

New Mountain Finance Holdings, L.L.C.

Form 10-Q

November 12, 2013

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

---

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

For the Quarter Ended September 30, 2013

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

---

Commission  
File Number  
814-00839

Exact name of registrants as specified in their charters, addresses of principal executive offices, telephone numbers and states or other jurisdictions of incorporation or organization

**New Mountain Finance Holdings, L.L.C.**

I.R.S. Employer  
Identification Number  
26-3633318

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

814-00832

**New Mountain Finance Corporation**

27-2978010

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

814-00902

# New Mountain Finance AIV Holdings Corporation

80-0721242

787 Seventh Avenue, 48th Floor

New York, New York 10019  
Telephone: (212) 720-0300  
State of Incorporation: Delaware

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

New Mountain Finance Holdings, L.L.C.	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
New Mountain Finance Corporation	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
New Mountain Finance AIV Holdings Corporation	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

New Mountain Finance Holdings, L.L.C.	Yes <input type="checkbox"/> No <input type="checkbox"/>
New Mountain Finance Corporation	Yes <input type="checkbox"/> No <input type="checkbox"/>
New Mountain Finance AIV Holdings Corporation	Yes <input type="checkbox"/> No <input type="checkbox"/>

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

New Mountain Finance Holdings, L.L.C.	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
New Mountain Finance Corporation	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
New Mountain Finance AIV Holdings Corporation	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

New Mountain Finance Holdings, L.L.C.	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
New Mountain Finance Corporation	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>

## Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

New Mountain Finance AIV Holdings Corporation

Yes  No

<b>Registrants</b>	<b>Description</b>	<b>Shares / Units as of November 12, 2013</b>
New Mountain Finance Holdings, L.L.C.	Common membership units	47,831,859
New Mountain Finance Corporation	Common stock, \$0.01 par value	45,159,921
New Mountain Finance AIV Holdings Corporation	Common stock, \$0.01 par value	100

This combined Form 10-Q is filed separately by three registrants: New Mountain Finance Holdings, L.L.C., New Mountain Finance Corporation and New Mountain Finance AIV Holdings Corporation (collectively, the New Mountain Finance Registrant(s) or the Registrant(s) ). Information contained herein relating to any New Mountain Finance Registrant is filed by such registrant solely on its own behalf. Each New Mountain Finance Registrant makes no representation as to information relating exclusively to the other registrants.

---

Table of Contents

**FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2013**

**TABLE OF CONTENTS**

	<b>PAGE</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	<b>3</b>
<u>Item 1.</u>	
<u>Financial Statements</u>	3
<b><u>New Mountain Finance Holdings, L.L.C.</u></b>	
<u>Consolidated Statements of Assets, Liabilities and Members' Capital as of September 30, 2013 (unaudited) and December 31, 2012</u>	3
<u>Consolidated Statements of Operations for the three months and nine months ended September 30, 2013 (unaudited) and September 30, 2012 (unaudited)</u>	4
<u>Consolidated Statements of Changes in Members' Capital for the nine months ended September 30, 2013 (unaudited) and September 30, 2012 (unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 (unaudited) and September 30, 2012 (unaudited)</u>	6
<u>Consolidated Schedule of Investments as of September 30, 2013 (unaudited)</u>	7
<u>Consolidated Schedule of Investments as of December 31, 2012</u>	13
<b><u>New Mountain Finance Corporation</u></b>	
<u>Statements of Assets and Liabilities as of September 30, 2013 (unaudited) and December 31, 2012</u>	19
<u>Statements of Operations for the three months and nine months ended September 30, 2013 (unaudited) and September 30, 2012 (unaudited)</u>	20
<u>Statements of Changes in Net Assets for the nine months ended September 30, 2013 (unaudited) and September 30, 2012 (unaudited)</u>	21
<u>Statements of Cash Flows for the nine months ended September 30, 2013 (unaudited) and September 30, 2012 (unaudited)</u>	22
<b><u>New Mountain Finance AIV Holdings Corporation</u></b>	
<u>Statements of Assets and Liabilities as of September 30, 2013 (unaudited) and December 31, 2012</u>	23
<u>Statements of Operations for the three months and nine months ended September 30, 2013 (unaudited) and September 30, 2012 (unaudited)</u>	24
<u>Statements of Changes in Net Assets for the nine months ended September 30, 2013 (unaudited) and September 30, 2012 (unaudited)</u>	25
<u>Statements of Cash Flows for the nine months ended September 30, 2013 (unaudited) and September 30, 2012 (unaudited)</u>	26
<u>Combined Notes to the Consolidated Financial Statements of New Mountain Finance Holdings, L.L.C., the Financial Statements of New Mountain Finance Corporation and the Financial Statements of New Mountain Finance AIV Holdings Corporation</u>	27
<u>Report of Independent Registered Public Accounting Firm</u>	51
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	52
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	71
<u>Item 4.</u>	
<u>Controls and Procedures</u>	72
<b><u>PART II. OTHER INFORMATION</u></b>	<b>73</b>
<u>Item 1.</u>	
<u>Legal Proceedings</u>	73

Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

<u>Item 1A.</u>	<u>Risk Factors</u>	73
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	73
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	73
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	73
<u>Item 5.</u>	<u>Other Information</u>	73
<u>Item 6.</u>	<u>Exhibits</u>	73
	<u>Signatures</u>	78

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****New Mountain Finance Holdings, L.L.C.****Consolidated Statements of Assets, Liabilities and Members Capital****(in thousands, except units and per unit data)**

	<b>September 30, 2013</b>		<b>December 31, 2012</b>
	<b>(unaudited)</b>		
<b>Assets</b>			
Investments at fair value (cost of \$1,025,337 and \$976,243, respectively)	\$ 1,041,432	\$	989,820
Cash and cash equivalents	17,629		12,752
Interest and dividend receivable	11,097		6,340
Deferred credit facility costs (net of accumulated amortization of \$3,147 and \$2,016, respectively)	4,838		5,490
Receivable from affiliate	317		534
Receivable from unsettled securities sold			9,962
Other assets	1,981		666
<b>Total assets</b>	<b>\$ 1,077,294</b>	<b>\$</b>	<b>1,025,564</b>
<b>Liabilities</b>			
SLF Credit Facility	215,000		214,262
Holdings Credit Facility	159,091		206,938
Payable for unsettled securities purchased	43,400		9,700
Capital gains incentive fee payable	6,974		4,407
Incentive fee payable	3,534		3,390
Management fee payable	3,754		3,222
Interest payable	755		712
Payable to affiliate	3		
Dividends payable			11,192
Other liabilities	2,978		1,802
<b>Total liabilities</b>	<b>435,489</b>		<b>455,625</b>
<b>Members Capital</b>	<b>641,805</b>		<b>569,939</b>
<b>Total liabilities and members capital</b>	<b>\$ 1,077,294</b>	<b>\$</b>	<b>1,025,564</b>
Outstanding common membership units	44,831,859		40,548,189
Capital per unit	\$ 14.32	\$	14.06

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

Table of Contents**New Mountain Finance Holdings, L.L.C.****Consolidated Statements of Operations**

(in thousands)

(unaudited)

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
<b>Investment income</b>				
Interest income	\$ 27,175	\$ 21,362	\$ 79,539	\$ 60,087
Dividend income	(1,631)	215	4,802	215
Other income	249	175	1,926	771
Total investment income	25,793	21,752	86,267	61,073
<b>Expenses</b>				
Incentive fee	3,533	2,978	12,398	8,147
Capital gains incentive fee	1,587	2,583	2,568	3,547
Total incentive fee	5,120	5,561	14,966	11,694
Management fee	3,754	2,768	11,049	7,887
Interest and other credit facility expenses	3,190	2,402	9,379	7,286
Administrative expenses	743	544	2,441	1,604
Professional fees	549	405	1,684	1,279
Other general and administrative expenses	378	375	1,184	1,015
Total expenses	13,734	12,055	40,703	30,765
Less: expenses waived and reimbursed (See Note 5)	(600)	(439)	(2,265)	(1,387)
Net expenses	13,134	11,616	38,438	29,378
<b>Net investment income</b>	<b>12,659</b>	<b>10,136</b>	<b>47,829</b>	<b>31,695</b>
Net realized gains on investments	5,160	1,615	9,516	14,591
Net change in unrealized appreciation (depreciation) of investments	2,659	10,494	2,518	10,710
<b>Net increase in members' capital resulting from operations</b>	<b>\$ 20,478</b>	<b>\$ 22,245</b>	<b>\$ 59,863</b>	<b>\$ 56,996</b>

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

Table of Contents**New Mountain Finance Holdings, L.L.C.****Consolidated Statements of Changes in Members' Capital****(in thousands)**

(unaudited)

	Nine months ended	
	September 30, 2013	September 30, 2012
<b>Increase in members' capital resulting from operations:</b>		
Net investment income	\$ 47,829	\$ 31,695
Net realized gains on investments	9,516	14,591
Net change in unrealized appreciation (depreciation) of investments	2,518	10,710
<b>Net increase in members' capital resulting from operations</b>	<b>59,863</b>	<b>56,996</b>
<b>Net contributions</b>	<b>57,020</b>	<b>82,300</b>
<b>Dividends declared</b>	<b>(48,877)</b>	<b>(40,046)</b>
<b>Offering costs</b>	<b>(249)</b>	<b>(377)</b>
<b>Reinvestment of dividends</b>	<b>4,109</b>	<b>980</b>
<b>Net increase in members' capital</b>	<b>71,866</b>	<b>99,853</b>
<b>Members' capital at beginning of period</b>	<b>569,939</b>	<b>420,502</b>
<b>Members' capital at end of period</b>	<b>\$ 641,805</b>	<b>\$ 520,355</b>

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



Table of Contents**New Mountain Finance Holdings, L.L.C.****Consolidated Statements of Cash Flows**

(in thousands)

(unaudited)

	Nine months ended	
	September 30, 2013	September 30, 2012
<b>Cash flows from operating activities</b>		
Net increase in members' capital resulting from operations	\$ 59,863	\$ 56,996
Adjustments to reconcile net (increase) decrease in capital resulting from operations to net cash (used in) provided by operating activities:		
Net realized gains on investments	(9,516)	(14,591)
Net change in unrealized (appreciation) depreciation of investments	(2,518)	(10,710)
Amortization of purchase discount	(2,671)	(4,549)
Amortization of deferred credit facility costs	1,131	825
Non-cash interest income	(2,697)	(888)
<b>(Increase) decrease in operating assets:</b>		
Purchase of investments	(349,349)	(392,162)
Proceeds from sales and paydowns of investments	315,139	268,369
Cash paid for drawn revolvers		(10,710)
Cash repayments on drawn revolvers		9,870
Interest and dividend receivable	(4,757)	(1,272)
Receivable from affiliate	217	198
Receivable from unsettled securities sold	9,962	
Other assets	(302)	(642)
<b>Increase (decrease) in operating liabilities:</b>		
Payable for unsettled securities purchased	33,700	12,195
Capital gains incentive fee payable	2,567	3,547
Incentive fee payable	144	661
Management fee payable	532	567
Interest payable	43	(1,166)
Payable to affiliate	3	23
Other liabilities	590	(322)
<b>Net cash flows provided by (used in) operating activities</b>	<b>52,081</b>	<b>(83,761)</b>
<b>Cash flows from financing activities</b>		
Net contributions	57,020	82,300
Dividends paid	(55,961)	(39,066)
Offering costs paid	(656)	(259)
Proceeds from Holdings Credit Facility	246,923	311,326
Repayment of Holdings Credit Facility	(294,770)	(304,699)
Proceeds from SLF Credit Facility	11,138	89,031
Repayment of SLF Credit Facility	(10,400)	(54,959)
Deferred credit facility costs paid	(498)	(2,561)
<b>Net cash flows (used in) provided by financing activities</b>	<b>(47,204)</b>	<b>81,113</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>4,877</b>	<b>(2,648)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>12,752</b>	<b>15,319</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>\$ 17,629</b>	<b>\$ 12,671</b>
<b>Supplemental disclosure of cash flow information</b>		

Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

Interest paid	\$	7,938	\$	7,185
<b>Non-cash operating activities:</b>				
Non-cash activity on investments	\$	1,986	\$	
<b>Non-cash financing activities:</b>				
Value of members' capital issued in connection with dividend reinvestment plan	\$	4,109	\$	980
Accrual for offering costs		1,162		326
Accrual for deferred credit facility costs		25		59

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

Table of Contents

## New Mountain Finance Holdings, L.L.C.

## Consolidated Schedule of Investments

September 30, 2013  
(in thousands, except shares)

(unaudited)

Portfolio Company, Location and Industry(1)	Type of Investment	Interest Rate	Maturity Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Members Capital
<b>Funded Debt Investments - Bermuda</b>							
Stratus Technologies Bermuda Holdings Ltd.(4)**							
Stratus Technologies Bermuda Ltd. / Stratus Technologies, Inc.							
Information Technology	First lien (2)(7)	12.00%	3/29/2015	\$ 6,497	\$ 6,305	\$ 6,513	1.01%
<b>Total Funded Debt Investments - Bermuda</b>				<b>\$ 6,497</b>	<b>\$ 6,305</b>	<b>\$ 6,513</b>	<b>1.01%</b>
<b>Funded Debt Investments - Cayman Islands</b>							
Pinnacle Holdco S.à r.l. / Pinnacle (US) Acquisition Co Limited**							
Software	Second lien (2)	10.50% (Base Rate + 9.25%)	7/30/2020	\$ 30,000	\$ 29,458	\$ 30,394	4.74%
<b>Total Funded Debt Investments - Cayman Islands</b>				<b>\$ 30,000</b>	<b>\$ 29,458</b>	<b>\$ 30,394</b>	<b>4.74%</b>
<b>Funded Debt Investments - United States</b>							
McGraw-Hill Global Education Holdings, LLC							
Education	First lien (2)	9.75%	4/1/2021	\$ 24,500	\$ 24,345	\$ 26,093	
	First lien (3)	9.00% (Base Rate + 7.75%)	3/22/2019	19,900	19,342	20,174	
				44,400	43,687	46,267	7.21%
UniTek Global Services, Inc.							
Business Services	First lien (2)	15.00% (Base Rate + 9.50% + 4.00% PIK)*	4/15/2018	26,176	25,265	25,543	
	First lien (2)	15.00% (Base Rate + 9.50% + 4.00% PIK)*	4/15/2018	6,337	6,117	6,184	
	First lien (2)	15.00% (Base Rate + 9.50% + 4.00% PIK)*	4/15/2018	5,268	5,084	5,140	
				37,781	36,466	36,867	5.74%
Edmentum, Inc.(fka Plato, Inc.)							
Education	First lien (3)	6.00% (Base Rate + 4.75%)	5/17/2018	6,449	6,291	6,486	
	Second lien (2)	11.25% (Base Rate + 9.75%)	5/17/2019	29,150	28,649	29,405	
				35,599	34,940	35,891	5.59%
SRA International, Inc.							

## Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

Federal Services	First lien (2)	6.50% (Base Rate + 5.25%)	7/20/2018	34,750	33,739	34,533	5.38%
Rocket Software, Inc. Software	Second lien (2)	10.25% (Base Rate + 8.75%)	2/8/2019	30,875	30,726	30,921	4.82%
Global Knowledge Training LLC Education	First lien (3)	6.51% (Base Rate + 4.99%)	4/21/2017	4,624	4,575	4,624	
	First lien (3)	6.51% (Base Rate + 4.99%)	4/21/2017	1,159	1,147	1,159	
	Second lien (2)	11.50% (Base Rate + 9.75%)	10/21/2018	24,250	23,855	24,643	
				30,033	29,577	30,426	4.74%
Novell, Inc. (fka Attachmate Corporation, NetIQ Corporation) Software	First lien (3)	7.25% (Base Rate + 5.75%)	11/22/2017	7,158	7,044	7,195	
	Second lien (2)	11.00% (Base Rate + 9.50%)	11/22/2018	23,353	22,758	23,090	
				30,511	29,802	30,285	4.72%
Deltek, Inc. Software	Second lien (2)	10.00% (Base Rate + 8.75%)	10/10/2019	30,000	29,709	30,275	4.72%
JHCI Acquisition, Inc. Distribution & Logistics	First lien (3)	7.00% (Base Rate + 5.75%)	7/11/2019	19,950	19,658	20,000	
	Second lien (2)	11.00% (Base Rate + 9.75%)	7/11/2020	10,000	9,707	9,700	
				29,950	29,365	29,700	4.63%
Transtar Holding Company Distribution & Logistics	Second lien (2)	9.75% (Base Rate + 8.50%)	10/9/2019	28,300	27,828	28,866	4.50%
KeyPoint Government Solutions, Inc. Federal Services	First lien (3)	7.25% (Base Rate + 6.00%)	11/13/2017	17,392	17,023	17,218	
	First lien (2)	7.25% (Base Rate + 6.00%)	11/13/2017	10,483	10,303	10,378	
				27,875	27,326	27,596	4.30%
YP Holdings LLC (8) YP LLC Media	First lien (2)	8.06% (Base Rate + 6.69%)	6/4/2018	27,120	26,476	26,984	4.20%
Meritas Schools Holdings, LLC Education	First lien (3)	7.00% (Base Rate + 5.75%)	6/25/2019	18,953	18,769	18,988	
	First lien (2)	7.00% (Base Rate + 5.75%)	6/25/2019	6,983	6,915	6,996	
				25,936	25,684	25,984	4.05%
Kronos Incorporated Software	Second lien (2)	9.75% (Base Rate + 8.50%)	4/30/2020	25,000	24,771	25,953	4.04%
Permian Tank & Manufacturing, Inc. Energy	First lien (2)	10.50%	1/15/2018	24,500	24,770	24,010	3.74%

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

Table of Contents**New Mountain Finance Holdings, L.L.C.****Consolidated Schedule of Investments (Continued)****September 30, 2013****(in thousands, except shares)**

(unaudited)

<b>Portfolio Company, Location and Industry(1)</b>	<b>Type of Investment</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Principal Amount, Par Value or Shares</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Members Capital</b>
Aderant North America, Inc. Software	Second lien (2)	10.00% (Base Rate + 8.75%)	6/20/2019	\$ 22,500	\$ 22,191	\$ 23,119	3.60%
LM U.S. Member LLC (and LM U.S. Corp Acquisition Inc.) Business Services	Second lien (3)	9.50% (Base Rate + 8.25%)	10/26/2020	20,000	19,724	20,333	3.17%
Merrill Communications LLC Business Services	First lien (3)	7.31% (Base Rate + 6.20%)	3/8/2018	19,900	19,708	20,033	3.12%
First American Payment Systems, L.P. Business Services	Second lien (3)	10.75% (Base Rate + 9.50%)	4/12/2019	20,000	19,642	19,988	3.11%
Six3 Systems, Inc. Federal Services	First lien (3)	7.00% (Base Rate + 5.75%)	10/4/2019	19,850	19,674	19,974	3.11%
eResearchTechnology, Inc. Healthcare Services	First lien (3)	6.00% (Base Rate + 4.75%)	5/2/2018	19,800	19,061	19,899	3.10%
Distribution International, Inc. Distribution & Logistics	First lien (2)	7.50% (Base Rate + 6.50%)	7/16/2019	19,950	19,562	19,862	3.09%
ARSloane Acquisition, LLC Business Services	First lien (2)	7.50% (Base Rate + 6.25%)	10/1/2019	20,000	19,800	19,800	3.09%
Envision Acquisition Company, LLC Healthcare Services	Second lien (2)	9.75% (Base Rate + 8.75%)	11/4/2021	20,000	19,600	19,600	3.05%
Insight Pharmaceuticals LLC Healthcare Products	Second lien (3)	13.25% (Base Rate + 11.75%)	8/25/2017	19,310	18,738	19,214	2.99%
St. George's University Scholastic Services LLC Education	First lien (3)	8.50% (Base Rate + 7.00%)	12/20/2017	11,947	11,733	12,052	
	First lien (2)	8.50% (Base Rate + 7.00%)	12/20/2017	6,391	6,280	6,447	
				18,338	18,013	18,499	2.88%
PODS, Inc. (6)							

## Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

Consumer Services							
PODS Funding Corp. II	First lien (3)	7.25% (Base Rate + 6.00%)	11/29/2016	12,575	12,323	12,606	
Storapod Holding Company, Inc.							
	Subordinated (2)	21.00% PIK*	11/29/2017	5,460	5,334	5,460	
				18,035	17,657	18,066	2.82%
Ascensus, Inc.							
Business Services	First lien (3)	8.00% (Base Rate + 6.75%)	12/21/2018	16,873	16,568	17,125	2.67%
Sotera Defense Solutions, Inc. (Global Defense Technology & Systems, Inc.)							
Federal Services	First lien (3)	7.50% (Base Rate + 6.00%)	4/21/2017	18,527	18,323	16,674	2.60%
IG Investments Holdings, LLC							
Business Services	Second lien (3)	10.25% (Base Rate + 9.00%)	10/31/2020	15,000	14,861	15,075	2.35%
Confie Seguros Holding II Co.							
Consumer Services	Second lien (3)	10.25% (Base Rate + 9.00%)	5/8/2019	8,906	8,769	8,970	
	Second lien (2)	10.25% (Base Rate + 9.00%)	5/8/2019	5,979	5,988	6,021	
				14,885	14,757	14,991	2.34%
OpenLink International, Inc.							
Software	First lien (3)	7.75% (Base Rate + 6.25%)	10/30/2017	14,738	14,522	14,793	2.31%
KPLT Holdings, Inc. (Centerplate, Inc., et al.)							
Consumer Services	Subordinated (2)	11.75% (10.25% + 1.50% PIK)*	4/16/2019	14,802	14,539	14,576	2.27%
Smile Brands Group Inc.							
Healthcare Services	First lien (2)	7.50% (Base Rate + 6.25%)	8/16/2019	14,500	14,297	14,337	2.23%
Aspen Dental Management, Inc.							
Healthcare Services	First lien (3)	7.00% (Base Rate + 5.50%)	10/6/2016	14,757	14,500	14,241	2.22%
Brock Holdings III, Inc.							
Industrial Services	Second lien (2)	10.00% (Base Rate + 8.25%)	3/16/2018	14,000	13,850	14,222	2.22%
Packaging Coordinators, Inc. (10)							
Healthcare Products	Second lien (2)	9.50% (Base Rate + 8.25%)	11/10/2020	14,000	13,865	14,000	2.18%
Lonestar Intermediate Super Holdings, LLC							
Business Services	Subordinated (2)	11.00% (Base Rate + 9.50%)	9/2/2019	12,000	11,692	12,570	1.96%
Van Wagner Communications, LLC							
Media	First lien (2)	6.25% (Base Rate + 5.00%)	8/3/2018	11,821	11,633	12,087	1.88%
Vision Solutions, Inc.							
Software	Second lien (2)	9.50% (Base Rate + 8.00%)	7/23/2017	12,000	11,927	11,850	1.85%
Vertafore, Inc.							
Software	Second lien (2)	9.75% (Base Rate + 8.25%)	10/29/2017	10,000	9,933	10,215	1.59%
TransFirst Holdings, Inc.							
Business Services	Second lien (3)	11.00% (Base Rate + 9.75%)	6/27/2018	10,000	9,731	10,163	1.58%

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

Table of Contents**New Mountain Finance Holdings, L.L.C.****Consolidated Schedule of Investments (Continued)****September 30, 2013****(in thousands, except shares)**

(unaudited)

<b>Portfolio Company, Location and Industry(1)</b>	<b>Type of Investment</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Principal Amount, Par Value or Shares</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Members Capital</b>
Mailsouth, Inc. Media	First lien (3)	6.75% (Base Rate + 5.00%)	12/14/2016	\$ 9,792	\$ 9,705	\$ 9,450	1.47%
Virtual Radiologic Corporation Healthcare Information Technology	First lien (3)	7.25% (Base Rate + 5.50%)	12/22/2016	13,598	13,481	8,838	1.38%
Consona Holdings, Inc. Software	First lien (3)	7.25% (Base Rate + 6.00%)	8/6/2018	8,415	8,345	8,436	1.32%
Physio-Control International, Inc. Healthcare Products	First lien (2)	9.88%	1/15/2019	6,651	6,651	7,482	1.17%
Alion Science and Technology Corporation Federal Services	First lien (2)(7)	12.00% (10.00% + 2.00% PIK)*	11/1/2014	6,383	6,271	6,426	1.00%
Immucor, Inc. Healthcare Services	Subordinated (2)(7)	11.13%	8/15/2019	5,000	4,948	5,525	0.86%
GCA Services Group, Inc. Business Services	Second lien (2)	9.25% (Base Rate + 8.00%)	11/1/2020	5,000	4,954	5,096	0.79%
Education Management LLC** Education	First lien (3)	8.25% (Base Rate + 7.00%)	3/30/2018	5,017	4,896	4,930	0.77%
Learning Care Group (US), Inc. Education	Subordinated (2)	15.00% PIK*	5/8/2020	4,066	3,944	4,066	
	Subordinated (2)	15.00% PIK*	5/8/2020	744	689	744	
				4,810	4,633	4,810	0.75%
Brickman Group Holdings, Inc. Business Services	Subordinated (2)	9.13%	11/1/2018	3,650	3,371	3,924	0.61%
ATI Acquisition Company (fka Ability Acquisition, Inc.) (11) Education	First lien (2)	12.25% (Base Rate + 5.00% + 4.00% PIK) (5)*	12/30/2014	4,432	4,306		
	First lien (2)	17.25% (Base Rate + 10.00% + 4.00%)	6/30/2012 - Past Due	1,665	1,434	233	

Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

		PIK) (5)*				
	First lien (2)	17.25% (Base Rate + 10.00% + 4.00%	6/30/2012 - Past Due	103	94	103
		PIK) (5)*		6,200	5,834	336
						0.05%
<b>Total Funded Debt Investments - United States</b>						
				\$ 982,732	\$ 966,323	\$ 975,117
				\$ 1,019,229	\$ 1,002,086	\$ 1,012,024
						151.93%
						157.68%
<b>Equity - Bermuda</b>						
Stratus Technologies Bermuda Holdings Ltd.(4)**						
	Information Technology	Ordinary shares (2)		156,247	\$ 65	\$ 25
		Preferred shares (2)		35,558	15	6
					80	31
						0.01%
					\$ 80	\$ 31
						0.01%
<b>Equity - United States</b>						
Black Elk Energy Offshore Operations, LLC						
	Energy	Preferred shares (2)	17.00%	20,000,000	\$ 20,000	\$ 20,000
						3.11%
Global Knowledge Training LLC						
	Education	Ordinary shares (2)		2	2	3
		Preferred shares (2)		2,423	1,193	3,039
					1,195	3,042
						0.48%
Packaging Coordinators, Inc. (10)						
Packaging Coordinators Holdings, LLC						
	Healthcare Products	Ordinary shares (2)		19,427	1,000	1,000
						0.16%
Ancora Acquisition LLC (11)						
	Education	Preferred shares (2)		372	83	83
						0.01%
					\$ 22,278	\$ 24,125
					\$ 22,358	\$ 24,156
						3.76%
						3.77%

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



Table of Contents**New Mountain Finance Holdings, L.L.C.****Consolidated Schedule of Investments (Continued)****September 30, 2013****(in thousands, except shares)**

(unaudited)

<b>Portfolio Company, Location and Industry(1)</b>	<b>Type of Investment</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Principal Amount, Par Value or Shares</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Members Capital</b>
<b>Warrants - United States</b>							
Learning Care Group (US), Inc.							
Education	Warrants (2)			844	\$ 194	\$ 522	
	Warrants (2)			3,589	61	2,218	
					255	2,740	0.43%
YP Holdings LLC (8)							
YP Equity Investors LLC							
Media	Warrants (2)			5		1,634	0.25%
Unitek Global Services, Inc.							
Business Services	Warrants (2)			1,014,451	1,449	1,009	0.16%
PODS, Inc. (6)							
Storapod Holding Company, Inc.							
Consumer Services	Warrants (2)			360,129	156	467	0.07%
Alion Science and Technology Corporation							
Federal Services	Warrants (2)			6,000	293	189	0.03%
Ancora Acquisition LLC (11)							
Education	Warrants (2)			20			%
<b>Total Warrants - United States</b>					<b>\$ 2,153</b>	<b>\$ 6,039</b>	<b>0.94%</b>
<b>Total Funded Investments</b>					<b>\$ 1,026,597</b>	<b>\$ 1,042,219</b>	<b>162.39%</b>
<b>Unfunded Debt Investments - United States</b>							
Advantage Sales & Marketing Inc.							
Business Services	First lien						
	(2)(9) -						
	Undrawn		12/17/2015	\$ 10,500	\$ (1,260)	\$ (787)	(0.12)%
<b>Total Unfunded Debt Investments</b>				<b>\$ 10,500</b>	<b>\$ (1,260)</b>	<b>\$ (787)</b>	<b>(0.12)%</b>
<b>Total Investments</b>					<b>\$ 1,025,337</b>	<b>\$ 1,041,432</b>	<b>\$ 162.27%</b>

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

(2) Investment is pledged as collateral for the Holdings Credit Facility, a revolving credit facility among the Operating Company as the Borrower and Collateral Administrator, Wells Fargo Securities, L.L.C. as the Administrative Agent, and Wells Fargo Bank, National Association, as the Collateral Custodian. See Note 7, *Borrowing Facilities*, for details.

## Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

(3) Investment is pledged as collateral for the SLF Credit Facility, a revolving credit facility among New Mountain Finance SPV Funding, L.L.C. as the Borrower, the Operating Company as the Collateral Administrator, Wells Fargo Securities, L.L.C. as the Administrative Agent, and Wells Fargo Bank, National Association, as the Collateral Custodian. See Note 7, *Borrowing Facilities*, for details.

(4) The Operating Company holds investments in two related entities of Stratus Technologies Bermuda Holdings, Ltd. ( *Stratus Holdings* ). The Operating Company directly holds ordinary and preferred equity in Stratus Holdings and has a credit investment in the joint issuers of Stratus Technologies Bermuda Ltd. ( *Stratus Bermuda* ) and Stratus Technologies, Inc. ( *Stratus U.S.* ), collectively, the *Stratus Notes* . Stratus U.S. is a wholly-owned subsidiary of Stratus Bermuda, which in turn is a wholly-owned subsidiary of Stratus Holdings. Stratus Holdings is the parent guarantor of the credit investment of the Stratus Notes.

(5) Investment is on non-accrual status.

(6) The Operating Company holds investments in two related entities of PODS, Inc. The Operating Company directly holds warrants in Storapod Holding Company, Inc. ( *Storapod* ) and has a credit investment in Storapod through Storapod WCF II Limited ( *Storapod WCF II* ). Storapod WCF II is a special purpose entity used to enter into a Shari'ah-compliant financing arrangement with Storapod. Additionally, the Operating Company has a credit investment in PODS Funding Corp. II ( *PODS II* ). PODS, Inc. is a wholly-owned subsidiary of PODS Holding, Inc., which in turn is a majority-owned subsidiary of Storapod. PODS II is a special purpose entity used to enter into a Shari'ah-compliant financing arrangement with PODS, Inc. and its subsidiary, PODS Enterprises, Inc.

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

Table of Contents

**New Mountain Finance Holdings, L.L.C.**

**Consolidated Schedule of Investments (Continued)**

**September 30, 2013**

(unaudited)

(7) Securities are registered under the Securities Act.

(8) The Operating Company holds investments in two related entities of YP Holdings LLC. The Operating Company directly holds warrants to purchase a 4.96% membership interest of YP Equity Investors, LLC (which at closing represented an indirect 1.0% equity interest in YP Holdings LLC) and holds an investment in the Term Loan B loans issued by YP LLC, a subsidiary of YP Holdings LLC.

(9) Par Value amounts represent the drawn or undrawn (as indicated in type of investment) portion of revolving credit facilities. Cost amounts represent the cash received at settlement date net the impact of paydowns and cash paid for drawn revolvers.

(10) The Operating Company holds investments in Packaging Coordinators, Inc. and one related entity of Packaging Coordinators, Inc. The Operating Company has a credit investment in Packaging Coordinators, Inc. and holds ordinary equity in Packaging Coordinators Holdings, LLC, a wholly-owned subsidiary of Packaging Coordinators, Inc.

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

\* All or a portion of interest contains payments-in-kind ( PIK ).

\*\* Indicates assets that the Operating Company deems to be non-qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70.00% of the Operating Company's total assets at the time of acquisition of any additional non-qualifying assets.

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



Table of Contents**New Mountain Finance Holdings, L.L.C.****Consolidated Schedule of Investments (Continued)****September 30, 2013**

(unaudited)

	<b>September 30, 2013 Percent of Total Investments at Fair Value</b>
<b>Investment Type</b>	
First lien	51.20%
Second lien	41.40%
Subordinated	4.50%
Equity and other	2.90%
Total investments	100.00%

	<b>September 30, 2013 Percent of Total Investments at Fair Value</b>
<b>Industry Type</b>	
Software	20.76%
Business Services	17.40%
Education	16.61%
Federal Services	10.12%
Distribution & Logistics	7.53%
Healthcare Services	7.07%
Media	4.82%
Consumer Services	4.62%
Energy	4.22%
Healthcare Products	4.00%
Industrial Services	1.37%
Healthcare Information Technology	0.85%
Information Technology	0.63%
Total investments	100.00%

	<b>September 30, 2013 Percent of Total Investments at Fair Value</b>
<b>Interest Rate Type</b>	
Floating rates	88.01%
Fixed rates	11.99%
Total investments	100.00%

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



Table of Contents

## New Mountain Finance Holdings, L.L.C.

## Consolidated Schedule of Investments

December 31, 2012

(in thousands, except shares)

Portfolio Company, Location and Industry(1)	Type of Investment	Interest Rate	Maturity Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Members Capital
<b>Funded Debt Investments Bermuda</b>							
Stratus Technologies Bermuda Holdings Ltd.(4)**							
Stratus Technologies Bermuda Ltd. / Stratus Technologies, Inc.							
Information Technology	First lien(2)(7)	12.00%	3/29/2015	\$ 6,664	\$ 6,396	\$ 6,631	1.16%
<b>Total Funded Debt Investments Bermuda</b>				<b>\$ 6,664</b>	<b>\$ 6,396</b>	<b>\$ 6,631</b>	<b>1.16%</b>
<b>Funded Debt Investments Cayman Islands</b>							
Pinnacle Holdco S.à r.l. / Pinnacle (US) Acquisition Co Limited**							
Software	First lien(3)	6.50% (Base Rate + 5.25%)	7/30/2019	\$ 2,992	\$ 2,971	\$ 2,999	
	Second lien(2)	10.50% (Base Rate + 9.25%)	7/30/2020	30,000	29,420	30,488	
				32,992	32,391	33,487	5.88%
<b>Total Funded Debt Investments Cayman Islands</b>				<b>\$ 32,992</b>	<b>\$ 32,391</b>	<b>\$ 33,487</b>	<b>5.88%</b>
<b>Funded Debt Investments United Kingdom</b>							
Magic Newco, LLC**							
Software	First lien(3)	7.25% (Base Rate + 6.00%)	12/12/2018	\$ 14,963	\$ 14,543	\$ 15,105	2.65%
<b>Total Funded Debt Investments United Kingdom</b>				<b>\$ 14,963</b>	<b>\$ 14,543</b>	<b>\$ 15,105</b>	<b>2.65%</b>
<b>Funded Debt Investments United States</b>							
Edmentum, Inc.(fka Plato, Inc.)							
Education	First lien(3)	7.50% (Base Rate + 6.00%)	5/17/2018	\$ 11,700	\$ 11,378	\$ 11,744	
	Second lien(2)	11.25% (Base Rate + 9.75%)	5/17/2019	29,150	28,604	28,567	
				40,850	39,982	40,311	7.07%
Novell, Inc. (fka Attachmate Corporation, NetIQ Corporation)							
Software	First lien(3)	7.25% (Base Rate + 5.75%)	11/22/2017	7,700	7,560	7,785	
	Second lien(2)	11.00% (Base Rate + 9.50%)	11/22/2018	24,000	23,326	23,560	
				31,700	30,886	31,345	5.50%
Rocket Software, Inc.							
Software	Second lien(2)	10.25% (Base Rate + 8.75%)	2/8/2019	30,875	30,711	30,933	5.43%

Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

Pharmaceutical Research Associates, Inc.							
Healthcare Services	Second lien(2)	10.50% (Base Rate + 9.25%)	6/10/2019	30,000	29,402	30,319	5.32%
UniTek Global Services, Inc.							
Business Services	First lien(2)	9.00% (Base Rate + 7.50%)	4/16/2018	19,650	19,202	19,331	
	First lien(2)	9.00% (Base Rate + 7.50%)	4/16/2018	5,970	5,798	5,873	
	First lien(2)	9.00% (Base Rate + 7.50%)	4/16/2018	4,963	4,781	4,882	
				30,583	29,781	30,086	5.28%
KeyPoint Government Solutions, Inc.							
Federal Services	First lien(3)	7.25% (Base Rate + 6.00%)	11/13/2017	20,000	19,608	19,900	
	First lien(2)	7.25% (Base Rate + 6.00%)	11/13/2017	10,000	9,703	9,950	
				30,000	29,311	29,850	5.24%
Global Knowledge Training LLC							
Education	First lien(3)	6.50% (Base Rate + 4.99%)	4/21/2017	4,776	4,718	4,705	
	First lien(3)	7.25% (Base Rate + 4.00%)	4/21/2017	1,174	1,159	1,156	
	Second lien(2)	11.50% (Base Rate + 9.75%)	10/21/2018	24,250	23,814	23,755	
				30,200	29,691	29,616	5.20%
Managed Health Care Associates, Inc.							
Healthcare Services	First lien(2)	3.47% (Base Rate + 3.25%)	8/1/2014	14,756	13,240	14,276	
	Second lien(2)	6.72% (Base Rate + 6.50%)	2/1/2015	15,000	12,790	14,475	
				29,756	26,030	28,751	5.05%
Transtar Holding Company							
Distribution & Logistics (10)	Second lien(2)	9.75% (Base Rate + 8.50%)	10/9/2019	28,300	27,787	28,654	5.03%
Meritas Schools Holdings, LLC							
Education	First lien(3)	7.50% (Base Rate + 6.00%)	7/29/2017	8,150	8,084	8,171	
	Second lien(2)	11.50% (Base Rate + 10.00%)	1/29/2018	20,000	19,747	20,000	
				28,150	27,831	28,171	4.94%
Kronos Incorporated							
Software	Second lien(2)	9.75% (Base Rate + 8.50%)	4/30/2020	25,000	24,753	25,125	4.41%

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



Table of Contents**New Mountain Finance Holdings, L.L.C.****Consolidated Schedule of Investments (Continued)****December 31, 2012****(in thousands, except shares)**

<b>Portfolio Company, Location and Industry(1)</b>	<b>Type of Investment</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Principal Amount, Par Value or Shares</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Members Capital</b>
St. George's University Scholastic Services LLC Education	First lien(2)	8.50% (Base Rate + 7.00%)	12/20/2017	\$ 25,000	\$ 24,501	\$ 24,500	4.30%
SRA International, Inc. Federal Services	First lien(3)	6.50% (Base Rate + 5.25%)	7/20/2018	20,436	19,741	19,542	
	First lien(2)	6.50% (Base Rate + 5.25%)	7/20/2018	4,315	4,225	4,126	
				24,751	23,966	23,668	4.15%
Aderant North America, Inc. Software	Second lien(2)	11.00% (Base Rate + 7.75%)	6/20/2019	22,500	22,163	23,062	4.05%
LM U.S. Member LLC (and LM U.S. Corp Acquisition Inc.) Business Services	Second lien(2)	9.50% (Base Rate + 8.25%)	10/26/2020	20,000	19,704	20,150	3.54%
Learning Care Group (US), Inc. Education	First lien(2)	12.00%	4/27/2016	17,369	17,174	16,696	
	Subordinated(2)	15.00% PIK*	6/30/2016	3,782	3,639	3,434	
				21,151	20,813	20,130	3.53%
Six3 Systems, Inc. Federal Services	First lien(2)	7.00% (Base Rate + 5.75%)	10/4/2019	20,000	19,805	20,025	3.51%
First American Payment Systems, L.P. Business Services	Second lien(2)	10.75% (Base Rate + 9.50%)	4/12/2019	20,000	19,609	19,900	3.49%
eResearchTechnology, Inc. Healthcare Services	First lien(3)	8.00% (Base Rate + 6.50%)	5/2/2018	19,950	19,202	19,850	3.48%
Insight Pharmaceuticals LLC Healthcare Products	Second lien(2)	13.25% (Base Rate + 11.75%)	8/25/2017	19,310	18,659	19,503	3.42%
Transplace Texas, L.P. Distribution & Logistics (10)	Second lien(2)	11.00% (Base Rate + 9.00%)	4/12/2017	20,000	19,586	19,500	3.42%
PODS, Inc.(6) Consumer Services							
PODS Funding Corp. II Storapod Holding Company, Inc.	First lien(3)	7.25% (Base Rate + 6.00%)	11/29/2016	14,007	13,668	13,972	
	Subordinated(2)	21.00% PIK*	11/29/2017	5,296	5,156	5,113	
				19,303	18,824	19,085	3.35%
Smile Brands Group Inc. Healthcare Services	First lien(3)	7.00% (Base Rate + 5.25%)	12/21/2017	19,859	19,598	18,767	3.29%
Ascensus, Inc. Business Services	First lien(2)	8.00% (Base Rate + 6.75%)	12/21/2018	8,500	8,330	8,330	
	First lien(3)	8.00% (Base Rate + 6.75%)	12/21/2018	8,500	8,330	8,330	
				17,000	16,660	16,660	2.92%
Sotera Defense Solutions, Inc. (Global Defense Technology & Systems, Inc.) Federal Services	First lien(3)	7.50% (Base Rate + 6.00%)	4/21/2017	15,758	15,644	15,600	2.74%
IG Investments Holdings, LLC Business Services	Second lien(2)	10.25% (Base Rate + 9.00%)	10/31/2020	15,000	14,852	14,925	2.62%

## Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

OpenLink International, Inc. Software	First lien(3)	7.75% (Base Rate + 6.25%)	10/30/2017	14,850	14,600	14,850	2.61%
Landslide Holdings, Inc. (Crimson Acquisition Corp.) Software	First lien(3)	7.00% (Base Rate + 5.75%)	6/19/2018	14,625	14,353	14,671	2.57%
KPLT Holdings, Inc. (Centerplate, Inc., et al.) Consumer Services	Subordinated(2)	11.75% (10.25% + 1.50% PIK)*	4/16/2019	14,637	14,351	14,344	2.52%
Sabre Inc. Software	First lien(3)	7.25% (Base Rate + 6.00%)	12/29/2017	13,965	13,918	14,186	2.49%
Brock Holdings III, Inc. Industrial Services	Second lien(2)	10.00% (Base Rate + 8.25%)	3/16/2018	14,000	13,825	14,105	2.48%
Triple Point Technology, Inc. Software	First lien(3)	6.25% (Base Rate + 5.00%)	10/27/2017	12,968	12,549	13,021	2.28%
Lonestar Intermediate Super Holdings, LLC Business Services	Subordinated(2)	11.00% (Base Rate + 9.50%)	9/2/2019	12,000	11,666	12,765	2.24%
Aspen Dental Management, Inc. Healthcare Services	First lien(3)	7.00% (Base Rate + 5.50%)	10/6/2016	12,870	12,652	12,210	2.14%

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

Table of Contents**New Mountain Finance Holdings, L.L.C.****Consolidated Schedule of Investments (Continued)****December 31, 2012****(in thousands, except shares)**

<b>Portfolio Company, Location and Industry(1)</b>	<b>Type of Investment</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Principal Amount, Par Value or Shares</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Percent of Members Capital</b>
Van Wagner Communications, LLC							
Media	First lien(2)	8.25% (Base Rate + 7.00%)	8/3/2018	\$ 12,000	\$ 11,772	\$ 12,160	2.13%
Supervalu Inc.**							
Retail	First lien(2)	8.00% (Base Rate + 6.75%)	8/30/2018	11,940	11,597	12,146	2.13%
Vision Solutions, Inc.							
Software	Second lien(2)	9.50% (Base Rate + 8.00%)	7/23/2017	12,000	11,913	11,700	2.05%
Merrill Communications LLC							
Business Services	First lien(2)	10.75% (Base Rate + 7.50%)	3/10/2013	11,422	11,421	11,279	1.98%
Mailsouth, Inc.							
Media	First lien(3)	6.75% (Base Rate + 5.00%)	12/14/2016	11,136	11,018	11,025	1.94%
Immucor, Inc.							
Healthcare Services	First lien(3)	5.75% (Base Rate + 4.50%)	8/19/2018	4,938	4,772	5,006	
	Subordinated(2)(7)	11.13%	8/15/2019	5,000	4,943	5,650	
				9,938	9,715	10,656	1.87%
Virtual Radiologic Corporation							
Healthcare Information Technology	First lien(3)	7.75% (Base Rate + 4.50%)	12/22/2016	14,702	14,550	10,291	1.81%
Permian Tank & Manufacturing, Inc.							
Energy	First lien(3)	9.00% (Base Rate + 7.25%)	3/15/2017	10,072	9,852	10,072	1.77%
Vertafore, Inc.							
Software	Second lien(2)	9.75% (Base Rate + 8.25%)	10/29/2017	10,000	9,924	10,050	1.76%
Merge Healthcare Inc.**							
Healthcare Services	First lien(2)(7)	11.75%	5/1/2015	9,000	8,916	9,709	1.70%
TransFirst Holdings, Inc.							
Business Services	Second lien(2)	11.00% (Base Rate + 9.75%)	6/27/2018	10,000	9,700	9,700	1.70%
Consona Holdings, Inc.							
Software	First lien(3)	7.25% (Base Rate + 6.00%)	8/6/2018	8,479	8,398	8,511	1.49%
Confie Seguros Holding II Co.							
Consumer Services	Second lien(2)	10.25% (Base Rate + 9.00%)	5/8/2019	8,000	7,842	8,040	1.41%
Physio-Control International, Inc.							
Healthcare Products	First lien(2)	9.88%	1/15/2019	7,000	7,000	7,717	1.35%
Surgery Center Holdings, Inc.							
Healthcare Services	First lien(3)	6.50% (Base Rate + 5.00%)	2/6/2017	6,834	6,809	6,800	1.19%
Research Pharmaceutical Services, Inc.							
Healthcare Services	First lien(3)	6.75% (Base Rate + 5.25%)	2/18/2017	7,125	7,046	6,662	1.17%
Alion Science and Technology Corporation							
Federal Services	First lien(2)(7)	12.00% (10.00% + 2.00% PIK)*	11/1/2014	6,320	6,131	6,093	1.07%
GCA Services Group, Inc.							
Business Services	Second lien(2)	9.25% (Base Rate + 8.00%)	11/1/2020	5,000	4,951	4,900	0.86%
Education Management LLC**							
Education	First lien(3)	8.25% (Base Rate + 7.00%)	3/30/2018	5,058	4,921	4,232	0.74%

Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

Brickman Group Holdings, Inc.							
Business Services	Subordinated(2)	9.13%	11/1/2018	3,650	3,342	3,842	0.68%
Ozburn-Hessey Holding Company LLC							
Distribution & Logistics (10)	Second lien(2)	11.50% (Base Rate + 9.50%)	10/10/2016	4,000	3,947	3,680	0.65%
YP Holdings LLC(8)							
YP Intermediate Holdings Corp. / YP Intermediate Holdings II LLC							
Media	Second lien(2)	15.00% (12.00% + 3.00% PIK)*	5/18/2017	3,559	3,326	3,586	0.63%
Mach Gen, LLC							
Power Generation	Second lien(2)	7.82% PIK (Base Rate + 7.50%)*	2/22/2015	3,676	3,474	2,396	0.42%
ATI Acquisition Company (fka Ability Acquisition, Inc.)							
Education	First lien(2)	12.25% (Base Rate + 5.00% + 4.00% PIK)(5)*	12/30/2014	4,432	4,306		
	First lien(2)	17.25% (Base Rate + 10.00% + 4.00% PIK)(5)*	6/30/2012 Past Due	1,665	1,517	649	
	First lien(2)	17.25% (Base Rate + 10.00% + 4.00% PIK)(5)*	6/30/2012 Past Due	103	94	103	
				6,200	5,917	752	0.13%
Airvana Network Solutions Inc.							
Software	First lien(2)	10.00% (Base Rate + 8.00%)	3/25/2015	648	640	650	0.11%
<b>Total Funded Debt Investments United States</b>				<b>\$ 942,670</b>	<b>\$ 921,787</b>	<b>\$ 925,287</b>	<b>162.35%</b>
<b>Total Funded Debt Investments</b>				<b>\$ 997,289</b>	<b>\$ 975,117</b>	<b>\$ 980,510</b>	<b>172.04%</b>

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

Table of Contents

## New Mountain Finance Holdings, L.L.C.

## Consolidated Schedule of Investments (Continued)

December 31, 2012

(in thousands, except shares)

Portfolio Company, Location and Industry(1)	Type of Investment	Interest Rate	Maturity Date	Principal Amount, Par Value or Shares	Cost	Fair Value	Percent of Members Capital
<b>Equity Bermuda</b>							
Stratus Technologies Bermuda Holdings Ltd.(4)**							
Information Technology	Ordinary shares(2)			144,270	\$ 65	\$ 65	
	Preferred shares(2)			32,830	15	15	
					80	80	0.01%
<b>Total Shares Bermuda</b>					<b>\$80</b>	<b>\$80</b>	<b>0.01%</b>
<b>Equity United States</b>							
Global Knowledge Training LLC							
Education	Ordinary shares(2)			2	\$ 2	\$ 2	
	Preferred shares(2)			2,423	1,195	2,423	
					1,197	2,425	0.43%
<b>Total Shares United States</b>					<b>\$ 1,197</b>	<b>\$ 2,425</b>	<b>0.43%</b>
<b>Total Shares</b>					<b>\$ 1,277</b>	<b>\$ 2,505</b>	<b>0.44%</b>
<b>Warrants United States</b>							
YP Holdings LLC(8)							
YP Equity Investors LLC							
Media	Warrants(2)			5	\$ 466	\$ 7,230	1.27%
Alion Science and Technology Corporation							
Federal Services	Warrants(2)			6,000	293	192	0.03%
PODS, Inc.(6)							
Storapod Holding Company, Inc.							
Consumer Services	Warrants(2)			360,129	156	156	0.03%
Learning Care Group (US), Inc.							
Education	Warrants(2)			844	194	14	0.00%
<b>Total Warrants United States</b>					<b>\$ 1,109</b>	<b>\$ 7,592</b>	<b>1.33%</b>
<b>Total Funded Investments</b>					<b>\$ 977,503</b>	<b>\$ 990,607</b>	<b>173.81%</b>
<b>Unfunded Debt Investments United States</b>							
Advantage Sales & Marketing Inc.							
Business Services	First lien(2)(9) Undrawn		12/17/2015	\$ 10,500	\$ (1,260)	\$ (787)	(0.14)%
<b>Total Unfunded Debt Investments</b>				<b>\$ 10,500</b>	<b>\$ (1,260)</b>	<b>\$ (787)</b>	<b>(0.14)%</b>
<b>Total Investments</b>					<b>\$ 976,243</b>	<b>\$ 989,820</b>	<b>173.67%</b>

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

## Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

- (2) The Holdings Credit Facility is collateralized by the indicated investments.
- (3) The SLF Credit Facility is collateralized by the indicated investments.
- (4) The Operating Company holds investments in two related entities of Stratus Technologies Bermuda Holdings, Ltd. ( Stratus Holdings ). The Operating Company directly holds ordinary and preferred equity in Stratus Holdings and has a credit investment in the joint issuers of Stratus Technologies Bermuda Ltd. ( Stratus Bermuda ) and Stratus Technologies, Inc. ( Stratus U.S. ), collectively, the Stratus Notes . Stratus U.S. is a wholly-owned subsidiary of Stratus Bermuda, which in turn is a wholly-owned subsidiary of Stratus Holdings. Stratus Holdings is the parent guarantor of the credit investment of the Stratus Notes.
- (5) Investment is on non-accrual status.
- (6) The Operating Company holds investments in two related entities of PODS, Inc. The Operating Company directly holds warrants in Storapod Holding Company, Inc. ( Storapod ) and has a credit investment in Storapod through Storapod WCF II Limited ( Storapod WCF II ). Storapod WCF II is a special purpose entity used to enter into a Shari ah-compliant financing arrangement with Storapod. Additionally, the Operating Company has a credit investment in PODS Funding Corp. II ( PODS II ). PODS, Inc. is a wholly-owned subsidiary of PODS Holding, Inc., which in turn is a majority-owned subsidiary of Storapod. PODS II is a special purpose entity used to enter into a Shari ah-compliant financing arrangement with PODS, Inc. and its subsidiary, PODS Enterprises, Inc.

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

Table of Contents

**New Mountain Finance Holdings, L.L.C.**

**Consolidated Schedule of Investments (Continued)**

**December 31, 2012**

(7) Securities are registered under the Securities Act.

(8) The Operating Company holds investments in two related entities of YP Holdings LLC. The Operating Company directly holds warrants to purchase a 4.96% membership interest of YP Equity Investors, LLC (which at closing represented an indirect 1.0% equity interest in YP Holdings LLC) and holds an investment in the Term Loan B loans issued by YP Intermediate Holdings Corp. and YP Intermediate Holdings II LLC (together YP Intermediate ), a subsidiary of YP Holdings LLC.

(9) Par Value amounts represent the drawn or undrawn (as indicated in type of investment) portion of revolving credit facilities. Cost amounts represent the cash received at settlement date net the impact of paydowns and cash paid for drawn revolvers.

(10) Industries were disclosed separately in previously issued financial statements.

\* All or a portion of interest contains payments-in-kind ( PIK ).

\*\* Indicates assets that the Operating Company deems to be non-qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70.00% of the Operating Company s total assets at the time of acquisition of any additional non-qualifying assets.

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

Table of Contents

**New Mountain Finance Holdings, L.L.C.**

**Consolidated Schedule of Investments (Continued)**

**December 31, 2012**

	<b>December 31, 2012 Percent of Total Investments at Fair Value</b>
<b>Investment Type</b>	
First lien	49.86%
Second lien	44.56%
Subordinated	4.56%
Equity and other	1.02%
Total investments	100.00%

	<b>December 31, 2012 Percent of Total Investments at Fair Value</b>
<b>Industry Type</b>	
Software	24.92%
Education	15.17%
Healthcare Services	14.52%
Business Services	14.49%
Federal Services	9.64%
Distribution & Logistics (1)	5.23%
Consumer Services	4.21%
Media	3.44%
Healthcare Products	2.75%
Industrial Services	1.42%
Retail	1.23%
Healthcare Information Technology	1.04%
Energy	1.02%
Information Technology	0.68%
Power Generation	0.24%
Total investments	100.00%

---

(1) Industries were disclosed separately in previously issued financial statements.

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



Table of Contents

## New Mountain Finance Corporation

## Statements of Assets and Liabilities

(in thousands, except shares and per share data)

	September 30, 2013 (unaudited)	December 31, 2012
<b>Assets</b>		
Investment in New Mountain Finance Holdings, L.L.C., at fair value (cost of \$534,040 and \$335,730, respectively)	\$ 547,722	\$ 341,926
Distribution receivable from New Mountain Finance Holdings, L.L.C.		3,405
<b>Total assets</b>	<b>\$ 547,722</b>	<b>\$ 345,331</b>
<b>Liabilities</b>		
Dividends payable		3,405
<b>Total liabilities</b>		<b>3,405</b>
<b>Net assets</b>		
Preferred stock, par value \$0.01 per share, 2,000,000 authorized, none issued		
Common stock, par value \$0.01 per share, 100,000,000 shares authorized, and 38,259,921 and 24,326,251 shares issued and outstanding, respectively	383	243
Paid in capital in excess of par	533,657	335,487
Accumulated undistributed net realized gains	7,725	952
Net unrealized appreciation (depreciation)	5,957	5,244
<b>Total net assets</b>	<b>\$ 547,722</b>	<b>\$ 341,926</b>
<b>Total liabilities and net assets</b>	<b>\$ 547,722</b>	<b>\$ 345,331</b>
Number of shares outstanding	38,259,921	24,326,251
<b>Net asset value per share</b>	<b>\$ 14.32</b>	<b>\$ 14.06</b>

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

Table of Contents

## New Mountain Finance Corporation

## Statements of Operations

(in thousands, except shares and per share data)

(unaudited)

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
<b>Net investment income allocated from New Mountain Finance Holdings, L.L.C.</b>				
Interest income	\$ 23,190	\$ 9,563	\$ 59,220	\$ 22,961
Dividend income	(1,391)	96	3,334	96
Other income	213	83	1,539	289
Total expenses	(11,209)	(5,169)	(28,398)	(11,314)
<b>Net investment income allocated from New Mountain Finance Holdings, L.L.C.</b>	10,803	4,573	35,695	12,032
<b>Net realized and unrealized gains allocated from New Mountain Finance Holdings, L.L.C.</b>				
Net realized gains on investments	4,403	700	7,567	5,189
Net change in unrealized appreciation (depreciation) of investments	2,269	4,725	753	4,800
<b>Net realized and unrealized gains allocated from New Mountain Finance Holdings, L.L.C.</b>	6,672	5,425	8,320	9,989
<b>Total net increase in net assets resulting from operations allocated from New Mountain Finance Holdings, L.L.C.</b>	17,475	9,998	44,015	22,021
Net change in unrealized (depreciation) appreciation of investment in New Mountain Finance Holdings, L.L.C.	(8)	(43)	(40)	(43)
<b>Net increase in net assets resulting from operations</b>	\$ 17,467	\$ 9,955	\$ 43,975	\$ 21,978
Basic earnings per share	\$ 0.46	\$ 0.62	\$ 1.38	\$ 1.75
Weighted average shares of common stock outstanding - basic (See Note 11)	38,159,320	16,177,442	31,952,623	12,537,607
Diluted earnings per share	\$ 0.46	\$ 0.62	\$ 1.40	\$ 1.74
Weighted average shares of common stock outstanding - diluted (See Note 11)	44,731,258	36,138,511	42,847,638	32,671,954

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

Table of Contents**New Mountain Finance Corporation****Statements of Changes in Net Assets****(in thousands)**

(unaudited)

	Nine months ended	
	September 30, 2013	September 30, 2012
<b>Increase (decrease) in net assets resulting from operations:</b>		
Net investment income allocated from New Mountain Finance Holdings, L.L.C.	\$ 35,695	\$ 12,032
Net realized gains on investments allocated from New Mountain Finance Holdings, L.L.C.	7,567	5,189
Net change in unrealized appreciation (depreciation) of investments allocated from New Mountain Finance Holdings, L.L.C.	753	4,800
Net change in unrealized (depreciation) appreciation of investment in New Mountain Finance Holdings, L.L.C.	(40)	(43)
<b>Total net increase in net assets resulting from operations</b>	<b>43,975</b>	<b>21,978</b>
<b>Capital transactions</b>		
Net proceeds from shares sold	57,020	82,300
Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C.	(203)	(211)
Value of shares issued for exchanged units	137,384	56,314
Dividends declared	(36,489)	(15,173)
Reinvestment of dividends	4,109	980
<b>Total net increase in net assets resulting from capital transactions</b>	<b>161,821</b>	<b>124,210</b>
<b>Net increase in net assets</b>	<b>205,796</b>	<b>146,188</b>
<b>Net assets at beginning of period</b>	<b>341,926</b>	<b>145,487</b>
<b>Net assets at end of period</b>	<b>\$ 547,722</b>	<b>\$ 291,675</b>

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

Table of Contents

## New Mountain Finance Corporation

## Statements of Cash Flows

(in thousands)

(unaudited)

	Nine months ended	
	September 30, 2013	September 30, 2012
<b>Cash flows from operating activities</b>		
Net increase in net assets resulting from operations	\$ 43,975	\$ 21,978
Adjustments to reconcile net (increase) decrease in net assets resulting from operations to net cash (used in) provided by operating activities:		
Net investment income allocated from New Mountain Finance Holdings, L.L.C.	(35,695)	(12,032)
Net realized and unrealized gains allocated from New Mountain Finance Holdings, L.L.C.	(8,320)	(9,989)
Net change in unrealized depreciation (appreciation) of investment in New Mountain Finance Holdings, L.L.C.	40	43
<b>(Increase) decrease in operating assets:</b>		
Purchase of investment	(57,020)	(82,300)
Distributions from New Mountain Finance Holdings, L.L.C.	35,785	15,173
<b>Net cash flows used in operating activities</b>	<b>(21,235)</b>	<b>(67,127)</b>
<b>Cash flows from financing activities</b>		
Net proceeds from shares sold	57,020	82,300
Dividends paid	(35,785)	(15,173)
<b>Net cash flows provided by financing activities</b>	<b>21,235</b>	<b>67,127</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		
<b>Cash and cash equivalents at the beginning of the period</b>		
<b>Cash and cash equivalents at the end of the period</b>	<b>\$</b>	<b>\$</b>
<b>Non-cash financing activities:</b>		
New Mountain Finance AIV Holdings Corporation exchange of New Mountain Finance Holdings, L.L.C. units for shares	\$ 137,384	\$ 56,314
Value of shares issued in connection with dividend reinvestment plan	4,109	980
Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C.	(203)	(211)

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

Table of Contents**New Mountain Finance AIV Holdings Corporation****Statements of Assets and Liabilities**

(in thousands, except shares)

	September 30, 2013 (unaudited)	December 31, 2012
<b>Assets</b>		
Investment in New Mountain Finance Holdings, L.L.C., at fair value (cost of \$98,820 and \$244,015, respectively)	\$ 94,083	\$ 228,013
Distributions receivable from New Mountain Finance Holdings, L.L.C.		7,786
<b>Total assets</b>	<b>\$ 94,083</b>	<b>\$ 235,799</b>
<b>Liabilities</b>		
Dividends payable		7,786
<b>Total liabilities</b>		<b>7,786</b>
<b>Net assets</b>		
Common stock, par value \$0.01 per share 100 shares issued and outstanding		(1) (1)
Paid in capital in excess of par	98,820	244,015
Distributions in excess of net realized gains	(4,982)	(6,676)
Net unrealized appreciation (depreciation)	245	(9,326)
<b>Total net assets</b>	<b>94,083</b>	<b>228,013</b>
<b>Total liabilities and net assets</b>	<b>\$ 94,083</b>	<b>\$ 235,799</b>

---

(1) As of September 30, 2013 and December 31, 2012, the par value of the total common stock was \$1.

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

Table of Contents**New Mountain Finance AIV Holdings Corporation****Statements of Operations**

(in thousands)

(unaudited)

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
<b>Net investment income allocated from New Mountain Finance Holdings, L.L.C.</b>				
Interest income	\$ 3,983	\$ 11,799	\$ 20,318	\$ 37,126
Dividend income	(239)	119	1,468	119
Other income	36	91	387	480
Total expenses	(1,925)	(6,448)	(10,040)	(18,064)
<b>Net investment income allocated from New Mountain Finance Holdings, L.L.C.</b>	1,855	5,561	12,133	19,661
<b>Net realized and unrealized gains allocated from New Mountain Finance Holdings, L.L.C.</b>				
Net realized gains on investments	757	916	1,949	9,402
Net change in unrealized appreciation (depreciation) of investments	390	5,769	1,765	5,911
<b>Net realized and unrealized gains allocated from New Mountain Finance Holdings, L.L.C.</b>	1,147	6,685	3,714	15,313
<b>Total net increase in net assets resulting from operations allocated from New Mountain Finance Holdings, L.L.C.</b>	3,002	12,246	15,847	34,974
Net realized gains (losses) on investment in New Mountain Finance Holdings, L.L.C.		382	(10,451)	382
Net change in unrealized appreciation (depreciation) of investment in New Mountain Finance Holdings, L.L.C.	9	1,564	7,806	1,564
<b>Net increase in net assets resulting from operations</b>	\$ 3,011	\$ 14,192	\$ 13,202	\$ 36,920

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

Table of Contents**New Mountain Finance AIV Holdings Corporation****Statements of Changes in Net Assets****(in thousands)**

(unaudited)

	Nine months ended	
	September 30, 2013	September 30, 2012
<b>Increase (decrease) in net assets resulting from operations:</b>		
Net investment income allocated from New Mountain Finance Holdings, L.L.C.	\$ 12,133	\$ 19,661
Net realized gains on investments allocated from New Mountain Finance Holdings, L.L.C.	1,949	9,402
Net change in unrealized appreciation (depreciation) of investments allocated from New Mountain Finance Holdings, L.L.C.	1,765	5,911
Net realized (losses) gains on investment in New Mountain Finance Holdings, L.L.C.	(10,451)	382
Net change in unrealized appreciation (depreciation) of investment in New Mountain Finance Holdings, L.L.C.	7,806	1,564
<b>Total net increase in net assets resulting from operations</b>	<b>13,202</b>	<b>36,920</b>
<b>Capital transactions</b>		
Distribution to New Mountain Guardian AIV, L.P.	(134,699)	(58,216)
Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C.	(45)	(166)
Dividends declared	(12,388)	(24,873)
<b>Total net decrease in net assets resulting from capital transactions</b>	<b>(147,132)</b>	<b>(83,255)</b>
<b>Net decrease in net assets</b>	<b>(133,930)</b>	<b>(46,335)</b>
<b>Net assets at beginning of period</b>	<b>228,013</b>	<b>275,015</b>
<b>Net assets at end of period</b>	<b>\$ 94,083</b>	<b>\$ 228,680</b>

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

Table of Contents**New Mountain Finance AIV Holdings Corporation****Statements of Cash Flows**

(in thousands)

(unaudited)

	Nine months ended	
	September 30, 2013	September 30, 2012
<b>Cash flows from operating activities</b>		
Net increase in net assets resulting from operations	\$ 13,202	\$ 36,920
Adjustments to reconcile net (increase) decrease in net assets resulting from operations to net cash (used in) provided by operating activities:		
Net investment income allocated from New Mountain Finance Holdings, L.L.C.	(12,133)	(19,661)
Net realized and unrealized gains allocated from New Mountain Finance Holdings, L.L.C.	(3,714)	(15,313)
Net realized losses (gains) on investment in New Mountain Finance Holdings, L.L.C.	10,451	(382)
Net change in unrealized (appreciation) depreciation in New Mountain Finance Holdings, L.L.C.	(7,806)	(1,564)
<b>(Increase) decrease in operating activities</b>		
Distributions from New Mountain Finance Holdings, L.L.C.	20,174	24,873
<b>Net cash flows provided by operating activities</b>	20,174	24,873
<b>Cash flows from financing activities</b>		
Proceeds from shares sold	134,699	58,216
Distribution to New Mountain Guardian AIV, L.P.	(134,699)	(58,216)
Dividends paid	(20,174)	(24,873)
<b>Net cash flows used in financing activities</b>	(20,174)	(24,873)
<b>Net increase (decrease) in cash and cash equivalents</b>		
<b>Cash and cash equivalents at the beginning of the period</b>		
<b>Cash and cash equivalents at the end of the period</b>	\$	\$
<b>Non-cash financing activities:</b>		
Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C.	\$ (45)	\$ (166)

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



Table of Contents

**Combined Notes to the Consolidated Financial Statements of New Mountain Finance Holdings, L.L.C.,  
the Financial Statements of New Mountain Finance Corporation and the Financial Statements  
of New Mountain Finance AIV Holdings Corporation**

**September 30, 2013**

**(in thousands, except units/shares and per unit/share data)**

(unaudited)

*The information in these combined notes to the financial statements relates to each of the three separate registrants: New Mountain Finance Holdings, L.L.C., New Mountain Finance Corporation and New Mountain Finance AIV Holdings Corporation (collectively, the Companies ). Information that relates to an individual registrant will be specifically referenced by the respective company. None of the Companies makes any representation as to the information related solely to the other registrants other than itself.*

**Note 1. Formation and Business Purpose**

New Mountain Finance Holdings, L.L.C. (the Operating Company or the Master Fund ) is a Delaware limited liability company. The Operating Company is externally managed and has elected to be treated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ). As such, the Operating Company is obligated to comply with certain regulatory requirements. The Operating Company intends to be treated as a partnership for federal income tax purposes for so long as it has at least two members.

The Operating Company is externally managed by New Mountain Finance Advisers BDC, L.L.C. (the Investment Adviser ). New Mountain Finance Administration, L.L.C. (the Administrator ) provides the administrative services necessary for operations. The Investment Adviser and Administrator are wholly-owned subsidiaries of New Mountain Capital (defined as New Mountain Capital Group, L.L.C. and its affiliates). New Mountain Capital is a firm with a track record of investing in the middle market and with assets under management (which includes amounts committed, not all of which have been drawn down and invested to date) totaling more than \$9.0 billion as of September 30, 2013. New Mountain Capital focuses on investing in defensive growth companies across its private equity, public equity, and credit investment vehicles. The Operating Company, formerly known as New Mountain Guardian (Leveraged), L.L.C., was originally formed as a subsidiary of New Mountain Guardian AIV, L.P. ( Guardian AIV ) by New Mountain Capital in October 2008. Guardian AIV was formed through an allocation of approximately \$300.0 million of the \$5.1 billion of commitments supporting New Mountain Partners III, L.P., a private equity fund managed by New Mountain Capital. In February 2009, New Mountain Capital formed a co-investment vehicle, New Mountain Guardian Partners, L.P., comprising \$20.4 million of commitments. New Mountain Guardian (Leveraged), L.L.C. and New Mountain Guardian Partners, L.P., together with their respective direct and indirect wholly-owned subsidiaries, are defined as the Predecessor Entities .

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

## Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

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

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

NMFC and AIV Holdings are holding companies with no direct operations of their own, and their sole asset is their ownership in the Operating Company. NMFC and AIV Holdings each entered into a joinder agreement with respect to the Limited Liability Company Agreement, as amended and restated, of the Operating Company, pursuant to which NMFC and AIV Holdings were admitted as members of the Operating Company. NMFC acquired from the Operating Company, with the gross proceeds of the IPO and the Concurrent Private Placement, common membership units ( units ) of the Operating Company (the number of units are equal to the number of shares of NMFC's common stock sold in the IPO and the Concurrent Private Placement). Additionally, NMFC received units of the Operating Company equal to the number of shares of common stock of NMFC issued to the partners of New Mountain Guardian Partners, L.P. Guardian AIV was the parent of the Operating Company prior to the IPO and, as a result of the transactions completed in connection with the IPO, obtained units in the Operating Company. Guardian AIV contributed its units in

Table of Contents

the Operating Company to its newly formed subsidiary, AIV Holdings, in exchange for common stock of AIV Holdings. AIV Holdings has the right to exchange all or any portion of its units in the Operating Company for shares of NMFC's common stock on a one-for-one basis at any time.

During the quarter ended September 30, 2013, NMFC issued an additional 111,373 shares in conjunction with its dividend reinvestment plan at a weighted average price of \$14.48. Since NMFC's IPO, and through September 30, 2013, NMFC raised approximately \$190,448 in net proceeds from additional offerings of common stock and issued shares of its common stock valued at approximately \$193,698 on behalf of AIV Holdings for exchanged units. NMFC acquired from the Operating Company units of the Operating Company equal to the number of shares of NMFC's common stock sold in the additional offerings. As of September 30, 2013, NMFC and AIV Holdings owned approximately 85.3% and 14.7%, respectively, of the units of the Operating Company.

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

The diagram below depicts the Companies' organizational structure as of September 30, 2013.

---

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

\*\* These common membership units are exchangeable into shares of NMFC common stock on a one-for-one basis.

\*\*\* New Mountain Finance SPV Funding, L.L.C. ( NMF SLF ).

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

Table of Contents

**Note 2. Summary of Significant Accounting Policies**

**Basis of accounting** The Companies' financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ( GAAP ). The Operating Company consolidates its wholly-owned subsidiary, NMF SLF. NMFC and AIV Holdings do not consolidate the Operating Company. NMFC and AIV Holdings apply investment company master-feeder financial statement presentation, as described in Accounting Standards Codification 946, *Financial Services Investment Companies*, ( ASC 946 ) to their interest in the Operating Company. NMFC and AIV Holdings observe that it is industry practice to follow the presentation prescribed for a master fund-feeder fund structure in ASC 946 in instances in which a master fund is owned by more than one feeder fund and that such presentation provides stockholders of NMFC and AIV Holdings with a clearer depiction of their investment in the master fund.

The Companies' financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the results of operations and financial condition for all periods presented. All intercompany transactions have been eliminated. Revenues are recognized when earned and expenses when incurred. The financial results of the Operating Company's portfolio investments are not consolidated in the financial statements. Prior to the IPO, an affiliate of the Predecessor Entities paid a majority of the management and incentive fees. Historical operating expenses do not reflect the allocation of certain professional fees, administrative and other expenses that have been incurred following the completion of the IPO. Accordingly, the Operating Company's historical operating expenses are not comparable to its operating expenses after the completion of the IPO.

The Companies' interim financial statements are prepared in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 or 10 of Regulation S-X. Accordingly, the Companies' interim financial statements do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of management, all adjustments, consisting solely of normal recurring accruals considered necessary for the fair presentation of financial statements for the interim period, have been included. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending December 31, 2013.

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

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

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

## Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

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

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

b. For investments other than bonds, the Operating Company looks at the number of quotes readily available and performs the following:

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

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

Table of Contents

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

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

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

b. Preliminary valuation conclusions will then be documented and discussed with the Operating Company's senior management;

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

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

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

NMFC and AIV Holdings are holding companies with no direct operations of their own, and their sole asset is their ownership in the Operating Company. NMFC's and AIV Holdings' investments in the Operating Company are carried at fair value and represent the respective pro-rata interest in the net assets of the Operating Company as of the applicable reporting date. NMFC and AIV Holdings value their ownership interest on a quarterly basis, or more frequently if required under the 1940 Act.

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

## Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

**Cash and cash equivalents** Cash and cash equivalents include cash and short-term, highly liquid investments. The Companies define cash equivalents as securities that are readily convertible into known amounts of cash and so near maturity that there is insignificant risk of changes in value. Generally, these securities have original maturities of three months or less.

### **Revenue recognition**

The Operating Company's revenue recognition policies are as follows:

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

**Interest income:** Interest income, including amortization of premium and discount using the effective interest method, is recorded on the accrual basis and periodically assessed for collectability. Interest income also includes interest earned from cash on hand. Upon the prepayment of a loan or debt security, any prepayment penalties are recorded as part of interest income. The Operating Company has loans in the portfolio that contain a payment-in-kind ( PIK ) provision. PIK represents interest that is accrued and recorded as interest income at the contractual rates, added to the loan principal on the respective capitalization dates, and generally due at maturity.

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



Table of Contents

*Dividend income:* Dividend income is recorded on the record date for private portfolio companies or on the ex-dividend date for publicly traded portfolio companies.

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

NMFC's and AIV Holdings' revenue recognition policies are as follows:

*Revenue, expenses, and capital gains (losses):* At each quarterly valuation date, the Operating Company's investment income, expenses, net realized gains (losses), and net increase (decrease) in unrealized appreciation (depreciation) are allocated to NMFC and AIV Holdings based on their pro-rata interest in the net assets of the Operating Company. This is recorded on NMFC's and AIV Holdings' Statements of Operations. Realized gains and losses are recorded upon sales of NMFC's and AIV Holdings' investments in the Operating Company. Net change in unrealized appreciation (depreciation) of investment in New Mountain Finance Holdings, L.L.C. is the difference between the net asset value per share and the closing price per share for shares issued as part of the dividend reinvestment plan on the dividend payment date. This net change in unrealized appreciation (depreciation) of investment in New Mountain Finance Holdings, L.L.C. includes the unrealized appreciation (depreciation) from the IPO. NMFC used the proceeds from its IPO and Concurrent Private Placement to purchase units in the Operating Company at \$13.75 per unit (its IPO price per share). At the IPO date, \$13.75 per unit represented a discount to the actual net asset value per unit of the Operating Company. As a result, NMFC experienced immediate unrealized appreciation on its investment. Concurrently, AIV Holdings experienced immediate unrealized depreciation on its investment in the Operating Company equal to the difference between NMFC's IPO price of \$13.75 per unit and the actual net asset value per unit.

All expenses, including those of NMFC and AIV Holdings, are paid and recorded by the Operating Company. Expenses are allocated to NMFC and AIV Holdings based on pro-rata ownership interest. In addition, the Operating Company paid all of the offering costs related to the IPO and subsequent offerings. NMFC and AIV Holdings have recorded their portion of the offering costs as a direct reduction to net assets and the cost of their investment in the Operating Company.

With respect to the expenses incident to any registration of shares of NMFC's common stock issued in exchange for AIV Holdings' units of the Operating Company, AIV Holdings is directly responsible for the expenses of any demand registration (including underwriters' discounts or commissions) and their pro-rata share of any piggyback registration expenses.

*Interest and other credit facility expenses* Interest and other credit facility fees are recorded on an accrual basis by the Operating Company. See Note 7, *Borrowing Facilities*, for details.

*Deferred credit facility costs* The deferred credit facility costs of the Operating Company consist of capitalized expenses related to the origination and amending of the Operating Company's existing credit facilities. The Operating Company amortizes these costs into expense using the straight-line method over the stated life of the related credit facility. See Note 7, *Borrowing Facilities*, for details.

**Income taxes** The Operating Company is treated as a partnership for federal income tax purposes and as such is generally not subject to federal or state and local income taxes except with respect to state source income received from underlying flow-through investments. The partners are individually responsible for reporting income or loss based on their respective share of the revenues and expenses. The Operating Company files United States ( U.S. ) federal, state, and local income tax returns.

## Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

### Table of Contents

NMFC and AIV Holdings have elected to be treated, and intend to comply with the requirements to qualify annually, as RICs under subchapter M of the Code. As RICs, NMFC and AIV Holdings are not subject to federal income tax on the portion of taxable income and gains timely distributed to stockholders; therefore, no provision for income taxes has been recorded.

To continue to qualify as RICs, NMFC and AIV Holdings are required to meet certain income and asset diversification tests in addition to distributing at least 90.0% of their respective investment company taxable income, as defined by the Code. Since federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes.

Differences between taxable income and the results of operations for financial reporting purposes may be permanent or temporary in nature. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

For federal income tax purposes, distributions paid to stockholders of NMFC and AIV Holdings are reported as ordinary income, return of capital, long term capital gains or a combination thereof.

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

The Companies have adopted the Income Taxes topic of the Codification ( ASC 740 ). ASC 740 provides guidance for how uncertain income tax positions should be recognized, measured, and disclosed in the financial statements. Based on their analyses, the Companies have determined that there were no material uncertain income tax positions through December 31, 2012. The 2011 and 2012 tax years remain subject to examination by U.S. federal, state, and local tax authorities.

**Dividends** Distributions to common unit holders of the Operating Company and common stockholders of NMFC and AIV Holdings are recorded on the record date as set by the respective board of directors. In order for NMFC and AIV Holdings to pay a dividend or other distribution to holders of their common stock, it must be accompanied by a prior distribution by the Operating Company to all of its unit holders. The Operating Company intends to make distributions to its unit holders that will be sufficient to enable NMFC and AIV Holdings to pay quarterly distributions to their stockholders and to maintain their status as RICs. NMFC and AIV Holdings intend to distribute approximately all of their portion of the Operating Company's adjusted net investment income (see Note 5, *Agreements*) on a quarterly basis and substantially all of their portion of the Operating Company's taxable income on an annual basis, except that NMFC may retain certain net capital gains for reinvestment.

Under certain circumstances, the distributions that the Operating Company makes to its members may not be sufficient for AIV Holdings to satisfy the annual distribution requirement necessary for AIV Holdings to continue to qualify as a RIC. In that case, it is expected that Guardian AIV would consent to be treated as if it received distributions from AIV Holdings sufficient to satisfy the annual distribution requirement. Guardian AIV would be required to include the consent dividend in its taxable income as a dividend from AIV Holdings, which would result in phantom (i.e., non-cash) taxable income to Guardian AIV. AIV Holdings intends to make quarterly distributions to Guardian AIV, its sole

stockholder, out of assets legally available for distribution each quarter.

The Operating Company and NMFC are required to take certain actions in order to maintain, at all times, a one-to-one ratio between the number of units held by NMFC and the number of shares of NMFC's common stock outstanding. NMFC has adopted a dividend reinvestment plan that provides on behalf of its stockholders for reinvestment of any distributions declared, unless a stockholder elects to receive cash. Cash distributions reinvested in additional shares of NMFC's common stock will be automatically reinvested by NMFC into additional units of the Operating Company. In addition, AIV Holdings does not intend to reinvest any distributions received from the Operating Company in additional units of the Operating Company.

NMFC applies the following in implementing the dividend reinvestment plan. If the price at which newly issued shares are to be credited to stockholders' accounts is greater than 110.0% of the last determined net asset value of the shares, NMFC will use only newly issued shares to implement its dividend reinvestment plan. Under such circumstances, the number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the distribution payable to such stockholder by the market price per share of NMFC's common stock on the New York Stock Exchange ( NYSE ) on the distribution payment date. Market price per share on that date will be the closing price for such shares on the NYSE or, if no sale is reported for such day, the average of their electronically reported bid and asked prices. If NMFC uses newly issued shares to implement the plan, NMFC will receive, on a one-for-one basis, additional units of the Operating Company in exchange for cash distributions that are reinvested in shares of NMFC's common stock under the dividend reinvestment plan.

Table of Contents

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

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

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

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

Dividend income recorded related to distributions received from flow-through investments is an accounting estimate based on the most recent estimate of the tax treatment of the distribution. During the three months ended September 30, 2013, the Operating Company changed an accounting estimate related to the classification of dividend income for a distribution recorded in the prior quarter from one of the Operating Company's warrant investments. Based on tax projections received during the three months ended September 30, 2013, the Operating Company reduced the warrant cost basis by \$466 and corresponding dividend income previously recorded by \$1,799, and recorded a realized gain of \$1,333 to agree to the tax treatment on the investment. This resulted in a reclass of \$360 from incentive fee to capital gains incentive fee.

**Note 3. Investments**

At September 30, 2013 the Operating Company's investments consisted of the following:

**Investment Cost and Fair Value by Type**

Cost

Fair Value

Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

First lien	\$	535,075	\$	533,259
Second lien		421,234		431,113
Subordinated		44,517		46,865
Equity and other		24,511		30,195
Total investments	\$	1,025,337	\$	1,041,432

**Investment Cost and Fair Value by Industry**

		<b>Cost</b>		<b>Fair Value</b>
Software	\$	211,384	\$	216,241
Business Services		176,706		181,196
Education		168,797		173,008
Federal Services		105,626		105,392
Distribution & Logistics		76,755		78,428
Healthcare Services		72,406		73,602
Media		47,814		50,155
Consumer Services		47,109		48,100
Energy		44,770		44,010
Healthcare Products		40,254		41,696
Industrial Services		13,850		14,222
Healthcare Information Technology		13,481		8,838
Information Technology		6,385		6,544
Total investments	\$	1,025,337	\$	1,041,432

Table of Contents

At December 31, 2012 the Operating Company's investments consisted of the following:

**Investment Cost and Fair Value by Type**

	<b>Cost</b>	<b>Fair Value</b>
First lien	\$ 496,931	\$ 493,502
Second lien	433,829	441,073
Subordinated	43,097	45,148
Equity and other	2,386	10,097
Total investments	\$ 976,243	\$ 989,820

**Investment Cost and Fair Value by Industry**

	<b>Cost</b>	<b>Fair Value</b>
Software	\$ 241,742	\$ 246,696
Education	155,047	150,151
Healthcare Services	139,370	143,724
Business Services	140,426	143,420
Federal Services	95,150	95,428
Distribution & Logistics (1)	51,320	51,834
Consumer Services	41,173	41,625
Media	26,582	34,001
Healthcare Products	25,659	27,220
Industrial Services	13,825	14,105
Retail	11,597	12,146
Healthcare Information Technology	14,550	10,291
Energy	9,852	10,072
Information Technology	6,476	6,711
Power Generation	3,474	2,396
Total investments	\$ 976,243	\$ 989,820

(1) Industries were disclosed separately in previously issued financial statements.

As of September 30, 2013, the Operating Company's first lien positions in ATI Acquisition Company remained on non-accrual status due to the inability of the portfolio company to service its interest payment for the quarter then ended and uncertainty about its ability to pay such amounts in the future. During the three months ended September 30, 2013, the Operating Company received preferred shares and warrants in Ancora Acquisition LLC, in relation to the two super priority first lien positions in ATI Acquisition Company. As of September 30, 2013, the Operating Company's investment had an aggregate cost basis of \$5,917, an aggregate fair value of \$419 and total unearned interest income of \$241 and \$709, respectively, for the three and nine months then ended. As of December 31, 2012, the Operating Company's original first lien position in ATI Acquisition Company was put on non-accrual status, with a cost basis of \$4,306, a fair value of zero and total unearned interest income of \$653 for the year then ended. The Operating Company's two super priority first lien debt investments in ATI Acquisition Company had a combined cost basis of \$1,611 and a combined fair value of \$752 as of December 31, 2012. During the third quarter of 2012, the Operating Company placed the super priority first lien positions on non-accrual status as well, resulting in total unearned interest income of \$310 for the year ended December 31, 2012. As of December 31, 2012, the Operating Company's total investment in ATI Acquisition Company had an

## Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

aggregate cost basis of \$5,917 and an aggregate fair value of \$752, putting the entire ATI Acquisition Company's investment on non-accrual status. As of September 30, 2013 and December 31, 2012, unrealized gains include a fee that the Operating Company would receive upon maturity of the two super priority first lien debt investments.

As of September 30, 2013, the Operating Company had unfunded commitments on revolving credit facilities and bridge facilities of \$10,500 and \$52,500, respectively. The Operating Company did not have any unfunded commitments in the form of a delayed draw or other future funding commitments as of September 30, 2013. The unfunded commitments on revolving credit facilities are disclosed on the Operating Company's Consolidated Schedule of Investments as of September 30, 2013.

As of December 31, 2012, the Operating Company had unfunded commitments on revolving credit facilities and bridge facilities of \$10,500 and \$0, respectively. The Operating Company did not have any unfunded commitments in the form of a delayed draw or other future funding commitments as of December 31, 2012. The unfunded commitments on revolving credit facilities are disclosed on the Operating Company's Consolidated Schedule of Investments as of December 31, 2012.



Table of Contents

**Investment Risk Factors** First and second lien debt that the Operating Company invests in is entirely, or almost entirely, rated below investment grade or may be unrated. These loans 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 defaults could reduce the net asset value and income distributions of the Operating Company. 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 loans. 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.

**Note 4. Fair Value**

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* ( ASC 820 ), establishes a fair value hierarchy that prioritizes and ranks the inputs to valuation techniques used in measuring investments at fair value. The hierarchy classifies the inputs used in measuring fair value into three levels as follows:

*Level I* Quoted prices (unadjusted) are available in active markets for identical investments and the Operating 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 Operating Company, to the extent that it holds such investments, does not adjust the quoted price for these investments, even in situations where the Operating Company holds a large position and a sale could reasonably impact the quoted price.

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

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

## Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

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

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

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

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

## Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

### Table of Contents

The following table summarizes the levels in the fair value hierarchy that the Operating Company's portfolio investments fall into as of September 30, 2013:

	Total	Level I	Level II	Level III
First lien	\$ 533,259	\$	\$ 519,089	\$ 14,170
Second lien	431,113		392,470	38,643
Subordinated	46,865		22,019	24,846
Equity and other	30,195			30,195
<b>Total investments</b>	<b>\$ 1,041,432</b>	<b>\$</b>	<b>\$ 933,578</b>	<b>\$ 107,854</b>

The following table summarizes the levels in the fair value hierarchy that the Operating Company's portfolio investments fall into as of December 31, 2012:

	Total	Level I	Level II	Level III
First lien	\$ 493,502	\$	\$ 450,617	\$ 42,885
Second lien	441,073		397,818	43,255
Subordinated	45,148		22,257	22,891
Equity and other	10,097			10,097
<b>Total investments</b>	<b>\$ 989,820</b>	<b>\$</b>	<b>\$ 870,692</b>	<b>\$ 119,128</b>

The following table summarizes the changes in fair value of Level III portfolio investments for the three months ended September 30, 2013, 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 Operating Company at September 30, 2013:

	Total	First Lien	Second Lien	Subordinated	Equity and other
<b>Fair value, June 30, 2013</b>	\$ 113,201	\$ 21,312	\$ 38,527	\$ 24,681	\$ 28,681
Total gains or losses included in earnings:					
Net realized gains (losses) on investments	1,398	66			1,332
Net change in unrealized appreciation (depreciation)	633	(41)	116	110	448
Purchases, including capitalized PIK and revolver fundings	1,503	(84)		55	1,532
Proceeds from sales and paydowns of investments	(8,881)	(7,083)			(1,798)
<b>Fair value, September 30, 2013</b>	<b>\$ 107,854</b>	<b>\$ 14,170</b>	<b>\$ 38,643</b>	<b>\$ 24,846</b>	<b>\$ 30,195</b>
Unrealized appreciation (depreciation) for the period relating to those Level III assets that were still held by the Operating Company at the end of the period:	\$ 697	\$ 23	\$ 116	\$ 110	\$ 448

The following table summarizes the changes in fair value of Level III portfolio investments for the three months ended September 30, 2012, 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 Operating Company at September 30, 2012:

Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

	Total	First Lien	Second Lien	Subordinated	Equity and other
<b>Fair value, June 30, 2012</b>	\$ 106,374	\$ 42,748	\$ 53,275	\$ 7,539	\$ 2,812
Total gains or losses included in earnings:					
Net realized gains (losses) on investments	106	106			
Net change in unrealized appreciation (depreciation)	3,161	51			3,110
Purchases, including capitalized PIK and revolver fundings	11,460	11,460			
Proceeds from sales and paydowns of investments	(10,385)	(10,385)			
Transfers into Level III (1)	7,047	6,581			466(2)
Transfers out of Level III (1)	(10,020)		(10,020)		
<b>Fair value, September 30, 2012</b>	\$ 107,743	\$ 50,561	\$ 43,255	\$ 7,539	\$ 6,388
Unrealized appreciation (depreciation) for the period relating to those Level III assets that were still held by the Operating Company at the end of the period:	\$ 3,161	\$ 51	\$	\$	\$ 3,110

## Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

### Table of Contents

(1) As of September 30, 2012, the portfolio investments were transferred into Level III from Level II and out of Level III into Level II at fair value as of the beginning of the quarter in which the reclassifications occurred.

(2) This Level III transfer relates to the Operating Company's investment in warrants of YP Equity Investors LLC, which was valued with YP Holdings LLC's second lien debt as of June 30, 2012.

The following table summarizes the changes in fair value of Level III portfolio investments for the nine months ended September 30, 2013, 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 Operating Company at September 30, 2013:

	Total	First Lien	Second Lien	Subordinated	Equity and other (2)
<b>Fair value, December 31, 2012</b>	\$ 119,128	\$ 42,885	\$ 43,255	\$ 22,891	\$ 10,097
Total gains or losses included in earnings:					
Net realized gains (losses) on investments	1,975	263	380		1,332
Net change in unrealized (depreciation) appreciation	(150)	70	1,148	658	(2,026)
Purchases, including capitalized PIK and revolver fundings	37,761	11	13,860	1,297	22,593
Proceeds from sales and paydowns of investments	(57,434)	(35,633)	(20,000)		(1,801)
Transfers into Level III (1)	6,574	6,574			
<b>Fair value, September 30, 2013</b>	\$ 107,854	\$ 14,170	\$ 38,643	\$ 24,846	\$ 30,195
Unrealized (depreciation) appreciation for the period relating to those Level III assets that were still held by the Operating Company at the end of the period:	\$ (945)	\$ (605)	\$ 1,027	\$ 658	\$ (2,025)

(1) As of September 30, 2013, the portfolio investments were transferred into Level III from Level II at fair value as of the beginning of the quarter in which the reclassifications occurred.

(2) During the nine months ended September 30, 2013, the Operating Company received dividends of \$4,802 from its equity and other investments, which were recorded as dividend income. An estimate related to the tax characterization of this distribution was provided as of September 30, 2013.

The following table summarizes the changes in fair value of Level III portfolio investments for the nine months ended September 30, 2012, 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 Operating Company at September 30, 2012:

Total	First Lien	Second Lien	Subordinated
-------	------------	-------------	--------------

Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 10-Q

						Equity and other				
<b>Fair value, December 31, 2011</b>	\$	90,967	\$	33,141	\$	48,405	\$	6,571	\$	2,850
Total gains or losses included in earnings:										
Net realized gains (losses) on investments		4,275		4,252		23				
Net change in unrealized (depreciation) appreciation		(1,001)		(3,851)		(173)		(22)		3,045
Purchases, including capitalized PIK and revolver fundings		57,089		46,052		10,020		990		27
Proceeds from sales and paydowns of investments		(29,502)		(24,502)		(5,000)				
Transfers into Level III (1)		7,047		6,581						