

New Mountain Finance Holdings, L.L.C.  
Form 10-Q  
May 07, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the Quarter Ended March 31, 2014

**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

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

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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  No   
 New Mountain Finance Corporation Yes  No

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

New Mountain Finance Holdings, L.L.C. Yes  No   
 New Mountain Finance Corporation Yes  No

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

|                                       |  |   |
|---------------------------------------|--|---|
| 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"/>    |

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  No   
 New Mountain Finance Corporation Yes  No

| Registrants                           | Description                    | Shares / Units as of<br>May 7, 2014 |
|---------------------------------------|--------------------------------|-------------------------------------|
| New Mountain Finance Holdings, L.L.C. | Common membership units        | 51,993,000                          |
| New Mountain Finance Corporation      | Common stock, \$0.01 par value | 51,993,000                          |

This combined Form 10-Q is filed separately by two registrants: New Mountain Finance Holdings, L.L.C. and New Mountain Finance 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.



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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)

|   | March 31, 2014<br>(unaudited) | December 31, 2013   |
|---|-------------------------------|---------------------|
| <b>Assets</b>   |                               |                     |
| Investments at fair value (cost of \$1,153,821 and \$1,094,080, respectively)                         | \$ 1,180,206                  | \$ 1,115,651        |
| Cash and cash equivalents   | 13,327                        | 14,981              |
| Interest and dividend receivable  | 12,049                        | 10,531              |
| Receivable from unsettled securities sold   | 7,418                         |                     |
| Deferred credit facility costs (net of accumulated amortization of \$3,980 and \$3,562, respectively) | 4,361                         | 4,727               |
| Receivable from affiliate   | 383                           | 459                 |
| Other assets  | 1,660                         | 1,492               |
| <b>Total assets</b>   | <b>\$ 1,219,404</b>           | <b>\$ 1,147,841</b> |
| <b>Liabilities</b>  |                               |                     |
| Holdings Credit Facility  | 271,825                       | 221,849             |
| SLF Credit Facility   | 215,000                       | 214,668             |
| Payable for unsettled securities purchased  | 15,175                        | 3,690               |
| Capital gains incentive fee payable   | 8,050                         | 7,636               |
| Incentive fee payable   | 4,443                         | 4,104               |
| Management fee payable  | 4,176                         | 3,856               |
| Interest payable  | 937                           | 814                 |
| Payable to affiliate  | 10                            | 80                  |
| Other liabilities   | 2,640                         | 2,628               |
| <b>Total liabilities</b>  | <b>522,256</b>                | <b>459,325</b>      |
| <b>Members' Capital</b>   |                               |                     |
| <b>Total liabilities and members' capital</b>   | <b>\$ 1,219,404</b>           | <b>\$ 1,147,841</b> |
| Outstanding common membership units   | 47,968,000                    | 47,896,693          |
| Capital per unit  | \$ 14.53                      | \$ 14.38            |

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 |                |
|---|--------------------|----------------|
|   | March 31, 2014     | March 31, 2013 |
| <b>Investment income</b>  |                    |                |
| Interest income   | \$ 28,139          | \$ 25,043      |
| Dividend income   | 2,095              |                |
| Other income  | 684                | 275            |
| Total investment income   | 30,918             | 25,318         |
| <b>Expenses</b>   |                    |                |
| Incentive fee   | 4,443              | 3,458          |
| Capital gains incentive fee   | 1,527              | 2,682          |
| Total incentive fee   | 5,970              | 6,140          |
| Management fee  | 4,176              | 3,568          |
| Interest and other credit facility expenses                         | 3,413              | 3,071          |
| Professional fees   | 862                | 572            |
| Administrative expenses   | 596                | 759            |
| Other general and administrative expenses                           | 390                | 410            |
| Total expenses  | 15,407             | 14,520         |
| Less: expenses waived and reimbursed (See Note 5)                   | (774)              | (829)          |
| Net expenses  | 14,633             | 13,691         |
| <b>Net investment income</b>  | 16,285             | 11,627         |
| Net realized gains on investments                                   | 2,780              | 1,044          |
| Net change in unrealized appreciation (depreciation) of investments | 4,814              | 11,890         |
| <b>Net increase in members' capital resulting from operations</b>   | \$ 23,879          | \$ 24,561      |

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)

|   | <b>Three months ended</b> |                       |
|---|---------------------------|-----------------------|
|   | <b>March 31, 2014</b>     | <b>March 31, 2013</b> |
| <b>Increase in members' capital resulting from operations:</b>      |                           |                       |
| Net investment income   | \$ 16,285                 | \$ 11,627             |
| Net realized gains on investments                                   | 2,780                     | 1,044                 |
| Net change in unrealized appreciation (depreciation) of investments | 4,814                     | 11,890                |
| <b>Net increase in members' capital resulting from operations</b>   | <b>23,879</b>             | <b>24,561</b>         |
| <b>Net contributions</b>  |                           | 28,400                |
| <b>Dividends declared</b>   | <b>(16,285)</b>           | <b>(13,797)</b>       |
| <b>Offering costs</b>   |                           | <b>(75)</b>           |
| <b>Reinvestment of dividends</b>                                    | <b>1,038</b>              | <b>1,450</b>          |
| <b>Net increase in members' capital</b>                             | <b>8,632</b>              | <b>40,539</b>         |
| <b>Members' capital at beginning of period</b>                      | <b>688,516</b>            | <b>569,939</b>        |
| <b>Members' capital at end of period</b>                            | <b>\$ 697,148</b>         | <b>\$ 610,478</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)

|  | <b>Three months ended</b> |                       |
|--|---------------------------|-----------------------|
|  | <b>March 31, 2014</b>     | <b>March 31, 2013</b> |
| <b>Cash flows from operating activities</b>  |                           |                       |
| Net increase in members' capital resulting from operations   | \$ 23,879                 | \$ 24,561             |
| Adjustments to reconcile net (increase) decrease in members' capital resulting from operations to net cash (used in) provided by operating activities: |                           |                       |
| Net realized gains on investments  | (2,780)                   | (1,044)               |
| Net change in unrealized (appreciation) depreciation of investments  | (4,814)                   | (11,890)              |
| Amortization of purchase discount  | (712)                     | (1,103)               |
| Amortization of deferred credit facility costs   | 418                       | 357                   |
| Non-cash interest income   | (573)                     | (114)                 |
| <b>(Increase) decrease in operating assets:</b>  |                           |                       |
| Purchase of investments  | (158,292)                 | (112,005)             |
| Proceeds from sales and paydowns of investments  | 102,436                   | 85,110                |
| Cash received for purchase of undrawn portion of revolving credit or delayed draw facilities   | 126                       |                       |
| Cash paid for purchase of drawn portion of revolving credit or delayed draw facilities   | (516)                     |                       |
| Cash repayments on drawn revolvers   | 570                       |                       |
| Interest and dividend receivable   | (1,518)                   | (3,209)               |
| Receivable from unsettled securities sold  | (7,418)                   | 9,962                 |
| Receivable from affiliate  | 76                        | 39                    |
| Other assets   | (168)                     | (157)                 |
| <b>Increase (decrease) in operating liabilities:</b>   |                           |                       |
| Payable for unsettled securities purchased   | 11,485                    | (9,700)               |
| Capital gains incentive fee payable  | 414                       | 2,682                 |
| Incentive fee payable  | 339                       | 68                    |
| Management fee payable   | 320                       | 346                   |
| Interest payable   | 123                       | 98                    |
| Payable to affiliate   | (70)                      | 5                     |
| Other liabilities  | 56                        | 238                   |
| <b>Net cash flows used in operating activities</b>   | <b>(36,619)</b>           | <b>(15,756)</b>       |
| <b>Cash flows from financing activities</b>  |                           |                       |
| Net contributions  |                           | 28,400                |
| Dividends paid   | (15,247)                  | (18,023)              |
| Offering costs paid  | (78)                      | (224)                 |
| Proceeds from Holdings Credit Facility   | 93,076                    | 65,425                |
| Repayment of Holdings Credit Facility  | (43,100)                  | (57,200)              |
| Proceeds from SLF Credit Facility  | 332                       | 3,238                 |
| Repayment of SLF Credit Facility   |                           | (2,500)               |
| Deferred credit facility costs paid  | (18)                      | (234)                 |
| <b>Net cash flows provided by financing activities</b>   | <b>34,965</b>             | <b>18,882</b>         |
| <b>Net (decrease) increase in cash and cash equivalents</b>  | <b>(1,654)</b>            | <b>3,126</b>          |
| <b>Cash and cash equivalents at the beginning of the period</b>  | <b>14,981</b>             | <b>12,752</b>         |

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|  |    |        |    |        |
|--|----|--------|----|--------|
| <b>Cash and cash equivalents at the end of the period</b>                      | \$ | 13,327 | \$ | 15,878 |
| <b>Supplemental disclosure of cash flow information</b>                        |    |        |    |        |
| Interest paid  | \$ | 2,714  | \$ | 2,545  |
| <b>Non-cash financing activities:</b>  |    |        |    |        |
| Dividends declared and payable   | \$ |        | \$ | 5,516  |
| Value of members' capital issued in connection with dividend reinvestment plan |    | 1,038  |    | 1,450  |
| Accrual for offering costs   |    | 690    |    | 828    |
| Accrual for deferred credit facility costs                                     |    | 55     |    | 64     |

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**

**March 31, 2014**  
**(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>Funded Debt Investments - Australia</b>                        |                           |                            |                      |  |                  |                   |                                   |
| Project Sunshine IV Pty Ltd**                                     |                           |                            |                      |  |                  |                   |                                   |
| Media   | First lien (2)            | 8.00% (Base Rate + 7.00%)  | 2/28/2019            | \$ 12,500                                    | \$ 12,377        | \$ 12,656         | 1.82%                             |
| <b>Total Funded Debt Investments - Australia</b>                  |                           |                            |                      | <b>\$ 12,500</b>                             | <b>\$ 12,377</b> | <b>\$ 12,656</b>  | <b>1.82%</b>                      |
| <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                                     | \$ 6,385         | \$ 7,244          | 1.04%                             |
| <b>Total Funded Debt Investments - Bermuda</b>                    |                           |                            |                      | <b>\$ 6,497</b>                              | <b>\$ 6,385</b>  | <b>\$ 7,244</b>   | <b>1.04%</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            | \$ 35,000                                    | \$ 34,537        | \$ 35,613         | 5.11%                             |
| <b>Total Funded Debt Investments - Cayman Islands</b>             |                           |                            |                      | <b>\$ 35,000</b>                             | <b>\$ 34,537</b> | <b>\$ 35,613</b>  | <b>5.11%</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                                    | \$ 24,351        | \$ 27,930         |                                   |
|   | First lien (3)            | 5.75% (Base Rate + 4.75%)  | 3/22/2019            | 14,963                                       | 14,574           | 15,086            |                                   |
|   |                           |                            |                      | 39,463                                       | 38,925           | 43,016            | 6.17%                             |
| Deltek, Inc.  |                           |                            |                      |  |                  |                   |                                   |
| Software  | Second lien (2)           | 10.00% (Base Rate + 8.75%) | 10/10/2019           | 41,000                                       | 40,979           | 41,820            | 6.00%                             |
| Global Knowledge Training LLC                                     |                           |                            |                      |  |                  |                   |                                   |
| Education   | Second lien (2)           | 11.00% (Base Rate + 9.75%) | 10/21/2018           | 41,450                                       | 41,088           | 41,650            | 5.97%                             |
| Novell, Inc. (fka Attachmate Corporation, NetIQ Corporation)      |                           |                            |                      |  |                  |                   |                                   |
| Software  | First lien (3)            | 7.25% (Base Rate + 5.75%)  | 11/22/2017           | 6,514  | 6,422            | 6,571             |                                   |
|   | Second lien (2)           | 11.00% (Base Rate + 9.50%) | 11/22/2018           | 33,321                                       | 32,832           | 33,383            |                                   |
|   |                           |                            |                      | 39,835                                       | 39,254           | 39,954            | 5.73%                             |

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|  |                 |   |            |        |        |        |       |
|--|-----------------|---|------------|--------|--------|--------|-------|
| Kronos Incorporated                            |                 |   |            |        |        |        |       |
| Software                                       | Second lien (2) | 9.75% (Base Rate + 8.50%)               | 4/30/2020  | 37,641 | 37,332 | 39,084 | 5.61% |
| UniTek Global Services, Inc. Business Services |                 |   |            |        |        |        |       |
|  | First lien (2)  | 15.00% (Base Rate + 9.50% + 4.00% PIK)* | 4/15/2018  | 26,584 | 25,750 | 25,291 |       |
|  | First lien (2)  | 15.00% (Base Rate + 9.50% + 4.00% PIK)* | 4/15/2018  | 6,436  | 6,234  | 6,123  |       |
|  | First lien (2)  | 15.00% (Base Rate + 9.50% + 4.00% PIK)* | 4/15/2018  | 5,350  | 5,182  | 5,090  |       |
|  |                 |   |            | 38,370 | 37,166 | 36,504 | 5.24% |
| SRA International, Inc.                        |                 |   |            |        |        |        |       |
| Federal Services                               | First lien (2)  | 6.50% (Base Rate + 5.25%)               | 7/20/2018  | 34,750 | 33,835 | 34,923 | 5.01% |
| YP Holdings LLC (8) YP LLC                     |                 |   |            |        |        |        |       |
| Media  | First lien (2)  | 8.03% (Base Rate + 6.72%)               | 6/4/2018   | 34,096 | 33,677 | 34,459 | 4.94% |
| Edmentum, Inc.(fka Plato, Inc.)                |                 |   |            |        |        |        |       |
| Education                                      | Second lien (2) | 11.25% (Base Rate + 9.75%)              | 5/17/2019  | 31,150 | 30,703 | 31,462 | 4.51% |
| Rocket Software, Inc.                          |                 |   |            |        |        |        |       |
| Software                                       | Second lien (2) | 10.25% (Base Rate + 8.75%)              | 2/8/2019   | 30,875 | 30,739 | 31,081 | 4.46% |
| Tolt Solutions, Inc. (13)                      |                 |   |            |        |        |        |       |
| Business Services                              | First lien (2)  | 7.00% (Base Rate + 6.00%)               | 3/7/2019   | 15,000 | 15,000 | 15,000 |       |
|  | First lien (2)  | 12.00% (Base Rate + 11.00%)             | 3/7/2019   | 15,000 | 15,000 | 15,000 |       |
|  |                 |   |            | 30,000 | 30,000 | 30,000 | 4.30% |
| JHCI Acquisition, Inc.                         |                 |   |            |        |        |        |       |
| Distribution & Logistics                       | First lien (3)  | 7.00% (Base Rate + 5.75%)               | 7/11/2019  | 19,123 | 18,863 | 19,553 |       |
|  | Second lien (2) | 11.00% (Base Rate + 9.75%)              | 7/11/2020  | 10,000 | 9,721  | 10,013 |       |
|  |                 |   |            | 29,123 | 28,584 | 29,566 | 4.24% |
| CompassLearning, Inc. (12)                     |                 |   |            |        |        |        |       |
| Education                                      | First lien (2)  | 8.00% (Base Rate + 6.75%)               | 11/26/2018 | 30,000 | 29,293 | 29,250 | 4.20% |
| Transtar Holding Company                       |                 |   |            |        |        |        |       |
| Distribution & Logistics                       | Second lien (2) | 10.00% (Base Rate + 8.75%)              | 10/9/2019  | 28,300 | 27,859 | 28,017 | 4.02% |
| KeyPoint Government Solutions, Inc.            |                 |   |            |        |        |        |       |
| Federal Services                               | First lien (3)  | 7.25% (Base Rate + 6.00%)               | 11/13/2017 | 19,918 | 19,538 | 19,719 |       |
|  | First lien (2)  | 7.25% (Base Rate + 6.00%)               | 11/13/2017 | 6,607  | 6,514  | 6,541  |       |
|  |                 |   |            | 26,525 | 26,052 | 26,260 | 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)**

**March 31, 2014**  
(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 |
|--|--------------------|----------------------------|---------------|---------------------------------------|-----------|------------|----------------------------|
| Meritas Schools Holdings, LLC                          |                    |                            |               |                                       |           |            |                            |
| Education  | First lien (3)     | 7.00% (Base Rate + 5.75%)  | 6/25/2019     | \$ 19,900                             | \$ 19,722 | \$ 20,049  |                            |
|  | First lien (2)     | 7.00% (Base Rate + 5.75%)  | 6/25/2019     | 5,905                                 | 5,853     | 5,950      |                            |
|  |                    |                            |               | 25,805                                | 25,575    | 25,999     | 3.73%                      |
| Sierra Hamilton LLC / Sierra Hamilton Finance, Inc.    |                    |                            |               |                                       |           |            |                            |
| Energy   | First lien (2)     | 12.25%                     | 12/15/2018    | 25,000                                | 25,000    | 25,688     | 3.68%                      |
| Permian Tank & Manufacturing, Inc.                     |                    |                            |               |                                       |           |            |                            |
| Energy   | First lien (2)     | 10.50%                     | 1/15/2018     | 24,500                                | 24,742    | 25,051     | 3.59%                      |
| Aderant North America, Inc.                            |                    |                            |               |                                       |           |            |                            |
| Software   | Second lien (2)    | 10.00% (Base Rate + 8.75%) | 6/20/2019     | 24,000                                | 23,742    | 24,479     | 3.51%                      |
| McGraw-Hill School Education Holdings, LLC             |                    |                            |               |                                       |           |            |                            |
| Education  | First lien (3)     | 6.25% (Base Rate + 5.00%)  | 12/18/2019    | 19,950                                | 19,757    | 20,115     |                            |
|  | First lien (2)     | 6.25% (Base Rate + 5.00%)  | 12/18/2019    | 1,995                                 | 1,976     | 2,011      |                            |
|  |                    |                            |               | 21,945                                | 21,733    | 22,126     | 3.17%                      |
| Aspen Dental Management, Inc.                          |                    |                            |               |                                       |           |            |                            |
| Healthcare Services                                    | First lien (3)     | 7.00% (Base Rate + 5.50%)  | 10/6/2016     | 21,023                                | 20,791    | 21,089     | 3.03%                      |
| 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                                | 19,739    | 20,363     | 2.92%                      |
| American Pacific Corporation**                         |                    |                            |               |                                       |           |            |                            |
| Specialty Chemicals and Materials                      | First lien (3)     | 7.00% (Base Rate + 6.00%)  | 2/27/2019     | 16,000                                | 15,881    | 16,180     |                            |
|  | First lien (2)     | 7.00% (Base Rate + 6.00%)  | 2/27/2019     | 4,000                                 | 3,970     | 4,045      |                            |
|  |                    |                            |               | 20,000                                | 19,851    | 20,225     | 2.90%                      |
| First American Payment Systems, L.P.                   |                    |                            |               |                                       |           |            |                            |
| Business Services                                      | Second lien (3)    | 10.75% (Base Rate + 9.50%) | 4/12/2019     | 20,000                                | 19,667    | 20,200     | 2.90%                      |
| Envision Acquisition Company, LLC                      |                    |                            |               |                                       |           |            |                            |
| Healthcare Services                                    | Second lien (2)    | 9.75% (Base Rate + 8.75%)  | 11/4/2021     | 20,000                                | 19,613    | 20,150     | 2.89%                      |

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|   |                 |                             |            |        |        |        |       |
|---|-----------------|-----------------------------|------------|--------|--------|--------|-------|
| ARSloane Acquisition, LLC                       |                 |                             |            |        |        |        |       |
| Business Services                               | First lien (3)  | 7.50% (Base Rate + 6.25%)   | 10/1/2019  | 19,900 | 19,714 | 20,037 | 2.87% |
| Distribution International, Inc.                |                 |                             |            |        |        |        |       |
| Distribution & Logistics                        | First lien (2)  | 7.50% (Base Rate + 6.50%)   | 7/16/2019  | 19,850 | 19,491 | 19,899 | 2.85% |
| eResearchTechnology, Inc.                       |                 |                             |            |        |        |        |       |
| Healthcare Services                             | First lien (3)  | 6.00% (Base Rate + 4.75%)   | 5/2/2018   | 19,701 | 19,034 | 19,824 | 2.84% |
| Insight Pharmaceuticals LLC                     |                 |                             |            |        |        |        |       |
| Healthcare Products                             | Second lien (3) | 13.25% (Base Rate + 11.75%) | 8/25/2017  | 19,310 | 18,799 | 19,117 | 2.74% |
| Acrisure, LLC                                   |                 |                             |            |        |        |        |       |
| Business Services                               | Second lien (2) | 11.50% (Base Rate + 10.50%) | 3/9/2020   | 17,675 | 17,500 | 17,498 | 2.51% |
| St. George's University Scholastic Services LLC |                 |                             |            |        |        |        |       |
| Education                                       | First lien (3)  | 8.50% (Base Rate + 7.00%)   | 12/20/2017 | 15,939 | 15,689 | 16,078 | 2.31% |
| MailSouth, Inc.                                 |                 |                             |            |        |        |        |       |
| Media   | First lien (3)  | 6.76% (Base Rate + 4.96%)   | 12/14/2016 | 17,723 | 16,884 | 15,951 | 2.29% |
| Ascend Learning, LLC                            |                 |                             |            |        |        |        |       |
| Education                                       | First lien (3)  | 6.00% (Base Rate + 5.00%)   | 7/31/2019  | 14,963 | 14,889 | 15,187 | 2.18% |
| Confie Seguros Holding II Co.                   |                 |                             |            |        |        |        |       |
| Consumer Services                               | Second lien (3) | 10.25% (Base Rate + 9.00%)  | 5/8/2019   | 14,886 | 14,766 | 15,016 | 2.15% |
| Smile Brands Group Inc.                         |                 |                             |            |        |        |        |       |
| Healthcare Services                             | First lien (3)  | 7.50% (Base Rate + 6.25%)   | 8/16/2019  | 14,428 | 14,240 | 14,495 | 2.08% |
| Brock Holdings III, Inc.                        |                 |                             |            |        |        |        |       |
| Industrial Services                             | Second lien (2) | 10.00% (Base Rate + 8.25%)  | 3/16/2018  | 14,000 | 13,843 | 14,224 | 2.04% |
| Vision Solutions, Inc.                          |                 |                             |            |        |        |        |       |
| Software  | Second lien (2) | 9.50% (Base Rate + 8.00%)   | 7/23/2017  | 14,000 | 13,957 | 14,140 | 2.03% |
| Packaging Coordinators, Inc. (10)               |                 |                             |            |        |        |        |       |
| Healthcare Products                             | Second lien (2) | 9.50% (Base Rate + 8.25%)   | 11/10/2020 | 14,000 | 13,872 | 14,100 | 2.02% |
| Asurion, LLC (fka Asurion Corporation)          |                 |                             |            |        |        |        |       |
| Business Services                               | Second lien (2) | 8.50% (Base Rate + 7.50%)   | 3/3/2021   | 10,000 | 9,851  | 10,348 | 1.48% |
| Vertafore, Inc.                                 |                 |                             |            |        |        |        |       |
| Software  | Second lien (2) | 9.75% (Base Rate + 8.25%)   | 10/27/2017 | 10,000 | 9,941  | 10,216 | 1.47% |

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)**

**March 31, 2014**  
**(in thousands, except shares)**

(unaudited)

|   |                     |                              |            |          |          |          |       |
|---|---------------------|------------------------------|------------|----------|----------|----------|-------|
| <b>Vitera Healthcare Solutions, LLC</b>   |                     |                              |            |          |          |          |       |
| Software  | First lien (3)      | 6.00% (Base Rate + 5.00%)    | 11/4/2020  | \$ 1,995 | \$ 1,976 | \$ 1,991 |       |
|   | Second lien (3)     | 9.25% (Base Rate + 8.25%)    | 11/4/2021  | 7,000    | 6,899    | 7,105    |       |
|   |                     |                              |            | 8,995    | 8,875    | 9,096    | 1.30% |
| <b>Sotera Defense Solutions, Inc. (Global Defense Technology &amp; Systems, Inc.)</b> |                     |                              |            |          |          |          |       |
| Federal Services  | First lien (3)      | 7.50% (Base Rate + 6.00%)    | 4/21/2017  | 10,287   | 10,185   | 9,027    | 1.30% |
| <b>Harley Marine Services, Inc.</b>   |                     |                              |            |          |          |          |       |
| Distribution & Logistics  | Second lien (3)     | 10.50% (Base Rate + 9.25%)   | 12/20/2019 | 9,000    | 8,826    | 8,910    | 1.28% |
| <b>Virtual Radiologic Corporation</b>   |                     |                              |            |          |          |          |       |
| Healthcare Information Technology   | First lien (3)      | 7.25% (Base Rate + 5.50%)    | 12/22/2016 | 13,528   | 13,429   | 8,455    | 1.21% |
| <b>Physio-Control International, Inc.</b>   |                     |                              |            |          |          |          |       |
| Healthcare Products   | First lien (3)      | 9.88%                        | 1/15/2019  | 6,651    | 6,651    | 7,499    | 1.08% |
| <b>Alion Science and Technology Corporation</b>                                       |                     |                              |            |          |          |          |       |
| Federal Services  | First lien (2)(7)   | 12.00% (10.00% + 2.00% PIK)* | 11/1/2014  | 6,447    | 6,378    | 6,365    | 0.91% |
| <b>Immucor, Inc.</b>  |                     |                              |            |          |          |          |       |
| Healthcare Services   | Subordinated (3)(7) | 11.13%                       | 8/15/2019  | 3,000    | 2,962    | 3,405    |       |
|   | Subordinated (2)(7) | 11.13%                       | 8/15/2019  | 2,000    | 1,988    | 2,270    |       |
|   |                     |                              |            | 5,000    | 4,950    | 5,675    | 0.82% |
| <b>Learning Care Group (US), Inc.</b>   |                     |                              |            |          |          |          |       |
| Education   | Subordinated (2)    | 15.00% PIK*                  | 5/8/2020   | 4,371    | 4,228    | 4,371    |       |
|   | Subordinated (2)    | 15.00% PIK*                  | 5/8/2020   | 800      | 745      | 800      |       |
|   |                     |                              |            | 5,171    | 4,973    | 5,171    | 0.74% |
| <b>Education Management LLC**</b>   |                     |                              |            |          |          |          |       |
| Education   | First lien (3)      | 8.25% (Base Rate + 7.00%)    | 3/30/2018  | 4,990    | 4,881    | 4,665    | 0.67% |
| <b>GCA Services Group, Inc.</b>   |                     |                              |            |          |          |          |       |
| Business Services   | Second lien (2)     | 9.25% (Base Rate + 8.00%)    | 11/1/2020  | 4,000    | 3,965    | 4,059    | 0.58% |

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|  |                      |  |                      |                     |                     |                     |                |
|--|----------------------|--|----------------------|---------------------|---------------------|---------------------|----------------|
| CRC Health Corporation                                       |                      |  |                      |                     |                     |                     |                |
| Healthcare Services  | Second lien (2)      | 9.00% (Base Rate + 8.00%)                    | 9/28/2021            | 4,000               | 3,920               | 3,920               | 0.56%          |
| Sophia Holding Finance LP / Sophia Holding Finance Inc.      |                      |  |                      |                     |                     |                     |                |
| Software   | Subordinated (2)     | 9.63%  | 12/1/2018            | 3,500               | 3,503               | 3,684               | 0.53%          |
| Synarc-Biocore Holdings, LLC                                 |                      |  |                      |                     |                     |                     |                |
| Healthcare Services  | Second lien (2)      | 9.25% (Base Rate + 8.25%)                    | 3/10/2022            | 2,500               | 2,475               | 2,475               | 0.36%          |
| ATI Acquisition Company (fka Ability Acquisition, Inc.) (11) |                      |  |                      |                     |                     |                     |                |
| Education  | First lien (2)       | 17.25% (Base Rate + 10.00% + 4.00% PIK) (5)* | 6/30/2012 - Past Due | 1,665               | 1,434               | 233                 |                |
|  | First lien (2)       | 17.25% (Base Rate + 10.00% + 4.00% PIK) (5)* | 6/30/2012 - Past Due | 103                 | 94                  | 103                 |                |
|  |                      |  |                      | 1,768               | 1,528               | 336                 | 0.05%          |
| <b>Total Funded Debt Investments - United States</b>         |                      |  |                      | <b>\$ 1,057,063</b> | <b>\$ 1,042,948</b> | <b>\$ 1,057,883</b> | <b>151.74%</b> |
| <b>Total Funded Debt Investments</b>                         |                      |  |                      | <b>\$ 1,111,060</b> | <b>\$ 1,096,247</b> | <b>\$ 1,113,396</b> | <b>159.71%</b> |
| <b>Equity - Bermuda</b>                                      |                      |  |                      |                     |                     |                     |                |
| Stratus Technologies Bermuda Holdings Ltd.(4)**              |                      |  |                      |                     |                     |                     |                |
| Information Technology                                       | Ordinary shares (2)  |  |                      | 156,247             | \$ 65               | \$ 33               |                |
|  | Preferred shares (2) |  |                      | 35,558              | 15                  | 8                   |                |
|  |                      |  |                      |                     | 80                  | 41                  | 0.01%          |
| <b>Total Shares - Bermuda</b>                                |                      |  |                      | <b>\$ 80</b>        | <b>\$ 41</b>        | <b>\$ 41</b>        | <b>0.01%</b>   |
| <b>Equity - United States</b>                                |                      |  |                      |                     |                     |                     |                |
| Crowley Holdings Preferred, LLC                              |                      |  |                      |                     |                     |                     |                |
| Distribution & Logistics                                     | Preferred shares (2) | 12.00% (10.00% + 2.00% PIK)*                 |                      | 35,191              | \$ 35,191           | \$ 35,191           | 5.04%          |
| Black Elk Energy Offshore Operations, LLC                    |                      |  |                      |                     |                     |                     |                |
| Energy   | Preferred shares (2) | 17.00%                                       |                      | 20,000,000          | 20,000              | 20,000              | 2.87%          |
| Global Knowledge Training LLC                                |                      |  |                      |                     |                     |                     |                |
| Education  | Ordinary shares (2)  |  |                      | 2                   |                     | 3                   |                |
|  | Preferred shares (2) |  |                      | 2,423               |                     | 3,809               |                |
|  |                      |  |                      |                     |                     | 3,812               | 0.55%          |
| Packaging Coordinators, Inc. (10)                            |                      |  |                      |                     |                     |                     |                |
| Packaging Coordinators Holdings, LLC                         |                      |  |                      |                     |                     |                     |                |
| Healthcare Products  | Ordinary shares (2)  |  |                      | 19,427              | 636                 | 755                 | 0.11%          |

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



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

## Consolidated Schedule of Investments (Continued)

March 31, 2014  
(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 |
|--|-----------------------------|---------------|---------------|---------------------------------------|---------------------|---------------------|----------------------------|
| Ancora Acquisition LLC (11)                      |                             |               |               |                                       |                     |                     |                            |
| Education  | Preferred shares (2)        |               |               | 372                                   | \$ 83               | \$ 83               | 0.01%                      |
| <b>Total Shares - United States</b>              |                             |               |               |                                       | <b>\$ 55,910</b>    | <b>\$ 59,841</b>    | <b>8.58%</b>               |
| <b>Total Shares</b>                              |                             |               |               |                                       | <b>\$ 55,990</b>    | <b>\$ 59,882</b>    | <b>8.59%</b>               |
| <b>Warrants - United States</b>                  |                             |               |               |                                       |                     |                     |                            |
| Learning Care Group (US), Inc.                   |                             |               |               |                                       |                     |                     |                            |
| Education  | Warrants (2)                |               |               | 844                                   | \$ 194              | \$ 561              |                            |
|  | Warrants (2)                |               |               | 3,589                                 | 61                  | 2,384               |                            |
|  |                             |               |               |                                       | 255                 | 2,945               | 0.42%                      |
| YP Holdings LLC (8)                              |                             |               |               |                                       |                     |                     |                            |
| YP Equity Investors LLC                          |                             |               |               |                                       |                     |                     |                            |
| Media  | Warrants (2)                |               |               | 5                                     |                     | 2,105               | 0.30%                      |
| UniTek Global Services, Inc.                     |                             |               |               |                                       |                     |                     |                            |
| Business Services                                | Warrants (2)                |               |               | 1,014,451(6)                          | 1,449               | 1,867               | 0.27%                      |
| Storapod Holding Company, Inc.                   |                             |               |               |                                       |                     |                     |                            |
| Consumer Services                                | Warrants (2)                |               |               | 360,129                               | 156                 | 530                 | 0.08%                      |
| Alion Science and Technology Corporation         |                             |               |               |                                       |                     |                     |                            |
| Federal Services                                 | Warrants (2)                |               |               | 6,000                                 | 293                 | 94                  | 0.01%                      |
| Ancora Acquisition LLC (11)                      |                             |               |               |                                       |                     |                     |                            |
| Education  | Warrants (2)                |               |               | 20                                    |                     |                     | 0.00%                      |
| <b>Total Warrants - United States</b>            |                             |               |               |                                       | <b>\$ 2,153</b>     | <b>\$ 7,541</b>     | <b>1.08%</b>               |
| <b>Total Funded Investments</b>                  |                             |               |               |                                       | <b>\$ 1,154,390</b> | <b>\$ 1,180,819</b> | <b>169.38%</b>             |
| <b>Unfunded Debt Investments - United States</b> |                             |               |               |                                       |                     |                     |                            |
| MailSouth, Inc.                                  |                             |               |               |                                       |                     |                     |                            |
| Media  | First lien (2)(9) - Undrawn |               | 12/14/2015    | \$ 1,900                              | \$ (181)            | \$ (266)            | (0.04)%                    |
| Aspen Dental Management, Inc.                    |                             |               |               |                                       |                     |                     |                            |
| Healthcare Services                              | First lien (2)(9) - Undrawn |               | 4/6/2016      | 5,000                                 | (388)               | (347)               | (0.05)%                    |
| <b>Total Unfunded Debt Investments</b>           |                             |               |               |                                       | <b>\$ 6,900</b>     | <b>\$ (569)</b>     | <b>(0.09)%</b>             |
| <b>Total Investments</b>                         |                             |               |               |                                       | <b>\$ 1,153,821</b> | <b>\$ 1,180,206</b> | <b>169.29%</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

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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, NA, as the Collateral Custodian. See Note 7, *Borrowing Facilities*, for details.

(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, NA, 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 1,014,451 warrants in UniTek Global Services, Inc., which represents a 4.41% equity ownership on a fully diluted basis.

(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.

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

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

**Consolidated Schedule of Investments (Continued)**

**March 31, 2014**

(unaudited)

(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.

(12) The Operating Company holds an investment in CompassLearning, Inc. that is structured as a first lien last out term loan.

(13) The Operating Company holds two first lien investments in Tolt Solutions, Inc. The credit investment with an interest rate at base rate + 6.00% is structured as a first lien first out credit investment. The credit investment with an interest rate at base rate + 11.00% is structured as a first lien last out credit investment.

\* 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)****March 31, 2014**

(unaudited)

|                        | <b>March 31, 2014<br/>Percent of Total<br/>Investments at Fair Value</b> |
|------------------------|--|
| <b>Investment Type</b> |  |
| First lien             | 49.13%   |
| Second lien            | 43.93%   |
| Subordinated           | 1.23%  |
| Equity and other       | 5.71%  |
| Total investments      | 100.00%  |

|                                   | <b>March 31, 2014<br/>Percent of Total<br/>Investments at Fair Value</b> |
|-----------------------------------|--|
| <b>Industry Type</b>              |  |
| Software                          | 21.11%   |
| Education                         | 20.49%   |
| Business Services                 | 13.63%   |
| Distribution & Logistics          | 10.30%   |
| Healthcare Services               | 7.40%  |
| Federal Services                  | 6.50%  |
| Energy                            | 5.99%  |
| Media                             | 5.50%  |
| Healthcare Products               | 3.51%  |
| Specialty Chemicals and Materials | 1.71%  |
| Consumer Services                 | 1.32%  |
| Industrial Services               | 1.20%  |
| Healthcare Information Technology | 0.72%  |
| Information Technology            | 0.62%  |
| Total investments                 | 100.00%  |

|                           | <b>March 31, 2014<br/>Percent of Total<br/>Investments at Fair Value</b> |
|---------------------------|--|
| <b>Interest Rate Type</b> |  |
| Floating rates            | 85.64%   |
| Fixed rates               | 14.36%   |
| Total investments         | 100.00%  |

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



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

## Consolidated Schedule of Investments

December 31, 2013

(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</b>  |                    |   |               |                                       |           |            |                            |
| <b>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                              | \$ 6,335  | \$ 6,529   | 0.95%                      |
| <b>Total Funded Debt</b>  |                    |   |               | \$ 6,497                              | \$ 6,335  | \$ 6,529   | 0.95%                      |
| <b>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                             | \$ 29,472 | \$ 30,362  | 4.41%                      |
| <b>Total Funded Debt</b>  |                    |   |               | \$ 30,000                             | \$ 29,472 | \$ 30,362  | 4.41%                      |
| <b>Funded Debt Investments United States</b>                      |                    |   |               |                                       |           |            |                            |
| McGraw-Hill Global Education Holdings, LLC                        |                    |   |               |                                       |           |            |                            |
| Education   | First lien(2)      | 9.75%                                   | 4/1/2021      | \$ 24,500                             | \$ 24,348 | \$ 27,195  |                            |
|   | First lien(3)      | 9.00% (Base Rate + 7.75%)               | 3/22/2019     | 17,850                                | 17,367    | 18,225     |                            |
|   |                    |   |               | 42,350                                | 41,715    | 45,420     | 6.60%                      |
| Deltek, Inc.  |                    |   |               |                                       |           |            |                            |
| Software  | Second lien(2)     | 10.00% (Base Rate + 8.75%)              | 10/10/2019    | 41,000                                | 40,977    | 41,820     | 6.07%                      |
| Global Knowledge Training LLC                                     |                    |   |               |                                       |           |            |                            |
| Education   | Second lien(2)     | 11.00% (Base Rate + 9.75%)              | 10/21/2018    | 41,450                                | 41,070    | 41,450     | 6.02%                      |
| UniTek Global Services, Inc.                                      |                    |   |               |                                       |           |            |                            |
| Business Services   | First lien(2)      | 15.00% (Base Rate + 9.50% + 4.00% PIK)* | 4/15/2018     | 26,382                                | 25,508    | 26,382     |                            |
|   | First lien(2)      | 15.00% (Base Rate + 9.50% + 4.00% PIK)* | 4/15/2018     | 6,387                                 | 6,176     | 6,387      |                            |
|   | First lien(2)      | 15.00% (Base Rate + 9.50% + 4.00% PIK)* | 4/15/2018     | 5,309                                 | 5,133     | 5,309      |                            |
|   |                    |   |               | 38,078                                | 36,817    | 38,078     | 5.53%                      |

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|  |                |                            |            |        |        |        |       |
|--|----------------|----------------------------|------------|--------|--------|--------|-------|
| Edmentum, Inc.(fka Plato, Inc.)                              |                |                            |            |        |        |        |       |
| Education  | First lien(3)  | 5.50% (Base Rate + 4.50%)  | 5/17/2018  | 6,433  | 6,240  | 6,465  |       |
|  | Second lien(2) | 11.25% (Base Rate + 9.75%) | 5/17/2019  | 31,150 | 30,685 | 31,578 |       |
|  |                |                            |            | 37,583 | 36,925 | 38,043 | 5.52% |
| SRA International, Inc.                                      |                |                            |            |        |        |        |       |
| Federal Services   | First lien(2)  | 6.50% (Base Rate + 5.25%)  | 7/20/2018  | 34,750 | 33,784 | 34,475 | 5.01% |
| Kronos Incorporated  |                |                            |            |        |        |        |       |
| Software   | Second lien(2) | 9.75% (Base Rate + 8.50%)  | 4/30/2020  | 31,341 | 31,055 | 32,542 | 4.73% |
| Rocket Software, Inc.  |                |                            |            |        |        |        |       |
| Software   | Second lien(2) | 10.25% (Base Rate + 8.75%) | 2/8/2019   | 30,875 | 30,731 | 31,029 | 4.51% |
| Novell, Inc. (fka Attachmate Corporation, NetIQ Corporation) |                |                            |            |        |        |        |       |
| Software   | First lien(3)  | 7.25% (Base Rate + 5.75%)  | 11/22/2017 | 6,951  | 6,847  | 7,080  |       |
|  | Second lien(2) | 11.00% (Base Rate + 9.50%) | 11/22/2018 | 23,353 | 22,780 | 22,876 |       |
|  |                |                            |            | 30,304 | 29,627 | 29,956 | 4.35% |

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, 2013****(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> |
|---|---------------------------|----------------------------|----------------------|--|-------------|-------------------|-----------------------------------|
| <b>JHCI Acquisition, Inc.</b>                                 |                           |                            |                      |  |             |                   |                                   |
| Distribution & Logistics                                      | First lien(3)             | 7.00% (Base Rate + 5.75%)  | 7/11/2019            | \$ 19,536                                    | \$ 19,262   | \$ 19,548         |                                   |
|   | Second lien(3)            | 11.00% (Base Rate + 9.75%) | 7/11/2020            | 10,000                                       | 9,705       | 9,898             |                                   |
|   |                           |                            |                      | 29,536                                       | 28,967      | 29,446            | 4.28%                             |
| <b>CompassLearning, Inc.(12)</b>                              |                           |                            |                      |  |             |                   |                                   |
| Education   | First lien(2)             | 8.00% (Base Rate + 6.75%)  | 11/26/2018           | 30,000                                       | 29,261      | 29,250            | 4.25%                             |
| <b>Transtar Holding Company</b>                               |                           |                            |                      |  |             |                   |                                   |
| Distribution & Logistics                                      | Second lien(2)            | 9.75% (Base Rate + 8.50%)  | 10/9/2019            | 28,300                                       | 27,842      | 27,168            | 3.95%                             |
| <b>KeyPoint Government Solutions, Inc.</b>                    |                           |                            |                      |  |             |                   |                                   |
| Federal Services  | First lien(3)             | 7.25% (Base Rate + 6.00%)  | 11/13/2017           | 16,784                                       | 16,448      | 16,616            |                                   |
|   | First lien(2)             | 7.25% (Base Rate + 6.00%)  | 11/13/2017           | 10,116                                       | 9,953       | 10,015            |                                   |
|   |                           |                            |                      | 26,900                                       | 26,401      | 26,631            | 3.87%                             |
| <b>Meritas Schools Holdings, LLC</b>                          |                           |                            |                      |  |             |                   |                                   |
| Education   | First lien(3)             | 7.00% (Base Rate + 5.75%)  | 6/25/2019            | 19,950                                       | 19,763      | 20,087            |                                   |
|   | First lien(2)             | 7.00% (Base Rate + 5.75%)  | 6/25/2019            | 5,920  | 5,865       | 5,961             |                                   |
|   |                           |                            |                      | 25,870                                       | 25,628      | 26,048            | 3.78%                             |
| <b>Sierra Hamilton LLC / Sierra Hamilton Finance, Inc.</b>    |                           |                            |                      |  |             |                   |                                   |
| Energy  | First lien(2)             | 12.25%                     | 12/15/2018           | 25,000                                       | 25,000      | 25,000            | 3.63%                             |
| <b>Permian Tank &amp; Manufacturing, Inc.</b>                 |                           |                            |                      |  |             |                   |                                   |
| Energy  | First lien(2)             | 10.50%                     | 1/15/2018            | 24,500                                       | 24,757      | 24,255            | 3.52%                             |
| <b>Aderant North America, Inc.</b>                            |                           |                            |                      |  |             |                   |                                   |
| Software  | Second lien(2)            | 10.00% (Base Rate + 8.75%) | 6/20/2019            | 22,500                                       | 22,201      | 23,203            | 3.37%                             |
| <b>YP Holdings LLC(8)</b>                                     |                           |                            |                      |  |             |                   |                                   |
| <b>YP LLC</b>   |                           |                            |                      |  |             |                   |                                   |
| Media   | First lien(2)             | 8.04% (Base Rate + 6.71%)  | 6/4/2018             | 22,400                                       | 21,892      | 22,722            | 3.30%                             |
| <b>McGraw-Hill School Education Holdings, LLC</b>             |                           |                            |                      |  |             |                   |                                   |
| Education   | First lien(3)             | 6.25% (Base Rate + 5.00%)  | 12/18/2019           | 13,000                                       | 12,870      | 12,870            |                                   |
|   | First lien(2)             | 6.25% (Base Rate + 5.00%)  | 12/18/2019           | 9,000  | 8,910       | 8,910             |                                   |
|   |                           |                            |                      | 22,000                                       | 21,780      | 21,780            | 3.16%                             |
| <b>Aspen Dental Management, Inc.</b>                          |                           |                            |                      |  |             |                   |                                   |
| Healthcare Services   | First lien(3)             | 7.00% (Base Rate + 5.50%)  | 10/6/2016            | 21,077                                       | 20,820      | 20,813            | 3.02%                             |
| <b>LM U.S. Member LLC (and LM U.S. Corp Acquisition Inc.)</b> |                           |                            |                      |  |             |                   |                                   |
| Business Services   | Second lien(3)            | 9.50% (Base Rate + 8.25%)  | 10/26/2020           | 20,000                                       | 19,731      | 20,308            | 2.95%                             |

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Envision Acquisition

Company, LLC

|                                  |                |                           |           |        |        |        |       |
|----------------------------------|----------------|---------------------------|-----------|--------|--------|--------|-------|
| Healthcare Services              | Second lien(2) | 9.75% (Base Rate + 8.75%) | 11/4/2021 | 20,000 | 19,605 | 20,075 | 2.91% |
| ARSloane Acquisition, LLC        |                |                           |           |        |        |        |       |
| Business Services                | First lien(3)  | 7.50% (Base Rate + 6.25%) | 10/1/2019 | 19,950 | 19,754 | 19,992 | 2.90% |
| eResearchTechnology, Inc.        |                |                           |           |        |        |        |       |
| Healthcare Services              | First lien(3)  | 6.00% (Base Rate + 4.75%) | 5/2/2018  | 19,750 | 19,047 | 19,874 | 2.89% |
| Distribution International, Inc. |                |                           |           |        |        |        |       |
| Distribution & Logistics         | First lien(2)  | 7.50% (Base Rate + 6.50%) | 7/16/2019 | 19,900 | 19,527 | 19,813 | 2.88% |

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| <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> |
|--|---------------------------|-----------------------------|----------------------|--|-------------|-------------------|-----------------------------------|
| First American Payment Systems, L.P.<br>Business Services                                      | Second lien(3)            | 10.75% (Base Rate + 9.50%)  | 4/12/2019            | \$ 20,000                                    | \$ 19,654   | \$ 19,800         | 2.88%                             |
| Merrill Communications LLC<br>Business Services  | First lien(3)             | 7.25% (Base Rate + 6.25%)   | 3/8/2018             | 19,425                                       | 19,246      | 19,759            | 2.87%                             |
| Insight Pharmaceuticals LLC<br>Healthcare Products   | Second lien(3)            | 13.25% (Base Rate + 11.75%) | 8/25/2017            | 19,310                                       | 18,766      | 19,021            | 2.76%                             |
| St. George's University Scholastic Services LLC<br>Education                                   | First lien(3)             | 8.50% (Base Rate + 7.00%)   | 12/20/2017           | 17,379                                       | 17,082      | 17,530            | 2.55%                             |
| Sotera Defense Solutions, Inc. (Global Defense Technology & Systems, Inc.)<br>Federal Services | First lien(3)             | 7.50% (Base Rate + 6.00%)   | 4/21/2017            | 18,316                                       | 18,127      | 16,118            | 2.34%                             |
| Confie Seguros Holding II Co.<br>Consumer Services   | Second lien(3)            | 10.25% (Base Rate + 9.00%)  | 5/8/2019             | 14,886                                       | 14,762      | 15,034            | 2.18%                             |
| OpenLink International, Inc.<br>Software   | First lien(3)             | 7.75% (Base Rate + 6.25%)   | 10/30/2017           | 14,700                                       | 14,496      | 14,774            | 2.15%                             |
| Smile Brands Group Inc.<br>Healthcare Services   | First lien(3)             | 7.50% (Base Rate + 6.25%)   | 8/16/2019            | 14,464                                       | 14,261      | 14,307            | 2.08%                             |
| Brock Holdings III, Inc.<br>Industrial Services  | Second lien(2)            | 10.00% (Base Rate + 8.25%)  | 3/16/2018            | 14,000                                       | 13,858      | 14,263            | 2.07%                             |
| Vision Solutions, Inc.<br>Software   | Second lien(2)            | 9.50% (Base Rate + 8.00%)   | 7/23/2017            | 14,000                                       | 13,957      | 14,140            | 2.05%                             |
| Packaging Coordinators, Inc.(10)<br>Healthcare Products  | Second lien(2)            | 9.50% (Base Rate + 8.25%)   | 11/10/2020           | 14,000                                       | 13,868      | 14,088            | 2.05%                             |
| Lonestar Intermediate Super Holdings, LLC<br>Business Services                                 | Subordinated(2)           | 11.00% (Base Rate + 9.50%)  | 9/2/2019             | 12,000                                       | 11,701      | 12,419            | 1.80%                             |
| Van Wagner Communications, LLC<br>Media  | First lien(2)             | 6.25% (Base Rate + 5.00%)   | 8/3/2018             | 11,761                                       | 11,583      | 11,997            | 1.74%                             |

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|                                    |                |                            |            |        |        |        |       |
|------------------------------------|----------------|----------------------------|------------|--------|--------|--------|-------|
| Vertafore, Inc.                    |                |                            |            |        |        |        |       |
| Software                           |                | 9.75% (Base Rate + 8.25%)  | 10/29/2017 | 10,000 | 9,937  | 10,198 | 1.48% |
|                                    | Second lien(2) |                            |            |        |        |        |       |
| TransFirst Holdings, Inc.          |                |                            |            |        |        |        |       |
| Business Services                  |                | 11.00% (Base Rate + 9.75%) | 6/27/2018  | 10,000 | 9,741  | 10,138 | 1.47% |
|                                    | Second lien(3) |                            |            |        |        |        |       |
| MailSouth, Inc.                    |                |                            |            |        |        |        |       |
| Media                              |                | 6.76% (Base Rate + 4.96%)  | 12/14/2016 | 9,410  | 9,333  | 9,269  | 1.35% |
|                                    | First lien(3)  |                            |            |        |        |        |       |
| Vitera Healthcare Solutions, LLC   |                |                            |            |        |        |        |       |
| Software                           |                | 6.00% (Base Rate + 5.00%)  | 11/4/2020  | 2,000  | 1,980  | 2,000  |       |
|                                    | First lien(3)  |                            |            |        |        |        |       |
|                                    |                | 9.25% (Base Rate + 8.25%)  | 11/4/2021  | 7,000  | 6,897  | 7,070  |       |
|                                    | Second lien(2) |                            |            | 9,000  | 8,877  | 9,070  | 1.32% |
| Harley Marine Services, Inc.       |                |                            |            |        |        |        |       |
| Distribution & Logistics           |                | 10.50% (Base Rate + 9.25%) | 12/20/2019 | 9,000  | 8,820  | 8,820  | 1.28% |
|                                    | Second lien(2) |                            |            |        |        |        |       |
| Consona Holdings, Inc.             |                |                            |            |        |        |        |       |
| Software                           |                | 7.25% (Base Rate + 6.00%)  | 8/6/2018   | 8,394  | 8,326  | 8,457  | 1.23% |
|                                    | First lien(3)  |                            |            |        |        |        |       |
| Physio-Control International, Inc. |                |                            |            |        |        |        |       |
| Healthcare Products                |                | 9.88%                      | 1/15/2019  | 6,651  | 6,651  | 7,482  | 1.09% |
|                                    | First lien(2)  |                            |            |        |        |        |       |
| Virtual Radiologic Corporation     |                |                            |            |        |        |        |       |
| Healthcare Information Technology  |                | 7.25% (Base Rate + 5.50%)  | 12/22/2016 | 13,563 | 13,454 | 7,324  | 1.06% |
|                                    | First lien(3)  |                            |            |        |        |        |       |

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

## Consolidated Schedule of Investments (Continued)

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(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 |
|---|---------------------|---|-----------------------|---------------------------------------|---------------------|---------------------|----------------------------|
| Alion Science and Technology Corporation                    |                     |   |                       |                                       |                     |                     |                            |
| Federal Services  | First lien(2)(7)    | 12.00% (10.00% + 2.00% PIK)*                | 11/1/2014             | \$ 6,447                              | \$ 6,360            | \$ 6,570            | 0.95%                      |
| Immucor, Inc.   |                     |   |                       |                                       |                     |                     |                            |
| Healthcare Services   | Subordinated(2)(7)  | 11.13%                                      | 8/15/2019             | 5,000                                 | 4,950               | 5,650               | 0.82%                      |
| Learning Care Group (US), Inc.                              |                     |   |                       |                                       |                     |                     |                            |
| Education   | Subordinated(2)     | 15.00% PIK*                                 | 5/8/2020              | 4,371                                 | 4,253               | 4,371               |                            |
|   | Subordinated(2)     | 15.00% PIK*                                 | 5/8/2020              | 800                                   | 746                 | 800                 |                            |
|   |                     |   |                       | 5,171                                 | 4,999               | 5,171               | 0.75%                      |
| Education Management LLC**                                  |                     |   |                       |                                       |                     |                     |                            |
| Education   | First lien(3)       | 8.25% (Base Rate + 7.00%)                   | 3/30/2018             | 5,003                                 | 4,888               | 5,028               | 0.73%                      |
| GCA Services Group, Inc.                                    |                     |   |                       |                                       |                     |                     |                            |
| Business Services   | Second lien(2)      | 9.25% (Base Rate + 8.00%)                   | 11/1/2020             | 4,000                                 | 3,964               | 4,064               | 0.59%                      |
| Sophia Holding Finance LP / Sophia Holding Finance Inc.     |                     |   |                       |                                       |                     |                     |                            |
| Software  | Subordinated(2)     | 9.63%                                       | 12/1/2018             | 3,500                                 | 3,502               | 3,623               | 0.53%                      |
| ATI Acquisition Company (fka Ability Acquisition, Inc.)(11) |                     |   |                       |                                       |                     |                     |                            |
| Education   | First lien(2)       | 17.25% (Base Rate + 10.00% + 4.00% PIK)(5)* | 6/30/2012<br>Past Due | 1,665                                 | 1,434               | 233                 |                            |
|   | First lien(2)       | 17.25% (Base Rate + 10.00% + 4.00% PIK)(5)* | 6/30/2012<br>Past Due | 103                                   | 94                  | 103                 |                            |
|   |                     |   |                       | 1,768                                 | 1,528               | 336                 | 0.05%                      |
| <b>Total Funded Debt Investments United States</b>          |                     |   |                       | <b>\$ 1,016,562</b>                   | <b>\$ 1,001,605</b> | <b>\$ 1,013,641</b> | <b>147.22%</b>             |
| <b>Total Funded Debt Investments Equity Bermuda</b>         |                     |   |                       | <b>\$ 1,053,059</b>                   | <b>\$ 1,037,412</b> | <b>\$ 1,050,532</b> | <b>152.58%</b>             |
| Stratus Technologies Bermuda Holdings Ltd.(4)**             |                     |   |                       |                                       |                     |                     |                            |
| Information Technology                                      | Ordinary shares(2)  |   |                       | 156,247                               | \$ 65               | \$ 46               |                            |
|   | Preferred shares(2) |   |                       | 35,558                                | 15                  | 10                  |                            |
|   |                     |   |                       |                                       | 80                  | 56                  | 0.01%                      |
| <b>Total Shares Bermuda Equity United States</b>            |                     |   |                       |                                       | <b>\$ 80</b>        | <b>\$ 56</b>        | <b>0.01%</b>               |
| Crowley Holdings Preferred, LLC                             |                     |   |                       |                                       |                     |                     |                            |

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|  |                     |                  |            |    |        |    |              |
|--|---------------------|------------------|------------|----|--------|----|--------------|
| Distribution & Logistics                     |                     | 12.00% (10.00% + |            |    |        |    |              |
|  | Preferred shares(2) | 2.00% PIK)*      | 35,000     | \$ | 35,000 | \$ | 35,000 5.08% |
| Black Elk Energy Offshore<br>Operations, LLC |                     |                  |            |    |        |    |              |
| Energy                                       | Preferred shares(2) | 17.00%           | 20,000,000 |    | 20,000 |    | 20,000 2.91% |
| Global Knowledge<br>Training LLC             |                     |                  |            |    |        |    |              |
| Education                                    | Ordinary shares(2)  |                  | 2          |    |        |    | 3            |
|  | Preferred shares(2) |                  | 2,423      |    |        |    | 3,006        |
|  |                     |                  |            |    |        |    | 3,009 0.44%  |
| Packaging Coordinators, Inc.(10)             |                     |                  |            |    |        |    |              |
| Packaging Coordinators<br>Holdings, LLC      |                     |                  |            |    |        |    |              |
| Healthcare Products                          | Ordinary shares(2)  |                  | 19,427     |    | 1,000  |    | 1,181 0.17%  |

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

## Consolidated Schedule of Investments (Continued)

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(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 |
|--|--------------------------|---------------|---------------|---------------------------------------|---------------------|---------------------|----------------------------|
| Ancora Acquisition LLC(11)                     |                          |               |               |                                       |                     |                     |                            |
| Education                                      | Preferred shares(2)      |               |               | 372                                   | \$ 83               | \$ 83               | 0.01%                      |
| <b>Total Shares United States</b>              |                          |               |               |                                       | <b>\$ 56,083</b>    | <b>\$ 59,273</b>    | <b>8.61%</b>               |
| <b>Total Shares</b>                            |                          |               |               |                                       | <b>\$ 56,163</b>    | <b>\$ 59,329</b>    | <b>8.62%</b>               |
| <b>Warrants United States</b>                  |                          |               |               |                                       |                     |                     |                            |
| Learning Care Group (US), Inc.                 |                          |               |               |                                       |                     |                     |                            |
| Education                                      | Warrants(2)              |               |               | 844                                   | \$ 194              | \$ 503              |                            |
|  | Warrants(2)              |               |               | 3,589                                 | 61                  | 2,136               |                            |
|  |                          |               |               |                                       | 255                 | 2,639               | 0.38%                      |
| YP Holdings LLC(8)                             |                          |               |               |                                       |                     |                     |                            |
| YP Equity Investors LLC                        |                          |               |               |                                       |                     |                     |                            |
| Media  | Warrants(2)              |               |               | 5                                     |                     | 1,944               | 0.28%                      |
| UniTek Global Services, Inc.                   |                          |               |               |                                       |                     |                     |                            |
| Business Services                              | Warrants(2)              |               |               | 1,014,451(6)                          | 1,449               | 1,694               | 0.25%                      |
| Storapod Holding Company, Inc.                 |                          |               |               |                                       |                     |                     |                            |
| Consumer Services                              | Warrants(2)              |               |               | 360,129                               | 156                 | 594                 | 0.09%                      |
| Alion Science and Technology Corporation       |                          |               |               |                                       |                     |                     |                            |
| Federal Services                               | Warrants(2)              |               |               | 6,000                                 | 293                 | 94                  | 0.01%                      |
| Ancora Acquisition LLC(11)                     |                          |               |               |                                       |                     |                     |                            |
| Education                                      | Warrants(2)              |               |               | 20                                    |                     |                     | %                          |
| <b>Total Warrants United States</b>            |                          |               |               |                                       | <b>\$ 2,153</b>     | <b>\$ 6,965</b>     | <b>1.01%</b>               |
| <b>Total Funded Investments</b>                |                          |               |               |                                       | <b>\$ 1,095,728</b> | <b>\$ 1,116,826</b> | <b>162.21%</b>             |
| <b>Unfunded Debt Investments United States</b> |                          |               |               |                                       |                     |                     |                            |
| Aspen Dental Management, Inc.                  |                          |               |               |                                       |                     |                     |                            |
| Healthcare Services                            | First lien(2)(9) Undrawn |               | 4/6/2016      | \$ 5,000                              | \$ (388)            | (388)               | (0.06)%                    |
| Advantage Sales & Marketing Inc.               |                          |               |               |                                       |                     |                     |                            |
| Business Services                              | First lien(2)(9) Undrawn |               | 12/17/2015    | 10,500                                | (1,260)             | (787)               | (0.11)%                    |
| <b>Total Unfunded Debt Investments</b>         |                          |               |               | <b>\$ 15,500</b>                      | <b>\$ (1,648)</b>   | <b>(1,175)</b>      | <b>(0.17)%</b>             |
| <b>Total Investments</b>                       |                          |               |               |                                       | <b>\$ 1,094,080</b> | <b>\$ 1,115,651</b> | <b>162.04%</b>             |

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- (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.
- (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 1,014,451 warrants in UniTek Global Services, Inc., which represents a 4.46% equity ownership on a fully diluted basis.

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



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

**Consolidated Schedule of Investments (Continued)**

**December 31, 2013**

**(in thousands, except shares)**

(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.

(12) The Operating Company holds an investment in CompassLearning, Inc. that is structured as a first lien last out term loan.

\* 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, 2013**

|                        | <b>December 31, 2013<br/>Percent of Total<br/>Investments at Fair Value</b> |
|------------------------|---|
| <b>Investment Type</b> |   |
| First lien             | 49.62%  |
| Second lien            | 42.03%  |
| Subordinated           | 2.41%   |
| Equity and other       | 5.94%   |
| Total investments      | 100.00%   |

|                                   | <b>December 31, 2013<br/>Percent of Total<br/>Investments at Fair Value</b> |
|-----------------------------------|---|
| <b>Industry Type</b>              |   |
| Software                          | 22.33%  |
| Education                         | 21.13%  |
| Business Services                 | 13.04%  |
| Distribution & Logistics          | 10.78%  |
| Federal Services                  | 7.52%   |
| Healthcare Services               | 7.20%   |
| Energy                            | 6.21%   |
| Media                             | 4.12%   |
| Healthcare Products               | 3.74%   |
| Consumer Services                 | 1.40%   |
| Industrial Services               | 1.28%   |
| Healthcare Information Technology | 0.66%   |
| Information Technology            | 0.59%   |
| Total investments                 | 100.00%   |

|                           | <b>December 31, 2013<br/>Percent of<br/>Total Investments<br/>at Fair Value</b> |
|---------------------------|---|
| <b>Interest Rate Type</b> |   |
| Floating rates            | 85.08%  |
| Fixed rates               | 14.92%  |
| Total investments         | 100.00%   |

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)

|  | March 31, 2014<br>(unaudited) | December 31, 2013 |
|--|-------------------------------|-------------------|
| <b>Assets</b>  |                               |                   |
| Investment in New Mountain Finance Holdings, L.L.C., at fair value (cost of \$673,713 and \$633,835, respectively)                                 | \$ 697,148                    | \$ 650,107        |
| <b>Total assets</b>  | <b>\$ 697,148</b>             | <b>\$ 650,107</b> |
| <b>Liabilities</b>   |                               |                   |
| Dividends payable  |                               |                   |
| <b>Total liabilities</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 47,968,000 and 45,224,755 shares issued and outstanding, respectively | 480                           | 452               |
| Paid in capital in excess of par   | 673,233                       | 633,383           |
| Accumulated undistributed net realized gains   | 7,537                         | 5,056             |
| Net unrealized appreciation  | 15,898                        | 11,216            |
| <b>Total net assets</b>  | <b>\$ 697,148</b>             | <b>\$ 650,107</b> |
| <b>Total liabilities and net assets</b>  | <b>\$ 697,148</b>             | <b>\$ 650,107</b> |
| Number of shares outstanding   | 47,968,000                    | 45,224,755        |
| <b>Net asset value per share</b>   | <b>\$ 14.53</b>               | <b>\$ 14.38</b>   |

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

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## New Mountain Finance Corporation

## Statements of Operations

(in thousands, except shares and per share data)

(unaudited)

|  | Three months ended |                |
|--|--------------------|----------------|
|  | March 31, 2014     | March 31, 2013 |
| <b>Net investment income allocated from New Mountain Finance Holdings, L.L.C.</b>                                      |                    |                |
| Interest income  | \$ 27,668          | \$ 15,496      |
| Dividend income  | 2,089              |                |
| Other income   | 682                | 185            |
| Total expenses   | (14,381)           | (8,463)        |
| <b>Net investment income allocated from New Mountain Finance Holdings, L.L.C.</b>                                      | 16,058             | 7,218          |
| <b>Net realized and unrealized gain (loss) allocated from New Mountain Finance Holdings, L.L.C.</b>                    |                    |                |
| Net realized gains on investments  | 2,708              | 686            |
| Net change in unrealized appreciation (depreciation) of investments  | 4,682              | 7,643          |
| <b>Net realized and unrealized gain allocated from New Mountain Finance Holdings, L.L.C.</b>                           | 7,390              | 8,329          |
| <b>Total net increase in net assets resulting from operations allocated from New Mountain Finance Holdings, L.L.C.</b> | 23,448             | 15,547         |
| Net change in unrealized (depreciation) appreciation of investment in New Mountain Finance Holdings, L.L.C.            |                    | (31)           |
| <b>Net increase in net assets resulting from operations</b>  | \$ 23,448          | \$ 15,516      |
| Basic earnings per share   | \$ 0.50            | \$ 0.61        |
| Weighted average shares of common stock outstanding basic (See Note 11)  | 47,066,216         | 25,267,118     |
| Diluted earnings per share   | \$ 0.50            | \$ 0.60        |
| Weighted average shares of common stock outstanding diluted (See Note 11)  | 47,897,485         | 40,835,723     |

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)

|  | <b>Three months ended</b> |                       |
|--|---------------------------|-----------------------|
|  | <b>March 31, 2014</b>     | <b>March 31, 2013</b> |
| <b>Increase (decrease) in net assets resulting from operations:</b>  |                           |                       |
| Net investment income allocated from New Mountain Finance Holdings, L.L.C.   | \$ 16,058                 | \$ 7,218              |
| Net realized gains on investments allocated from New Mountain Finance Holdings, L.L.C.                                   | 2,708                     | 686                   |
| Net change in unrealized appreciation (depreciation) of investments allocated from New Mountain Finance Holdings, L.L.C. | 4,682                     | 7,643                 |
| Net change in unrealized (depreciation) appreciation of investment in New Mountain Finance Holdings, L.L.C.              |                           | (31)                  |
| <b>Total net increase in net assets resulting from operations</b>  | <b>23,448</b>             | <b>15,516</b>         |
| <b>Capital transactions</b>  |                           |                       |
| Net proceeds from shares sold  |                           | 28,400                |
| Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C.   |                           | (55)                  |
| Value of shares issued for exchanged units   | 38,840                    | 69,450                |
| Dividends declared   | (16,285)                  | (8,281)               |
| Reinvestment of dividends  | 1,038                     | 1,450                 |
| <b>Total net increase in net assets resulting from capital transactions</b>  | <b>23,593</b>             | <b>90,964</b>         |
| <b>Net increase in net assets</b>  | <b>47,041</b>             | <b>106,480</b>        |
| <b>Net assets at beginning of period</b>   | <b>650,107</b>            | <b>341,926</b>        |
| <b>Net assets at end of period</b>   | <b>\$ 697,148</b>         | <b>\$ 448,406</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)

|  | <b>Three months ended</b> |                       |
|--|---------------------------|-----------------------|
|  | <b>March 31, 2014</b>     | <b>March 31, 2013</b> |
| <b>Cash flows from operating activities</b>  |                           |                       |
| Net increase in net assets resulting from operations   | \$ 23,448                 | \$ 15,516             |
| 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.   | (16,058)                  | (7,218)               |
| Net realized and unrealized gains allocated from New Mountain Finance Holdings, L.L.C.   | (7,390)                   | (8,329)               |
| Net change in unrealized depreciation (appreciation) of investment in New Mountain Finance Holdings, L.L.C.                                      |                           | 31                    |
| <b>(Increase) decrease in operating assets:</b>  |                           |                       |
| Purchase of investment   |                           | (28,400)              |
| Distributions from New Mountain Finance Holdings, L.L.C.   | 15,247                    | 10,236                |
| <b>Net cash flows provided by (used in) operating activities</b>   | <b>15,247</b>             | <b>(18,164)</b>       |
| <b>Cash flows from financing activities</b>  |                           |                       |
| Net proceeds from shares sold  |                           | 28,400                |
| Dividends paid   | (15,247)                  | (10,236)              |
| <b>Net cash flows (used in) and provided by financing activities</b>   | <b>(15,247)</b>           | <b>18,164</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                                 | \$ 38,840                 | \$ 69,450             |
| Value of shares issued in connection with dividend reinvestment plan   | 1,038                     | 1,450                 |
| Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C.   |                           | (55)                  |

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)

|   | January 29, 2014<br>(end of operations)<br>(unaudited) | December 31, 2013 |
|---|--|-------------------|
| <b>Assets</b>   |  |                   |
| Investment in New Mountain Finance Holdings, L.L.C., at fair value (cost of \$0 and \$61,993, respectively) | \$   | \$ 38,409         |
| <b>Total assets</b>   | <b>\$</b>  | <b>\$ 38,409</b>  |
| <b>Liabilities</b>  |  |                   |
| Dividends payable   |  |                   |
| <b>Total liabilities</b>  |  |                   |
| <b>Net assets</b>   |  |                   |
| Common stock, par value \$0.01 per share, 100 shares issued and outstanding (See Note 14)                   |  | (1)               |
| Paid in capital in excess of par  |  | 61,993            |
| Distributions in excess of net realized gains   |  | (26,812)          |
| Net unrealized appreciation (depreciation)  |  | 3,228             |
| <b>Total net assets</b>   |  | <b>38,409</b>     |
| <b>Total liabilities and net assets</b>   | <b>\$</b>  | <b>\$ 38,409</b>  |

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(1) As of December 31, 2013, 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)

|  | <b>From January 1, 2014<br/>to January 29, 2014<br/>(end of operations)</b> | <b>Three months ended<br/>March 31, 2013</b> |
|--|---|--|
| <b>Net investment income allocated from New Mountain Finance Holdings, L.L.C.</b>                                      |   |  |
| Interest income  | \$ 471  | \$ 9,547                                     |
| Dividend income  | 6   |  |
| Other income   | 2   | 90   |
| Total expenses   | (252)   | (5,228)                                      |
| <b>Net investment income allocated from New Mountain Finance Holdings, L.L.C.</b>                                      | <b>227</b>  | <b>4,409</b>                                 |
| <b>Net realized and unrealized gain (loss) allocated from New Mountain Finance Holdings, L.L.C.</b>                    |   |  |
| Net realized gains on investments  | 72  | 357  |
| Net change in unrealized appreciation (depreciation) of investments  | 132   | 4,247  |
| <b>Net realized and unrealized gain allocated from New Mountain Finance Holdings, L.L.C.</b>                           | <b>204</b>  | <b>4,604</b>                                 |
| <b>Total net increase in net assets resulting from operations allocated from New Mountain Finance Holdings, L.L.C.</b> | <b>431</b>  | <b>9,013</b>                                 |
| Net realized losses on investment in New Mountain Finance Holdings, L.L.C.   | (24,069)  | (5,901)                                      |
| Net change in unrealized appreciation (depreciation) of investment in New Mountain Finance Holdings, L.L.C.            | 23,202  | 4,288  |
| <b>Net (decrease) increase in net assets resulting from operations</b>   | <b>\$ (436)</b>   | <b>\$ 7,400</b>                              |

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)

|  | <b>From January 1, 2014<br/>to January 29, 2014<br/>(end of operations)</b> | <b>Three months ended<br/>March 31, 2013</b> |
|--|---|--|
| <b>Increase (decrease) in net assets resulting from operations:</b>  |   |  |
| Net investment income allocated from New Mountain Finance Holdings, L.L.C.   | \$ 227  | \$ 4,409                                     |
| Net realized gains on investments allocated from New Mountain Finance Holdings, L.L.C.                                   | 72  | 357  |
| Net change in unrealized appreciation (depreciation) of investments allocated from New Mountain Finance Holdings, L.L.C. | 132   | 4,247  |
| Net realized losses on investment in New Mountain Finance Holdings, L.L.C.   | (24,069)  | (5,901)                                      |
| Net change in unrealized appreciation (depreciation) of investment in New Mountain Finance Holdings, L.L.C.              | 23,202  | 4,288  |
| <b>Total net (decrease) increase in net assets resulting from operations</b>   | <b>(436)</b>  | <b>7,400</b>                                 |
| <b>Capital transactions</b>  |   |  |
| Distribution to New Mountain Guardian AIV, L.P.  | (37,973)  | (67,806)                                     |
| Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C.   |   | (20)   |
| Dividends declared   |   | (5,516)                                      |
| <b>Total net decrease in net assets resulting from capital transactions</b>  | <b>(37,973)</b>   | <b>(73,342)</b>                              |
| <b>Net decrease in net assets</b>  | <b>(38,409)</b>   | <b>(65,942)</b>                              |
| <b>Net assets at beginning of period</b>   | <b>38,409</b>   | <b>228,013</b>                               |
| <b>Net assets at end of period</b>   | <b>\$</b>   | <b>\$ 162,071</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)

|  | <b>From January 1, 2014<br/>to January 29, 2014<br/>(end of operations)</b> | <b>Three months ended<br/>March 31, 2013</b> |
|--|---|--|
| <b>Cash flows from operating activities</b>  |   |  |
| Net (decrease) increase in net assets resulting from operations  | \$ (436)  | \$ 7,400                                     |
| 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.   | (227)   | (4,409)                                      |
| Net realized and unrealized gains allocated from New Mountain Finance Holdings, L.L.C.   | (204)   | (4,604)                                      |
| Net realized losses on investment in New Mountain Finance Holdings, L.L.C.   | 24,069  | 5,901  |
| Net change in unrealized (appreciation) depreciation in New Mountain Finance Holdings, L.L.C.  | (23,202)  | (4,288)                                      |
| <b>(Increase) decrease in operating activities</b>   |   | <b>(7,786)</b>                               |
| Distributions from New Mountain Finance Holdings, L.L.C.   |   | (7,786)                                      |
| <b>Net cash flows provided by (used in) operating activities</b>   |   | <b>(7,786)</b>                               |
| <b>Cash flows from financing activities</b>  |   |  |
| Proceeds from shares sold  | 37,973  | 67,806                                       |
| Distribution to New Mountain Guardian AIV, L.P.  | (37,973)  | (67,806)                                     |
| Dividends paid   |   | 7,786  |
| <b>Net cash flows provided by financing activities</b>   |   | <b>7,786</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 operating activities:</b>  |   |  |
| Distribution receivable from New Mountain Finance Holdings, L.L.C.   | \$  | \$ 5,516                                     |
| <b>Non-cash financing activities:</b>  |   |  |
| Dividends declared and payable   | \$  | \$ (5,516)                                   |
| Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C.   |   | (20)   |

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

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**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**

**(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 entities: 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 entity will be specifically referenced by the respective company. None of the Companies makes any representation as to the information related solely to the other entities 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 regulated 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 was treated as a partnership for federal income tax purposes for so long as it had at least two members. With the completion of the underwritten secondary offering on February 3, 2014, the Operating Company's existence as a partnership for U.S. federal income tax purposes terminated and the Operating Company became an entity that is disregarded as a separate entity from its owner for U.S. federal tax purposes.

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 \$12.0 billion as of March 31, 2014, which includes total assets held by the Operating Company. 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 regulated 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

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continue to qualify annually, as a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended, (the Code ).

As of the quarter ended March 31, 2014 and until April 25, 2014, New Mountain Finance AIV Holdings Corporation ( AIV Holdings ) was a Delaware corporation that was originally incorporated on March 11, 2011. Subsequent to the quarter ended March 31, 2014, AIV Holdings was dissolved on April 25, 2014, which is discussed further below. Guardian AIV, a Delaware limited partnership, was AIV Holdings' sole stockholder. AIV Holdings was a closed-end, non-diversified management investment company that was regulated as a BDC under the 1940 Act. As such, AIV Holdings was obligated to comply with certain regulatory requirements. AIV Holdings was treated, and complied with the requirements to qualify annually, as a RIC under the Code.

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 acquired all of the operations of the Predecessor Entities, including all of the assets and liabilities related to such operations.

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NMFC is a holding company with no direct operations of its own, and its sole asset is its ownership in the Operating Company. Prior to the completion of the underwritten secondary public offering on February 3, 2014, AIV Holdings was a holding company with no direct operations of its own, and its sole asset was its ownership in the Operating Company. In connection with the IPO, NMFC and AIV Holdings each entered into a joinder agreement with respect to the Limited Liability Company Agreement, as amended and restated, 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 the Operating Company to its newly formed subsidiary, AIV Holdings, in exchange for common stock of AIV Holdings. AIV Holdings had the right to exchange all or any portion of its units in the Operating Company for shares of NMFC's common stock on a one-for-one basis at any time.

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

Since NMFC's IPO, and through March 31, 2014, NMFC raised approximately \$233,468 in net proceeds from additional offerings of common stock and issued shares of its common stock valued at approximately \$288,416 on behalf of AIV Holdings for exchanged units. NMFC acquired from the Operating Company units of the Operating Company equal to the number of shares of NMFC's common stock sold in the additional offerings. With the completion of the final secondary offering on February 3, 2014, NMFC now owns 100.0% of the units of the Operating Company, which is now a wholly-owned subsidiary of NMFC.

As a BDC, AIV Holdings had been subject to the 1940 Act, including certain provisions applicable only to BDCs. Accordingly, and after careful consideration of the 1940 Act requirements applicable to BDCs, the cost of 1940 Act compliance and a thorough assessment of AIV Holdings' business model, AIV Holdings' board of directors determined that continuation as a BDC was not in the best interests of AIV Holdings and Guardian AIV at the present time. Specifically, given that AIV Holdings was formed for the sole purpose of holding units of the Operating Company and AIV Holdings has disposed of all of the units of the Operating Company that it was holding as of February 3, 2014, the board of directors of AIV Holdings approved and declared advisable at an in-person meeting held on March 25, 2014 the withdrawal of AIV Holdings' election to be regulated as a BDC under the 1940 Act. In addition, the board of directors of AIV Holdings approved and declared advisable for AIV Holdings to terminate its registration under Section 12(g) of the Exchange Act and to dissolve AIV Holdings under the laws of the State of Delaware.

Upon receipt of the necessary stockholder consent to authorize the board of directors of AIV Holdings to withdraw AIV Holdings' election to be regulated as a BDC, the withdrawal was filed subsequent to the quarter ended March 31, 2014 and became effective upon receipt by the Securities and Exchange Commission ( SEC ) of AIV Holdings' notification of withdrawal on Form N-54C on April 15, 2014. The board of directors of AIV Holdings believed that AIV Holdings met the requirements for filing the notification to withdraw its election to be regulated as a BDC, upon the receipt of the necessary stockholder consent. After the notification of withdrawal of AIV Holdings' BDC election was filed with the SEC subsequent to the quarter ended March 31, 2014, AIV Holdings is no longer subject to the regulatory provisions of the 1940 Act applicable to BDCs generally, including regulations related to insurance, custody, composition of its board of directors, affiliated transactions and any compensation arrangements.

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In addition, subsequent to the quarter ended March 31, 2014, AIV Holdings filed a Form 15 with the SEC to terminate AIV Holdings registration under Section 12(g) of the 1934 Act. After these SEC filings and any other federal or state regulatory or tax filings were made, AIV Holdings proceeded to dissolve under Delaware law by filing a certificate of dissolution in Delaware on April 25, 2014.

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

Subsequent to the quarter ended March 31, 2014, at the 2014 joint annual meeting of the stockholders of NMFC and the sole unit holder of the Operating Company, which was held on May 6, 2014, the stockholders of NMFC and the sole unit holder of the Operating Company approved a proposal which authorized the board of directors of the Operating Company to withdraw the Operating Company's election to be regulated as a BDC. Additionally, the stockholders of NMFC approved an investment advisory and management agreement between NMFC and the



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Investment Adviser. With this approval, the Operating Company's board of directors intends to withdraw the Operating Company's election to be regulated as a BDC under the 1940 Act and amend its Limited Liability Company Agreement, (as amended and restated, the Operating Agreement) such that the Operating Company will remain a wholly-owned subsidiary of NMFC with the sole purpose of serving as a special purpose vehicle for the Operating Company's existing credit facilities, and NMFC will assume all other operating activities previously undertaken by the Operating Company under the management of the Investment Adviser (collectively, the Restructuring). All of the current entities that will remain underneath NMFC after the Restructuring will be wholly-owned subsidiaries of NMFC and are expected to be consolidated with NMFC for both 1940 Act and financial statement reporting purposes, subject to any financial statement adjustments required in accordance with accounting principles generally accepted in the United States of America (GAAP). In addition, the board of directors has approved and declared advisable the termination of the Operating Company's registration under Section 12(g) of the Exchange Act.

After withdrawing the Operating Company's election to be regulated as a BDC under the 1940 Act, the Operating Company will amend its Operating Agreement such that the board of directors of the Operating Company will be dissolved, and the Operating Company remains a wholly-owned subsidiary of NMFC with the sole purpose of serving as a special purpose vehicle for the Operating Company's existing credit facilities. As a special purpose entity, the Operating Company will be bankruptcy-remote and non-recourse to NMFC. In addition, the assets remaining at the Operating Company will continue to be used to secure the Operating Company's current credit facilities.

The diagram below depicts the Companies' organizational structure as of March 31, 2014.

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

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

\*\*\* Subsequent to the quarter ended March 31, 2014, AIV Holdings was dissolved on April 25, 2014.

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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.

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

**Basis of accounting** The Companies' financial statements have been prepared in conformity with 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 also industry practice to follow the presentation prescribed for a master fund-feeder fund structure in ASC 946 in instances in which a master fund is owned by more than one feeder fund and that such presentation 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, 2014.

**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

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Company's quarterly valuation procedures are set forth in more detail below:

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

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

a. Bond quotes are obtained through independent pricing services. Internal reviews are performed by the investment professionals of the Investment Adviser to ensure that the quote obtained is representative of fair value in accordance with GAAP and if so, the quote is used. If the Investment Adviser is unable to sufficiently validate the quote(s) internally and if the investment's par value or its fair value exceeds the

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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 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).

iii. 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.

For investments in revolving credit facilities and delayed draw commitments, the cost basis of the funded investments purchased is offset by any costs/netbacks received for any unfunded portion on the total balance committed. The fair value is also adjusted for the price appreciation or

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depreciation on the unfunded portion. As a result, the purchase of commitments not completely funded may result in a negative fair value until it is called and funded.

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

NMFC is a holding company with no direct operations of its own, and its sole asset is its ownership in the Operating Company. Prior to the completion of the underwritten secondary public offering on February 3, 2014, AIV Holdings was a holding company with no direct operations of its own, and its sole asset was its ownership in the 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.

***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.

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***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 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.

*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, structuring 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. Structuring fees are recognized as income when earned, usually when paid at the closing of the investment.

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

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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



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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 was treated as a partnership for federal income tax purposes and as such was generally not subject to federal or state and local income taxes except with respect to state source income received from underlying investments. With the completion of the underwritten secondary offering on February 3, 2014, the Operating Company's existence as a partnership for U.S. federal income tax purposes terminated and the Operating Company became an entity that is disregarded as a separate entity from its owner for U.S. federal tax purposes. 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.

NMFC has elected to be treated, and intends to comply with the requirements to qualify annually, as a RIC under subchapter M of the Code. As a RIC, NMFC is not subject to federal income tax on the portion of taxable income and gains timely distributed to its stockholders; therefore, no provision for income taxes has been recorded.

To continue to qualify as a RIC, NMFC is required to meet certain income and asset diversification tests in addition to distributing at least 90.0% of its investment company taxable income, as defined by the Code. Since 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.

AIV Holdings had elected to be treated, and complied with the requirements to qualify annually, as a RIC under subchapter M of the Code. As a RIC, AIV Holdings was not subject to federal income tax on the portion of taxable income and gains timely distributed to its stockholders; therefore, no provision for income taxes had been recorded.

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.

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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 income taxes, including 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, 2013. The 2011, 2012 and 2013 tax years remain subject to examination by the 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 made to its members may not have been sufficient for AIV Holdings to satisfy the annual distribution requirement necessary for AIV Holdings to have qualified as a RIC. In that case, it was 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 was required to include the consent dividend in its taxable income as a dividend

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from AIV Holdings, which could have resulted in phantom (i.e., non-cash) taxable income to Guardian AIV. AIV Holdings made 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 did not 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.

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 March 31, 2014, the Operating Company adjusted an accounting estimate related to the classification of dividend income for a distribution received from one of the Operating Company's warrant investments. Based on updated tax projections received during the quarter ended March 31, 2014, the Operating Company increased dividend income by \$214 and reduced the realized gain by \$214 to agree to the tax treatment on the investment. This resulted in a reclass from capital gains incentive fee to incentive fee of \$43 for the quarter ended March 31, 2014.

Table of Contents**Note 3. Investments**

At March 31, 2014 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        | \$ 575,087   | \$ 579,810        |
| Second lien       | 507,165      | 518,443           |
| Subordinated      | 13,426       | 14,530            |
| Equity and other  | 58,143       | 67,423            |
| Total investments | \$ 1,153,821 | \$ 1,180,206      |

**Investment Cost and Fair Value by Industry**

|                                   | <b>Cost</b>  | <b>Fair Value</b> |
|-----------------------------------|--------------|-------------------|
| Software                          | \$ 242,859   | \$ 249,167        |
| Education                         | 229,615      | 241,780           |
| Business Services                 | 159,051      | 160,876           |
| Distribution & Logistics          | 119,951      | 121,583           |
| Healthcare Services               | 84,635       | 87,281            |
| Federal Services                  | 76,743       | 76,669            |
| Energy                            | 69,742       | 70,739            |
| Media                             | 62,757       | 64,905            |
| Healthcare Products               | 39,958       | 41,471            |
| Specialty Chemical and Materials  | 19,851       | 20,225            |
| Consumer Services                 | 14,922       | 15,546            |
| Industrial Services               | 13,843       | 14,224            |
| Healthcare Information Technology | 13,429       | 8,455             |
| Information Technology            | 6,465        | 7,285             |
| Total investments                 | \$ 1,153,821 | \$ 1,180,206      |

At December 31, 2013 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  | \$ 550,534  | \$ 553,549        |
| Second lien | 460,078     | 468,945           |

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|                   |              |              |
|-------------------|--------------|--------------|
| Subordinated      | 25,152       | 26,863       |
| Equity and other  | 58,316       | 66,294       |
| Total investments | \$ 1,094,080 | \$ 1,115,651 |

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|                                   | <b>Cost</b>  | <b>Fair Value</b> |
|-----------------------------------|--------------|-------------------|
| Software                          | \$ 243,158   | \$ 249,174        |
| Education                         | 225,214      | 235,787           |
| Business Services                 | 140,797      | 145,465           |
| Distribution & Logistics          | 120,156      | 120,247           |
| Federal Services                  | 84,965       | 83,888            |
| Healthcare Services               | 78,295       | 80,331            |
| Energy                            | 69,757       | 69,255            |
| Media                             | 42,808       | 45,932            |
| Healthcare Products               | 40,285       | 41,772            |
| Consumer Services                 | 14,918       | 15,628            |
| Industrial Services               | 13,858       | 14,263            |
| Healthcare Information Technology | 13,454       | 7,324             |
| Information Technology            | 6,415        | 6,585             |
| Total investments                 | \$ 1,094,080 | \$ 1,115,651      |

As of March 31, 2014, the Operating Company's two super priority 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 third quarter of 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 March 31, 2014, the Operating Company's investment had an aggregate cost basis of \$1,611, an aggregate fair value of \$419 and total unearned interest income of \$80 for the three months then ended. As of December 31, 2013, the Operating Company's total investment in ATI Acquisition Company and Ancora Acquisition LLC had an aggregate cost basis of \$1,611 and an aggregate fair value of \$419. As of March 31, 2014 and December 31, 2013, unrealized gains (losses) include a fee that the Operating Company would receive upon maturity of the two super priority first lien debt investments.

As of March 31, 2014, the Operating Company had unfunded commitments on revolving credit facilities and bridge facilities of \$6,900 and \$0, respectively. The Operating Company had unfunded commitments in the form of a delayed draw or other future funding commitments of \$7,725 as of March 31, 2014. The unfunded commitments on revolving credit facilities are disclosed on the Operating Company's Consolidated Schedule of Investments as of March 31, 2014.

As of December 31, 2013, the Operating Company had unfunded commitments on revolving credit facilities and bridge facilities of \$15,500 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, 2013. The unfunded commitments on revolving credit facilities are disclosed on the Operating Company's Consolidated Schedule of Investments as of December 31, 2013.

**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 debt investments are considered speculative because of the credit risk of the issuers. Such issuers are considered more likely than investment grade issuers to default on their payments of interest and principal and such risk of default could reduce the net asset value and income distributions of the 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 debt investments. This illiquidity may make it more difficult to value the debt.

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

**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:



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*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
  
- 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.

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

|                          | <b>Total</b>        |           | <b>Level I</b> |           | <b>Level II</b> |           | <b>Level III</b> |
|--------------------------|---------------------|-----------|----------------|-----------|-----------------|-----------|------------------|
| First lien               | \$ 579,810          | \$        |                | \$        | 520,837         | \$        | 58,973           |
| Second lien              | 518,443             |           |                |           | 445,195         |           | 73,248           |
| Subordinated             | 14,530              |           |                |           | 9,359           |           | 5,171            |
| Equity and other         | 67,423              |           | 1,867          |           |                 |           | 65,556           |
| <b>Total investments</b> | <b>\$ 1,180,206</b> | <b>\$</b> | <b>1,867</b>   | <b>\$</b> | <b>975,391</b>  | <b>\$</b> | <b>202,948</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, 2013:

|                          | <b>Total</b>        |           | <b>Level I</b> |           | <b>Level II</b> |           | <b>Level III</b> |
|--------------------------|---------------------|-----------|----------------|-----------|-----------------|-----------|------------------|
| First lien               | \$ 553,549          | \$        |                | \$        | 525,138         | \$        | 28,411           |
| Second lien              | 468,945             |           |                |           | 413,407         |           | 55,538           |
| Subordinated             | 26,863              |           |                |           | 21,692          |           | 5,171            |
| Equity and other         | 66,294              |           | 1,694          |           |                 |           | 64,600           |
| <b>Total investments</b> | <b>\$ 1,115,651</b> | <b>\$</b> | <b>1,694</b>   | <b>\$</b> | <b>960,237</b>  | <b>\$</b> | <b>153,720</b>   |

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The following table summarizes the changes in fair value of Level III portfolio investments for the three months ended March 31, 2014, as well as the portion of appreciation (depreciation) included in income attributable to unrealized appreciation (depreciation) related to those assets and liabilities still held by the Operating Company at March 31, 2014:

|  | Total      | First Lien | Second Lien | Subordinated | Equity and other |
|--|------------|------------|-------------|--------------|------------------|
| <b>Fair value, December 31, 2013</b>   | \$ 153,720 | \$ 28,411  | \$ 55,538   | \$ 5,171     | \$ 64,600        |
| Total gains or losses included in earnings:  |            |            |             |              |                  |
| Net realized gains (losses) on investments   | 1,518      | 1,260      |             |              | 258              |
| Net change in unrealized appreciation (depreciation)   | 824        | (517)      | 212         |              | 1,129            |
| Purchases, including capitalized PIK and revolver fundings   | 48,078     | 30,389     | 17,498      |              | 191              |
| Proceeds from sales and paydowns of investments  | (1,192)    | (570)      |             |              | (622)            |
| <b>Fair value, March 31, 2014</b>  | \$ 202,948 | \$ 58,973  | \$ 73,248   | \$ 5,171     | \$ 65,556        |
| 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: | \$ 1,297   | \$ (44)    | \$ 212      | \$           | \$ 1,129         |

The following table summarizes the changes in fair value of Level III portfolio investments for the three months ended March 31, 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 March 31, 2013:

|  | Total      | First Lien | Second Lien | Subordinated | Equity and other |
|--|------------|------------|-------------|--------------|------------------|
| <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   | 21         | 21         |             |              |                  |
| Net change in unrealized appreciation (depreciation)   | 1,597      | (75)       | 848         | 177          | 647              |
| Purchases, including capitalized PIK and revolver fundings   | 773        |            |             | 712          | 61               |
| Proceeds from sales and paydowns of investments  | (10,900)   | (10,897)   |             |              | (3)              |
| <b>Fair value, March 31, 2013</b>  | \$ 110,619 | \$ 31,934  | \$ 44,103   | \$ 23,780    | \$ 10,802        |
| 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: | \$ 1,812   | \$ 140     | \$ 848      | \$ 177       | \$ 647           |

Except as noted in the tables above, there were no other transfers in or out of Level I, II, or III during the three months ended March 31, 2014 and March 31, 2013. Transfers into Level III occurred as quotations obtained through pricing services were not deemed representative of fair value as of the balance sheet date and such assets were internally valued. As quotations obtained through pricing services were substantiated through additional market sources, investments were transferred out of Level III. The Operating Company invests in revolving credit facilities. These investments are categorized as Level III investments as these assets are not actively traded and their fair values are often implied by the term loans of the respective portfolio companies.

The Operating Company generally uses the following framework when determining the fair value of investments where there are little, if any, market activity or observable pricing inputs.

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

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transaction, public offering or subsequent sale occurs, the Operating Company will consider the pricing indicated by the external event to corroborate the private valuation.

**Market Based Approach:** The Operating Company may estimate the total enterprise value of each portfolio company by utilizing market value cash flow (EBITDA) multiples of publicly traded comparable companies. The Operating Company considers numerous factors when selecting the appropriate companies whose trading multiples are used to value its portfolio companies. These factors include, but are not limited to, the type of organization, similarity to the business being valued, relevant risk factors, as well as size, profitability and growth expectations. The Operating Company may apply an average of various relevant comparable company EBITDA multiples to the portfolio company's latest twelve month ( LTM ) EBITDA or projected EBITDA to calculate portfolio company enterprise value. In applying the market based approach as of March 31, 2014, the Operating Company used the relevant EBITDA ranges set forth in the table below to determine the enterprise value of investments in nine of its portfolio companies. The Operating Company believes this was a reasonable range in light of current comparable company trading levels and the specific companies involved.

**Income Based Approach:** The Operating Company also may use a discounted cash flow analysis to estimate the fair value of the investment. Projected cash flows represent the relevant security's contractual interest, fee and principal payments plus the assumption of full principal recovery at the investment's expected maturity date. These cash flows are discounted at a rate established utilizing a yield calibration approach, which incorporates changes in the credit quality (as measured by relevant statistics) of the portfolio company, as compared to changes in the yield associated with comparable credit quality market indices, between the date of origination and the valuation date. In applying the income based approach as of March 31, 2014, the Operating Company used the discount ranges set forth in the table below to value investments in ten of its portfolio companies.

| Type             | Fair Value | Approach               | Unobservable Input     | Range |       | Weighted Average |
|------------------|------------|------------------------|------------------------|-------|-------|------------------|
|                  |            |                        |                        | Low   | High  |                  |
| First lien       | \$ 58,973  | Market approach        | EBITDA multiple        | 5.0x  | 10.0x | 7.6x             |
|                  |            | Income approach        | Discount rate          | 7.7%  | 13.8% | 10.2%            |
| Second lien      | 73,248     | Market approach        | EBITDA multiple        | 6.0x  | 10.0x | 7.3x             |
|                  |            | Income approach        | Discount rate          | 10.0% | 14.2% | 12.0%            |
| Subordinated     | 5,171      | Market approach        | EBITDA multiple        | 7.0x  | 9.0x  | 8.0x             |
|                  |            | Income approach        | Discount rate          | 8.4%  | 10.4% | 9.4%             |
| Equity and other | 65,556     | Market approach        | EBITDA multiple        | 1.7x  | 7.8x  | 6.4x             |
|                  |            | Income approach        | Discount rate          | 8.0%  | 18.0% | 13.9%            |
|                  | \$ 202,948 | Black Scholes analysis | Expected life in years | 2.0   | 4.0   | 2.4              |
| Volatility       |            |                        | 22.6%                  | 36.9% | 29.1% |                  |
| Discount rate    |            |                        | 0.3%                   | 2.8%  | 0.7%  |                  |

Based on a comparison to similar BDC credit facilities, the terms and conditions of the Holdings Credit Facility and the SLF Credit Facility (as defined in Note 7, *Borrowing Facilities*) are representative of market. The carrying values of the Holdings Credit Facility and SLF Credit Facility approximate fair value as of March 31, 2014, as both facilities are continually monitored and examined by both the borrower and the lender. Both facilities were amended and restated during the year ended December 31, 2012 to lower the applicable interest rate spread by 0.25% and to increase the maximum amount of revolving borrowings available under the respective facilities. Additionally, for the year ended December 31, 2013, the Holdings Credit Facility was amended and restated to further increase the maximum amount of revolving borrowings available. See Note 7, *Borrowing Facilities*, for details. The fair value of other financial assets and liabilities approximates their carrying value based on the short term nature of these items. The fair value disclosures discussed in this paragraph are considered Level III.

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***Fair value risk factors*** The Operating Company seeks investment opportunities that offer the possibility of attaining substantial capital appreciation. Certain events particular to each industry in which the Operating Company's portfolio companies conduct their operations, as well as general economic and political conditions, may have a significant negative impact on the operations and profitability of the Operating Company's investments and/or on the fair value of the Operating Company's investments. The Operating Company's investments are subject to the risk of non-payment of scheduled interest or principal, resulting in a reduction in income to the Operating Company and thus the income of NMFC and AIV Holdings, and their corresponding fair valuations. Also, there may be risk associated with the concentration of investments in one geographic region or in certain industries. These events are beyond the control of the Operating Company and cannot be predicted. Furthermore, the ability to liquidate investments and realize value is subject to uncertainties.

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**Note 5. Agreements**

On May 19, 2011, NMFC 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 was admitted as a member of the Operating Company and agreed to acquire from the Operating Company a number of units of the Operating Company equal to the number of shares of common stock outstanding of NMFC. Additionally on May 19, 2011, in connection with the contribution by Guardian AIV of its units to AIV Holdings, AIV Holdings entered into a joinder agreement with respect to the Limited Liability Company Agreement, as amended and restated, of the Operating Company pursuant to which AIV Holdings was also admitted as a member of the Operating Company.

The Operating Company entered into an investment advisory and management agreement, as amended and restated (the Investment Management Agreement) with the Investment Adviser. Under the Investment Management Agreement, the Investment Adviser manages the day-to-day operations of, and provides investment advisory services to, the Operating Company. For providing these services, the Investment Adviser receives a fee from the Operating Company, consisting of two components a base management fee and an incentive fee.

The base management fee is calculated at an annual rate of 1.75% of the Operating Company's gross assets less (i) the borrowings under the SLF Credit Facility (as defined in Note 7, *Borrowing Facilities*) and (ii) cash and cash equivalents. The base management fee is payable quarterly in arrears, and is calculated based on the average value of the Operating Company's gross assets, borrowings under the SLF Credit Facility, and cash and cash equivalents at the end of each of the two most recently completed calendar quarters, and appropriately adjusted on a pro rata basis for any equity capital raises or repurchases during the current calendar quarter.

The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20.0% of the Operating Company's Pre-Incentive Fee Adjusted Net Investment Income for the immediately preceding quarter, subject to a preferred return, or hurdle, and a catch-up feature. Pre-Incentive Fee Net Investment Income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that the Operating Company receives from portfolio companies) accrued during the calendar quarter, minus the Operating Company's operating expenses for the quarter (including the base management fee, expenses payable under an administration agreement, as amended and restated (the Administration Agreement), with the Administrator, and any interest expense and distributions paid on any issued and outstanding preferred membership units (of which there are none as of March 31, 2014), but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with PIK interest and zero coupon securities), accrued income that the Operating Company has not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation.

Under GAAP, NMFC's IPO did not step-up the cost basis of the Operating Company's existing investments to fair market value at the IPO date. Since the total value of the Operating Company's investments at the time of the IPO was greater than the investments' cost basis, a larger amount of amortization of purchase or original issue discount, as well as different amounts in realized gain and unrealized appreciation, may be recognized under GAAP in each period than if the step-up had occurred. This will remain until such predecessor investments are sold, repaid or mature in the future. The Operating Company tracks the transferred (or fair market) value of each of its investments as of the time of the IPO and, for purposes of the incentive fee calculation, adjusts Pre-Incentive Fee Net Investment Income to reflect the amortization of purchase or original issue discount on the Operating Company's investments as if each investment was purchased at the date of the IPO, or stepped up to fair market value. This is defined as Pre-Incentive Fee Adjusted Net Investment Income. The Operating Company also uses the transferred (or fair market) value of each of its investments as of the time of the IPO to adjust capital gains (Adjusted Realized Capital Gains) or losses (Adjusted Realized Capital Losses) and unrealized capital appreciation (Adjusted Unrealized Capital Appreciation) and unrealized capital depreciation (Adjusted Unrealized Capital Depreciation).

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

- No incentive fee is payable to the Investment Adviser in any calendar quarter in which the Operating Company's Pre-Incentive Fee Adjusted Net Investment Income does not exceed the hurdle rate of 2.0% (the preferred return or hurdle).
- 100.0% of the Operating Company's Pre-Incentive Fee Adjusted Net Investment Income with respect to that portion of such Pre-Incentive Fee Adjusted Net Investment Income, if any, that exceeds the hurdle rate but is less than or equal to



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2.5% in any calendar quarter (10.0% annualized) is payable to the Investment Adviser. This portion of the Operating Company's Pre-Incentive Fee Adjusted Net Investment Income (which exceeds the hurdle rate but is less than or equal to 2.5%) is referred to as the catch-up. The catch-up provision is intended to provide the Investment Adviser with an incentive fee of 20.0% on all of the Operating Company's Pre-Incentive Fee Adjusted Net Investment Income as if a hurdle rate did not apply when the Operating Company's Pre-Incentive Fee Adjusted Net Investment Income exceeds 2.5% in any calendar quarter.

- 20.0% of the amount of the Operating Company's Pre-Incentive Fee Adjusted Net Investment Income, if any, that exceeds 2.5% in any calendar quarter (10.0% annualized) is payable to the Investment Adviser once the hurdle is reached and the catch-up is achieved.

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

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

The Operating Company has revised to expand its March 31, 2013 presentation of incentive fees on the Consolidated Statements of Assets, Liabilities and Members' Capital and the Consolidated Statements of Operations to disclose the two parts of the incentive fee incurred by the Operating Company for net investment income related incentive fees and capital gains related incentive fees.

The following table summarizes the management fees and incentive fees incurred by the Operating Company for the three months ended March 31, 2014 and March 31, 2013.

|   | Three months ended |                |
|---|--------------------|----------------|
|   | March 31, 2014     | March 31, 2013 |
| Management fee  | \$ 4,176           | \$ 3,568       |
| Incentive fee, excluding accrued capital gains incentive fees | 4,443              | 3,458          |
| Accrued capital gains incentive fees(1)                       | 1,527              | 2,682          |

(1) The accrued capital gains incentive fees would be paid by the Operating Company if the Operating Company ceased operations on March 31, 2014 or March 31, 2013, respectively, and liquidated its investments at the valuations as of the respective quarter ends. Approximately \$778 of capital gains incentive fees would be owed under the Investment Management Agreement if the Operating Company had ceased operations as of March 31, 2014, as cumulative net Adjusted Realized Capital Gains exceeded cumulative Adjusted Unrealized Capital Depreciation. As of March 31, 2013, no actual capital gains incentive fee was owed under the Investment Management Agreement, as cumulative net Adjusted Realized Capital Gains did not exceed cumulative Adjusted Unrealized Capital Depreciation.

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

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The following Statement of Operations for the three months ended March 31, 2014 is adjusted to reflect this step-up to fair market value.

|   | Three months ended<br>March 31, 2014 | Adjustments | Adjusted<br>three months ended<br>March 31, 2014 |
|---|--------------------------------------|-------------|--|
| <b>Investment income</b>  |                                      |             |  |
| Interest income (1)   | \$ 28,139                            | \$ (42)     | \$ 28,097  |
| Dividend income   | 2,095                                |             | 2,095  |
| Other income  | 684                                  |             | 684  |
| Total investment income   | 30,918                               | (42)        | 30,876   |
| Total net expenses pre-incentive fee (2)                          | 8,663                                |             | 8,663  |
| <b>Pre-Incentive Fee Net Investment Income</b>                    | <b>22,255</b>                        | <b>(42)</b> | <b>22,213</b>                                    |
| Incentive fee (3)   | 5,970                                |             | 5,970  |
| <b>Post-Incentive Fee Net Investment Income</b>                   | <b>16,285</b>                        | <b>(42)</b> | <b>16,243</b>                                    |
| Net realized gains (losses) on investments                        | 2,780                                | (138)       | 2,642  |
| Net change in unrealized appreciation of investments              | 4,814                                | 180         | 4,994  |
| <b>Net increase in members' capital resulting from operations</b> | <b>\$ 23,879</b>                     |             | <b>\$ 23,879</b>                                 |

(1) Includes \$784 in payment-in-kind interest from investments.

(2) Includes expense waivers and reimbursements of \$774.

(3) For the three months ended March 31, 2014, the Operating Company incurred total incentive fees of \$5,970, of which \$1,527 related to capital gains incentive fees on a hypothetical liquidation basis.

The following Statement of Operations for the three months ended March 31, 2013 is adjusted to reflect the step-up to fair market value.

|   | Three months ended<br>March 31, 2013 | Adjustments  | Adjusted<br>three months ended<br>March 31, 2013 |
|---|--------------------------------------|--------------|--|
| <b>Investment income</b>  |                                      |              |  |
| Interest income (1)   | \$ 25,043                            | \$ (479)     | \$ 24,564  |
| Other income  | 275                                  |              | 275  |
| Total investment income   | 25,318                               | (479)        | 24,839   |
| Total net expenses pre-incentive fee (2)                          | 7,551                                |              | 7,551  |
| <b>Pre-Incentive Fee Net Investment Income</b>                    | <b>17,767</b>                        | <b>(479)</b> | <b>17,288</b>                                    |
| Incentive fee (3)   | 6,140                                |              | 6,140  |
| <b>Post-Incentive Fee Net Investment Income</b>                   | <b>11,627</b>                        | <b>(479)</b> | <b>11,148</b>                                    |
| Net realized gains (losses) on investments                        | 1,044                                | (460)        | 584  |
| Net change in unrealized appreciation of investments              | 11,890                               | 939          | 12,829   |
| <b>Net increase in members' capital resulting from operations</b> | <b>\$ 24,561</b>                     |              | <b>\$ 24,561</b>                                 |

(1) Includes \$642 in payment-in-kind interest from investments.

(2) Includes expense waivers and reimbursements of \$829.

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(3) For the three months ended March 31, 2013, the Operating Company incurred total incentive fees of \$6,140, of which \$2,682 related to capital gains incentive fees on a hypothetical liquidation basis.

The Companies have entered into an Administration Agreement with the Administrator under which the Administrator provides administrative services. The Administrator performs, or oversees the performance of, the Companies' financial records, prepares reports filed with the Securities and Exchange Commission, generally monitors the payment of the Companies' expenses, and watches the performance of administrative and professional services rendered by others. The Operating Company will reimburse the Administrator for the Companies' allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations to the Companies under the Administration Agreement. Pursuant to the Administration Agreement and further restricted by the Operating Company, expenses payable to the Administrator by the Operating Company as well as other direct and indirect expenses (excluding interest, other credit facility expenses, trading expenses and management and incentive fees) have been

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capped at \$3,500 for the time period from April 1, 2012 to March 31, 2013 and capped at \$4,250 for the time period from April 1, 2013 to March 31, 2014. The expense cap expired on March 31, 2014. Thereafter, the Administrator may, in its own discretion, submit to the Operating Company for reimbursement some or all of the expenses that the Administrator has incurred on behalf of the Operating Company during any quarterly period. As a result, the amount of expenses for which the Operating Company will have to reimburse the Administrator may fluctuate in future quarterly periods and there can be no assurance given as to when, or if, the Administrator may determine to limit the expenses that the Administrator submits to the Operating Company for reimbursement in the future. However, it is expected that the Administrator will continue to support part of the expense burden of the Operating Company in the near future.

The Operating Company has revised to expand its presentation of expenses and expense waivers and reimbursements for the three months ended March 31, 2013. Expenses were previously presented net of waivers and reimbursements, which had been included parenthetically. The expanded revised presentation shows total gross expenses with a separate reduction for expense waivers and reimbursements.

The Operating Company incurred the following expenses in excess of the expense cap for the three ended March 31, 2014 and March 31, 2013:

|   | Three months ended |                |
|---|--------------------|----------------|
|   | March 31, 2014     | March 31, 2013 |
| Professional fees                         | \$ 377             | \$ 495         |
| Administrative expenses                   | 397                | 334            |
| Other general and administrative expenses |                    |                |
| Total expense waivers and reimbursements  | \$ 774             | \$ 829         |

As of March 31, 2014 and March 31, 2013, \$377 and \$495, respectively, of the expense waivers and reimbursements was receivable from an affiliate.

The Companies, the Investment Adviser and the Administrator have also entered into a Trademark License Agreement, as amended, with New Mountain Capital, L.L.C., pursuant to which New Mountain Capital, L.L.C. has agreed to grant the Companies, the Investment Adviser and the Administrator, a non-exclusive, royalty-free license to use the New Mountain and the New Mountain Finance names. Under the Trademark License Agreement, as amended, subject to certain conditions, the Companies, the Investment Adviser and the Administrator will have a right to use the New Mountain and New Mountain Finance names, for so long as the Investment Adviser or one of its affiliates remains the investment adviser of the Operating Company. Other than with respect to this limited license, the Companies, the Investment Adviser and the Administrator will have no legal right to the New Mountain or the New Mountain Finance names.

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

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registered on a shelf registration statement on Form N-2.

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

The Registration Rights Agreement includes limited blackout and suspension periods. In addition, AIV Holdings and the Investment Adviser may also require NMFC to file a shelf registration statement on Form N-2 for the resale of their registerable securities if NMFC is eligible to use Form N-2 at that time.

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Holders of registrable securities have piggyback registration rights, including AIV Holdings, which means that these holders may include their respective shares in any future registrations of NMFC's equity securities, whether or not that registration relates to a primary offering by NMFC or a secondary offering by or on behalf of any of NMFC's stockholders. AIV Holdings, the Investment Adviser and Steven B. Klinsky (and a related entity) have priority over NMFC in any registration that is an underwritten offering.

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

**Note 6. Related Parties**

The Companies have entered into a number of business relationships with affiliated or related parties. With the completion of the secondary offering on February 3, 2014, NMFC now owns 100.0% of the units of the Operating Company.

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

The Companies have entered into an Administration Agreement with the Administrator, a wholly-owned subsidiary of New Mountain Capital. The Administrator arranges office space for the Companies and provides office equipment and administrative services necessary to conduct their respective day-to-day operations pursuant to the Administration Agreement. The Operating Company reimburses the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations to the Companies under the Administration Agreement including rent, the fees and expenses associated with performing administrative, finance and compliance functions, and the compensation of the Companies' chief financial officer and chief compliance officer and their respective staffs. Pursuant to the Administration Agreement and further restricted by the Operating Company, expenses payable to the Administrator by the Operating Company as well as other direct and indirect expenses (excluding interest, other credit facility expenses, trading expenses and management and incentive fees) have been capped at \$3,500 for the time period from April 1, 2012 to March 31, 2013 and capped at \$4,250 for the time period from April 1, 2013 to March 31, 2014. The expense cap expired on March 31, 2014. Thereafter, the Administrator may, in its own discretion, submit to the Operating Company for reimbursement some or all of the expenses that the Administrator has incurred on behalf of the Operating Company during any quarterly period. As a result, the amount of expenses for which the Operating Company will have to reimburse the Administrator may fluctuate in future quarterly periods and there can be no assurance given as to when, or if, the Administrator may determine to limit the expenses that the Administrator submits to the Operating Company for reimbursement in the future. However, it is expected that the Administrator will continue to support part of the expense burden of the Operating Company in the near future.

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

The Companies have adopted a formal code of ethics that governs the conduct of their respective officers and directors. These officers and directors also remain subject to the duties imposed by the 1940 Act, the Delaware General Corporation Law and the Delaware Limited Liability Company Act.

The Investment Adviser and its affiliates may also manage other funds in the future that may have investment mandates that are similar, in whole and in part, with the Operating Company investment mandates. The Investment Adviser and its affiliates may determine that an investment is appropriate for the Operating Company and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, the Investment Adviser or its affiliates may determine that the Operating Company should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the Securities and Exchange Commission and its staff, and consistent with the Investment Adviser's allocation procedures.



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Concurrently with the IPO, NMFC sold an additional 2,172,000 shares of its common stock to certain executives and employees of, and other individuals affiliated with, New Mountain Capital in the Concurrent Private Placement.

**Note 7. Borrowing Facilities**

*Holdings Credit Facility* The Loan and Security Agreement, as amended and restated, dated May 19, 2011 (the *Holdings 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, is structured as a revolving credit facility and matures on October 27, 2016, as amended on May 8, 2012. The Operating Company became a party to the Holdings Credit Facility upon the IPO of NMFC. The Holdings Credit Facility amends and restates the credit facility of the Predecessor Entities (the *Predecessor Credit Facility* ).

The maximum amount of revolving borrowings available under the Holdings Credit Facility is \$280,000, as amended on October 28, 2013. As of March 31, 2014, the Operating Company was permitted to borrow up to 45.0% or 25.0% of the purchase price of pledged first lien or non-first lien debt securities, and up to 70.0% and 45.0% of the purchase price of specified first lien debt securities and specified non-first lien debt securities, respectively, subject to approval by Wells Fargo Bank, National Association. The Holdings Credit Facility is collateralized by all of the investments of the Operating Company on an investment by investment basis. All fees associated with the origination or upsizing of the Holdings Credit Facility are capitalized on the Operating Company's Consolidated Statement of Assets, Liabilities, and Members' Capital and charged against income as other credit facility expenses over the life of the Holdings Credit Facility. The Holdings Credit Facility contains certain customary affirmative and negative covenants and events of default, including the occurrence of a change in control. In addition, the Holdings Credit Facility requires the Operating Company to maintain a minimum asset coverage ratio. However, the covenants are generally not tied to mark to market fluctuations in the prices of the Operating Company's investments, but rather to the performance of the underlying portfolio companies.

The Holdings Credit Facility bears interest at a rate of the London Interbank Offered Rate ( *LIBOR* ) plus 2.75% per annum, as amended on May 8, 2012, and charges a non-usage fee, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the credit agreement).

The following table summarizes the interest expense and non-usage fees incurred by the Operating Company on the Holdings Credit Facility for the three months ended March 31, 2014 and March 31, 2013.

|                                | Three months ended |                |
|--------------------------------|--------------------|----------------|
|                                | March 31, 2014     | March 31, 2013 |
| Interest expense               | \$ 1,692           | \$ 1,469       |
| Non-usage fee                  | 59                 | 15             |
| Weighted average interest rate | 2.9%               | 3.0%           |
| Average debt outstanding       | \$ 232,842         | \$ 198,900     |

As of March 31, 2014 and December 31, 2013, the outstanding balance on the Holdings Credit Facility was \$271,825 and \$221,849, respectively, and the Operating Company was not aware of any instances of non-compliance related to the Holdings Credit Facility on such dates.

*SLF Credit Facility* NMF SLF's Loan and Security Agreement, as amended and restated, dated October 27, 2010 (the *SLF Credit Facility*) among NMF SLF as the Borrower, 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, is structured as a revolving credit facility and matures on October 27, 2016, as amended on May 8, 2012. The maximum amount of revolving borrowings available under the *SLF Credit Facility* is \$215,000, as amended on December 18, 2012. The loan is non-recourse to the Operating Company and secured by all assets owned by the borrower on an investment by investment basis. All fees associated with the origination or upsizing of the *SLF Credit Facility* are capitalized on the Consolidated Statement of Assets, Liabilities, and Members' Capital and charged against income as other credit facility expenses over the life of the *SLF Credit Facility*. The *SLF Credit Facility* contains certain customary affirmative and negative covenants and events of default, including the occurrence of a change in control. The covenants are generally not tied to mark to market fluctuations in the prices of our investments, but rather to the performance of the underlying portfolio companies. Due to an amendment to the *SLF Credit Facility* on October 27, 2011, NMF SLF is no longer restricted from the purchase or sale of loans with an affiliate. Therefore, specified loans can be moved as collateral between the Holdings Credit Facility and the *SLF Credit Facility*.

As of March 31, 2014, the *SLF Credit Facility* permits borrowings of up to 70.0% of the purchase price of pledged first lien debt securities and up to 25.0% of the purchase price of specified second lien loans, of which, up to 25.0% of the aggregate

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outstanding loan balance of all pledged debt securities in the SLF Credit Facility is allowed to be derived from second lien loans, subject to approval by Wells Fargo Bank, National Association, as amended on March 11, 2013.

The SLF Credit Facility bears interest at a rate of LIBOR plus 2.00% per annum for first lien loans and 2.75% for second lien loans, respectively, as amended on March 11, 2013. A non-usage fee is paid, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the credit agreement).

The following table summarizes the interest expense and non-usage fees incurred by the Operating Company on the SLF Credit Facility for the three months ended March 31, 2014 and March 31, 2013.

|                                | Three months ended |                |
|--------------------------------|--------------------|----------------|
|                                | March 31, 2014     | March 31, 2013 |
| Interest expense               | \$ 1,201           | \$ 1,186       |
| Non-usage fee                  | (1)                | 1              |
| Weighted average interest rate | 2.2%               | 2.2%           |
| Average debt outstanding       | \$ 214,993         | \$ 214,330     |

(1) For the three months ended March 31, 2014, the total non-usage fee was less than \$1 thousand.

As of March 31, 2014 and December 31, 2013, the outstanding balance on the SLF Credit Facility was \$215,000 and \$214,668, respectively, and NMF SLF was not aware of any instances of non-compliance related to the SLF Credit Facility on such dates.

**Leverage risk factors** The Operating Company utilizes and may utilize leverage to the maximum extent permitted by the law for investment and other general business purposes. The Operating Company's lenders will have fixed dollar claims on certain assets that are superior to the claims of the Operating Company's unit holders, and therefore NMFC's common stockholders, and the Operating Company would expect such lenders to seek recovery against these assets in the event of a default. The use of leverage also magnifies the potential for gain or loss on amounts invested. Leverage may magnify interest rate risk (particularly on the Operating Company's fixed-rate investments), which is the risk that the prices of portfolio investments will fall or rise if market interest rates for those types of securities rise or fall. As a result, leverage may cause greater changes in the Operating Company's net asset value. Similarly, leverage may cause a sharper decline in the Operating Company's income than if the Operating Company had not borrowed. Such a decline could negatively affect the Operating Company's ability to make dividend payments to its unit holders. Leverage is generally considered a speculative investment technique. The Operating Company's ability to service any debt incurred will depend largely on financial performance and will be subject to prevailing economic conditions and competitive pressures.

**Note 8. Regulation**

NMFC has elected to be treated, and intends to comply with the requirements to continue to qualify annually, as a RIC under Subchapter M of the Code. In order to continue to qualify as a RIC, among other things, NMFC is required to timely distribute to its stockholders at least 90.0% of investment company taxable income, as defined by the Code, for each year. NMFC, among other things, intends to make and continue to

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make the requisite distributions to its stockholders, which will generally relieve NMFC from U.S. federal, state, and local income taxes (excluding excise taxes which may be imposed under the Code).

AIV Holdings was treated, and complied with the requirements to qualify annually, as a RIC under Subchapter M of the Code. In order to have qualified as a RIC, among other things, AIV Holdings was required to timely distribute to its stockholders at least 90.0% of investment company taxable income, as defined by the Code, for each year. AIV Holdings, among other things, made the requisite distributions to its stockholders, which generally relieved AIV Holdings from U.S. federal, state, and local income taxes (excluding excise taxes which may have been imposed under the Code). However, under certain circumstances, the distributions that the Operating Company made to its members may not have been sufficient for AIV Holdings to satisfy the annual distribution requirement necessary for AIV Holdings to have qualified as a RIC. In that case, it was 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 was required to include the consent dividend in its taxable income as dividend from AIV Holdings, which could have resulted in phantom (i.e., non-cash) taxable income to Guardian AIV.

Additionally as BDCs, the Companies must not acquire any assets other than qualifying assets specified in the 1940 Act unless, at the time the acquisition is made, at least 70.0% of its total assets are qualifying assets (with certain limited exceptions).

Table of Contents**Note 9. Commitments and Contingencies**

In the normal course of business, the Companies may enter into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Operating Company may also enter into future funding commitments such as revolving credit facilities, bridge financing commitments, or delayed draw commitments. As of March 31, 2014, the Operating Company had unfunded commitments on revolving credit facilities of \$6,900, no outstanding bridge financing commitments and other future funding commitments of \$7,725. The unfunded commitments on revolving credit facilities are disclosed on the Operating Company's Consolidated Schedule of Investments. As of December 31, 2013, the Operating Company had unfunded commitments on revolving credit facilities of \$15,500 and no outstanding bridge financing commitments or other future funding commitments, all of which are disclosed on the Operating Company's Consolidated Schedule of Investments.

The Operating Company also has revolving borrowings available under the Holdings Credit Facility and the SLF Credit Facility as of March 31, 2014. See Note 7, *Borrowing Facilities*, for details.

The Operating Company may from time to time enter into financing commitment letters. As of March 31, 2014 and December 31, 2013, the Operating Company did not enter into any commitment letters to purchase debt investments, which could require funding in the future.

**Note 10. Stockholders' Equity**

The table below illustrates the effect of certain transactions on the capital accounts of NMFC:

|  | Common Stock |            | Paid in Capital     | Undistributed            | Accumulated                                     | Net Unrealized                 | Total                  |
|--|--------------|------------|---------------------|--------------------------|---|--------------------------------|------------------------|
|  | Shares       | Par Amount | in Excess<br>of Par | Net Investment<br>Income | Undistributed Net<br>Realized Gains<br>(Losses) | Appreciation<br>(Depreciation) | Stockholders<br>Equity |
| Balance at December 31, 2013   | 45,224,755   | \$ 452     | \$ 633,383          | \$                       | \$ 5,056  | \$ 11,216                      | \$ 650,107             |
| Issuances of common stock  | 2,743,245    | 28         | 39,850              |                          |   |                                | 39,878                 |
| Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C. |              |            |                     |                          |   |                                |                        |
| Dividends declared   |              |            |                     | (16,058)                 | (227)   |                                | (16,285)               |
| Net increase in stockholders equity resulting from operations                |              |            |                     | 16,058                   | 2,708   | 4,682                          | 23,448                 |
| Balance at March 31, 2014  | 47,968,000   | \$ 480     | \$ 673,233          | \$                       | \$ 7,537  | \$ 15,898                      | \$ 697,148             |

The table below illustrates the effect of certain transactions on the capital accounts of AIV Holdings:

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|  | Common Stock<br>Shares | Common Stock<br>Par Amount | Paid in Capital<br>in Excess<br>of Par | Undistributed<br>Net Investment<br>Income | Distributions<br>In Excess of Net<br>Realized (Losses) Gains | Net Unrealized<br>Appreciation<br>(Depreciation) | Total<br>Stockholders<br>Equity |
|--|------------------------|----------------------------|--|---|--|--|---------------------------------|
| Balance at December 31, 2013   | 100                    | \$                         | (\$ 61,993                             | \$  | \$   | (26,812) \$                                      | 3,228 \$ 38,409                 |
| Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C. |                        |                            |  |   |  |  |                                 |
| Dividends declared Distribution to New Mountain Guardian AIV, L.P.           |                        |                            | (61,993)                               | (227)                                     | 50,809   | (26,562)   | (37,973)                        |
| Net increase (decrease) in stockholders equity resulting from operations     |                        |                            |  | 227                                       | (23,997)   | 23,334   | (436)                           |
| Balance at January 29, 2014 (end of operations)                              | 100(2)                 | \$                         | \$                                     | \$  | \$   | \$   | \$                              |

(1) As of December 31, 2013, the par amount of the total common stock was \$1.

(2) Subsequent to the quarter ended March 31, 2014, AIV Holdings was dissolved on April 25, 2014. See Note 14, *Subsequent Events*, for details.

Table of Contents**Note 11. Earnings Per Share**

The following information sets forth the computation of basic and diluted net increase in NMFC's net assets per share resulting from operations for the three months ended March 31, 2014 and March 31, 2013:

|  | Three months ended |                |
|--|--------------------|----------------|
|  | March 31, 2014     | March 31, 2013 |
| Numerator for basic earnings per share:            | \$ 23,448          | \$ 15,516      |
| Denominator for basic weighted average share:      | 47,066,216         | 25,267,118     |
| Basic earnings per share:                          | \$ 0.50            | \$ 0.61        |
| Numerator for diluted earnings per share(a):       | \$ 23,879          | \$ 24,561      |
| Denominator for diluted weighted average share(b): | 47,897,485         | 40,835,723     |
| Diluted earnings per share:                        | \$ 0.50            | \$ 0.60        |

(a) Includes the full income at the Operating Company for the period.

(b) Assumes all AIV Holdings units in the Operating Company were exchanged for public shares of NMFC during the three months ended March 31, 2013 (see Note 1, *Formation and Business Purpose*).

**Note 12. Financial Highlights**

The following information sets forth the financial highlights for the Operating Company for the respective three months ended March 31, 2014 and March 31, 2013.

|   | Three months ended |                |
|---|--------------------|----------------|
|   | March 31, 2014     | March 31, 2013 |
| Total return based on net asset value (a)                           | 3.47%              | 4.26%          |
| Average net assets for the period                                   | \$ 696,779         | \$ 579,794     |
| Ratio to average net assets (b):                                    |                    |                |
| Net investment income   | 9.48%              | 8.13%          |
| Total expenses (gross)  | 8.97%              | 10.16%         |
| Total expenses (net of reimbursable expenses)                       | 8.52%              | 9.58%          |
| Net assets, end of period   | \$ 697,148         | \$ 610,478     |
| Average debt outstanding Holdings Credit Facility                   | \$ 232,842         | \$ 198,900     |
| Average debt outstanding SLF Credit Facility                        | \$ 214,993         | \$ 214,330     |
| Weighted average common membership units outstanding for the period | 47,897,485         | 40,835,723     |
| Asset coverage ratio  | 243.20%            | 241.92%        |
| Portfolio turnover  | 8.77%              | 8.18%          |

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(a) Total return is calculated assuming a purchase at net asset value on the opening of the first day of the year and a sale at net asset value on the last day of the respective periods. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at the net asset value on the last day of the respective quarter.

(b) Ratio to average net assets has been annualized.

|  | Three months ended |                |
|--|--------------------|----------------|
|  | March 31, 2014     | March 31, 2013 |
| Per unit data for the Operating Company (a):                       |                    |                |
| Net asset value, January 1, 2014 and January 1, 2013, respectively | \$ 14.38           | \$ 14.06       |
| Net investment income  | 0.34               | 0.28           |
| Net realized and unrealized gains (losses)                         | 0.15               | 0.31           |
| Dividends from net investment income                               | (0.34)             | (0.34)         |
| Net increase in net assets resulting from operations               | 0.15               | 0.25           |
| Net asset value, March 31, 2014 and March 31, 2013, respectively   | \$ 14.53           | \$ 14.31       |

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(a) Per unit data is based on weighted average common membership units outstanding.



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The following information sets forth the financial highlights for NMFC for the three months ended March 31, 2014 and March 31, 2013. The ratios to average net assets have been annualized.

|   | Three months ended |                |
|---|--------------------|----------------|
|   | March 31, 2014     | March 31, 2013 |
| Per share data (a):   |                    |                |
| Net asset value, January 1, 2014 and January 1, 2013, respectively  | \$ 14.38           | \$ 14.06       |
| Net increase (decrease) in net assets resulting from operations allocated from New Mountain Finance Holdings, L.L.C.: |                    |                |
| Net investment income   | 0.34               | 0.28           |
| Net realized and unrealized gains (losses)  | 0.15               | 0.31           |
| Total net increase  | 0.49               | 0.59           |
| Dividends declared  | (0.34)             | (0.34)         |
| Net asset value, March 31, 2014 and March 31, 2013, respectively  | \$ 14.53           | \$ 14.31       |
| Per share market value, March 31, 2014 and March 31, 2013, respectively   | \$ 14.55           | \$ 14.62       |
| Total return based on market value (b)  | (1.00)%            | 0.40%          |
| Total return based on net asset value (c)   | 3.47%              | 4.26%          |
| Shares outstanding at end of period   | 47,968,000         | 31,324,660     |
| Average weighted shares outstanding for the period  | 47,066,216         | 25,267,118     |
| Average net assets for the period   | \$ 684,700         | \$ 358,939     |
| Ratio to average net assets (d):  |                    |                |
| Total expenses allocated from New Mountain Finance Holdings, L.L.C.   | 8.52%              | 9.58%          |
| Net investment income allocated from New Mountain Finance Holdings, L.L.C.  | 9.48%              | 8.13%          |

(a) Per share data is based on the summation of the per share results of operations items over the outstanding shares for the period in which the respective line items were realized or earned.

(b) Total return is calculated assuming a purchase of common stock at the opening of the first day of the year and a sale on the closing of the last business day of the period. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at prices obtained under NMFC's dividend reinvestment plan.

(c) Total return is calculated assuming a purchase at net asset value on the opening of the first day of the period and a sale at net asset value on the last day of the period. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at the net asset value on the last day of the respective quarter.

(d) Ratio to average net assets for the three months ended March 31, 2014 and March 31, 2013 is based on the summation of the results of operations items over the net assets for the period in which the respective line items were realized or earned.

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The following information sets forth the financial highlights for AIV Holdings for January 1, 2014 to January 29, 2014 (end of operations) and for the three months ended March 31, 2013. The ratios to average net assets have been annualized for the three months ended March 31, 2013.

|  | <b>From January 1, 2014<br/>to January 29, 2014<br/>(end of operations)</b> | <b>Three months ended<br/>March 31, 2013</b> |
|--|---|--|
| Total return based on net asset value (a)                                  | (1.14)%   | 3.24%  |
| Average net assets for the period  | \$ 37,486   | \$ 220,855                                   |
| <b>Ratio to average net assets (b):</b>                                    |   |  |
| Total expenses allocated from New Mountain Finance Holdings, L.L.C.        | 8.46%   | 9.58%  |
| Net investment income allocated from New Mountain Finance Holdings, L.L.C. | 7.62%   | 8.13%  |

(a) Total return is calculated assuming a purchase at net asset value on the opening of the first day of the period and a sale at net asset value on the last day of the period. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at net asset value on the last day of the respective quarter.

(b) Ratio to average net assets is based on the summation of the results of operations items over the net assets for the period in which the respective line items were realized or earned.

### **Note 13. Recent Accounting Standards Updates**

In June 2013, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2013-08, Financial Services Investment Companies (Topic 946) Amendments to the Scope, Measurement and Disclosure Requirements ( ASU 2013-08 ), which contains new guidance on assessing whether an entity is an investment company, requiring non-controlling ownership interests in investment companies to be measured at fair value and requiring certain additional disclosures. ASU 2013-08 is effective for interim and annual periods beginning after December 15, 2013. The adoption of ASU 2013-08 is not expected to have a material impact on the Companies financial statements.

### **Note 14. Subsequent Events**

On April 15, 2014, NMFC completed a public offering of 3,500,000 shares of its common stock at a public offering price of \$14.30 per share, which resulted in net proceeds of \$50,995, or \$14.57 per share. NMFC s Investment Adviser agreed to pay the underwriting discounts and commissions in connection with this offering and an additional supplemental payment to the underwriters of \$945, or \$0.27 per share, which reflects the difference between the public offering price and the proceeds per share received by NMFC. In connection with the public offering, the underwriters purchased an additional 525,000 shares of NMFC s common stock with the exercise of the overallotment option to purchase up to an additional 525,000 shares of NMFC s common stock, resulting in additional net proceeds of \$7,649. NMFC s Investment Adviser agreed to pay the underwriting discounts and commissions in connection with this exercise of the overallotment option and an additional supplemental payment to the underwriters of \$142, or \$0.27 per share, which reflects the difference between the public offering price and the proceeds per share received by NMFC in this exercise of the overallotment option.

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Upon receipt of the necessary stockholder consent to authorize the board of directors of AIV Holdings to withdraw AIV Holdings' election to be regulated as a BDC, the withdrawal was filed subsequent to the quarter ended March 31, 2014 and became effective upon receipt by the SEC of AIV Holdings' notification of withdrawal on Form N-54C on April 15, 2014. The board of directors of AIV Holdings believed that AIV Holdings met the requirements for filing the notification to withdraw its election to be regulated as a BDC, upon the receipt of the necessary stockholder consent. After the notification of withdrawal of AIV Holdings' BDC election was filed with the SEC subsequent to the quarter ended March 31, 2014, AIV Holdings is no longer subject to the regulatory provisions of the 1940 Act applicable to BDCs generally, including regulations related to insurance, custody, composition of its board of directors, affiliated transactions and any compensation arrangements.

In addition, subsequent to the quarter ended March 31, 2014, AIV Holdings filed a Form 15 with the SEC to terminate AIV Holdings' registration under Section 12(g) of the 1934 Act. After these SEC filings and any other federal or state regulatory or tax filings were made, AIV Holdings proceeded to dissolve under Delaware law by filing a certificate of dissolution in Delaware on April 25, 2014.

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

At the 2014 joint annual meeting of the stockholders of NMFC and the sole unit holder of the Operating Company, which was held on May 6, 2014, the stockholders of NMFC and the sole unit holder of the Operating Company approved a proposal which authorized the board of directors of the Operating Company to withdraw the Operating Company's election to be regulated as a BDC. Additionally, the stockholders of NMFC approved an investment advisory and management agreement between NMFC and the Investment Adviser. With this approval, the Operating Company's board of directors intends to withdraw the Operating Company's election to be regulated as a BDC under the 1940 Act and amend its Operating Agreement such that the Operating Company will remain a wholly-owned subsidiary of NMFC with the sole purpose of serving as a special purpose vehicle for the Operating Company's existing credit facilities, and NMFC will assume all other operating activities previously undertaken by the Operating Company under the management of the Investment Adviser (collectively, the Restructuring). All of the current entities that will remain underneath NMFC after the Restructuring will be wholly-owned subsidiaries of NMFC and are expected to be consolidated with NMFC for both 1940 Act and financial statement reporting purposes, subject to any financial statement adjustments required in accordance with GAAP. In addition, the board of directors has approved and declared advisable the termination of the Operating Company's registration under Section 12(g) of the Exchange Act.

After withdrawing the Operating Company's election to be regulated as a BDC under the 1940 Act, the Operating Company will amend its Operating Agreement such that the board of directors of the Operating Company will be dissolved, and the Operating Company remains a wholly-owned subsidiary of NMFC with the sole purpose of serving as a special purpose vehicle for the Operating Company's existing credit facilities. As a special purpose entity, the Operating Company will be bankruptcy-remote and non-recourse to NMFC. In addition, the assets remaining at the Operating Company will continue to be used to secure the Operating Company's current credit facilities.

On May 6, 2014, the Operating Company's board of directors, and subsequently NMFC's board of directors, declared a second quarter 2014 distribution of \$0.34 per unit/share payable on June 30, 2014 to holders of record as of June 16, 2014.

On May 6, 2014, the Operating Company entered into a thirteenth amendment to the Holdings Credit Facility and NMF SLF entered into a thirteenth amendment to the SLF Credit Facility, both of which permit the Operating Company to withdraw the Operating Company's election to be regulated as a BDC under the 1940 Act and to amend its Operating Agreement such that the Operating Company will remain a wholly-owned subsidiary of NMFC with the sole purpose of serving as a special purpose vehicle for the Holdings Credit Facility and SLF Credit Facility.



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Boards of Directors of

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

New Mountain Finance Corporation and

New Mountain Finance AIV Holdings Corporation

New York, New York

We have reviewed the accompanying consolidated statement of assets, liabilities and members' capital of New Mountain Finance Holdings, L.L.C., including the consolidated schedule of investments, as of March 31, 2014, and the related consolidated statements of operations, changes in members' capital, and cash flows for the three month periods ended March 31, 2014 and 2013. In addition, we have reviewed the statement of assets and liabilities of New Mountain Finance Corporation as of March 31, 2014, and the related statements of operations, changes in net assets and cash flows for the three month periods ended March 31, 2014 and 2013 and we have reviewed the statement of assets and liabilities of New Mountain Finance AIV Holdings Corporation as of January 29, 2014, and the related statements of operations, changes in net assets and cash flows for the period January 1, 2014 to January 29, 2014 and for the three month period ended March 31, 2013. These interim financial statements are the responsibility of the management of New Mountain Finance Holdings, L.L.C., New Mountain Finance Corporation and New Mountain Finance AIV Holdings Corporation.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 14 to the interim financial statements New Mountain Finance AIV Holdings Corporation was dissolved on April 25, 2014. In addition, as discussed in Note 14 to the interim financial statements, on May 6, 2014 the stockholders of New Mountain Finance Corporation and the sole unit holder of New Mountain Finance Holdings, L.L.C, approved a proposal which authorized the board of directors of New Mountain Finance Holdings, L.L.C. to withdraw New Mountain Finance Holdings, L.L.C.'s election to be regulated as a business development company.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of assets, liabilities and members' capital of New Mountain Finance Holdings, L.L.C., including the consolidated schedule of investments, as of December 31, 2013 and the related consolidated statements of operations, changes in members' capital, and cash flows for the year then ended (not presented herein), and the statements of assets and liabilities of New Mountain Finance Corporation and New

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Mountain Finance AIV Holdings Corporation as of December 31, 2013, the related statements of operations, changes in net assets, and cash flows for the year then ended (not presented herein); and in our reports dated March 5, 2014, we expressed unqualified opinions on those financial statements and included an explanatory paragraph concerning New Mountain Finance AIV Holdings' decision to sell its remaining units in New Mountain Finance Holdings, L.L.C. and that it no longer owns any units in New Mountain Finance Holdings, L.L.C. In our opinion, the information set forth in the accompanying consolidated statement of assets, liabilities and members' capital of New Mountain Finance Holdings, L.L.C., including the consolidated schedule of investments, as of December 31, 2013 and the statements of assets and liabilities of New Mountain Finance Corporation and New Mountain Finance AIV Holdings Corporation as of December 31, 2013, is fairly stated, in all material respects, in relation to the consolidated statement of assets, liabilities, and members' capital of New Mountain Finance Holdings, L.L.C., including the consolidated schedule of investments, as of December 31, 2013 and the statements of assets and liabilities of New Mountain Finance Corporation and New Mountain Finance AIV Holdings Corporation as of December 31, 2013 from which they have been derived.

*/s/ DELOITTE & TOUCHE LLP*

New York, New York

May 7, 2014

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

The information in management's discussion and analysis of financial condition and results of operations relates to each of the three separate entities: New Mountain Finance Holdings, L.L.C., New Mountain Finance Corporation and New Mountain Finance AIV Holdings Corporation (collectively, we, us, our or the Companies). Information that relates to an individual entity will be specifically referenced by the respective company. None of the Companies makes any representation as to the information related solely to the other entities other than itself.

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

**Forward-Looking Statements**

The information contained in this section should be read in conjunction with the financial data and financial statements and combined notes thereto appearing elsewhere in this report. Some of the statements in this report (including in the following discussion) constitute forward-looking statements, which relate to future events or the future performance or financial condition of New Mountain Finance Holdings, L.L.C. (the Operating Company or the Master Fund), New Mountain Finance Corporation (NMFC) or New Mountain Finance AIV Holdings Corporation (AIV Holdings). The forward-looking statements contained in this section involve a number of risks and uncertainties, including:

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

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- actual and potential conflicts of interest with the Investment Adviser and other affiliates of New Mountain Capital Group, L.L.C.;

and

- the risk factors set forth in *Item 1A. Risk Factors* contained in our annual report on Form 10-K for the year ended December 31, 2013.

Forward-looking statements are identified by their use of such terms and phrases such as anticipate, believe, continue, could, estimate, expect, intend, may, plan, potential, project, seek, should, target, will, would or similar expressions. Actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in *Item 1A. Risk Factors* contained in our annual report on Form 10-K for the year ended December 31, 2013.

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

### Overview

The Operating Company is a Delaware limited liability company. The Operating Company is externally managed and has elected to be regulated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ). As such, the Operating Company is obligated to comply with certain regulatory requirements. The Operating Company was treated as a partnership for federal income tax purposes for so long as it had at least two members. With the completion of the underwritten secondary offering on February 3, 2014, the Operating Company's existence as a partnership for U.S. federal income tax purposes terminated and the Operating Company became an entity that is disregarded as a separate entity from its owner for U.S. federal tax purposes.



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The Operating Company is externally managed by 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 \$12.0 billion as of March 31, 2014, which includes total assets held by the Operating Company. 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.

NMFC is a Delaware corporation that was originally incorporated on June 29, 2010. NMFC is a closed-end, non-diversified management investment company that has elected to be regulated as a 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).

As of the quarter ended March 31, 2014 and until April 25, 2014, AIV Holdings was a Delaware corporation that was originally incorporated on March 11, 2011. Subsequent to the quarter ended March 31, 2014, AIV Holdings was dissolved on April 25, 2014, which is discussed further below. Guardian AIV, a Delaware limited partnership, was AIV Holdings' sole stockholder. AIV Holdings was a closed-end, non-diversified management investment company that had elected to be regulated as a BDC under the 1940 Act. As such, AIV Holdings was obligated to comply with certain regulatory requirements. AIV Holdings had elected to be treated, and complied 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 acquired all of the operations of the Predecessor Entities, including all of the assets and liabilities related to such operations.

NMFC is a holding company with no direct operations of its own, and its sole asset is its ownership in the Operating Company. Prior to the completion of the underwritten secondary public offering on February 3, 2014, AIV Holdings was a holding company with no direct operations of its own, and its sole asset was its ownership in the Operating Company. In connection with the IPO, NMFC and AIV Holdings each entered into a joinder agreement with respect to the Limited Liability Company Agreement, as amended and restated, 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 the Operating Company to its newly formed subsidiary, AIV Holdings, in exchange for common stock of AIV Holdings. AIV Holdings had the right to exchange all or any portion of its units in the Operating Company for shares of NMFC's common stock on a one-for-one basis at any time.

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

Since NMFC's IPO, and through March 31, 2014, NMFC raised approximately \$233.4 million in net proceeds from additional offerings of common stock and issued shares of its common stock valued at approximately \$288.4 million on behalf of AIV Holdings for exchanged units. NMFC acquired from the Operating Company units of the Operating Company equal to the number of

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shares of NMFC's common stock sold in additional offerings. With the completion of the final secondary offering on February 3, 2014, NMFC now owns 100.0% of the units of the Operating Company, which is now a wholly-owned subsidiary of NMFC.

As a BDC, AIV Holdings had been subject to the 1940 Act, including certain provisions applicable only to BDCs. Accordingly, and after careful consideration of the 1940 Act requirements applicable to BDCs, the cost of 1940 Act compliance and a thorough assessment of AIV Holdings' business model, AIV Holdings' board of directors had determined that continuation as a BDC was not in the best interests of AIV Holdings and Guardian AIV at the present time. Specifically, given that AIV Holdings was formed for the sole purpose of holding units of the Operating Company and AIV Holdings has disposed of all of the units of the Operating Company that it was holding as of February 3, 2014, the board of directors of AIV Holdings approved and declared advisable at an in-person meeting held on March 25, 2014 the withdrawal of AIV Holdings' election to be regulated as a BDC under the 1940 Act. In addition, the board of directors of AIV Holdings approved and declared advisable for AIV Holdings to terminate its registration under Section 12(g) of the Exchange Act and to dissolve AIV Holdings under the laws of the State of Delaware.

Upon receipt of necessary stockholder consent to authorize the board of directors of AIV Holdings to withdraw AIV Holdings' election to be regulated as a BDC, the withdrawal was filed subsequent to the quarter ended March 31, 2014 and became effective upon receipt by the Securities and Exchange Commission (SEC) of AIV Holdings' notification of withdrawal on Form N-54C on April 15, 2014. The board of directors of AIV Holdings believed that AIV Holdings met the requirements for filing the notification to withdraw its election to be regulated as a BDC, upon the receipt of the necessary stockholder consent. After the notification of withdrawal of AIV Holdings' BDC election was filed with the SEC subsequent to the quarter ended March 31, 2014, AIV Holdings is no longer subject to the regulatory provisions of the 1940 Act applicable to BDCs generally, including regulations related to insurance, custody, composition of its board of directors, affiliated transactions and any compensation arrangements.

In addition, subsequent to the quarter ended March 31, 2014, AIV Holdings filed a Form 15 with the SEC to terminate AIV Holdings' registration under Section 12(g) of the 1934 Act. After these SEC filings and any other federal or state regulatory or tax filings were made, AIV Holdings proceeded to dissolve under Delaware law by filing a certificate of dissolution in Delaware on April 25, 2014.

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

Subsequent to the quarter ended March 31, 2014, at the 2014 joint annual meeting of the stockholders of NMFC and the sole unit holder of the Operating Company, which was held on May 6, 2014, the stockholders of NMFC and the sole unit holder of the Operating Company approved a proposal which authorized the board of directors of the Operating Company to withdraw the Operating Company's election to be regulated as a BDC. Additionally, the stockholders of NMFC approved an investment advisory and management agreement between NMFC and the Investment Adviser. With this approval, the Operating Company's board of directors intends to withdraw the Operating Company's election to be regulated as a BDC under the 1940 Act and amend its Limited Liability Company Agreement, (as amended and restated, the Operating Agreement) such that the Operating Company will remain a wholly-owned subsidiary of NMFC with the sole purpose of serving as a special purpose vehicle for the Operating Company's existing credit facilities, and NMFC will assume all other operating activities previously undertaken by the Operating Company under the management of the Investment Adviser (collectively, the Restructuring). All of the current entities that will remain underneath NMFC after the Proposed Restructuring will be wholly-owned subsidiaries of NMFC and are expected to be consolidated with NMFC for both 1940 Act and financial statement reporting purposes, subject to any financial statement adjustments required in accordance with accounting principles generally accepted in the United States of America (GAAP). In addition, the board of directors has approved and declared advisable the termination of the Operating Company's registration under Section 12(g) of the Exchange Act.

After withdrawing the Operating Company's election to be regulated as a BDC under the 1940 Act, the Operating Company will amend its Operating Agreement such that the board of directors of the Operating Company will be dissolved, and the Operating Company remains a wholly-owned subsidiary of NMFC with the sole purpose of serving as a special purpose vehicle for the Operating Company's existing credit facilities. As a special purpose entity, the Operating Company will be bankruptcy-remote and non-recourse to NMFC. In addition, the assets remaining at the Operating Company will continue to be used to secure the Operating Company's current credit facilities.

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The diagram below depicts the Companies' organizational structure as of March 31, 2014.

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

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

\*\*\* Subsequent to the quarter ended March 31, 2014, AIV Holdings was dissolved on April 25, 2014.

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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.

As of March 31, 2014, the Operating Company's net asset value was \$697.1 million and its portfolio had a fair value of approximately \$1,180.2 million in 60 portfolio companies, with a weighted average Yield to Maturity at Cost of approximately 10.9%. This Yield to Maturity at Cost calculation assumes that all investments not on non-accrual are purchased at the estimated adjusted cost on the quarter end date and held until their respective maturities with no prepayments or losses and exited at par at maturity. This calculation excludes the impact of existing leverage. Yield to Maturity at Cost uses the London Interbank Offered Rate ( LIBOR ) curves at each quarter's respective end date. The actual yield to maturity may be higher or lower due to the future selection of the LIBOR contracts by the individual companies in the Operating Company's portfolio or other factors.

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**Recent Developments**

On April 15, 2014, NMFC completed a public offering of 3,500,000 shares of its common stock at a public offering price of \$14.30 per share, which resulted in net proceeds of \$51.0 million, or \$14.57 per share. NMFC's Investment Adviser agreed to pay the underwriting discounts and commissions in connection with this offering and an additional supplemental payment to the underwriters of \$0.9 million, or \$0.27 per share, which reflects the difference between the public offering price and the proceeds per share received by NMFC. In connection with the public offering, the underwriters purchased an additional 525,000 shares of NMFC's common stock with the exercise of the overallotment option to purchase up to an additional 525,000 shares of NMFC's common stock, resulting in additional net proceeds of \$7.6 million. NMFC's Investment Adviser agreed to pay the underwriting discounts and commissions in connection with this exercise of the overallotment option and an additional supplemental payment to the underwriters of \$0.1 million, or \$0.27 per share, which reflects the difference between the public offering price and the proceeds per share received by NMFC in this exercise of the overallotment option.

Upon receipt of the necessary stockholder consent to authorize the board of directors of AIV Holdings to withdraw AIV Holdings' election to be regulated as a BDC, the withdrawal was filed subsequent to the quarter ended March 31, 2014 and became effective upon receipt by the SEC of AIV Holdings' notification of withdrawal on Form N-54C on April 15, 2014. The board of directors of AIV Holdings believed that AIV Holdings met the requirements for filing the notification to withdraw its election to be regulated as a BDC, upon the receipt of the necessary stockholder consent. After the notification of withdrawal of AIV Holdings' BDC election was filed with the SEC subsequent to the quarter ended March 31, 2014, AIV Holdings is no longer subject to the regulatory provisions of the 1940 Act applicable to BDCs generally, including regulations related to insurance, custody, composition of its board of directors, affiliated transactions and any compensation arrangements.

In addition, subsequent to the quarter ended March 31, 2014, AIV Holdings filed a Form 15 with the SEC to terminate AIV Holdings' registration under Section 12(g) of the 1934 Act. After these SEC filings and any other federal or state regulatory or tax filings were made, AIV Holdings proceeded to dissolve under Delaware law by filing a certificate of dissolution in Delaware on April 25, 2014.

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

At the 2014 joint annual meeting of the stockholders of NMFC and the sole unit holder of the Operating Company, which was held on May 6, 2014, the stockholders of NMFC and the sole unit holder of the Operating Company approved a proposal which authorized the board of directors of the Operating Company to withdraw the Operating Company's election to be regulated as a BDC. Additionally, the stockholders of NMFC approved an investment advisory and management agreement between NMFC and the Investment Adviser. With this approval, the Operating Company's board of directors intends to withdraw the Operating Company's election to be regulated as a BDC under the 1940 Act and amend its Operating Agreement such that the Operating Company will remain a wholly-owned subsidiary of NMFC with the sole purpose of serving as a special purpose vehicle for the Operating Company's existing credit facilities, and NMFC will assume all other operating activities previously undertaken by the Operating Company under the management of the Investment Adviser (collectively, the "Restructuring"). All of the current entities that will remain underneath NMFC after the Restructuring will be wholly-owned subsidiaries of NMFC and are expected to be consolidated with NMFC for both 1940 Act and financial statement reporting purposes, subject to any financial statement adjustments required in accordance with GAAP. In addition, the board of directors has approved and declared advisable the termination of the Operating Company's registration under Section 12(g) of the Exchange Act.

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After withdrawing the Operating Company's election to be regulated as a BDC under the 1940 Act, the Operating Company will amend its Operating Agreement such that the board of directors of the Operating Company will be dissolved, and the Operating Company remains a wholly-owned subsidiary of NMFC with the sole purpose of serving as a special purpose vehicle for the Operating Company's existing credit facilities. As a special purpose entity, the Operating Company will be bankruptcy-remote and non-recourse to NMFC. In addition, the assets remaining at the Operating Company will continue to be used to secure the Operating Company's current credit facilities.

On May 6, 2014, the Operating Company's board of directors, and subsequently NMFC's board of directors, declared a second quarter 2014 distribution of \$0.34 per unit/share payable on June 30, 2014 to holders of record as of June 16, 2014.

On May 6, 2014, the Operating Company entered into a thirteenth amendment to the Holdings Credit Facility and NMF SLF entered into a thirteenth amendment to the SLF Credit Facility, both of which permit the Operating Company to withdraw the Operating Company's election to be regulated as a BDC under the 1940 Act and to amend its Operating Agreement such that the Operating Company will remain a wholly-owned subsidiary of NMFC with the sole purpose of serving as a special purpose vehicle for the Holdings Credit Facility and SLF Credit Facility.

### **Critical Accounting Policies**

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following items as critical accounting policies.

#### ***Basis of Accounting***

The 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 also industry practice to follow the presentation prescribed for a master fund-feeder fund structure in ASC 946 in instances in which a master fund is owned by more than one feeder fund and that such presentation provides stockholders of NMFC and AIV Holdings with a clearer depiction of their investment in the master fund.

#### ***Valuation and Leveling of Portfolio Investments***

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

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 its portfolio investments on a quarterly basis in good faith, including investments that are not publicly traded, those whose market prices are not readily available and any other situation where its portfolio investments require a fair value determination. Security transactions are accounted for on a trade date basis. The 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.

(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.

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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 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.

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For investments in revolving credit facilities and delayed draw commitments, the cost basis of the funded investments purchased is offset by any costs/netbacks received for any unfunded portion on the total balance committed. The fair value is also adjusted for the price appreciation or depreciation on the unfunded portion. As a result, the purchase of commitments not completely funded may result in a negative fair value until it is called and funded.

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

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

Level I Quoted prices (unadjusted) are available in active markets for identical investments and the 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 Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* (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;

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

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

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

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

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

| (in thousands)    | Total        | Level I  | Level II   | Level III  |
|-------------------|--------------|----------|------------|------------|
| First lien        | \$ 579,810   | \$       | \$ 520,837 | \$ 58,973  |
| Second lien       | 518,443      |          | 445,195    | 73,248     |
| Subordinated      | 14,530       |          | 9,359      | 5,171      |
| Equity and other  | 67,423       | 1,867    |            | 65,556     |
| Total investments | \$ 1,180,206 | \$ 1,867 | \$ 975,391 | \$ 202,948 |

NMFC is a holding company with no direct operations of its own, and its sole asset is its ownership in the Operating Company. Prior to the completion of the underwritten secondary public offering on February 3, 2014, AIV Holdings was a holding company with no direct operations of its own, and its sole asset was its ownership in the Operating Company. NMFC's and AIV Holdings' investments in the Operating Company are carried at fair value and represent the 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.

The Operating Company generally uses the following framework when determining the fair value of investments where there are little, if any, market activity or observable pricing inputs.

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

***Market Based Approach:*** The Operating Company may estimate the total enterprise value of each portfolio company by utilizing market value cash flow (EBITDA) multiples of publicly traded comparable companies. The Operating Company considers numerous factors when selecting the appropriate companies whose trading multiples are used to value its portfolio companies. These factors include, but are not limited to, the type of organization, similarity to the business being valued, relevant risk

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factors, as well as size, profitability and growth expectations. The Operating Company may apply an average of various relevant comparable company EBITDA multiples to the portfolio company's latest twelve month ( LTM ) EBITDA or projected EBITDA to calculate portfolio company enterprise value. In applying the market based approach as of March 31, 2014, the Operating Company used the relevant EBITDA ranges set forth in the table below to determine the enterprise value of investments in nine of its portfolio companies. The Operating Company believes this was a reasonable range in light of current comparable company trading levels and the specific companies involved.

**Income Based Approach:** The Operating Company also may use a discounted cash flow analysis to estimate the fair value of the investment. Projected cash flows represent the relevant security's contractual interest, fee and principal payments plus the assumption of full principal recovery at the investment's expected maturity date. These cash flows are discounted at a rate established utilizing a yield calibration approach, which incorporates changes in the credit quality (as measured by relevant statistics) of the portfolio company, as compared to changes in the yield associated with comparable credit quality market indices, between the date of origination and the valuation date. In applying the income based approach as of March 31, 2014, the Operating Company used the discount ranges set forth in the table below to value investments in ten of its portfolio companies.

(in thousands)

| Type             | Fair Value | Approach               | Unobservable Input     | Range |       | Weighted Average |
|------------------|------------|------------------------|------------------------|-------|-------|------------------|
|                  |            |                        |                        | Low   | High  |                  |
| First lien       | \$ 58,973  | Market approach        | EBITDA multiple        | 5.0x  | 10.0x | 7.6x             |
|                  |            | Income approach        | Discount rate          | 7.7%  | 13.8% | 10.2%            |
| Second lien      | 73,248     | Market approach        | EBITDA multiple        | 6.0x  | 10.0x | 7.3x             |
|                  |            | Income approach        | Discount rate          | 10.0% | 14.2% | 12.0%            |
| Subordinated     | 5,171      | Market approach        | EBITDA multiple        | 7.0x  | 9.0x  | 8.0x             |
|                  |            | Income approach        | Discount rate          | 8.4%  | 10.4% | 9.4%             |
| Equity and other | 65,556     | Market approach        | EBITDA multiple        | 1.7x  | 7.8x  | 6.4x             |
|                  |            | Income approach        | Discount rate          | 8.0%  | 18.0% | 13.9%            |
|                  | \$ 202,948 | Black Scholes analysis | Expected life in years | 2.0   | 4.0   | 2.4              |
|                  |            |                        | Volatility             | 22.6% | 36.9% | 29.1%            |
|                  |            |                        | Discount rate          | 0.3%  | 2.8%  | 0.7%             |

### **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

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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 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.

*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.

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*Other income:* Other income represents delayed compensation, consent or amendment fees, revolver fees, structuring 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. Structuring fees are recognized as income when earned, usually when paid at the closing of the investment.

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.

**Monitoring of Portfolio Investments**

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

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



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

As of March 31, 2014, all investments in the Operating Company's portfolio had an Investment Rating of 1 or 2 with the exception of two portfolio company names; one with an Investment Rating of 3 and the other with an Investment Rating of 4. As of

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March 31, 2014, the Operating Company's two super priority first lien positions in ATI Acquisition Company and related equity positions in Ancora Acquisition LLC had an Investment Rating of 4 due to the underlying business encountering significant regulatory constraints which have led to the portfolio company's underperformance. As of March 31, 2014, the Operating Company's two super priority first lien positions in ATI Acquisition Company remained on non-accrual status due to the inability of the portfolio company to service its interest payments for the quarter then ended and uncertainty about its ability to pay such amounts in the future. During the third quarter of 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 March 31, 2014, the Operating Company's investment in ATI Acquisition Company and Ancora Acquisition LLC had an aggregate cost basis of \$1.6 million, an aggregate fair value of \$0.4 million and total unearned interest income of \$0.1 million for the three months then ended. Unrealized gains (losses) include a fee that the Operating Company would receive upon maturity of the two super priority first lien debt investments.

**Portfolio and Investment Activity**

The fair value of the Operating Company's investments was approximately \$1,180.2 million in 60 portfolio companies at March 31, 2014 and approximately \$1,115.7 million in 59 portfolio companies at December 31, 2013.

The following table shows the Operating Company's portfolio and investment activity for the three months ended March 31, 2014 and March 31, 2013:

| (in millions)  | Three months ended |                |
|--|--------------------|----------------|
|  | March 31, 2014     | March 31, 2013 |
| New investments in 15 and 10 portfolio companies, respectively                   | \$ 158.7           | \$ 112.0       |
| Debt repayments in existing portfolio companies                                  | 40.6               | 61.6           |
| Sales of securities in 5 and 8 portfolio companies, respectively                 | 61.8               | 23.5           |
| Change in unrealized appreciation on 35 and 46 portfolio companies, respectively | 11.5               | 14.0           |
| Change in unrealized depreciation 27 and 17 portfolio companies, respectively    | (6.7)              | (2.1)          |

At March 31, 2014 and March 31, 2013, the Operating Company's weighted average Yield to Maturity at Cost was approximately 10.9% and 10.4%, respectively.

**Recent Accounting Standards Updates**

In June 2013, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2013-08, Financial Services Investment Companies (Topic 946) Amendments to the Scope, Measurement and Disclosure Requirements ( ASU 2013-08 ), which contains new guidance on assessing whether an entity is an investment company, requiring non-controlling ownership interests in investment companies to be measured at fair value and requiring certain additional disclosures. ASU 2013-08 is effective for interim and annual periods beginning after December 15, 2013. The adoption of ASU 2013-08 is not expected to have a material impact on the Companies' financial statements.

## Results of Operations

Since NMFC and AIV Holdings are holding companies with no direct operations of their own, and their only business and sole asset are their ownership of common membership units of the Operating Company, NMFC's and AIV Holdings' results of operations are based on the Operating Company's results of operations.

Under GAAP, NMFC's IPO did not step-up the cost basis of the Operating Company's existing investments to fair market value at the IPO date. Since the total value of the Operating Company's investments at the time of the IPO was greater than the investments' cost basis, a larger amount of amortization of purchase or original issue discount, and different amounts in realized gain and unrealized appreciation, may be recognized under GAAP in each period than if the step-up had occurred. This will remain until such predecessor investments are sold, repaid or mature in the future. The Operating Company tracks the transferred (or fair market) value of each of its investment as of the time of the IPO and, for purposes of the incentive fee calculation, adjusts income as if each investment was purchased at the date of the IPO (or stepped up to fair market value). The respective Adjusted Net Investment Income (defined as net investment income adjusted to reflect income as if the cost basis of investments held at the IPO date had stepped-up to fair market value as of the IPO date) is used in calculating both the incentive fee and dividend payments. See *Item 1. Financial Statements Note 5, Agreements* for additional details.

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The following table for the Operating Company for the three months ended March 31, 2014 is adjusted to reflect the step-up to fair market value and the allocation of the incentive fees related to hypothetical capital gains out of the adjusted post-incentive fee net investment income.

| (in thousands)  | Three months ended<br>March 31, 2014 | Stepped-up Cost<br>Basis Adjustments | Incentive Fee<br>Adjustments (1) | Adjusted three<br>months ended<br>March 31, 2014 |
|---|--------------------------------------|--------------------------------------|----------------------------------|--|
| <b>Investment income</b>  |                                      |                                      |                                  |  |
| Interest income   | \$ 28,139                            | \$ (42)                              | \$                               | \$ 28,097  |
| Dividend income   | 2,095                                |                                      |                                  | 2,095  |
| Other income  | 684                                  |                                      |                                  | 684  |
| Total investment income   | 30,918                               | (42)                                 |                                  | 30,876   |
| Total expenses pre-incentive fee (2)                              | 8,663                                |                                      |                                  | 8,663  |
| <b>Pre-Incentive Fee Net Investment Income</b>                    | <b>22,255</b>                        | <b>(42)</b>                          |                                  | <b>22,213</b>                                    |
| Incentive fee   | 5,970                                |                                      | (1,527)                          | 4,443  |
| <b>Post-Incentive Fee Net Investment Income</b>                   | <b>16,285</b>                        | <b>(42)</b>                          | <b>1,527</b>                     | <b>17,770</b>                                    |
| Net realized gains (losses) on investments                        | 2,780                                | (138)                                |                                  | 2,642  |
| Net change in unrealized appreciation of investments              | 4,814                                | 180                                  |                                  | 4,994  |
| Capital gains incentive fees                                      |                                      |                                      | (1,527)                          | (1,527)  |
| <b>Net increase in members' capital resulting from operations</b> | <b>\$ 23,879</b>                     |                                      |                                  | <b>\$ 23,879</b>                                 |

(1) For the three months ended March 31, 2014, the Operating Company incurred total incentive fees of \$6.0 million, of which \$1.5 million related to capital gains incentive fees on a hypothetical liquidation basis.

(2) Includes expense waivers and reimbursements of \$0.8 million.

For the three months ended March 31, 2014, the Operating Company had a less than \$0.1 million adjustment to interest income for amortization, a decrease of \$0.1 million to net realized gains and an increase of \$0.2 million to net change in unrealized appreciation to adjust for the stepped-up cost basis of the transferred investments as discussed above. For the three months ended March 31, 2014, total adjusted investment income of \$30.9 million consisted of approximately \$26.3 million in cash interest from investments, approximately \$0.8 million in PIK interest from investments, approximately \$0.3 million in prepayment fees, net amortization of purchase premiums and discounts and origination fees of approximately \$0.7 million, approximately \$2.1 million in dividend income and approximately \$0.7 million in other income. The Operating Company's Adjusted Net Investment Income was \$17.8 million for the three months ended March 31, 2014.

In accordance with GAAP, for the three months ended March 31, 2014, the Operating Company accrued \$1.5 million of hypothetical capital gains incentive fee based upon the cumulative net Adjusted Realized Capital Gains and Adjusted Realized Capital Losses and the cumulative net Adjusted Unrealized Capital Appreciation and Adjusted Unrealized Capital Depreciation on investments held at the end of each period. Actual amounts paid to the Investment Adviser are consistent with the Investment Management Agreement and are based only on actual Adjusted Realized Capital Gains computed net of all Adjusted Realized Capital Losses and Adjusted Unrealized Capital Depreciation on a cumulative basis from inception through the end of each calendar year as if the entire portfolio was sold at fair value. Approximately \$0.8 million of capital gains incentive fees would be owed under the Investment Management Agreement if the Operating Company had ceased operations as of March 31, 2014, as cumulative net Adjusted Realized Gains exceeded cumulative Adjusted Unrealized Depreciation.



Table of Contents**Results of Operations for the Operating Company for the Three Months Ended March 31, 2014 and March 31, 2013***Revenue*

| (in thousands)          | Three months ended |                | Percent Change |
|-------------------------|--------------------|----------------|----------------|
|                         | March 31, 2014     | March 31, 2013 |                |
| Interest income         | \$ 28,139          | \$ 25,043      | 12%            |
| Dividend income         | 2,095              |                | NM*            |
| Other income            | 684                | 275            | 149%           |
| Total investment income | \$ 30,918          | \$ 25,318      |                |

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\* Not meaningful.

The Operating Company's total investment income increased by \$5.6 million for the three months ended March 31, 2014 as compared to the three months ended March 31, 2013. The 22% increase in investment income results from the increase in interest and other income from the three months ended March 31, 2013 to the three months ended March 31, 2014, which was primarily attributable to larger invested balances, driven by the proceeds from the 2013 primary offerings of NMFC's common stock, the Operating Company's use of leverage from its revolving credit facilities to originate new investments and prepayment fees received associated with the early repayments or partial repayments of two different portfolio companies held by the Operating Company as of December 31, 2013. Additionally, the Operating Company's other income increased due to structuring fees received associated with two different portfolio companies and amendment and forbearance fees received associated with three different portfolio companies held by the Operating Company as of December 31, 2013. The increase in dividend income for the three months ended March 31, 2014 was attributable to distributions received from two portfolio companies, which were recorded as dividend income.

*Operating Expenses*

| (in thousands)                              | Three months ended |                | Percent Change |
|---|--------------------|----------------|----------------|
|   | March 31, 2014     | March 31, 2013 |                |
| Management fee                              | \$ 4,177           | \$ 3,568       | 17%            |
| Incentive fee                               | 4,442              | 3,458          | 28%            |
| Capital gains incentive fee (1)             | 1,527              | 2,682          | (43)%          |
| Interest and other credit facility expenses | 3,413              | 3,071          | 11%            |
| Professional fees                           | 862                | 572            | 51%            |
| Administrative expenses                     | 596                | 759            | (21)%          |
| Other general and administrative expenses   | 390                | 410            | (5)%           |
| Total expenses                              | 15,407             | 14,520         |                |
| Less: expenses waived and reimbursed        | (774)              | (829)          | (7)%           |
| Net expenses                                | \$ 14,633          | \$ 13,691      |                |

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

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The Operating Company's total net operating expenses increased by \$0.9 million for the three months ended March 31, 2014 as compared to the three months ended March 31, 2013. The Operating Company's management fee increased by \$0.6 million and incentive fee increased by \$1.0 million for the three months ended March 31, 2014 as compared to the three months ended March 31, 2013. The increase in management and incentive fees from the three months ended March 31, 2013 to the three months ended March 31, 2014 was attributable to larger invested balances, driven by the proceeds from the 2013 primary offerings of NMFC's common stock, the Operating Company's use of leverage from its revolving credit facilities to originate new investments and the receipt of a dividend distribution from one of the Operating Company's warrant investments. The Operating Company's capital gains incentive fees decreased \$1.2 million for the three months ended March 31, 2014 as compared to the three months ended March 31, 2013, which was attributable to lower net Adjusted Realized Capital Gains (Losses) and Adjusted Unrealized Capital Appreciation (Depreciation) of investments during the period. Approximately \$0.8 million of capital gains incentive fees would be owed under the Investment Management Agreement if the Operating Company had ceased operations as of March 31, 2014, as cumulative net Adjusted Realized Gains exceeded cumulative Adjusted Unrealized Depreciation.

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Interest and other credit facility expenses increased by \$0.3 million during the three months ended March 31, 2014, primarily due to the increase of average debt outstanding from \$198.9 million to \$232.8 million for the Holdings Credit Facility and from \$214.3 million to \$215.0 million for the SLF Credit Facility for the three months ended March 31, 2013 compared to March 31, 2014. During the three months ended March 31, 2014, the Operating Company incurred \$10.9 thousand in other expenses that were not subject to the expense cap pursuant to the administration agreement, as amended and restated (the Administration Agreement), with the Administrator, and further restricted by the Operating Company.

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

| (in thousands)   | Three months ended |                | Percent |
|--|--------------------|----------------|---------|
|  | March 31, 2014     | March 31, 2013 | Change  |
| Net realized gains on investments  | \$ 2,780           | \$ 1,044       | 166%    |
| Net change in unrealized appreciation (depreciation) of investments                              | 4,814              | 11,890         | (60)%   |
| Total net realized gains and net change in unrealized appreciation (depreciation) of investments | \$ 7,594           | \$ 12,934      |         |

The Operating Company's net realized and unrealized gains resulted in a net gain of \$7.6 million for the three months ended March 31, 2014 compared to a net gain of \$12.9 million for the same period in 2013. We look at net realized and unrealized gains or losses together as movement in unrealized appreciation or depreciation can be the result of realizations. The net gain for the three months ended March 31, 2014 and March 31, 2013 was primarily driven by the overall increase in the market prices of the Operating Company's investments during the period and driven by sales or repayments of investments with fair values in excess of December 31, 2013 and December 31, 2012 valuations, resulting in net realized gains being greater than the reversal of the cumulative net unrealized gains for those investments.

**Liquidity and Capital Resources**

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

Since NMFC's IPO, and through March 31, 2014, NMFC raised approximately \$233.4 million in net proceeds from additional offerings of common stock and issued shares valued at approximately \$288.4 million on behalf of AIV Holdings for exchanged units. NMFC acquired from the Operating Company units of the Operating Company equal to the number of shares of NMFC's common stock sold in the additional offerings.

On February 3, 2014, NMFC completed an underwritten secondary public offering of 2,325,000 shares of its common stock on behalf of a selling stockholder, AIV Holdings, at a public offering price of \$14.70 per share. In connection with the underwritten secondary public offering, the underwriters purchased an additional 346,938 shares of NMFC's common stock from AIV Holdings with the exercise of the overallotment option to purchase up to an additional 346,938 shares of common stock. NMFC did not receive any proceeds from the sale of shares of NMFC's common stock by AIV Holdings. The Operating Company and NMFC did not bear any expenses in connection with this offering. The offering expenses were borne by the selling stockholder, AIV Holdings. As of February 3, 2014, AIV Holdings no longer owns any units of the



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Operating Company and NMFC owns 100.0% of the outstanding units of the Operating Company. As a result, the Companies' current organizational structure may be collapsed or simplified in the future.

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

At March 31, 2014 and December 31, 2013, the Operating Company had cash and cash equivalents of approximately \$13.3 million and \$15.0 million, respectively. Cash used in operating activities for the three months ended March 31, 2014 and March 31, 2013 was approximately \$(36.6) million and \$(15.8) million, respectively. We expect that all current liquidity needs by the Operating Company will be met with cash flows from operations and other activities.

Table of Contents*Credit Facilities*

**Holdings Credit Facility** The Loan and Security Agreement, as amended and restated, dated May 19, 2011 (the Holdings 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, is structured as a revolving credit facility and matures on October 27, 2016, as amended on May 8, 2012.

The maximum amount of revolving borrowings available under the Holdings Credit Facility is \$280.0 million, as amended on October 28, 2013. As of March 31, 2014, the Operating Company was permitted to borrow up to 45.0% or 25.0% of the purchase price of pledged first lien or non-first lien debt securities, and up to 70.0% and 45.0% of the purchase price of specified first lien debt securities and specified non-first lien debt securities, respectively, subject to approval by Wells Fargo Bank, National Association. The Holdings Credit Facility is collateralized by all of the investments of the Operating Company on an investment by investment basis. All fees associated with the origination or upsizing of the Holdings Credit Facility are capitalized on the Operating Company's Consolidated Statement of Assets, Liabilities, and Members' Capital and charged against income as other credit facility expenses over the life of the Holdings Credit Facility. The Holdings Credit Facility contains certain customary affirmative and negative covenants and events of default, including the occurrence of a change in control. In addition, the Holdings Credit Facility requires the Operating Company to maintain a minimum asset coverage ratio. However, the covenants are generally not tied to mark to market fluctuations in the prices of the Operating Company's investments, but rather to the performance of the underlying portfolio companies.

The Holdings Credit Facility bears interest at a rate of the London Interbank Offered Rate ( LIBOR ) plus 2.75% per annum, as amended on May 8, 2012, and charges a non-usage fee, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the credit agreement).

The following table summarizes the interest expense and non-usage fees incurred by the Operating Company on the Holdings Credit Facility for the three months ended March 31, 2014 and March 31, 2013:

| (in millions)                  | Three months ended |                |
|--------------------------------|--------------------|----------------|
|                                | March 31, 2014     | March 31, 2013 |
| Interest expense               | \$ 1.7             | \$ 1.5         |
| Non-usage fee                  | 0.1                | (1)            |
| Weighted average interest rate | 2.9%               | 3.0%           |
| Average debt outstanding       | \$ 232.8           | \$ 198.9       |

(1) For the three months ended March 31, 2013, the total non-usage fee was less than \$50 thousand.

As of March 31, 2014 and December 31, 2013, the outstanding balance on the Holdings Credit Facility was \$271.8 million and \$221.8 million, respectively, and the Operating Company was not aware of any instances of non-compliance related to the Holdings Credit Facility on such dates.

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**SLF Credit Facility** NMF SLF's Loan and Security Agreement, as amended and restated, dated October 27, 2010 (the "SLF Credit Facility") among NMF SLF as the Borrower, 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, is structured as a revolving credit facility and matures on October 27, 2016, as amended on May 8, 2012. The maximum amount of revolving borrowings available under the SLF Credit Facility is \$215.0 million, as amended on December 18, 2012. The loan is non-recourse to the Operating Company and secured by all assets owned by the borrower on an investment by investment basis. All fees associated with the origination or upsizing of the SLF Credit Facility are capitalized on the Consolidated Statement of Assets, Liabilities, and Members' Capital and charged against income as other credit facility expenses over the life of the SLF Credit Facility. The SLF Credit Facility contains certain customary affirmative and negative covenants and events of default, including the occurrence of a change in control. The covenants are generally not tied to mark to market fluctuations in the prices of the Operating Company's investments, but rather to the performance of the underlying portfolio companies. Due to an amendment to the SLF Credit Facility on October 27, 2011, NMF SLF is no longer restricted from the purchase or sale of loans with an affiliate. Therefore, specified first lien loans can be moved as collateral between the Holdings Credit Facility and the SLF Credit Facility.

As of March 31, 2014, the SLF Credit Facility permits borrowings of up to 70.0% of the purchase price of pledged first lien debt securities and up to 25.0% of the purchase price of specified second lien loans, of which, up to 25.0% of the aggregate outstanding loan balance of all pledged debt securities in the SLF Credit Facility is allowed to be derived from second lien loans, subject to approval by Wells Fargo Bank, National Association, as amended on March 11, 2013.

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The SLF Credit Facility bears interest at a rate of LIBOR plus 2.00% per annum for first lien loans and 2.75% for second lien loans, respectively, as amended on March 11, 2013. A non-usage fee is paid, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the credit agreement).

The following table summarizes the interest expense and non-usage fees incurred by the Operating Company on the SLF Credit Facility for the three months ended March 31, 2014 and March 31, 2013:

| (in millions)                  | Three months ended |                |
|--------------------------------|--------------------|----------------|
|                                | March 31, 2014     | March 31, 2013 |
| Interest expense               | \$ 1.2             | \$ 1.2         |
| Non-usage fee                  | (1)                | (1)            |
| Weighted average interest rate | 2.2%               | 2.2%           |
| Average debt outstanding       | \$ 215.0           | \$ 214.3       |

(1) For the three months ended March 31, 2014 and March 31, 2013, the total non-usage fee was less than \$50 thousand.

As of March 31, 2014 and December 31, 2013, the outstanding balance on the SLF Credit Facility was \$215.0 million and \$214.7 million, respectively, and NMF SLF was not aware of any instances of non-compliance related to the SLF Credit Facility on such dates.

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

The Operating Company may become a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of its portfolio companies. These instruments may include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. As of March 31, 2014 and December 31, 2013, the Operating Company had outstanding commitments to third parties to fund investments totaling \$14.6 million and \$15.5 million, respectively, under various undrawn revolving credit facilities, delayed draw commitments or other future funding commitments.

The Operating Company may from time to time enter into financing commitment letters or bridge financing commitments, which could require funding in the future. As of March 31, 2014 and December 31, 2013, the Operating Company did not enter into any commitment letters to purchase debt investments. As of March 31, 2014 and December 31, 2013, the Operating Company had not entered into any bridge financing commitments, which could require funding in the future.

### ***Borrowings***

The Operating Company had borrowings of \$271.8 million and \$221.8 million outstanding as of March 31, 2014 and December 31, 2013, respectively, under the Holdings Credit Facility. The Operating Company had borrowings of \$215.0 million and \$214.7 million outstanding as

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of March 31, 2014 and December 31, 2013, respectively, under the SLF Credit Facility.

Table of Contents**Contractual Obligations**

A summary of the Operating Company's significant contractual payment obligations as of March 31, 2014 is as follows:

|                               | Total    | Less than<br>1 Year | Contractual Obligations<br>Payments Due by Period<br>(in millions) |                |                      |
|-------------------------------|----------|---------------------|--|----------------|----------------------|
|                               |          |                     | 1 - 3<br>Years   | 3 - 5<br>Years | More than<br>5 Years |
| Holdings Credit Facility(1)   | \$ 271.8 | \$                  | \$ 271.8   | \$             | \$                   |
| SLF Credit Facility(2)        | 215.0    |                     | 215.0  |                |                      |
| Total Contractual Obligations | \$ 486.8 | \$                  | \$ 486.8   | \$             | \$                   |

(1) Under the terms of the \$280.0 million Holdings Credit Facility, all outstanding borrowings under that facility (\$271.8 million as of March 31, 2014) must be repaid on or before October 27, 2016. As of March 31, 2014, there was approximately \$8.2 million of possible capacity remaining under the Holdings Credit Facility.

(2) Under the terms of the \$215.0 million SLF Credit Facility, all outstanding borrowings under that facility (\$215.0 million as of March 31, 2014) must be repaid on or before October 27, 2016. As of March 31, 2014, there was no capacity remaining under the SLF Credit Facility.

The Operating Company has certain contracts under which it has material future commitments. The Operating Company has \$14.6 million of undrawn funding commitments as of March 31, 2014 related to its participation as a lender in revolving credit facilities, delayed draw commitments or other future funding commitments of the Operating Company's portfolio companies. As of March 31, 2014, the Operating Company did not enter into any bridge financing commitments, which could require funding in the future.

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

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

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

*Distributions and Dividends*

Dividends declared and paid to stockholders / unit holders of the Companies for the three months ended March 31, 2014 totaled \$16.3 million.

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

| Fiscal Year Ended               | Date Declared     | Record Date        | Payment Date       | Per Share/<br>Unit<br>Amount |
|---------------------------------|-------------------|--------------------|--------------------|------------------------------|
| <b><i>December 31, 2014</i></b> |                   |                    |                    |                              |
| First Quarter                   | March 4, 2014     | March 17, 2014     | March 31, 2014     | \$ 0.34                      |
|                                 |                   |                    |                    | \$ 0.34                      |
| <b><i>December 31, 2013</i></b> |                   |                    |                    |                              |
| Fourth Quarter                  | November 8, 2013  | December 17, 2013  | December 31, 2013  | \$ 0.34                      |
| Third Quarter                   | August 7, 2013    | September 16, 2013 | September 30, 2013 | 0.34                         |
| Third Quarter                   | August 7, 2013    | August 20, 2013    | August 30, 2013    | 0.12(1)                      |
| Second Quarter                  | May 6, 2013       | June 14, 2013      | June 28, 2013      | 0.34                         |
| First Quarter                   | March 6, 2013     | March 15, 2013     | March 28, 2013     | 0.34                         |
|                                 |                   |                    |                    | \$ 1.48                      |
| <b><i>December 31, 2012</i></b> |                   |                    |                    |                              |
| Fourth Quarter                  | December 27, 2012 | December 31, 2012  | January 31, 2013   | \$ 0.14(2)                   |
| Fourth Quarter                  | November 6, 2012  | December 14, 2012  | December 28, 2012  | 0.34                         |
| Third Quarter                   | August 8, 2012    | September 14, 2012 | September 28, 2012 | 0.34                         |
| Second Quarter                  | May 8, 2012       | June 15, 2012      | June 29, 2012      | 0.34                         |
| Second Quarter                  | May 8, 2012       | May 21, 2012       | May 31, 2012       | 0.23(3)                      |
| First Quarter                   | March 7, 2012     | March 15, 2012     | March 30, 2012     | 0.32                         |
|                                 |                   |                    |                    | \$ 1.71                      |
| <b><i>December 31, 2011</i></b> |                   |                    |                    |                              |
| Fourth Quarter                  | November 8, 2011  | December 15, 2011  | December 30, 2011  | \$ 0.30                      |
| Third Quarter                   | August 10, 2011   | September 15, 2011 | September 30, 2011 | 0.29                         |
| Second Quarter                  | August 10, 2011   | August 22, 2011    | August 31, 2011    | 0.27                         |
|                                 |                   |                    |                    | \$ 0.86                      |
| <b>Total</b>                    |                   |                    |                    | <b>\$ 4.39</b>               |

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- (1) Special dividend related to a distribution received attributable to the Operating Company's investment in YP Equity Investors LLC.
  - (2) Special dividend intended to minimize to the greatest extent possible NMFC's federal income or excise tax liability.
  - (3) Special dividend related to estimated realized capital gains attributable to the Operating Company's investments in Lawson Software, Inc. and Infor Lux Bond Company.



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The following table summarizes AIV Holdings' quarterly cash distributions, including dividends and returns of capital, if any, that have been declared by the Operating Company's board of directors on a per share/unit basis, and subsequently AIV Holdings' board of directors, since NMFC's IPO:

| Fiscal Year Ended        | Date Declared     | Record Date             | Payment Date           | Amount<br>(in millions) |
|--------------------------|-------------------|-------------------------|------------------------|-------------------------|
| <b>December 31, 2013</b> |                   |                         |                        |                         |
| Fourth Quarter           | November 8, 2013  | December 17, 2013 (1)   | December 31, 2013      | \$ 0.9(2)               |
| Third Quarter            | August 7, 2013    | September 16, 2013 (3)  | September 30, 2013     | 2.2                     |
| Third Quarter            | August 7, 2013    | August 20, 2013 (3)     | August 30, 2013        | 0.8(4)                  |
| Second Quarter           | May 6, 2013       | June 14, 2013 (5)       | June 28, 2013          | 3.8(6)                  |
| First Quarter            | March 6, 2013     | March 15, 2013 (7)      | March 28, 2013 (8)     | 5.5(9)                  |
|                          |                   |                         |                        | \$ 13.2                 |
| <b>December 31, 2012</b> |                   |                         |                        |                         |
| Fourth Quarter           | December 27, 2012 | December 31, 2012 (7)   | January 31, 2013       | \$ 2.3(10)              |
| Fourth Quarter           | November 6, 2012  | December 14, 2012 (7)   | December 28, 2012 (11) | 5.5                     |
| Third Quarter            | August 8, 2012    | September 14, 2012 (12) | September 28, 2012     | 6.9(13)                 |
| Second Quarter           | May 8, 2012       | June 15, 2012 (12)      | June 29, 2012 (14)     | 6.9                     |
| Second Quarter           | May 8, 2012       | May 21, 2012 (12)       | May 31, 2012           | 4.6(15)                 |
| First Quarter            | March 7, 2012     | March 15, 2012 (12)     | March 30, 2012 (16)    | 6.5                     |
|                          |                   |                         |                        | \$ 32.7                 |
| <b>December 31, 2011</b> |                   |                         |                        |                         |
| Fourth Quarter           | November 8, 2011  | December 15, 2011 (12)  | December 30, 2011      | \$ 6.1                  |
| Third Quarter            | August 10, 2011   | September 15, 2011 (12) | September 30, 2011     | 5.9                     |
| Second Quarter           | August 10, 2011   | August 22, 2011 (12)    | August 31, 2011        | 5.4                     |
|                          |                   |                         |                        | \$ 17.4                 |
| <b>Total</b>             |                   |                         |                        | <b>\$ 63.3</b>          |

(1) As of the record date, AIV Holdings owned 2,671,938 units of the Operating Company. AIV Holdings received a total dividend for the amounts and subsequently AIV Holdings' board of directors declared total dividends in the same amounts payable to the holders of record as of the record date.

(2) This amount does not include the distribution to Guardian AIV of \$54.2 million in connection with net proceeds from the October 17, 2013 underwritten secondary public offering of NMFC's common stock on behalf of AIV Holdings.

(3) As of the record date, AIV Holdings owned 6,571,938 units of the Operating Company. AIV Holdings received a total dividend for the amounts and subsequently AIV Holdings' board of directors declared total dividends in the same amounts payable to the holders of record as of the record date.

(4) Special dividend related to a distribution received attributable to the Operating Company's investment in YP Equity Investors LLC.

(5) As of the record date, AIV Holdings owned 11,321,938 units of the Operating Company. AIV Holdings received a total dividend for the amounts and subsequently AIV Holdings' board of directors declared total dividends in the same amounts payable to the holders of record as of the record date.

(6) This amount does not include the distribution to Guardian AIV of \$66.9 million in connection with net proceeds from the June 21, 2013 underwritten secondary public offering of NMFC's common stock on behalf of AIV Holdings.

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- (7) As of the respective record dates, AIV Holdings owned 16,221,938 units of the Operating Company. AIV Holdings received a total dividend for the respective amounts and subsequently AIV Holdings board of directors declared total dividends in the same amounts payable to the holders of record as of the respective record dates.
- (8) Actual cash payment was made on April 5, 2013.
- (9) This amount does not include the distribution to Guardian AIV of \$67.8 million in connection with net proceeds from the March 25, 2013 underwritten secondary public offering of NMFC's common stock on behalf of AIV Holdings.
- (10) Special dividend intended to minimize to the greatest extent possible NMFC's federal income or excise tax liability.
- (11) Actual cash payment was made on January 7, 2013.
- (12) As of the respective record dates, AIV Holdings owned 20,221,938 units of the Operating Company. AIV Holdings received a total dividend for the respective amounts and subsequently AIV Holdings board of directors declared total dividends in the same amounts payable to the holders of record as of the respective record dates.
- (13) This amount does not include the distribution to Guardian AIV of \$58.2 million in connection with net proceeds from the September 28, 2012 underwritten secondary public offering of NMFC's common stock on behalf of AIV Holdings.

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- (14) Actual cash payment was made on July 9, 2012.
- (15) Special dividend related to estimated realized capital gains attributable to the Operating Company's investments in Lawson Software, Inc. and Infor Lux Bond Company.
- (16) Actual cash payment was made on April 4, 2012.

Tax characteristics of all dividends paid by NMFC and AIV Holdings were reported to stockholders on Form 1099 after the end of the calendar year. Future quarterly dividends, if any, for the Companies will be determined by their respective board of directors.

Since NMFC is a holding company, all distributions on its common stock will be paid from distributions received from the Operating Company. The Operating Company intends to make distributions to its unit holder that will be sufficient to enable NMFC to pay quarterly distributions to its stockholders and to maintain its status as a RIC. AIV Holdings was a holding company and all distributions on its common stock were paid from distributions received from the Operating Company. The Operating Company made distributions to its unit holder that were sufficient to enable AIV Holdings to pay quarterly distributions to its stockholders and maintain its status as a RIC. Under certain circumstances, the distributions that the Operating Company made to its members may not have been sufficient for AIV Holdings to satisfy the annual distribution requirement necessary for AIV Holdings to have qualified as a RIC. In that case, it was 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 was required to include the consent dividend in its taxable income as a dividend from AIV Holdings, which would have resulted in phantom (i.e., non-cash) taxable income to Guardian AIV. AIV Holdings made quarterly distributions to Guardian AIV out of assets legally available for distribution each quarter. NMFC intends to distribute approximately its entire portion of the Operating Company's Adjusted Net Investment Income on a quarterly basis and substantially its entire portion of the Operating Company's taxable income on an annual basis, except that it may retain certain net capital gains for reinvestment.

NMFC maintains an "opt out" dividend reinvestment plan for its common stockholders. As a result, if the Operating Company declares a dividend, then NMFC stockholders' cash dividends will be automatically reinvested in additional shares of NMFC's common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash dividends. Cash dividends reinvested in additional shares of NMFC's common stock will be automatically reinvested by NMFC in the Operating Company in exchange for additional units of the Operating Company. See *Item 1 Financial Statements Note 2, Summary of Significant Accounting Policies* for additional details regarding NMFC's dividend reinvestment plan.

AIV Holdings did not reinvest any distributions received in additional units of the Operating Company.

**Related Parties**

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

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- With the completion of the secondary offering on February 3, 2014, NMFC now owns 100.0% of the units of the Operating Company.
- The Operating Company has entered into the Investment Management Agreement with the Investment Adviser, a wholly-owned subsidiary of New Mountain Capital. Therefore, New Mountain Capital is entitled to any profits earned by the Investment Adviser, which includes any fees payable to the Investment Adviser under the terms of the Investment Management Agreement, less expenses incurred by the Investment Adviser in performing its services under the Investment Management Agreement.
- The Companies have entered into an Administration Agreement, with the Administrator, a wholly-owned subsidiary of New Mountain Capital. The Administrator arranges office space for the Companies and provides office equipment and administrative services necessary to conduct their respective day-to-day operations pursuant to the Administration Agreement. The Operating Company reimburses the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations to the Companies under the Administration Agreement, including rent, the fees and expenses associated with performing administrative, finance, and compliance functions, and the compensation of the Operating Company's chief financial officer and chief compliance officer and their respective staffs. Pursuant to the Administration Agreement and further restricted by the Operating Company, expenses payable to the Administrator by the Operating Company as well as other direct and indirect expenses (excluding interest, other credit facility expense, trading expenses and management and incentive fees) has been capped at \$3.5 million for the time period from April 1, 2012 to March 31, 2013 and capped at \$4.25 million for the time period from April 1, 2013 to March 31, 2014. The expense cap expired on March 31, 2014. Thereafter, the Administrator may, in its own discretion, submit to the Operating Company for reimbursement some or all of the expenses that the Administrator has incurred on behalf of the Operating Company during any quarterly period. As a result, the amount of expenses for which the Operating Company will have to reimburse the Administrator may fluctuate in future quarterly periods and there can be no assurance given as to when, or if, the Administrator may determine to limit the expenses that the Administrator

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submits to the Operating Company for reimbursement in the future. However, it is expected that the Administrator will continue to support part of the expense burden of the Operating Company in the near future.

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

In addition, NMFC and the Operating Company have adopted a formal code of ethics that governs the conduct of their respective officers and directors. These officers and directors also remain subject to the duties imposed by the 1940 Act, the Delaware General Corporation Law and the Delaware Limited Liability Company Act.

The Investment Adviser and its affiliates may also manage other funds in the future that may have investment mandates that are similar, in whole and in part, with the Operating Company's investment mandates. The Investment Adviser and its affiliates may determine that an investment is appropriate for the Operating Company and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, the Investment Adviser or its affiliates may determine that we should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the Securities and Exchange Commission and its staff, and consistent with the Investment Adviser's allocation procedures.

Concurrently with the IPO, NMFC sold an additional 2,172,000 shares of its common stock to certain executives and employees of, and other individuals affiliated with, New Mountain Capital in the Concurrent Private Placement.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Operating Company is subject to certain financial market risks, such as interest rate fluctuations. During the three months ended March 31, 2014, certain of the loans held in the Operating Company's portfolio had floating interest rates. As of March 31, 2014, approximately 86% of investments at fair value (excluding investments on non-accrual, revolvers, and non-interest bearing equity investments) represent floating-rate investments with a LIBOR floor (includes investments bearing prime interest rate contracts) and approximately 14% of investments represent fixed-rate investments. Additionally, the Operating Company's senior secured revolving credit facilities are also subject to floating interest rates and are currently paid based on one-month floating LIBOR rates.

The following table estimates the potential changes in net cash flow generated from interest income and expenses, should interest rates increase by 100, 200 or 300 basis points, or decrease by 25 basis points. Interest income is calculated as revenue from interest generated from the Operating Company's portfolio of investments held on March 31, 2014. Interest expense is calculated based on the terms of the Operating Company's two outstanding revolving credit facilities. For the Operating Company's floating rate credit facilities, the Operating Company uses the outstanding balance as of March 31, 2014. Interest expense on the Operating Company's floating rate credit facilities are calculated using the interest rate as of March 31, 2014, adjusted for the hypothetical changes in rates, as shown below. The base interest rate case assumes the rates on the Operating Company's portfolio investments remain unchanged from the actual effective interest rates as of March 31, 2014. These hypothetical calculations are based on a model of the investments in our portfolio, held as of March 31, 2014, and are only adjusted for assumed changes in the underlying base interest rates.

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

| <b>Change in Interest Rates</b> | <b>Estimated<br/>Percentage<br/>Change in Interest<br/>Income Net of<br/>Interest Expense (unaudited)</b> |
|---------------------------------|---|
| -25 Basis Points                | 0.74% (1)   |
| Base Interest Rate              | %   |
| +100 Basis Points               | (4.44)%   |
| +200 Basis Points               | (0.13)%   |
| +300 Basis Points               | 5.17%   |

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(1) Limited to the lesser of the March 31, 2014 LIBOR rates or a decrease of 25 basis points.

The Operating Company was not exposed to any foreign currency exchange risks as of March 31, 2014.

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**Item 4. Controls and Procedures**

*(a) Evaluation of Disclosure Controls and Procedures*

As of March 31, 2014 (the end of the period covered by this report), we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Act of 1934, as amended). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic Securities and Exchange Commission filings is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

*(b) Changes in Internal Controls Over Financial Reporting*

Management has not identified any change in the Companies' internal control over financial reporting that occurred during the quarter ended March 31, 2014 that has materially affected, or is reasonably likely to materially affect, the Companies' internal control over financial reporting.

**PART II. OTHER INFORMATION**

*The terms we, us, our and the Companies refers to the collective: New Mountain Finance Holdings, L.L.C., New Mountain Finance Corporation and New Mountain Finance AIV Holdings Corporation.*

**Item 1. Legal Proceedings**

The Companies, the Investment Adviser and the Administrator are not currently subject to any material pending legal proceedings threatened against us as of March 31, 2014. From time to time, we may be a party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our business, financial condition or results of operations.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in *Item 1A. Risk Factors* in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing the Companies. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results. There have been no material changes during the three months ended March 31, 2014 to the risk factors discussed in *Item 1A. Risk Factors* in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

We did not engage in unregistered sales of securities during the quarter ended March 31, 2014.

**Issuer Purchases of Equity Securities**

For the quarter ended March 31, 2014, NMFC did not purchase any of its common stock in the open market.

**Item 3. Defaults Upon Senior Securities**

None.



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**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

(a) Exhibits

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

| <b>Exhibit Number</b> | <b>Description</b>  |
|-----------------------|---|
| 2.1                   | Merger Agreement, dated May 19, 2011 by and between New Mountain Finance Holdings, L.L.C. and New Mountain Guardian Debt Funding, L.L.C.(5)                       |
| 2.2                   | Merger Agreement, dated May 19, 2011 by and between New Mountain Guardian Partners Debt Funding, L.L.C. and New Mountain Guardian Partners (Leveraged), L.L.C.(5) |
| 2.3                   | Merger Agreement, dated May 19, 2011 by and between New Mountain Finance Holdings, L.L.C. and New Mountain Guardian Partners (Leveraged), L.L.C.(5)               |
| 3.1(a)                | Certificate of Incorporation of New Mountain Guardian Corporation(3)  |
| 3.1(b)                | Certificate of Amendment to Certificate of Incorporation of New Mountain Guardian Corporation changing its name to New Mountain Finance Corporation(1)            |
| 3.1(c)                | Amended and Restated Certificate of Incorporation of New Mountain Finance Corporation(4)  |
| 3.1(d)                | Certificate of Formation of New Mountain Guardian (Leveraged), L.L.C.(1)  |
| 3.1(e)                | Certificate of Amendment to Certificate of Formation of New Mountain Guardian (Leveraged), L.L.C. changing its name to New Mountain Finance Holdings, L.L.C.(5)   |
| 3.1(f)                | Certificate of Incorporation of New Mountain Finance AIV Holdings Corporation(6)  |

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- 3.1(g) Amended and Restated Certificate of Incorporation of New Mountain Finance AIV Holdings Corporation(9)
- 3.1(h) Certificate of Change of Registered Agent and/or Registered Office of New Mountain Finance Corporation(7)
- 3.1(i) Certificate of Change of Registered Agent and/or Registered Office of New Mountain Finance AIV Holdings Corporation(7)
- 3.2(a) Bylaws of New Mountain Finance Corporation(3)
- 3.2(b) Amended and Restated Bylaws of New Mountain Finance Corporation(4)
- 3.3 Bylaws of New Mountain Finance AIV Holdings Corporation(6)
- 4.1 Form of Stock Certificate of New Mountain Finance Corporation(1)
- 4.2 Form of Stock Certificate of New Mountain Finance AIV Holdings Corporation(2)
- 10.1 Amended and Restated Limited Liability Company Agreement of New Mountain Finance Holdings, L.L.C.(5)

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| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 10.2                      | First Joinder Agreement with Respect to the Amended and Restated Limited Liability Company Agreement of New Mountain Finance Holdings, L.L.C.(5)   |
| 10.3                      | Second Joinder Agreement with Respect to the Amended and Restated Limited Liability Company Agreement of New Mountain Finance Holdings, L.L.C.(5)  |
| 10.4                      | Amendment No. 1 to the Amended and Restated Limited Liability Company Agreement of New Mountain Finance Holdings, L.L.C.(8)  |
| 10.5                      | Letter Agreement relating to entry into Amended and Restated Loan and Security Agreement by and among New Mountain Finance Holdings, L.L.C., as Borrower and Collateral Administrator, each of the lenders thereto, Wells Fargo Securities, LLC, as Administrative Agent and Wells Fargo Bank, National Association, as Collateral Custodian.(1) |
| 10.6                      | Form of Variable Funding Note of New Mountain Finance Holdings, L.L.C., as the Borrower(1)   |
| 10.7                      | Form of Amended and Restated Account Control Agreement among New Mountain Finance Holdings, L.L.C., Wells Fargo Securities, LLC as the Administrative Agent and Wells Fargo Bank, National Association, as Securities Intermediary(1)  |
| 10.8                      | First Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent and Wells Fargo Bank, N.A., as Lender(8)  |
| 10.9                      | Second Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent and Wells Fargo Bank, N.A., as Lender(8)   |
| 10.10                     | Third Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities LLC, as Administrative Agent and Wells Fargo Bank, N.A., as Lender(8)   |
| 10.11                     | Sixth Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities LLC, as Administrative Agent and Wells Fargo Bank, N.A., as Lender (11)   |
| 10.12                     | Seventh Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender (12)   |
| 10.13                     | Eighth Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender (13)  |
| 10.14                     | Ninth Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender (15)   |
| 10.15                     | Tenth Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender (16)   |
| 10.16                     | Eleventh Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender (17)  |
| 10.17                     | Twelfth Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance   |

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| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
|                           | Holdings, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender (18)   |
| 10.18                     | Loan and Security Agreement by and among New Mountain Guardian (Leveraged), L.L.C., as Collateral Administrator, New Mountain Guardian SPV Funding, L.L.C., as Borrower, each of the lenders party thereto, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender (1) |
| 10.19                     | First Amendment to Loan and Security Agreement between New Mountain Guardian SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender(1)   |
| 10.20                     | Second Amendment to Loan and Security Agreement between New Mountain Guardian SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender(1)  |
| 10.21                     | Third Amendment to Loan and Security Agreement between New Mountain Guardian SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender(8)   |
| 10.22                     | Fourth Amendment to Loan and Security Agreement between New Mountain Finance SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender(8)   |
| 10.23                     | Fifth Amendment to Loan and Security Agreement between New Mountain SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender(8)  |
| 10.24                     | Ninth Amendment to Loan and Security Agreement between New Mountain SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent and Wells Fargo Bank, N.A., as Lender(11)  |
| 10.25                     | Tenth Amendment to Loan and Security Agreement between New Mountain SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender(12)   |
| 10.26                     | Eleventh Amendment to Loan and Security Agreement between New Mountain SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender(13)  |
| 10.27                     | Twelfth Amendment to Loan and Security Agreement between New Mountain SPV Funding, L.L.C. , as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender (14)   |
| 10.28                     | Account Control Agreement by and between New Mountain Guardian SPV Funding, L.L.C., as Pledgor, Wells Fargo Securities, LLC, as Administrative Agent on behalf of the Secured Parties, and Wells Fargo Bank, N.A., as Securities Intermediary(1)  |
| 10.29                     | Variable Funding Note of New Mountain Guardian SPV Funding, L.L.C., as the Borrower(11)   |
| 10.30                     | Form of Amended and Restated Investment Advisory and Management Agreement(10)   |
| 10.31                     | Form of Safekeeping Agreement among New Mountain Finance Holdings, L.L.C., Wells Fargo Securities, LLC as the Administrative Agent and Wells Fargo Bank, National Association, as Safekeeping Agent(1)  |
| 10.32                     | Custody Agreement by and between New Mountain Finance Corporation and U.S. Bank National Association(19)  |
| 10.33                     | Amended and Restated Administration Agreement(8)  |
| 10.34                     | Form of Trademark License Agreement(1)  |
| 10.35                     | Amendment No. 1 to Trademark License Agreement(8)   |
| 10.36                     | Form of Registration Rights Agreement(1)  |

10.37 Form of Indemnification Agreement by and between New Mountain Finance Corporation and each director(1)

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| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 10.38                     | Form of Indemnification Agreement by and between New Mountain Finance Holdings, L.L.C. and each director(1)   |
| 10.39                     | Dividend Reinvestment Plan(4)   |
| 11.1                      | Computation of Per Share Earnings for New Mountain Finance Corporation (included in the notes to the financial statements contained in this report) |
| 31.1                      | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended                              |
| 31.2                      | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended                              |
| 32.1                      | Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)                                 |
| 32.2                      | Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)                                 |

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

(2) Previously filed in connection with New Mountain Finance AIV Holdings Corporation's registration statement on Form 10 (File No. 000-54412), filed May 19, 2011.

(3) Previously filed in connection with New Mountain Finance Corporation's registration statement on Form N-2 (File No. 333-168280) filed on July 22, 2010.

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

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

(6) Previously filed in connection with New Mountain Finance AIV Holdings Corporation's quarterly report on Form 10-Q filed on August 23, 2011.

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

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- (8) Previously filed in connection with New Mountain Finance Corporation's quarterly report on Form 10-Q filed on November 14, 2011.
- (9) Previously filed in connection with New Mountain Finance AIV Holdings Corporation's report on Form 8-K filed on February 29, 2012.
- (10) Previously filed as Annex A to New Mountain Finance Corporation's, New Mountain Finance Holdings, L.L.C.'s and New Mountain Finance AIV Holdings Corporation's Joint Proxy Materials on Schedule 14A filed on March 28, 2012.
- (11) Previously filed in connection with New Mountain Finance Corporation's quarterly report on Form 10-Q filed on May 8, 2012.
- (12) Previously filed in connection with New Mountain Finance Corporation's quarterly report on Form 10-Q filed on August 8, 2012.

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- (13) Previously filed in connection with New Mountain Finance Holdings, L.L.C. s report on Form 8-K filed on December 21, 2012.
- (14) Previously filed in connection with New Mountain Finance Holdings, L.L.C. s report on Form 8-K filed on March 13, 2013.
- (15) Previously filed in connection with New Mountain Finance Holdings, L.L.C. s report on Form 8-K filed on April 1, 2013.
- (16) Previously filed in connection with New Mountain Finance Holdings, L.L.C. s report on Form 8-K filed on June 26, 2013.
- (17) Previously filed in connection with New Mountain Finance Holdings, L.L.C. s report on Form 8-K filed on October 29, 2013.
- (18) Previously filed in connection with New Mountain Finance Holdings, L.L.C. s report on Form 8-K filed on March 25, 2014.
  
- (17) Previously filed in connection with New Mountain Finance Corporation s registration statement on Form N-2 Post-Effective Amendment No. 2 (File Nos. 333-189706 and 333-189707) filed on April 11, 2014.



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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on May 7, 2014.

NEW MOUNTAIN FINANCE HOLDINGS, L.L.C.  
NEW MOUNTAIN FINANCE CORPORATION

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

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