New Mountain Finance Holdings, L.L.C.
Form PRE 14A
March 14, 2012

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.   )

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

ý Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

o Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

New Mountain Finance Corporation

(Name of Registrant as Specified In Its Charter)

New Mountain Finance Holdings, L.L.C.

(Name of Registrant as Specified In Its Charter)

New Mountain Finance AIV Holdings Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

o No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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New Mountain Finance Corporation
New Mountain Finance Holdings, L.L.C.
New Mountain Finance AIV Holdings Corporation

787 Seventh Avenue, 48th Floor
New York, NY 10019

, 2012

Dear Stockholder or Unit Holder:

You are cordially invited to attend the 2012 Joint Annual Meeting ("Annual Meeting") of stockholders of New Mountain Finance Corporation ("NMFC"), stockholders of New Mountain Finance AIV Holdings Corporation ("AIV Holdings") and unit holders of New Mountain Finance Holdings, L.L.C. ("NMF Holdings") to be held on May 8, 2012 at 9:30 a.m., Eastern Time, at the offices of Sutherland Asbill & Brennan LLP located at 1114 Avenue of the Americas, 40th Floor, New York, New York, 10036.

The notice of the Annual Meeting and the proxy statement accompanying this letter provide an outline of the business to be conducted at the Annual Meeting. At the Annual Meeting, (i) the stockholders of NMFC will be asked to elect one director to the board of directors of NMFC; (ii) the stockholders of AIV Holdings will be asked to elect one director to the board of directors of AIV Holdings; (iii) the stockholders of each of NMFC and AIV Holdings, voting on a pass-through basis, and the unit holders of NMF Holdings will be asked to elect one director to the board of directors of NMF Holdings; and (iv) the stockholders of each of NMFC and AIV Holdings, voting on a pass-through basis, and the unit holders of NMF Holdings will be asked to approve a proposal to amend and restate the Investment Advisory and Management Agreement by and between NMF Holdings and its investment adviser which, among other clarifications, will provide that, subject to receipt of exemptive relief from the Securities and Exchange Commission, any units of NMF Holdings issued to its investment adviser as compensation for its incentive fee will be calculated based on the greater of (i) the net asset value, or (ii) the market price of NMFC's common stock.

It is important that your voting securities be represented at the Annual Meeting. If you are unable to attend the Annual Meeting in person, I urge you to complete, date and sign the enclosed proxy cards and promptly return them in the envelope provided, vote your voting securities by telephone, or vote via the internet. Your vote is important.

Sincerely yours,

Robert A. Hamwee
Chief Executive Officer

Important Notice Regarding the Availability of NMFC's, AIV Holdings' and NMF Holdings' Joint Proxy Materials for the Annual Meeting to Be Held on May 8, 2012.

NMFC's, AIV Holdings' and NMF Holdings' joint proxy statement is available on the Internet at *http://www.newmountainfinance.com*.

The following information applicable to the Annual Meeting may be found in NMFC's, AIV Holdings' and NMF Holdings' joint proxy statement and accompanying proxy cards:

- The date, time and location of the annual meeting;

A list of the matters intended to be acted on and our recommendations regarding those matters;

Any control/identification numbers that you need to access your proxy card(s); and

Information about attending the meeting and voting in person.

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New Mountain Finance Corporation

787 Seventh Avenue, 48th Floor
New York, NY 10019

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 8, 2012

To the Stockholders of New Mountain Finance Corporation:

A meeting (the "Annual Meeting") of stockholders of New Mountain Finance Corporation ("NMFC") will be held at the offices of Sutherland Asbill & Brennan LLP located at 1114 Avenue of the Americas, 40th Floor, New York, New York, 10036 at 9:30 a.m., Eastern Time, for the following purposes:

1. To elect one director to the boards of directors of NMFC and, voting on a pass-through basis, of New Mountain Finance Holdings, L.L.C. ("NMF Holdings"), who will serve for a term of three years, or until his successor is duly elected and qualifies;

2. To approve, voting on a pass-through basis, an amended and restated Investment Advisory and Management Agreement by and between NMF Holdings and its investment adviser which, among other clarifications, will provide that, subject to receipt of exemptive relief from the Securities and Exchange Commission, any units of NMF Holdings issued to its investment adviser as compensation for its incentive fee will be calculated based on the greater of (i) the net asset value, or (ii) the market price of NMFC's common stock; and

3. To transact such other business as may properly come before the Annual Meeting.

You have the right to receive notice of and to vote at the Annual Meeting if you were a stockholder of record at the close of business on March 19, 2012. Whether or not you expect to be present in person at the Annual Meeting, please sign the enclosed proxy card and return it promptly in the self-addressed envelope provided or register your vote by telephone or through the internet. Instructions are shown on the proxy card. In the event there are not sufficient votes for a quorum or to approve or ratify any of the foregoing proposals at the time of the Annual Meeting, the Annual Meeting may be adjourned in order to permit further solicitation of proxies by NMFC.

By Order of the Board of Directors,

Paula A. Bosco
Corporate Secretary

New York, New York
, 2012

This is an important meeting. To ensure proper representation at the Annual Meeting, please complete, sign, date and return the proxy card in the enclosed, self-addressed envelope, vote your shares by telephone, or vote via the internet. Even if you vote your shares prior to the Annual Meeting, you still may attend the Annual Meeting and vote your shares in person.

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New Mountain Finance AIV Holdings Corporation

787 Seventh Avenue, 48th Floor
New York, NY 10019

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 8, 2012

To the Stockholders of New Mountain Finance AIV Holdings Corporation:

A meeting (the "Annual Meeting") of stockholders of New Mountain Finance AIV Holdings Corporation ("AIV Holdings") will be held at the offices of Sutherland Asbill & Brennan LLP located at 1114 Avenue of the Americas, 40th Floor, New York, New York, 10036 at 9:30 a.m., Eastern Time, for the following purposes:

1. To elect one director to the boards of directors of AIV Holdings and, voting on a pass-through basis, of New Mountain Finance Holdings, L.L.C. ("NMF Holdings"), who will serve for a term of three years; or until his successor is duly elected and qualifies;

2. To approve, voting on a pass-through basis, an amended and restated Investment Advisory and Management Agreement by and between NMF Holdings and its investment adviser which, among other clarifications, will provide that, subject to receipt of exemptive relief from the Securities and Exchange Commission, any units of NMF Holdings issued to its investment adviser as compensation for its incentive fee will be calculated based on the greater of (i) the net asset value, or (ii) the market price of New Mountain Finance Corporation's common stock; and

3. To transact such other business as may properly come before the Annual Meeting.

You have the right to receive notice of and to vote at the Annual Meeting if you were a stockholder of record at the close of business on March 19, 2012. Whether or not you expect to be present in person at the Annual Meeting, please sign the enclosed proxy card and return it promptly in the self-addressed envelope provided or register your vote by telephone or through the internet. Instructions are shown on the proxy card. In the event there are not sufficient votes for a quorum or to approve or ratify any of the foregoing proposals at the time of the Annual Meeting, the Annual Meeting may be adjourned in order to permit further solicitation of proxies by AIV Holdings.

By Order of the Board of Directors,

Paula A. Bosco
Corporate Secretary

New York, New York
, 2012

This is an important meeting. To ensure proper representation at the Annual Meeting, please complete, sign, date and return the proxy card in the enclosed, self-addressed envelope, vote your shares by telephone, or vote via the internet. Even if you vote your shares prior to the Annual Meeting, you still may attend the Annual Meeting and vote your shares in person.

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New Mountain Finance Holdings, L.L.C.

787 Seventh Avenue, 48th Floor
New York, NY 10019

NOTICE OF ANNUAL MEETING OF UNIT HOLDERS TO BE HELD ON MAY 8, 2012

To the Unit Holders of New Mountain Finance Holdings, L.L.C.:

A meeting (the "Annual Meeting") of unit holders of New Mountain Finance Holdings, L.L.C. ("NMF Holdings") will be held at the offices of Sutherland Asbill & Brennan LLP located at 1114 Avenue of the Americas, 40th Floor, New York, New York, 10036 at 9:30 a.m., Eastern Time, for the following purposes:

1. To elect one director to the board of directors of NMF Holdings who will serve for a term of three years; or until his successor is duly elected and qualifies;

2. To approve an amended and restated Investment Advisory and Management Agreement by and between NMF Holdings and its investment adviser which, among other clarifications, will provide that, subject to receipt of exemptive relief from the Securities and Exchange Commission, any units of NMF Holdings issued to its investment adviser as compensation for its incentive fee will be calculated based on the greater of (i) the net asset value, or (ii) the market price of New Mountain Finance Corporation's common stock; and;

3. To transact such other business as may properly come before the Annual Meeting.

You have the right to receive notice of and to vote at the Annual Meeting if you were a unit holder of record at the close of business on March 19, 2012. Whether or not you expect to be present in person at the Annual Meeting, please sign the enclosed proxy card and return it promptly in the self-addressed envelope provided or register your vote by telephone or through the internet. Instructions are shown on the proxy card. In the event there are not sufficient votes for a quorum or to approve or ratify any of the foregoing proposals at the time of the Annual Meeting, the Annual Meeting may be adjourned in order to permit further solicitation of proxies by NMF Holdings.

By Order of the Board of Directors,

Paula A. Bosco
Secretary

New York, New York
, 2012

This is an important meeting. To ensure proper representation at the Annual Meeting, please complete, sign, date and return the proxy card in the enclosed, self-addressed envelope, vote your units by telephone, or vote via the internet. Even if you vote your units prior to the Annual Meeting, you still may attend the Annual Meeting and vote your units in person.

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New Mountain Finance Corporation
New Mountain Finance AIV Holdings Corporation
New Mountain Finance Holdings, L.L.C.

787 Seventh Avenue, 48th Floor
New York, NY 10019

JOINT PROXY STATEMENT

2012 Joint Annual Meeting
of Stockholders of New Mountain Finance Corporation
of Unit Holders of New Mountain Finance Holdings, L.L.C.
and of Stockholders of New Mountain Finance AIV Holdings Corporation

This Joint Proxy Statement is furnished in connection with the solicitation of proxies by the boards of directors of New Mountain Finance Corporation ("NMFC"), New Mountain Finance AIV Holdings Corporation ("AIV Holdings") and New Mountain Finance Holdings, L.L.C. ("NMF Holdings" and together with NMFC and AIV Holdings, the "New Mountain Entities") for use at the New Mountain Entities' Joint Annual Meeting (the "Annual Meeting") to be held on May 8, 2012, at 9:30 a.m., Eastern Time at the offices of Sutherland Asbill & Brennan LLP located at 1114 Avenue of the Americas, 40th Floor, New York, New York, 10036, and at any postponements or adjournments thereof. This Joint Proxy Statement, the notices of the Annual Meeting and the accompanying proxy cards are first being sent to stockholders of NMFC and AIV Holdings and unit holders of NMF Holdings on or about , 2012.

We encourage you to vote your shares of NMFC's or AIV Holdings' common stock or membership units of NMF Holdings (collectively, the "Voting Securities"), either by voting in person at the Annual Meeting or by granting a proxy *(i.e.,* authorizing someone to vote your Voting Securities). If you properly sign and date the accompanying proxy card(s), or otherwise provide voting instructions, either via the internet or by telephone, and the applicable New Mountain Entity receives it in time for the Annual Meeting, the persons named as proxies will vote the Voting Securities registered directly in your name in the manner that you specified. **If you give no instructions on the proxy card(s), the Voting Securities covered by the proxy card will be voted "FOR" the matters listed in this Joint Proxy Statement**.

If you are a stockholder or unit holder "of record" *(i.e.,* you hold Voting Securities directly in your name), you may revoke a proxy at any time before it is exercised by notifying the proxy tabulator, American Stock Transfer & Trust Company, LLC, in writing, by submitting a properly executed, later-dated proxy, or by voting in person at the Annual Meeting. Please send your notification to American Stock Transfer & Trust Company, LLC, c/o Proxy Services, 6201 15th Avenue, Brooklyn, New York, 11219, and submit a properly executed, later-dated proxy or vote in person at the Annual Meeting. Any stockholder or unit holder of record attending the Annual Meeting may vote in person whether or not he or she has previously voted his or her Voting Securities. If your Voting Securities are held for your account by a broker, bank or other institution or nominee ("Broker Securities"), you may vote such securities at the Annual Meeting only if you obtain proper written authority from your institution or nominee and present it at the Annual Meeting. All of our directors are encouraged to attend the Annual Meeting.

Stockholders or unit holders of record may also vote either via the internet or by telephone. Specific instructions to be followed by stockholders or unit holders of record interested in voting via the internet or the telephone are shown on the enclosed proxy card. The internet and telephone voting procedures are designed to authenticate the voter's identity and to allow stockholders or unit holders to vote their Voting Securities and confirm that their instructions have been properly recorded.

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Purpose of Annual Meeting

At the Annual Meeting:

1. The stockholders of NMFC will be asked to elect one director to the board of directors of NMFC, who will serve for a term of three years, or until his successor is duly elected and qualifies;

2. The stockholders of AIV Holdings will be asked to elect one director to the board of directors of AIV Holdings, who will serve for a term of three years, or until his successor is duly elected and qualifies;

3. The stockholders of each of NMFC and AIV Holdings, voting on a pass-through basis, and the unit holders of NMF Holdings will be asked to elect one director of NMF Holdings, who will serve for a term of three years, or until his successor is duly elected and qualifies;

4. The stockholders of each of NMFC and AIV Holdings, voting on a pass-through basis, and the unit holders of NMF Holdings will be asked to approve a proposal to amend and restate the investment advisory and management agreement, dated May 19, 2011 (the "Investment Advisory and Management Agreement"), by and between NMF Holdings and its investment adviser, New Mountain Finance Advisers BDC, L.L.C. (the "Investment Adviser"), which, among other clarifications, will provide that, subject to receipt of exemptive relief from the Securities and Exchange Commission ("SEC"), any units of NMF Holdings issued to its investment adviser as compensation for its incentive fee will be calculated based on the greater of (i) the net asset value, or (ii) the market price of NMFC's common stock; and

5. Such other business as may properly come before the Annual Meeting will be transacted.

Voting Securities

Stockholders of NMFC may vote their shares, in person or by proxy, at the Annual Meeting only if such stockholder were a stockholder of record at the close of business on March 19, 2012 (the "Record Date"). On the Record Date, there were shares of the NMFC's common stock outstanding. Each share of NMFC's common stock is entitled to one vote.

Unit holders of NMF Holdings may vote their units, in person or by proxy, at the Annual Meeting only if such unit holder were a unit holder of record on the Record Date. On the Record Date, there were units of NMF Holdings outstanding. Each unit of NMF Holdings is entitled to one vote.

Stockholders of AIV Holdings may vote their shares, in person or by proxy, at the Annual Meeting only if such stockholder were a stockholder of record at the close of business on the Record Date. On the Record Date, there were shares of AIV Holdings' common stock outstanding. Each share of AIV Holdings' common stock is entitled to one vote.

NMFC and AIV Holdings are holding companies with no direct operations of their own, and their only business and sole assets are their respective ownership of units of NMF Holdings. NMFC and AIV Holdings own approximately 34.6% and 65.4%, respectively, of the outstanding units of NMF Holdings. Stockholders of NMFC and AIV Holdings will vote on matters relating to NMF Holdings on a pass-through basis.

Stockholders of NMFC and AIV Holdings may vote their proportionate share of NMF Holdings' membership units held by NMFC and AIV Holdings, respectively, on a pass-through basis, in person or by proxy, at the Annual Meeting only if such stockholder were a stockholder of record on the Record Date. Each share of NMFC's common stock entitles the holder to vote one unit of NMF Holdings. On the Record Date, there were shares of the AIV Holdings' common stock outstanding. Each share of AIV Holdings' common stock entitles the holder to vote units of NMF Holdings.

Quorum Required

A quorum of NMFC's and AIV Holdings' stockholders, and NMF Holdings' unit holders must be present at the Annual Meeting for any business to be conducted. The presence at the Annual Meeting, in person or by proxy, of (i) the holders of a majority of the shares of NMFC common stock outstanding on the Record Date, (ii) the holders of a majority of the shares of AIV Holdings common stock outstanding on the Record Date, and (iii) the holders of a majority of the membership units of NMF Holdings outstanding on the Record Date, will constitute a quorum. Abstentions will be treated as Voting Securities present for quorum purposes. Broker Securities for which the nominee has not received voting instructions from the record holder and does not have discretionary authority to vote the Voting Securities on certain proposals (which are considered "Broker Non-Votes" with respect to such proposals) will be treated as Voting Securities present for quorum purposes.

If a quorum is not present at the Annual Meeting, the stockholders and unit holders who are represented may adjourn the Annual Meeting until a quorum is present. The persons named as proxies will vote those proxies for such adjournment, unless marked to be voted against any proposal for which an adjournment is sought, to permit the further solicitation of proxies.

Vote Required

Election of Directors. A nominee for director shall be elected to the board of directors of each New Mountain Entity if the votes cast for such nominee's election exceed the votes cast against such nominee's election. If you vote "Withhold Authority" with respect to a nominee, your shares will not be voted with respect to the person indicated. **Abstentions and Broker Non-Votes will not be included in determining the number of votes cast and, as a result, will have no effect on this proposal.**

Approval of Amended and Restated Investment Advisory and Management Agreement. The affirmative vote of 67.0% or more of the Voting Securities of each New Mountain Entity present at the Annual Meeting, if the holders of more than 50.0% of the outstanding Voting Securities of each New Mountain Entity are present or represented by proxy, or the affirmative vote of more than 50.0% of the outstanding Voting Securities of each New Mountain Entity, whichever is less, is required to approve an amended and restated Investment Advisory and Management Agreement. **Abstentions and Broker Non-Votes will have the effect of a vote against this proposal.**

Additional Solicitation. If there are not enough votes to approve any proposals at the Annual Meeting, the stockholders and unit holders who are represented may adjourn the Annual Meeting to permit the further solicitation of proxies. The persons named as proxies will vote those proxies for such adjournment, unless marked to be voted against the proposal for which an adjournment is sought, to permit the further solicitation of proxies.

Also, a vote may be taken on one or more of the proposals in this Joint Proxy Statement prior to any such adjournment if there are sufficient votes for approval thereof.

Information Regarding This Solicitation

The New Mountain Entities will bear the expense of the solicitation of proxies for the Annual Meeting, including the cost of preparing, printing and mailing this Joint Proxy Statement, the accompanying Notices of Annual Meeting of Stockholders or Unit Holders and proxy card. We have requested that brokers, nominees, fiduciaries and other persons holding Voting Securities in their names, or in the name of their nominees, which are beneficially owned by others, forward the proxy materials to, and obtain proxies from, such beneficial owners. We will reimburse such persons for their reasonable expenses in so doing.

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In addition to the solicitation of proxies by the use of the mail, proxies may be solicited in person and by telephone or facsimile transmission by directors, officers or employees of the New Mountain Entities, the Investment Adviser, or the New Mountain Entities' administrator, New Mountain Finance Administration, L.L.C. (the "Administrator"), without special compensation therefor. The New Mountain Entities have also retained Georgeson Inc. to assist in the solicitation of proxies for a fee of approximately $7,000, plus reimbursement of certain out of pocket expenses.

Holders of Voting Securities may also provide their voting instructions by telephone or through the Internet. These options require holders of Voting Securities to input the Control Number which is located on each proxy card. After inputting this number, holders of Voting Securities will be prompted to provide their voting instructions. Holders of Voting Securities will have an opportunity to review their voting instructions and make any necessary changes before submitting their voting instructions and terminating their telephone call or Internet link. Holders of Voting Securities who vote via the Internet, in addition to confirming their voting instructions prior to submission, will also receive an e-mail confirming their instructions upon request.

If a holder of Voting Securities wishes to participate in the Annual Meeting, but does not wish to give a proxy by telephone or electronically, the holder of Voting Securities may still submit the proxy card originally sent with this Joint Proxy Statement or attend in person.

Any proxy given pursuant to this solicitation may be revoked by notice from the person giving the proxy at any time before it is exercised. Any such notice of revocation should be provided in writing and signed by the stockholder or unit holder in the same manner as the proxy being revoked and delivered to the New Mountain Entities' proxy tabulator.

The principal business address of both the Investment Adviser and the Administrator is 787 Seventh Avenue, 48th Floor, New York, NY 10019.

Control Persons and Principal Stockholders

The following table sets forth information with respect to the beneficial ownership of NMFC's common stock, AIV Holdings' common stock and the membership units of NMF Holdings by:

- each person known to the New Mountain Entities to beneficially own 5% or more of the outstanding shares of NMFC's common stock, AIV Holdings' common stock or the membership units of NMF Holdings;

- each of NMFC's directors and each executive officer individually; and

- all of NMFC's directors and executive officers as a group.

Beneficial ownership has been determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and includes voting or investment power (including the power to dispose) with respect to the securities. Assumes no other purchases or sales of securities since the most recently available SEC filings. This assumption has been made under the rules and regulations of the SEC and does not reflect any knowledge that the New Mountain Entities have with respect to the present intent of the beneficial owners of the securities listed in the table below.

Percentage of beneficial ownership below takes into account 10,697,691 shares of common stock of NMFC outstanding and 30,919,629 membership units of NMF Holdings outstanding, in each case as of

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the Record Date. Unless otherwise indicated, the address for each listed holder is c/o New Mountain Finance Corporation, 787 Seventh Avenue, 48th Floor, New York, NY 10019.

	Type of Ownership in	NMFC Shares(1)		NMF Holdings Membership Units(1)		AIV Holdings Shares	
Name	**NMFC(2)**	**Number**	**Percentage**	**Number**	**Percentage**	**Number**	**Percentage**
Beneficial Owners of More than 5%:							
New Mountain Guardian AIV, L.P.(3)	Beneficial	20,221,938	65.4%	20,221,938	65.4%	100	100%
New Mountain Investments III, L.L.C.(3)	Beneficial	20,221,938	65.4%	20,221,938	65.4%	100	100%
New Mountain Finance AIV Holdings Corporation(3)	Beneficial	20,221,938	65.4%	20,221,938	65.4%		*
New Mountain Finance Corporation	N/A		*	10,697,691	34.6%		*
Adams Street Partners, LLC(5)	Direct	2,424,608	22.7%	2,424,608	7.8%		*
RH Capital Associates LLC(6)	Direct	712,578	6.7%	712,578	2.3%		*
Executive Officers:							
Adam J. Weinstein	Direct	12,465	*	12,465	*		*
Paula A. Bosco	Direct	5,814	*	5,814	*		*
Interested Directors:							
Steven B. Klinsky(3)(7)	Direct and Beneficial	22,277,721	72.1%	22,277,721	72.1%		*
Robert A. Hamwee	Direct	73,651	*	73,651	*		*
Independent Directors:							
David Ogens	Direct	11,000	*	11,000	*		*
Albert F. Hurley, Jr.	Direct	7,158	*	7,158	*		*
Kurt J. Wolfgruber	Direct	15,337	*	15,337	*		*
All executive officers and directors as a group (7 persons)(3)	Direct and Beneficial	22,403,146	72.5%	22,403,146	72.5%		*

*
Represents less than 1%.

(1)
All common membership units of NMF Holdings are held indirectly by the below-listed parties, other than common membership units held by AIV Holdings and NMFC. Some or all of the common membership units of NMF Holdings, other than units held by NMFC, can be exchanged at any time and from time to time on a one-for-one basis into shares of NMFC.

(2)
Direct holders of NMFC's common stock have voting power on a pass-through basis over the same number of common membership units of NMF Holdings and, therefore, may be deemed to beneficially own such common membership units of NMF Holdings.

(3)
New Mountain Guardian AIV, L.P. ("Guardian AIV") is the sole stockholder of AIV Holdings. AIV Holdings has the right to exchange its common membership units of NMF Holdings for shares of NMFC's common stock on a one-for-one basis. If AIV Holdings chooses to exchange all of its common membership units of NMF Holdings, AIV Holdings would receive 20,221,938 shares of NMFC's common stock. The general partner of Guardian AIV is New Mountain Investments III, L.L.C., of which Steven B. Klinsky is the managing member. New Mountain Investments III, L.L.C., as the general partner of Guardian AIV, has voting power on a pass through basis as to its portion of common membership units of NMF Holdings. In addition, because Guardian AIV owns all of the common stock of AIV Holdings, Guardian AIV may be deemed to beneficially own the common membership units of NMF Holdings held by AIV Holdings. Mr. Klinsky, as the managing member of New Mountain Investments III, L.L.C., has voting power and

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decision making power over the disposition of the holdings of Guardian AIV on a pass-through basis. Mr. Klinsky may be deemed to beneficially own the direct or indirect holdings of Guardian AIV. Mr. Klinsky and New Mountain Investments III, L.L.C. expressly disclaim beneficial ownership of the above shares of NMFC common stock and the above common membership units of NMF Holdings.

(4)
Such securities are held by certain investment vehicles controlled and/or managed by Adams Street Partners, LLC or its affiliates. The address for Adams Street is One North Wacker Drive, Suite 2200, Chicago, Illinois 60606.

(5)
The address for RH Capital Associates LLC is P.O. Box 449, Suffern, NY 10901.

(6)
Mr. Klinsky directly owns 1,916,340 shares of NMFC's common stock. The Steven B. Klinsky Trust directly owns 73,651 shares of NMFC's common stock. New Mountain Guardian GP, L.L.C. directly owns 65,792 shares of NMFC's common stock and Mr. Klinsky is the sole owner of New Mountain Guardian GP, L.L.C.

The following table sets forth the dollar range of NMFC equity securities, including common membership units of NMF Holdings over which holders of NMFC's common stock have voting power that is beneficially owned by each of NMFC's directors.

activities in the consolidated statements of cash flows. The following table sets forth the hedge gains (losses) realized by the Company for the three months ended March 31, 2003 and 2002 (in thousands):

	Three Months Ended March 31, 2003		Three Months Ended March 31, 2002	
	United States	Canada	United States	Canada
Oil	$ (157)	$ (64)	$	$ 11
Natural gas	(216)	(211)	51	95

The table below sets forth the Company's derivative financial instrument positions relating to its natural gas and oil production at March 31, 2003:

Swaps:

Carbon USA				Carbon Canada			
Time Period	Bbl/ MMBtu	Weighted Average Fixed Price Bbl/ MMBtu	Derivative Asset/ (Liability)	Time Period	Bbl/ MMBtu	Weighted Average Fixed Price Bbl/ MMBtu	Derivative Asset/ (Liability)
			(in thousands)				(in thousands)
Gas				**Gas**			
04/01/03-12/31/03	1,085,000	$ 3.07	$ (1,316)	04/01/03-12/31/03	130,000	$ 3.15	$ (183)
Oil				**Oil**			
04/01/03-12/31/03	27,500	$ 25.63	$ (42)	04/01/03-12/31/03	27,500	$ 27.38	$ (10)

The Company periodically enters into long-term physical sales contracts for a portion of its natural gas and oil production. The table below sets forth physical fixed price and costless collar sales contracts at March 31, 2003:

Fixed price: Carbon Canada			Costless collars: Carbon Canada			
Time Period	**MMBtu**	**Weighted Average Fixed Price MMBtu**	**Time Period**	**MMBtu**	**Weighted Average Floor Price MMBtu**	**Weighted Average Ceiling Price MMBtu**
Gas			**Gas**			
04/01/03-12/31/03	753,000	$ 3.75	04/01/03-12/31/03	289,000	$ 3.95	$ 5.12
			01/01/04-04/30/04	115,000	3.95	5.78

During the first three months of 2003, net hedging losses of $431,000 ($264,000 after tax) relating to commodity derivative contracts were transferred from accumulated other comprehensive income to earnings. The fair value of outstanding commodity derivative contracts designated as hedges decreased by $1.1 million ($663,000 after tax). In March 2003, Carbon USA closed on the sale of its interest in oil and gas properties located primarily in the Permian Basin of southeast New Mexico. At the time of the sale, the Company had an oil commodity swap that was utilized to hedge the Company's Permian Basin oil production which was sold. As a result of the sale, the Company no longer has Permian Basin oil production underlying this commodity derivative contract and consequently discontinued hedge accounting for this contract and recorded a non-cash charge of $42,000 ($26,000 net of tax) related to the change in the fair value of this contract. Other than the above mentioned commodity derivative contract, oil and natural gas prices reflective of the Company's hedge contracts were correlative with the published indices used to sell the Company's production. As a result, except for the above mentioned commodity derivative contract, no ineffectiveness was recognized related to the Company's hedge contracts during the three months ended March 31, 2003. As of March 31, 2003, the Company had net unrealized commodity derivative losses of $1.5 million ($926,000 after tax). The Company expects to reclassify all of these net unrealized losses to earnings during the next twelve months.

6. Business and Geographical Segments

Segment information has been prepared in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." For the three months ended March 31, 2003 and 2002, Carbon had two reportable segments: Carbon USA and Carbon Canada, representing oil and gas operations in the United States and Canada, respectively. The Company evaluates performance of its reportable segments based on profit or loss from oil and gas operations before income taxes. Because Carbon USA and Carbon Canada are managed separately based on their geographic locations, the Company identified them as reportable segments under SFAS No. 131. The segment data presented below was prepared on the same basis as Carbon's consolidated financial statements (in thousands).

	March 31, 2003			**March 31, 2002**		
	United States	**Canada**	**Total**	**United States**	**Canada**	**Total**
Revenues:						
Oil and gas sales	$ 3,289	$ 3,665	$ 6,954	$ 2,260	$ 1,649	$ 3,909
Other, net	(192)		(192)	78		78
	3,097	3,665	6,762	2,338	1,649	3,987
Expenses:						
Oil and gas production costs	1,354	393	1,747	1,130	416	1,546
	756	696	1,452	1,082	658	1,740

	March 31, 2003			March 31, 2002		
Depreciation, depletion and amortization						
General and administrative, net	978	536	1,514	878	451	1,329
Interest and other, net	236	103	339	163	30	193
Total operating expenses	3,324	1,728	5,052	3,253	1,555	4,808
Income (loss) before income taxes and cumulative effect of accounting change	(227)	1,937	1,710	(915)	94	(821)
Income tax provision (benefit)	(90)	643	553	(343)	54	(289)
Net income (loss) before cumulative effect of accounting change	$ (137)	$ 1,294	$ 1,157	$ (572)	$ 40	$ (532)
Total assets	$ 26,077	$ 32,265	$ 58,342	$ 42,675	$ 19,793	$ 62,468
Capital expenditures	$ 1,350	$ 5,714	$ 7,064	$ 767	$ 1,673	$ 2,440

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On March 31, 2003, Carbon announced that it had entered into an Agreement and Plan of Reorganization (the Merger Agreement) with Evergreen Resources, Inc. (Evergreen). Under the Merger Agreement, Carbon will merge with a subsidiary of Evergreen, and Carbon stockholders will receive .275 shares of Evergreen common stock for each outstanding share of Carbon common stock (and cash in lieu of any fractional shares). As a result of the merger, Carbon will become a wholly owned subsidiary of Evergreen. The merger is intended to be a tax-free, stock-for-stock transaction. At the time of execution of the agreement, each of Yorktown Energy Partners III, L.P. and Patrick R. McDonald, President and Chief Executive Officer of Carbon, who own approximately 73.2% and 3.8%, respectively, of Carbon's outstanding common stock, had executed an agreement with Evergreen obligating each of them to vote all shares over which it has voting control in favor of the merger.

Completion of the merger, which is subject to customary conditions, including approval by the stockholders of Carbon, is expected to occur in the third quarter of 2003. The Merger Agreement contains a $2.5 million termination fee payable by Carbon if the Merger Agreement is terminated under certain circumstances.

Statements contained in the following management discussion and analysis of financial conditions and results of operations that are not historical facts are forward-looking statements and are subject to completion of the proposed merger.

Critical Accounting Policies

The following summarizes several of our critical accounting policies. See a complete list of significant accounting policies in Note 2 to the Consolidated Financial Statements in this report.

Property and Equipment The Company follows the full cost method of accounting for its oil and gas properties. All costs incurred in the acquisition, exploration and development of properties (including costs of surrendered and abandoned leaseholds, delay lease rentals, dry holes and direct overhead related to exploration and development activities) are capitalized.

Capitalized costs are accumulated for the United States and Canada as separate cost centers and are depleted using the units of production method based on proved reserves of oil and gas. For purposes of the depletion calculation, oil and gas reserves are converted to an equivalent unit of measure where six thousand cubic feet of gas is equal to one barrel of oil. For periods prior to January 1, 2003, the estimated future cost of site restoration, dismantlement and abandonment activities was provided for as a component of depletion. Investments in unproved properties are recorded at the lower of cost or fair market value and are not depleted pending the determination of the existence of proved reserves.

Pursuant to full cost accounting rules, capitalized costs less related accumulated depletion and deferred income taxes may not exceed the sum of the present value of future net revenues from estimated production of proved oil and gas reserves using a 10% discount factor and unescalated oil and gas prices and costs as of the end of the period; plus the cost of properties not being amortized, if any; plus the lower of cost or estimated fair value of unproved properties included in the costs being amortized, if any; less related income tax effects.

Reserves There are many uncertainties inherent in estimating crude oil and natural gas reserve quantities, projecting future production rates and the timing of future development expenditures. In addition, reserve estimates of new discoveries are more imprecise than those of properties with a production history. Accordingly, these estimates are subject to change as additional information becomes available. Proved reserves are the estimated quantities of oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those reserves expected to be recovered through existing equipment and operating methods.

Derivative Instruments and Hedging Activities Pursuant to Company guidelines, the Company utilizes derivative instruments only as a hedging mechanism and does not enter into speculative transactions. The Company has a Risk Management Committee to administer and approve all hedging transactions. Gains or losses from commodity derivative instruments that qualify for hedge accounting treatment are recognized as an adjustment to sales revenue in the period in which the derivative instrument matures. Gains or losses from financial instruments that do not qualify for hedge accounting treatment are recognized during the current period as a component of other revenues, net. The cash flows from such agreements are included in operating activities in the consolidated statements of cash flows.

The estimation of fair values for the Company's hedging derivatives requires substantial judgement. The fair values of the Company's derivatives are estimated on a monthly basis using an option pricing model. The option pricing model uses various factors that include closing exchange prices, volatility and the time value of options. The estimated future prices are compared to the prices fixed by the hedge agreements and the resulting estimated future cash inflows (outflows) over the lives of the hedges are discounted. These pricing and discounting variables are sensitive to market volatility as well as to changes in future price forecasts, regional price differentials and interest rates.

Valuation of Deferred Tax Assets The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax bases (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Results of Operations

The following table and discussion present comparative revenue, production volumes, average sales prices, expenses and percentage change between periods for the three months ended March 31, 2003 and 2002 (first quarter) for the Company's United States and Canadian operations.

	United States Three Months Ended March 31,			**Canada Three Months Ended March 31,**		
	2003	**2002**	**Change**	**2003**	**2002**	**Change**
	(U.S. dollars in thousands, except prices and per Mcfe information)			**(U.S. dollars in thousands, except prices and per Mcfe information)**		
Revenues:						
Oil and gas revenues	$ 3,289	$ 2,260	46%	$ 3,665	$ 1,649	122%
Other, net	(192)	78	-346%			
Total revenues	$ 3,097	$ 2,338	32%	$ 3,665	$ 1,649	122%
Daily production volumes:						
Natural gas (MMcf)	7.7	9.1	-15%	7.5	6.2	21%
Oil and liquids (Bbl)	225	247	-9%	157	155	1%
Equivalent production (MMcfe 6:1)	9.1	10.6	-14%	8.4	7.1	18%
Average price realized:						
Natural gas (Mcf)	$ 4.08	$ 2.28	79%	$ 4.93	$ 2.56	93%
Oil and liquids (Bbl)	23.05	17.91	29%	24.47	15.58	57%
Direct lifting costs	$ 386	$ 386	0%	$ 361	$ 349	3%
Average direct lifting costs/Mcfe	0.47	0.41	15%	0.48	0.54	-11%
Other production costs	968	744	30%	32	67	-52%
General and administrative, net	978	878	11%	536	451	19%
Depreciation, depletion and amortization	756	1,082	-30%	696	658	6%
Interest and other expense, net	236	163	45%	103	30	243%
Income tax provision (benefit)	(90)	(343)	-74%	643	54	1091%

Revenues from oil, liquids and gas sales of Carbon USA for the first quarter of 2003 were $3.3 million, a 46% increase from 2002. The increase was due primarily to increased oil, liquids and natural gas prices in the first quarter of 2003, partially offset by decreased oil, liquids and natural gas production.

Revenues from oil, liquids and gas sales of Carbon Canada for the first quarter of 2003 were $3.7 million, a 122% increase from 2002. The increase was due primarily to increased oil, liquids and natural gas prices and increased oil, liquids and natural gas production.

Average production in the United States for the first quarter of 2003 was 225 barrels of oil and liquids per day and 7.7 million cubic feet (MMcf) of gas per day, a decrease of 14% from the same period in 2002 on a Mcf equivalent (Mcfe) basis where one barrel of oil or liquids is equal to six Mcf of gas. The decrease in production was due in part to the disposition of the Company's Kansas properties in September 2002 and natural production declines in all operating areas. During the first quarter of 2003, Carbon USA participated in the drilling of three gross (.6 net) wells of which one gross (.1 net) was completed as an oil well and two gross (.5 net) were completed as gas wells compared to two gross (.1 net) oil wells during the first quarter of 2002.

Average production in Canada for the first quarter of 2003 was 157 barrels of oil and liquids per day and 7.5 MMcf of gas per day, an increase of 18% on a Mcfe basis from the same period in 2002. The increase was primarily due to successful drilling activities in the third and fourth quarters of 2002 and first quarter of 2003 in the Carbon and Rowley areas of central Alberta. During the first quarter of 2003, Carbon Canada participated in the drilling of four gross (3.8 net) gas wells. During the first quarter of 2002, Carbon Canada participated in the drilling of three gross (2.0 net) wells of which two gross (1.5 net) were completed as gas wells and one gross (.5 net) well was abandoned as a dry hole.

Average oil and liquids prices realized by Carbon USA increased 29% from $17.91 per barrel for the first quarter of 2002 to $23.05 for 2003. The average oil and liquids price includes hedge losses of $157,000 or $7.73 per barrel for the first quarter of 2003. There was no oil hedge activity for the first quarter of 2002. Average natural gas prices realized by Carbon USA increased 79% from $2.28 per Mcf for the first quarter of 2002 to $4.08 for 2003. The average natural gas price includes hedge losses of $216,000 or $.31 per Mcf for the first quarter of 2003 compared to hedge gains of $51,000 or $.06 per Mcf for 2002.

Average oil and liquids prices realized by Carbon Canada increased 57% from $15.58 per barrel for the first quarter of 2002 to $24.47 for 2003. The average oil and liquids price includes hedge losses of $64,000 or $4.54 per barrel for the first quarter of 2003 compared to hedge gains of $11,000 or $.76 per barrel for 2002. Average natural gas prices realized by Carbon Canada increased 93% from $2.56 per Mcf for the first quarter of 2002 to $4.93 for 2002. The average natural gas price includes hedge losses of $211,000 or $.32 per Mcf for the first quarter of 2003 compared to hedge gains of $95,000 or $.17 Mcf for 2002.

Other losses in the United States were $192,000 for the first quarter of 2003 compared to revenues of $78,000 for 2002. In March 2003, Carbon USA closed on the sale of its interest in oil and gas properties located primarily in the Permian Basin of southeast New Mexico. Proceeds from the sale were used to repay borrowings under the Company's U.S. credit facility with Bank of Oklahoma. As a result of this use of proceeds, the Company no longer had variable rate borrowings underlying certain of its interest rate swap agreements. As a result, the Company discontinued hedge accounting for these interest rate swaps and recorded a non-cash charge of $175,000 related to the change in the fair value of these agreements. In addition, at the time of the asset sale, the Company had an oil commodity swap that was utilized to hedge the Company's Permian Basin oil production which was sold. As a result of the sale, the Company no longer has Permian Basin oil production underlying this commodity derivative contract. Consequently the Company discontinued hedge accounting for this derivative contract and recorded a non-cash charge of $42,000 related to the change in the fair value of this contract.

Direct lifting costs incurred by Carbon USA were $386,000 or $.47 per Mcfe for the first quarter of 2003 compared to $386,000 or $.41 per Mcfe for 2002. The higher per Mcfe expense in the first quarter of 2003 compared to 2002 was due to operating approximately the same number of wells with lower production per well.

Other production costs incurred by Carbon USA, consisting primarily of severance taxes, gathering and processing fees and production overhead, were $968,000 for the first quarter of 2003 compared to $744,000 for 2002. The increase is due primarily to increased severance taxes as a result of higher natural gas and oil prices.

Direct lifting costs incurred by Carbon Canada were $361,000 or $.48 per Mcfe for the first quarter of 2003 compared to $349,000 or $.54 per Mcfe for 2002. The lower per Mcfe expense in the first quarter of 2003 was primarily due to a reconfiguration of the Company's compressor facilities that reduced compressor expenses in the Carbon area and a reduction in contract operating and overhead charges due to Carbon Canada employees assuming these duties.

General and administrative (G&A) expenses (net of overhead reimbursements on operated wells) incurred by Carbon USA increased 11% from $878,000 for the first quarter of 2002 to $978,000 for 2003. The increase was primarily due to one time fees of $317,000 paid to RBC Capital Markets incurred during the first quarter of 2003 for financial advisory services and rendering a fairness opinion to the Board of Directors of Carbon regarding the exchange ratio of common shares in the announced merger with Evergreen. The comparative increase was partially offset by one time legal expenses of $146,000 incurred during the first quarter of 2002 related to litigation that was concluded in 2002. For the first quarter of 2002 and 2003, Carbon USA capitalized $41,000 of G&A related to geological and geophysical activities.

General and administrative expenses (net of overhead reimbursements on operated wells) incurred by Carbon Canada increased 19% from $451,000 for the first quarter of 2002 to $536,000 for 2003. The increase was primarily due to an increase in Carbon management service fees billed to Carbon Canada in the first quarter of 2003 compared to 2002. For the first quarter of 2002 and 2003, Carbon Canada did not capitalize any G&A related to geological and geophysical activities.

Interest and other expense incurred by Carbon USA increased 45% from $163,000 for the first quarter of 2002 to $236,000 for 2003. The increase was due primarily to increased interest rates in the first quarter of 2003 relative to 2002.

Interest and other expense incurred by Carbon Canada increased 243% from $30,000 for the first quarter of 2002 to $103,000 for 2003. The increase was due primarily to increased average debt balances in the first quarter of 2003 relative to 2002 and increased interest rates in 2003.

Depreciation, depletion and amortization (DD&A) of oil and gas assets is calculated using the units of production method. DD&A is typically determined by using historical capitalized costs incurred to find, develop and recover oil and gas reserves. However, the Company's DD&A rate has been affected by the purchase price of the properties acquired in the Company's acquisitions of Carbon USA and Carbon Canada, the volume of proved reserves the Company acquired in the acquisitions and a ceiling test impairment recorded by the Company in the second quarter of 2002.

DD&A expense incurred by Carbon USA was $756,000 or $.93 per Mcfe for the first quarter of 2003 compared to $1.1 million or $1.14 per Mcfe for 2002. The decreased rate is primarily due to the ceiling test impairment recorded by the Company in the second quarter of 2002.

DD&A expense incurred by Carbon Canada was $696,000 or $.92 per Mcfe compared to $658,000 or $1.02 per Mcfe for 2002. The decreased rate is primarily due to the ceiling test impairment recorded by the Company in the second quarter of 2002.

Income tax benefit recorded by Carbon USA was $90,000 for the first quarter of 2003, an effective tax rate of 40%. This compared to an income tax benefit of $343,000 and an effective tax rate of 37% for the first quarter of 2002.

Income tax expense incurred by Carbon Canada was $643,000 for the first quarter of 2003, an effective tax rate of 33%, compared to $54,000 and an effective tax rate of 57% for 2002. The decrease in the effective rate for the first quarter of 2003 compared to 2002 was primarily due to permanent differences in the non-deductibility of certain Canadian royalties for oil, liquids and natural gas compared to an allowable special deduction for Canadian resource properties.

Liquidity and Capital Resources

At March 31, 2003, the Company had $58.3 million of assets. Total capitalization was $41.9 million, consisting of 49% stockholders' equity and 51% debt.

For a discussion of the Company's credit facilities, see Note 4 to the Consolidated Financial Statements in this report.

Net cash provided by operations for the three months ended March 31, 2003 was $2.6 million compared to $2.1 million used in operations in 2002. The increase in operating cash flow was primarily due to increased oil, liquids, and natural gas prices in all regions and increased oil, liquids and natural gas production in Canada, partially offset by decreased oil, liquids and natural gas production in the United States.

For the three months ended March 31, 2003, Carbon USA spent approximately $1.3 million primarily to fund development and exploration activities in Colorado and Utah and received $14.4 million in proceeds related to the disposition of its interest in oil and gas properties located primarily in the Permian Basin of southeast New Mexico. For the three months ended March 31, 2003, Carbon Canada spent approximately $5.8 million primarily to fund development and exploration activities in central and northwest Alberta.

For the three months ended March 31, 2002, Carbon USA spent approximately $767,000 primarily to fund development and exploration activities in Colorado, Montana and Utah. For the three months ended March 31, 2002, Carbon Canada spent approximately $1.6 million primarily to fund development activities in the Carbon area of central Alberta.

Carbon's primary cash requirements for the remainder of 2003, subject to completion of the proposed merger described previously, will be to fund exploration and development expenditures, finance acquisitions, repay debt, and for general working capital needs. The Company has budgeted capital expenditures for the remainder of 2003, exclusive of unplanned acquisitions or divestitures, of approximately $13.9 million. At March 31, 2003, the Company is in compliance with all its debt covenants and has no reason to believe that either of its credit facilities will require principal payments during the next twelve months. Under the facilities, funds available at March 31, 2003 were approximately $7.8 million. In addition, at March 31, 2003, the Company had $7.7 million in cash which was subsequently used to repay borrowings under the Company's U.S. credit facility in April 2003. Carbon believes that available borrowings under its credit agreements and projected operating cash flows will be sufficient to cover its working capital, planned capital expenditures and debt service requirements for the next 12 months.

On March 24, 2003, Carbon USA closed on the sale of its interest in oil and gas properties located primarily in the Permian Basin of southeast New Mexico. Net proceeds from the sale, after normal closing adjustments, were $14.4 million. The Company initially utilized the proceeds to pay down a portion of the debt and anticipates utilizing the resulting additional borrowing capacity to accelerate its remaining 2003 exploration and development drilling program in the Piceance and Uintah Basins.

The Company's future cash flow is subject to a number of variables, including the level of production, commodity prices and capital expenditures. Also, borrowings under Carbon's credit facilities are subject to a number of conditions, including compliance with various covenants and borrowing base calculations. As a result, there can be no assurance that operating cash flows and other capital resources will provide cash in sufficient amounts to maintain planned levels of capital expenditures or to meet other cash needs.

The table below sets forth the Company's contractual obligations at March 31, 2003 and the effect such obligations are expected to have on its liquidity and cash flow in future periods (in thousands):

	Payments Due By Period		
Contractual Obligations	**Less than 1 Year**	**1 - 3 Years**	**4 - 5 Years**
Revolving credit facilities	$	$ 21,242	$
Operating leases	397	236	
Transporation agreements	121	86	
	$ 518	$ 21,564	$

Disclosures Regarding Forward-Looking Statements

All statements contained in this filing that are not historical facts are forward-looking statements. Such statements address activities, events or developments that the Company expects, believes, projects, intends or anticipates will or may occur, including such matters as future capital, development and exploration expenditures, reserve estimates (including estimates of future net revenues associated with such reserves and the present value of such future net revenues), future production of oil and natural gas, business strategies, expansion and growth of the Company's operations, cash flow and anticipated liquidity, prospect development and property acquisition, obtaining financial or industry partners for prospect or program development, or marketing of oil and natural gas. Although the Company believes that the expectations reflected in the forward-looking statements and the assumptions upon which such forward-looking statements are based are reasonable, it can give no assurance that such expectations and assumptions will prove to be correct. Factors that could cause actual results to differ materially are described, among other places, in the Marketing, Competition, Government Regulation, Environmental Regulation and Operating Hazards sections of the Company's 2002 Form 10-K and under "Management's Discussion and Analysis of Financial Condition and Results of Operations." These factors include, but are not limited to, general economic conditions, the market price of oil and natural gas, the risks associated with exploration, the Company's ability to find, acquire, market, develop and produce new properties, operating hazards attendant to the oil and natural gas business, uncertainties in the estimation of proved reserves and in the projection of future rates of production and timing of development expenditures, the strength and financial resources of the Company's competitors, the Company's ability to find and retain skilled personnel, climatic conditions, labor relations, availability and cost of material and equipment, environmental risks, the results of financing efforts, and regulatory developments. All written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements. The Company undertakes no obligation to update any forward-looking statements to reflect future events or developments.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Because of its debt position, the Company is exposed to interest rate risk. Interest rate risk is estimated as the potential change in the fair value of interest sensitive investments resulting from an immediate hypothetical change in interest rates. The sensitivity analysis presents the change in fair value of these instruments and changes in the Company's earnings and cash flows assuming an immediate one percent change in floating interest rates. At March 31, 2003, the Company had $10.7 million of floating rate debt through its facility with Bank of Oklahoma and $10.5 million through its facility with CIBC. The Company also had $7.7 million in cash equivalent instruments that were used to repay borrowings under the Company's U.S. credit facility in April 2003. In addition, the Company currently has interest rate swap agreements that effectively convert a portion of its variable rate borrowings to fixed rate debt as described in Note 5 to the Consolidated Financial Statements in this report. Assuming constant debt levels, the impact on earnings and cash flow for the twelve month period beginning April 1, 2003, from a one percent change in interest rates would be approximately $131,000 before taxes.

Foreign Currency Risk

The Canadian dollar is the functional currency of Carbon Canada. The Company is subject to foreign currency exchange rate risk on cash flows relating to sales, expenses, financing and investing transactions. The Company has not entered into foreign currency forward contracts or other similar financial instruments to manage this risk.

Commodity Price Risk

Oil and gas commodity markets are influenced by global and regional supply and demand factors. Worldwide political events can also impact commodity prices. The prices received by Carbon for its natural gas production are determined mainly by factors affecting North American regional supply and demand for natural gas. Based upon recent reportable events, it is possible that published indices used to establish the price received by producers for their natural gas production may not be an accurate indication of the market price for natural gas.

At March 31, 2003, all of the Company's United States gas production is in Colorado and Utah. Since March 2002, natural gas prices for production in these areas have been unusually low relative to the rest of the producing areas in the United States. Reduced regional seasonal demand and inadequate pipeline transportation capacity linking Carbon's production in the Piceance and Uintah Basins to consuming regions are principal factors contributing to the large price differentials. While there is the prospect of additional pipeline capacity out of the region which is expected to help alleviate the high price differentials received by Rocky Mountain gas producers, continued volatility is expected to affect the price received for natural gas produced by Carbon in the United States and Canada.

The Company may use certain financial instruments including swaps, collars, futures and other contracts in an attempt to reduce exposure to fluctuations in the price of oil and natural gas by establishing fixed prices or hedges for its oil and natural gas production. Hedging the Company's oil and natural gas production may limit the Company's exposure to price declines or limit the benefit of price increases. Risks associated with the practice of hedging include counterparty credit risk, Carbon's inability to deliver required physical volumes of oil and gas which support the Company's hedges, inefficient or non-correlatable hedges, basis risk, inability to liquidate hedge positions if desired and other unforeseen economic factors.

The table below sets forth the Company's derivative financial instrument positions related to its natural gas and oil production at March 31, 2003:

Swaps:

Carbon USA				Carbon Canada			
Time Period	Bbl/ MMBtu	Weighted Average Fixed Price Bbl/ MMBtu	Derivative Asset/ (Liability)	Time Period	Bbl/ MMBtu	Weighted Average Fixed Price Bbl/ MMBtu	Derivative Asset/ (Liability)
			(in thousands)				(in thousands)
Gas				**Gas**			
04/01/03-12/31/03	1,085,000	$ 3.07	$ (1,316)	04/01/03-12/31/03	130,000	$ 3.15	$ (183)
Oil				**Oil**			
04/01/03-12/31/03	27,500	$ 25.63	$ (42)	04/01/03-12/31/03	27,500	$ 27.38	$ (10)

The Company periodically enters into long-term physical sales contracts for a portion of its natural gas and oil production. The table below sets forth physical fixed price and costless collar contracts at March 31, 2003:

Fixed price: Carbon Canada			Costless collars: Carbon Canada			
Time Period	MMBtu	Weighted Average Fixed Price MMBtu	Time Period	MMBtu	Weighted Average Fixed Price MMBtu	Weighted Average Ceiling Price MMBtu
Gas			**Gas**			
04/01/03-12/31/03	753,000	$ 3.75	04/01/03-12/31/03	289,000	$ 3.95	$ 5.12
			01/01/04-04/30/04	115,000	3.95	5.78

Item 4. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including Carbon's principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14 under the Securities Exchange Act of 1934. Based upon that evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective for purposes of recording, summarizing and timely reporting material information required to be disclosed in reports that the Company files under the Securities Exchange Act of 1934. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls since the date the controls were evaluated.

PART II OTHER INFORMATION

Item 1-5 Not applicable.

Item 6 (a) Exhibits

10.1 First Amendment of Amended and Restated Credit Agreement dated as of March 24, 2003 between Carbon

Energy Corporation (USA) and Bank of Oklahoma, National Association.**

10.2 Credit Agreement dated as of May 14, 2003 between Carbon Energy Canada Corporation and Canadian Imperial Bank of Commerce.**

99.1 Certification of 10-Q/A Report, dated September 15, 2003, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

(b) Reports on Form 8-K

(i) A report on Form 8-K, filed with the Securities and Exchange commission on April 1, 2003, regarding the March 31, 2003 announcement of an Agreement and Plan of Reorganization between Carbon Energy Corporation, Evergreen Resources, Inc. and Evergreen Merger Corporation.

(ii) A report on Form 8-K, filed with the Securities and Exchange Commission on April 8, 2003, regarding the March 24, 2003 sale of the Company's interests in oil and gas properties located primarily in the Permian Basin of southeast New Mexico.

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*
Filed or furnished herewith

**
Previously filed with this Report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CARBON ENERGY CORPORATION
Registrant

Date: September 15, 2003	By:	/s/ PATRICK R. MCDONALD
		President and Chief Executive Officer
Date: September 15, 2003	By:	/s/ KEVIN D. STRUZESKI
		Treasurer and Chief Financial Officer

CERTIFICATION

I, Patrick R. McDonald certify that:

1.
I have reviewed this quarterly report on Form 10-Q/A of Carbon Energy Corporation;

2.
Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3.
Based on my knowledge, the financial statements and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4.
The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a)
designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b)
evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c)
presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5.
The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a)
all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b)
any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6.
The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any

corrective actions with regard to significant deficiencies and material weaknesses.

Date: September 15, 2003 By: /s/ PATRICK R. MCDONALD

Patrick R. McDonald
President and Chief Executive Officer

CERTIFICATION

I, Kevin D. Struzeski certify that:

1.
I have reviewed this quarterly report on Form 10-Q/A of Carbon Energy Corporation;

2.
Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3.
Based on my knowledge, the financial statements and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4.
The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a)
designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b)
evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c)
presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5.
The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a)
all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b)
any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6.
The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: September 15, 2003 By: /s/ KEVIN D. STRUZESKI

Kevin D. Struzeski
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
10.1	First Amendment of Amended and Restated Credit Agreement**
10.2	Credit Agreement**
99.1	Certification of 10-Q/A Report

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Previously filed with this Report.