maximum amount of borrowings available under current SBA regulations for a single licensee 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. In June 2018, the U.S. Senate passed the Small Business Investment Opportunity Act, which the President signed into law, that amended the 1958 Act by increasing the individual leverage limit from $150.0 million to $175.0 million, subject to SBA approvals.

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

We did not engage in unregistered sales of equity securities during the quarter ended September 30, 2018.

Issuer Purchases of Equity Securities

Dividend Reinvestment Plan

During the quarter ended September 30, 2018, we did not purchase any of our common stock in the open market in connection with our dividend reinvestment plan.

Stock Repurchase Program

On February 4, 2016, our board of directors authorized a program for the purpose of repurchasing up to $50.0 million worth of our common stock. Under the repurchase program, we were permitted, but were not obligated to, repurchase our outstanding common stock in the open market from time to time, provided that we complied with our code of ethics and the guidelines specified in Rule 10b-18 of the Exchange Act, including certain price, market volume and timing constraints. In addition, any repurchases were conducted in accordance with the 1940 Act. On December 29, 2017, our board of directors extended our repurchase program and we expect the repurchase program to be in place until the earlier of December 31, 2018 or until $50.0 million of outstanding shares of common stock have been repurchased. We did not repurchase any shares of our common stock under the repurchase program during the quarter ended September 30, 2018.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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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)
10.1	Indenture by and between New Mountain Finance Corporation, as Issuer, and U.S. Bank National Bank Association, as Trustee, dated August 20, 2018(4)
10.2	First Supplemental Indenture, dated August 20, 2018, relating to the 5.75% Convertible Notes Due 2023, by and between New Mountain Finance Corporation and U.S. Bank National Association, as trustee(4)
10.3	Form of Global Note 5.75% Convertible Note Due 2023 (included as part of Exhibit (10.2))(4)
10.4	Second Supplemental Indenture, dated September 25, 2018, relating to the 5.75% Notes Due 2023, by and between New Mountain Finance Corporation and U.S. Bank National Association, as trustee(5)
10.5	Form of Global Note 5.75% Note Due 2023 (included as part of Exhibit (10.4))(5)
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)

(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 registration statement on Form N-2 Post-Effective Amendment No. 3 (File No. 333-218040) filed on August 20, 2018.

(5) Previously filed in connection with New Mountain Finance Corporation's registration statement on Form N-2 Post-Effective Amendment No. 4 (File No. 333-218040) filed on September 25, 2018.

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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 November 7, 2018.

NEW MOUNTAIN FINANCE CORPORATION

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

By: /s/ SHIRAZ Y. KAJEE
Shiraz Y. Kajee
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)