

New Mountain Finance Holdings, L.L.C.

Form 497

December 03, 2012

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**Filed Pursuant to Rule 497  
Registration Statement Nos. 333-180689 and 333-180690**

This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, as amended, but the information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and are not soliciting an offer to buy these securities in any jurisdiction where the offer and sale is not permitted.

Subject to Completion, Dated December 3, 2012

PRELIMINARY PROSPECTUS SUPPLEMENT

(to Prospectus dated July 10, 2012)

3,000,000 Shares

## **New Mountain Finance Corporation**

Common Stock

New Mountain Finance Corporation ( NMFC ) is a holding company with no direct operations of its own, and its only business and sole asset is its ownership of common membership units of New Mountain Finance Holdings, L.L.C. (the Operating Company ). The Operating Company is an externally managed business development company managed by New Mountain Finance Advisers BDC, L.L.C. and is the operating company for NMFC s business. NMFC and the Operating Company each have elected to be treated as a business development company under the Investment Company Act of 1940. 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. Prior to this offering, NMFC owned approximately 56.1% of the common membership units of the Operating Company and New Mountain Finance AIV Holdings Corporation owned approximately 43.9% of the common membership units of the Operating Company.

We are offering for sale 3,000,000 shares of NMFC s common stock. We have granted the underwriters a 30-day option to purchase up to 450,000 additional shares of NMFC s common stock at the public offering price, less the underwriting discounts and commissions.

NMFC s common stock is listed on the New York Stock Exchange under the symbol NMFC . On November 30, 2012, the last reported sales price on the New York Stock Exchange for NMFC s common stock was \$15.18 per share.

*An investment in NMFC s common stock is very risky and highly speculative. Shares of closed-end investment companies, including business development companies, frequently trade at a discount to their net asset value. In addition, the companies in which NMFC invests, through the Operating Company, are subject to special risks. See Risk Factors beginning on page 19 of the accompanying prospectus to read about factors you should consider, including the risk of leverage, before investing in NMFC s common stock.*

This prospectus supplement and the accompanying prospectus contain important information about NMFC and the Operating Company that a prospective investor should know before investing in NMFC s common stock. Please read this prospectus supplement and the accompanying prospectus before investing and keep it for future reference. NMFC and the Operating Company file annual, quarterly and current reports, proxy statements and other information with the Securities and

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Exchange Commission (<http://www.sec.gov>), which is available free of charge by contacting NMFC by mail at 787 Seventh Avenue, 48th Floor, New York, New York 10019 or on our website at <http://www.newmountainfinance.com>. Information contained on our website is not incorporated by reference into this prospectus supplement and the accompanying prospectus, and you should not consider that information to be part of this prospectus supplement and the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total(2)
Public Offering Price	\$	\$
Sales Load (Underwriting Discounts and Commissions)(1)	\$	\$
Proceeds to us (before expenses)	\$	\$

- (1) New Mountain Finance Advisers BDC, L.L.C. (the Investment Adviser) has agreed to bear an additional \$ or \$ per share, of sales load in connection with this offering, which is not reflected in the above table. All other expenses of the offering, including the sales load not being borne by the Investment Adviser, will be borne by the Operating Company. The Operating Company will incur approximately \$181,254 of estimated expenses, excluding the sales load, in connection with this offering. Stockholders will indirectly bear such expenses, including the sales load not being borne by the Investment Adviser, through NMFC's ownership of common membership units of the Operating Company.
- (2) To the extent that the underwriters sell more than 3,000,000 shares of NMFC's common stock, the underwriters have the option to purchase up to an additional 450,000 shares of NMFC's common stock at the public offering price, less the sales load, within 30 days of the date of this prospectus supplement. If the underwriters exercise this option in full, the total public offering price, sales load and proceeds to us will be \$ , \$ and \$ , respectively. If the underwriters exercise their option to purchase additional shares of NMFC's common stock, NMFC will use the proceeds from the exercise of this option to purchase additional common membership units of the Operating Company.

The underwriters expect to deliver the shares against payment in New York, New York on or about , 2012.

*Joint-Lead Bookrunners*

**Goldman, Sachs & Co.**

**Wells Fargo Securities**

*Co-Lead Managers*

**RBC Capital Markets**

**Stifel Nicolaus Weisel**

Prospectus Supplement dated , 2012.

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

**You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. Neither we nor the underwriters have authorized any other person to provide you with different information from that contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell, or a solicitation of an offer to buy, any shares of our common stock by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. The information contained in this prospectus supplement and the accompanying prospectus is complete and accurate only as of their respective dates, regardless of the time of their delivery or sale of our common stock. This prospectus supplement supersedes the accompanying prospectus to the extent it contains information different from or additional to the information in that prospectus.**

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of common stock and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. To the extent the information contained in this prospectus supplement differs from the information contained in the accompanying prospectus, the information in this prospectus supplement shall control. Please carefully read this prospectus supplement and the accompanying prospectus together with any exhibits and the additional information described under Available Information and in the Summary and Risk Factors sections before you make an investment decision.

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**PROSPECTUS SUPPLEMENT SUMMARY**

*This summary highlights some of the information in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read carefully the more detailed information set forth under Risk Factors and the other information included in this prospectus supplement and the accompanying prospectus.*

*In this prospectus supplement, unless the context otherwise requires, references to:*

*NMFC refers to New Mountain Finance Corporation, a Delaware corporation, which was incorporated on June 29, 2010 in preparation for the initial public offering;*

*NMF SLF refers to New Mountain Finance SPV Funding, L.L.C.;*

*Operating Company refers to New Mountain Finance Holdings, L.L.C., a Delaware limited liability company, which is the operating company for our business. References to the Operating Company include New Mountain Finance Holdings, L.L.C.'s wholly-owned subsidiary, NMF SLF, unless the context otherwise requires. References to the Operating Company exclude NMF SLF when referencing the Operating Company's common membership units, board of directors, and credit facility or leverage;*

*Guardian AIV refers to New Mountain Guardian AIV, L.P.;*

*AIV Holdings refers to New Mountain Finance AIV Holdings Corporation, a Delaware corporation which was incorporated on March 11, 2011, of which Guardian AIV is the sole stockholder;*

*New Mountain Finance Entities, we, us and our refer to NMFC, the Operating Company and AIV Holdings, collectively; except for references to the registration statement of which this prospectus forms a part and the offering of securities thereunder, in which case references to we, us and our refer to NMFC and the Operating Company only.*

*Investment Adviser refers to New Mountain Finance Advisers BDC, L.L.C., the Operating Company's investment adviser;*

*Administrator refers to the New Mountain Finance Entities' administrator, New Mountain Finance Administration, L.L.C.;*

*New Mountain Capital refers to New Mountain Capital Group, L.L.C. and its affiliates;*

*Predecessor Entities refers to New Mountain Guardian (Leveraged), L.L.C. and New Mountain Guardian Partners, L.P., together with their respective direct and indirect wholly-owned subsidiaries prior to the initial public offering;*

*Holdings Credit Facility refers to the Operating Company's Amended and Restated Loan and Security Agreement with Wells Fargo Bank, National Association, dated May 19, 2011, as amended;*

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*SLF Credit Facility* refers to NMF SLF's Loan and Security Agreement with Wells Fargo Bank, National Association, dated October 27, 2010, as amended; and

*Credit Facilities* refers to the Holding Credit Facility and the SLF Credit Facility, collectively.

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### **Overview**

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

The Operating Company is externally managed by the Investment Adviser. The Administrator provides the administrative services necessary for its operations. The Investment Adviser and Administrator are wholly-owned subsidiaries of New Mountain Capital. New Mountain Capital is a firm with a track record of investing in the middle market and with assets under management (which includes amounts committed, not all of which have been drawn down and invested to date) totaling approximately \$9.0 billion as of September 30, 2012. 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 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.

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

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

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

On July 10, 2012, NMFC's shelf registration statement became effective. On July 17, 2012, NMFC completed a public offering of 5,250,000 shares of its common stock at a public offering price of \$14.35 per share. In connection with the offering, the underwriters purchased an additional 676,802 shares with the exercise of the overallotment option to purchase up to an additional 787,500 shares of



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common stock. As a result of this public offering, NMFC and AIV Holdings owned approximately 45.1% and 54.9%, respectively, of the units of NMF Holdings.

On September 28, 2012, NMFC completed an underwritten secondary public offering of 4,000,000 shares of its common stock at a public offering price of \$15.00 per share on behalf of a selling stockholder, AIV Holdings. No shares were sold by NMFC, and it did not receive any proceeds from this secondary public offering. 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. After completion of this underwritten secondary public offering, NMFC and AIV Holdings owned approximately 56.0% and 44.0%, respectively, of the units of NMF Holdings.

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

As part of the third quarter 2012 dividend payment, NMFC issued an additional 66,142 shares in conjunction with its dividend reinvestment plan at a price of \$14.82. As of September 30, 2012, NMFC and AIV Holdings own approximately 56.1% and 43.9%, respectively, of the units of the Operating Company.

The current structure was designed to generally prevent NMFC and its stockholders 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 and its stockholders. The result is that any distributions made to NMFC s stockholders that are attributable to such gains generally will not be treated as taxable dividends but rather as return of capital.

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The diagram below depicts our current organizational structure (percentages are prior to this offering).

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 September 30, 2012, the Operating Company's net asset value was \$520.4 million and its portfolio had a fair value of approximately \$858.9 million in 58 portfolio companies, with a weighted average Yield to Maturity of approximately 9.9%. This Yield to Maturity calculation assumes that all investments not on non-accrual are purchased at fair value on September 30, 2012 and held until their

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respective maturities with no prepayments or losses and exited at par at maturity. The actual yield to maturity may be higher or lower due to the future selection of the London Interbank Offered Rate ( LIBOR ) contracts by the individual companies in the Operating Company s portfolio or other factors.

### **The Investment Adviser**

The Investment Adviser, a wholly-owned subsidiary of New Mountain Capital, manages the Operating Company s day-to-day operations and provides it with investment advisory and management services. In particular, the Investment Adviser is responsible for identifying attractive investment opportunities, conducting research and due diligence on prospective investments, structuring the Operating Company s investments and monitoring and servicing the Operating Company s investments. We currently do not have, and do not intend to have, any employees. As of September 30, 2012, the Investment Adviser was supported by over 90 staff members of New Mountain Capital, including 62 investment professionals.

The Investment Adviser is managed by a five member investment committee (the Investment Committee ), which is responsible for approving purchases and sales of the Operating Company s investments above \$5.0 million in aggregate by issuer. The Investment Committee currently consists of Steven B. Klinsky, Robert A. Hamwee, Adam Collins, Douglas Londal and Alok Singh. The Investment Committee is responsible for approving all of the Operating Company s investment purchases above \$5.0 million. The Investment Committee also monitors investments in the Operating Company s portfolio and approves all asset dispositions above \$5.0 million. Purchases and dispositions below \$5.0 million may be approved by the Operating Company s Chief Executive Officer. These approval thresholds are subject to change over time. We expect to benefit from the extensive and varied relevant experience of the investment professionals serving on the Investment Committee, which includes expertise in private equity, primary and secondary leveraged credit, private mezzanine finance and distressed debt.

### **Recent Developments**

#### ***Preliminary Estimates of Net Asset Value***

Set forth below is a preliminary estimate of our net asset value per share as of December 3, 2012. The following estimate is not a comprehensive statement of our financial condition or results for the period from September 30, 2012 through December 3, 2012. We advise you that our actual results for the three months and year-ended December 31, 2012 may differ materially from this estimate, which is given only as of December 3, 2012, as a result of the completion of our financial closing procedures, final adjustments and other developments, including changes in interest rates or changes in the businesses to whom we have made loans, which may arise between now and the time that our financial results for the three months and year-ended December 31, 2012 are finalized. This information is inherently uncertain.

As of December 3, 2012, we estimate that our net asset value per share is approximately \$14.35, which does not include the dividend distribution which will be paid on December 28, 2012.

The preliminary financial estimate provided herein has been prepared by, and is the responsibility of, management. Deloitte & Touche LLP, our independent registered public accounting firm, has not audited, reviewed, compiled, or performed any procedures with respect to the accompanying preliminary financial data. Accordingly, Deloitte & Touche LLP does not express an opinion or any form of assurance with respect thereto.

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### ***New BDC Legislation***

On June 8, 2012, legislation was introduced in the U.S. House of Representatives intended to revise certain regulations applicable to business development companies, or BDCs. The legislation provides for (i) increasing the amount of funds BDCs may borrow by reducing asset to debt limitations from 2:1 to 3:2, (ii) permitting BDCs to file registration statements with the U.S. Securities and Exchange Commission that incorporate information from already-filed reports by reference, (iii) utilizing other streamlined registration processes afforded to operating companies, and (iv) allowing BDCs to own investment adviser subsidiaries. There are no assurances as to when the legislation will be enacted by Congress, if at all, or, if enacted, what final form the legislation would take.

### **Competitive Advantages**

We believe that we have the following competitive advantages over other capital providers to middle market companies:

#### ***Proven and Differentiated Investment Style With Areas of Deep Industry Knowledge***

In making its investment decisions, the Investment Adviser applies New Mountain Capital's long-standing, consistent investment approach that has been in place since its founding more than 10 years ago. We focus on companies in less well followed defensive growth niches of the middle market space where we believe few debt funds have built equivalent research and operational size and scale.

We benefit directly from New Mountain Capital's private equity investment strategy that seeks to identify attractive investment sectors from the top down and then works to become a well positioned investor in these sectors. New Mountain Capital focuses on companies and end markets with sustainable strengths in all economic cycles, particularly ones that are defensive in nature, that are non-cyclical and can maintain pricing power in the midst of a recessionary and/or inflationary environment. New Mountain Capital focuses on companies within sectors in which it has significant expertise (examples include federal services, software, education, niche healthcare, business services, energy and logistics) while typically avoiding investments in companies with end markets that are highly cyclical, face secular headwinds, are overly-dependent on consumer demand or are commodity-like in nature.

In making its investment decisions, the Investment Adviser has adopted the approach of New Mountain Capital, which is based on three primary investment principles:

1. A generalist approach, combined with proactive pursuit of the highest quality opportunities within carefully selected industries, identified via an intensive and structured ongoing research process;
2. Emphasis on strong downside protection and strict risk controls; and
3. Continued search for superior risk adjusted returns, combined with timely, intelligent exits and outstanding return performance.

#### ***Experienced Management Team and Established Platform***

The Investment Adviser's team members have extensive experience in the leveraged lending space. Steven B. Klinsky, New Mountain Capital's Founder, Chief Executive Officer and Managing Director and Chairman of the board of directors of the New Mountain Finance Entities, was a general

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partner of Forstmann Little & Co., a manager of debt and equity funds totaling multiple billions of dollars in the 1980s and 1990s. He was also a co-founder of Goldman, Sachs & Co.'s Leverage Buyout Group in the period from 1981 to 1984. Robert A. Hamwee, Chief Executive Officer and President of the New Mountain Finance Entities and Managing Director of New Mountain Capital, was formerly President of GSC Group, Inc. ( GSC ), where he was the portfolio manager of GSC's distressed debt funds and led the development of GSC's CLOs. Douglas Lodal, Managing Director of New Mountain Capital, was previously co-head of Goldman, Sachs & Co.'s United States ( U.S. ) mezzanine debt team. Alok Singh, Managing Director of New Mountain Capital, has extensive experience structuring debt products as a long-time partner at Bankers Trust Company.

Many of the debt investments that the Operating Company has made to date have been in the same companies with which New Mountain Capital has already conducted months of intensive acquisition due diligence related to potential private equity investments. We believe that private equity underwriting due diligence is usually more robust than typical due diligence for loan underwriting. In its underwriting of debt investments, the Investment Adviser is able to utilize the research and hands-on operating experience that New Mountain Capital's private equity underwriting teams possess regarding the individual companies and industries. Business and industry due diligence is led by a team of investment professionals of the Investment Adviser that generally consists of three to seven individuals, typically based on their relevant company and/or industry specific knowledge. Additionally, the Investment Adviser is also able to utilize its relationships with operating management teams and other private equity sponsors. We believe this differentiates us from many of our competitors.

### ***Significant Sourcing Capabilities and Relationships***

We believe the Investment Adviser's ability to source attractive investment opportunities is greatly aided by both New Mountain Capital's historical and current reviews of private equity opportunities in the business segments we target. To date, a significant majority of the investments that the Operating Company has made are in the debt of companies and industry sectors that were first identified and reviewed in connection with New Mountain Capital's private equity efforts, and the majority of our current pipeline reflects this as well. Furthermore, the Investment Adviser's investment professionals have deep and longstanding relationships in both the private equity sponsor community and the lending/agency community which they have and will continue to utilize to generate investment opportunities.

### ***Risk Management through Various Cycles***

New Mountain Capital has emphasized tight control of risk since its inception and long before the recent global financial distress began. To date, New Mountain Capital has never experienced a bankruptcy of any of its portfolio companies in its private equity efforts or with respect to the Predecessor Entities' business. The Investment Adviser seeks to emphasize tight control of risk with our investments in several important ways, consistent with New Mountain Capital's historical approach. In particular, the Investment Adviser:

Emphasizes the origination or purchase of debt in what the Investment Adviser believes are defensive growth companies, which are less likely to be dependent on macro-economic cycles;

Targets investments in companies that are preeminent market leaders in their own industries, and when possible, investments in companies that have strong management teams whose skills are difficult for competitors to acquire or reproduce; and

Emphasizes capital structure seniority in the Investment Adviser's underwriting process.

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### ***Access to Non Mark to Market, Seasoned Leverage Facilities***

The amounts available under the Credit Facilities are generally not subject to reduction as a result of mark to market fluctuations in the Operating Company's portfolio investments. For a detailed discussion of the Credit Facilities, see Management's Discussion and Analysis of Financial Conditions and Results of Operations Liquidity and Capital Resources .

### **Market Opportunity**

We believe that the size of the market for investments that we target, coupled with the demands of middle market companies for flexible sources of capital at competitive terms and rates, create an attractive investment environment for us.

*The leverage finance market has a high level of financing needs over the next several years due to significant bank debt maturities. We believe that the large dollar volume of loans that need to be refinanced will present attractive opportunities to invest capital in a manner consistent with our stated objectives.*

*Middle market companies continue to face difficulties in accessing the capital markets. We believe opportunities to serve the middle market will continue to exist. While many middle market companies were formerly able to raise funds by issuing high-yield bonds, we believe this approach to financing has become more difficult in recent years as institutional investors have sought to invest in larger, more liquid offerings. In addition, many private finance companies and hedge funds have reduced their middle market lending activities due to decreased availability of their own financing.*

*Consolidation among commercial banks has reduced the focus on middle market lending. We believe that many traditional bank lenders to middle market businesses have either exited or de-emphasized their service and product offerings in the middle market. These traditional lenders have instead focused on lending and providing other services to large corporate clients. We believe this has resulted in fewer key players and the reduced availability of debt capital to the companies we target.*

*Attractive pricing. Reduced access to, and availability of, debt capital typically increases the interest rates, or pricing, of loans for middle market lenders. Recent primary debt transactions in this market often include upfront fees, prepayment protections and, in some cases, warrants to purchase common stock, all of which should enhance the profitability of new loans to lenders.*

*Conservative deal structures. As a result of the credit crisis, many lenders are requiring larger equity contributions from financial sponsors. Larger equity contributions create an enhanced margin of safety for lenders because leverage is a lower percentage of the implied enterprise value of the company.*

*Large pool of uninvested private equity capital available for new buyouts. We expect that private equity firms will continue to pursue acquisitions and will seek to leverage their equity investments with mezzanine loans and/or senior loans (including traditional first and second lien, as well as unitranche loans) provided by companies such as ours.*

### **Operating and Regulatory Structure**

NMFC and the Operating Company are closed-end, non-diversified management investment companies that have elected to be treated as BDCs under the 1940 Act and are required to maintain

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an asset coverage ratio, as defined in the 1940 Act, of at least 200.0%. NMFC has no material long-term liabilities itself and its only business and sole asset is its ownership of units of the Operating Company. As a result, NMFC looks to the Operating Company's assets for purposes of satisfying the requirements under the 1940 Act otherwise applicable to NMFC. See Regulation . The Operating Company and NMF SLF have long term liabilities related to the Credit Facilities.

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. See Material Federal Income Tax Considerations in the accompanying prospectus. As a RIC, NMFC generally will not have to pay corporate-level federal income taxes on any net ordinary income or capital gains that it timely distributes to its stockholders as dividends if it meets certain source-of-income, distribution and asset diversification requirements. The Operating Company intends to make distributions to its unit holders that will be sufficient to enable NMFC to pay quarterly distributions to its stockholders and to maintain its status as a RIC. NMFC intends to distribute to its stockholders substantially all of its annual taxable income, except that it may retain certain net capital gains for reinvestment in units of the Operating Company.

## **Risks**

An investment in NMFC's common stock involves risk, including the risk of leverage and the risk that our operating policies and strategies may change without prior notice to NMFC stockholders or prior stockholder approval. See Risk Factors and the other information included in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of NMFC's common stock. The value of the Operating Company's assets, as well as the market price of NMFC's shares, will fluctuate. Our investments may be risky, and you may lose all or part of your investment in NMFC. Investing in NMFC involves other risks, including the following:

We have a limited operating history;

The Operating Company may suffer credit losses;

The Operating Company does not expect to replicate the Predecessor Entities' historical performance or the historical performance of other entities managed or supported by New Mountain Capital;

There is uncertainty as to the value of the Operating Company's portfolio investments because most of its investments are, and may continue to be in private companies and recorded at fair value. In addition, because NMFC is a holding company, the fair values of the Operating Company's investments are determined by the Operating Company's board of directors in accordance with the Operating Company's valuation policy;

The Operating Company's ability to achieve its investment objective depends on key investment personnel of the Investment Adviser. If the Investment Adviser were to lose any of its key investment personnel, the Operating Company's ability to achieve its investment objective could be significantly harmed;

The Investment Adviser has limited experience managing a BDC or a RIC, which could adversely affect our business;

The Operating Company operates in a highly competitive market for investment opportunities and may not be able to compete effectively;

Our business, results of operations and financial condition depends on the Operating Company's ability to manage future growth effectively;

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The Operating Company borrows money, which could magnify the potential for gain or loss on amounts invested in us and increase the risk of investing in us;

Changes in interest rates may affect the Operating Company's cost of capital and net investment income;

Regulations governing the operations of BDCs will affect our ability to raise additional equity capital as well as our ability to issue senior securities or borrow for investment purposes, any or all of which could have a negative effect on our investment objectives and strategies;

We may experience fluctuations in our annual and quarterly results due to the nature of our business;

The Operating Company's board of directors may change its investment objective, operating policies and strategies without prior notice or member approval, the effects of which may be adverse to your interest as a stockholder;

NMFC will be subject to corporate-level federal income tax on all of its income if it is unable to maintain RIC status under Subchapter M of the Code, which would have a material adverse effect on its financial performance;

NMFC may not be able to pay you distributions on its common stock, its distributions to you may not grow over time and a portion of their distributions to you may be a return of capital for federal income tax purposes;

The Operating Company's investments in portfolio companies may be risky, and the Operating Company could lose all or part of any of its investments;

The lack of liquidity in the Operating Company's investments may adversely affect our business;

Economic recessions or downturns could impair the Operating Company's portfolio companies and harm its operating results;

NMFC is a holding company with no direct operations of its own, and will depend on distributions from the Operating Company to meet its ongoing obligations;

Any future exchange by AIV Holdings of units of the Operating Company for shares of NMFC's common stock would significantly dilute the voting power of NMFC's current stockholders with respect to the election of NMFC directors or other matters that require the approval of NMFC stockholders only. In addition, the interests of the partners of Guardian AIV following such exchange by AIV Holdings may be adverse to the interests of NMFC's current stockholders and could limit your ability to influence the outcome of key transactions, including any change of control;

The market price of NMFC's common stock may fluctuate significantly; and

Sales of substantial amounts of NMFC's common stock in the public market may have an adverse effect on the market price of its common stock.

**Company Information**

Our administrative and executive offices are located at 787 Seventh Avenue, 48th Floor, New York, New York 10019, and our telephone number is (212) 720-0300. We maintain a website at <http://www.newmountainfinance.com>. Information contained on our website is not incorporated by reference into this prospectus supplement and the accompanying prospectus, and you should not

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consider information contained on our website to be part of this prospectus supplement and the accompanying prospectus.

**Presentation of Historical Financial Information and Market Data**

***Historical Financial Information***

Unless otherwise indicated, historical references contained in the accompanying prospectus in Selected Financial and Other Data , Selected Quarterly Data , Management s Discussion and Analysis of Financial Condition and Results of Operations , Senior Securities and Portfolio Companies relate to the Operating Company, which is NMFC s sole investment. The consolidated financial statements of New Mountain Finance Holdings, L.L.C., formerly known as New Mountain Guardian (Leveraged), L.L.C., and New Mountain Guardian Partners, L.P. are the Operating Company s historical consolidated financial statements.

***Market Data***

Statistical and market data used in this prospectus supplement and the accompanying prospectus has been obtained from governmental and independent industry sources and publications. We have not independently verified the data obtained from these sources, and we cannot assure you of the accuracy or completeness of the data. Forward-looking information obtained from these sources is subject to the same qualifications and the additional uncertainties regarding the other forward-looking statements contained in this prospectus supplement and the accompanying prospectus. See Cautionary Statement Regarding Forward-Looking Statements .

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**THE OFFERING**

Common Stock Offered by NMFC	3,000,000 shares, excluding 450,000 shares of common stock issuable pursuant to the option to purchase additional shares granted to the underwriters.
Common Stock Currently Outstanding	20,690,635 shares.
Common Stock Outstanding After This Offering	23,690,635 shares, excluding 450,000 shares of common stock issuable pursuant to the option to purchase additional shares granted to the underwriters. This amount does not include any shares which may be issuable upon conversion of existing securities.
Use of Proceeds	The Operating Company intends to use the net proceeds from this offering primarily for new investments in portfolio companies in accordance with the Operating Company's investment objective and strategies described in this prospectus supplement and the accompanying prospectus. The Operating Company may also use a portion of the net proceeds for other general corporate purposes, including to temporarily repay indebtedness (which will be subject to reborrowing), and other working capital needs. The Operating Company is continuously identifying, reviewing and, to the extent consistent with its investment objective, funding new investments. As a result, we typically raise capital as we deem appropriate to fund such new investments. We expect the Operating Company to substantially invest the net proceeds of this offering by the end of the calendar year, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurance that we will be able to achieve this goal. Pending such use, the Operating Company will invest the net proceeds primarily in cash, cash equivalents, U.S. government securities and other high-quality investments that mature in one year or less from the date of the investment. These securities may have lower yields than the types of investments we would typically make in accordance with our investment objective and, accordingly, may result in lower distributions, if any, during such period. See "Use of Proceeds" in this prospectus supplement.
New York Stock Exchange Symbol	NMFC
Investment Advisory Fees	NMFC does not have an investment adviser. The Operating Company pays the Investment Adviser a fee for its services under an investment advisory and management agreement (the "Investment Management Agreement") consisting of two components—a base management fee and an incentive fee. The base management fee is payable quarterly in arrears and 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 and (ii) cash and cash equivalents. The base management fee is calculated based on the average value of the Operating Company's gross assets, borrowings under the SLF Credit Facility, and the cash and cash equivalents at the end of each of the two most recently completed calendar quarters, and appropriately adjusted on a pro rata

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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. 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 the 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. See Investment Management Agreement in the accompanying prospectus.

Administrator

The Administrator serves as the administrator for us and arranges office space for us and provides us with office equipment and administrative services. The Administrator performs, or oversees the performance of, our financial records, prepares reports to our stockholders/unit holders and reports filed by us with the Securities and Exchange Commission (SEC), monitors the payment of our expenses, and oversees the performance of administrative and professional services rendered to us by others. The Operating Company reimburses the Administrator for the New Mountain Finance Entities allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations to the New Mountain Finance Entities under an administration agreement, as amended and restated (the Administration Agreement). See Administration Agreement in the accompanying prospectus.

Distributions

NMFC intends to pay quarterly distributions to its stockholders out of assets legally available for distribution. The quarterly distributions, if any, will be determined by NMFC's board of directors. The distributions NMFC pays to its stockholders in a year may exceed its taxable income for that year and, accordingly, a portion of such distributions may constitute a return of capital for federal income tax purposes. The specific tax characteristics of NMFC's distributions will be reported to stockholders after the end of the calendar year. The Operating Company intends to make distributions to its members that will be sufficient to enable NMFC to pay quarterly distributions to its stockholders. See Distributions in the accompanying prospectus.

Taxation of NMFC

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 generally will not pay corporate-level federal income taxes on any net ordinary income or capital gains that it timely distributes to its stockholders as dividends. To maintain its RIC status, NMFC must meet specified source-of-income and asset diversification requirements and distribute annually to its stockholders at least 90.0% of its net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. The Operating Company intends to make distributions to its members that will be sufficient to enable NMFC to maintain its status as a RIC. See Distributions and Material Federal Income Tax Considerations in the accompanying prospectus.

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Taxation of Operating Company	The Operating Company intends to be treated as a partnership for federal income tax purposes for as long as it has at least two members. As a result, the Operating Company will itself not be subject to federal income tax. Rather, each of the Operating Company's unit holders, including NMFC, will be required to take into account, for federal income tax purposes, its allocable share of the Operating Company's items of income, gain, loss, deduction and credit. NMF SLF expects to be treated as a disregarded entity for federal income tax purposes. As a result, NMF SLF will itself not be subject to federal income tax and, for federal income tax purposes, the Operating Company will take into account all of NMF SLF's assets and items of income, gain, loss, deduction and credit. See "Material Federal Income Tax Considerations" in the accompanying prospectus.
Dividend Reinvestment Plan	NMFC has adopted an "opt out" dividend reinvestment plan for its stockholders. As a result, if NMFC declares a distribution, then your cash distributions will be automatically reinvested in additional shares of NMFC's common stock, unless you specifically "opt out" of the dividend reinvestment plan so as to receive cash distributions. Stockholders who receive distributions in the form of stock will be subject to the same federal income tax consequences as stockholders who elect to receive their distributions in cash. Cash distributions reinvested in additional shares of NMFC's common stock will be automatically reinvested by NMFC in additional units of the Operating Company. NMFC will use only newly issued shares to implement the plan if the price at which newly issued shares are to be credited is equal to or greater than 110.0% of the last determined net asset value of the shares. NMFC reserves the right to purchase shares of its common stock in the open market in connection with its implementation of the plan if the price at which its newly issued shares are to be credited does not exceed 110.0% of the last determined net asset value of the shares. See "Dividend Reinvestment Plan" in the accompanying prospectus.
Trading at a Discount	Shares of closed-end investment companies frequently trade at a discount to their net asset value. The possibility that NMFC's common stock may trade at a discount to its net asset value per share is separate and distinct from the risk that its net asset value per share may decline. We cannot predict whether NMFC's common stock will trade above, at or below net asset value.
License Agreement	The New Mountain Finance Entities have entered into a royalty-free license agreement with New Mountain Capital, pursuant to which New Mountain Capital has agreed to grant the New Mountain Finance Entities a non-exclusive license to use the names "New Mountain" and "New Mountain Finance". See "License Agreement" in the accompanying prospectus.
Leverage	We expect to continue to use leverage to make investments. As a result, we may continue to be exposed to the risks of leverage, which include that leverage may be considered a speculative investment technique. The use of leverage magnifies the potential for gain and

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	loss on amounts we invest and therefore, indirectly, increases the risks associated with investing in shares of NMFC's common stock. See "Risk Factors" in the accompanying prospectus.
Anti-Takeover Provisions	The New Mountain Finance Entities' respective boards of directors are divided into three classes of directors serving staggered three-year terms. This structure is intended to provide us with a greater likelihood of continuity of management, which may be necessary for us to realize the full value of our investments. A staggered board of directors also may serve to deter hostile takeovers or proxy contests, as may certain other measures that we may adopt. These measures may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of NMFC stockholders. See "Description of NMFC's Capital Stock, Delaware Law and Certain Certificate of Incorporation and Bylaw Provisions; Anti-Takeover Measures" in the accompanying prospectus.
Available Information	We have filed with the SEC a registration statement on Form N-2 together with all amendments and related exhibits under the Securities Act. The registration statement contains additional information about us and the shares of common stock being offered by this prospectus supplement and the accompanying prospectus.

We are required to file annual, quarterly and current reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This information is available at the SEC's public reference room at 100 F Street, NE, Washington, District of Columbia 20549 and on the SEC's website at <http://www.sec.gov>. The public may obtain information on the operation of the SEC's public reference room by calling the SEC at 1-800-SEC-0330. This information is also available free of charge by contacting us at New Mountain Finance Corporation, 787 Seventh Avenue, 48th Floor, New York, New York 10019, by telephone at (212) 720-0300, or on our website at <http://www.newmountainfinance.com>. Information contained on our website or on the SEC's web site about us is not incorporated into this prospectus supplement and the accompanying prospectus and you should not consider information contained on our website or on the SEC's website to be part of this prospectus supplement and the accompanying prospectus.

**Table of Contents****FEES AND EXPENSES**

The following table is intended to assist you in understanding the costs and expenses that you will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus supplement and the accompanying prospectus contains a reference to fees or expenses paid by you, NMFC, the Operating Company, or us or that we, NMFC, or the Operating Company will pay fees or expenses, stockholders will indirectly bear such fees or expenses through NMFC's investment in the Operating Company.

**Stockholder transaction expenses:**

Sales load (as a percentage of offering price)	4.0%(1)
Offering expenses borne by us (as a percentage of offering price)	0.4%(2)
Dividend reinvestment plan fees	N/A(3)

**Total stockholder transaction expenses (as a percentage of offering price)** 4.4%

**Annual expenses (as a percentage of net assets attributable to common stock):**

Base management fees	2.2%(4)
Incentive fees payable under the Investment Management Agreement	2.8%(5)
Interest payments on borrowed funds	1.5%(6)
Other expenses	0.9%(7)

Total annual expenses 7.4%(8)

**Example**

The following example, required by the SEC, demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in NMFC's common stock. In calculating the following expense amounts, we have assumed that our borrowings and annual operating expenses would remain at the levels set forth in the table above. See Note 6 below for additional information regarding certain assumptions regarding our level of leverage.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5.0% annual return	\$ 46	\$ 138	\$ 231	\$ 464

**The example and the expenses in the tables above should not be considered a representation of future expenses, and actual expenses may be greater or less than those shown.**

While the example assumes, as required by the applicable rules of the SEC, a 5.0% annual return, our performance will vary and may result in a return greater or less than 5.0%. The incentive fee under the Investment Management Agreement, which, assuming a 5.0% annual return, would either not be payable or would have an insignificant impact on the expense amounts shown above, is not included in the example. The above illustration assumes that we will not realize any capital gains (computed net of all realized capital losses and unrealized capital depreciation) in any of the indicated time periods. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses and returns to our investors would be higher. For example, if we assumed that we received our 5.0% annual return completely in the form of net realized capital gains on our investments, computed net of all cumulative



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unrealized depreciation on our investments, the projected dollar amount of total cumulative expenses set forth in the above illustration would be as follows:

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5.0% annual return	\$ 56	\$ 165	\$ 273	\$ 536

The example assumes a sales load of 4.0%. In addition, while the examples assume reinvestment of all distributions at net asset value, participants in NMFC's dividend reinvestment plan will receive a number of shares of NMFC's common stock determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of NMFC's common stock at the close of trading on the dividend payment date. The market price per share of NMFC's common stock may be at, above or below net asset value. See "Dividend Reinvestment Plan" in the accompanying prospectus for additional information regarding the dividend reinvestment plan.

- (1) Represents the commission with respect to the shares of NMFC's common stock being sold in this offering which we will pay to in connection with sales of shares of NMFC's common stock effected by in this offering. The Investment Adviser has agreed to bear an additional \$ per share, or approximately % of the offering price, of commission in connection with this offering, which is not reflected in the above table. There is no guaranty that there will be any sales of NMFC's common stock pursuant to this prospectus supplement and the accompanying prospectus.
- (2) The offering expenses of this offering are estimated to be approximately \$181,254. Total expenses relating to the shelf registration statement that was declared effective by the SEC on July 10, 2012, of which this prospectus supplement and the accompanying prospectus form a part, are estimated to be \$822,697.
- (3) The de minimus expenses of the dividend reinvestment plan are included in other expenses .
- (4) The base management fee under the Investment Management Agreement is based on an annual rate of 1.75% of the Operating Company's average gross assets for the two most recent quarters less (i) the borrowings under the SLF Credit Facility and (ii) cash and cash equivalents. The base management fees reflected in the table above is based on the nine months ended September 30, 2012. See "Investment Management Agreement" in the accompanying prospectus.
- (5) Assumes that annual incentive fees earned by the Investment Adviser remain consistent with the incentive fees earned by the Investment Adviser during the nine months ended September 30, 2012 and includes accrued capital gains incentive fee. These accrued capital gains incentive fees would be paid by the Operating Company if the Operating Company ceased operations on September 30, 2012 and liquidated its investments at the September 30, 2012 valuation. As we cannot predict whether the Operating Company will meet the thresholds for incentive fees under the Investment Management Agreement, the incentive fees paid in subsequent periods, if any, may be substantially different than the fees incurred during the nine months ended September 30, 2012. For more detailed information about the incentive fee calculations, see the "Investment Management Agreement" section of the accompanying prospectus.
- (6) We may borrow funds from time to time to make investments to the extent we determine that additional capital would allow us to take advantage of additional investment opportunities or if the economic situation is otherwise conducive to doing so. The costs associated with these borrowings are indirectly borne by NMFC's stockholders through its investment in the Operating Company. As of September 30, 2012, the Operating Company had \$135.7 million and \$200.0 million of indebtedness outstanding under the Holdings Credit Facility and the SLF Credit Facility, respectively. For purposes of this calculation, we have assumed the September 30, 2012 amounts outstanding under these credit facilities, and have computed interest expense using an assumed interest rate of 3.0% for the Holdings Credit Facility and 2.2% for the SLF Credit Facility, which were the rates payable as of September 30, 2012. See "Senior Securities" in the accompanying prospectus.

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- (7) Other expenses include the New Mountain Finance Entities' overhead expenses, including payments by the Operating Company under the Administration Agreement based on the allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations to the New Mountain Finance Entities 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 capped at \$3.5 million for the time period from April 1, 2012 to March 31, 2013. This expense ratio does not include the expense cap of \$3.5 million. Assuming \$3.5 million of annual expense, the expense ratio would be 0.6%. See Administration Agreement in the accompanying prospectus.
- (8) The holders of shares of NMFC's common stock indirectly bear the cost associated with our annual expenses through NMFC's investment in the Operating Company.

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**Table of Contents****SELECTED FINANCIAL AND OTHER DATA**

The selected financial data should be read in conjunction with the respective financial statements and related combined notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this prospectus. Financial information for the years ended December 31, 2011, December 31, 2010, December 31, 2009 and for the period October 29, 2008 (commencement of operations) to December 31, 2008 has been derived from our financial statements that were audited by Deloitte & Touche, LLP, an independent registered public accounting firm. The financial information for the nine months ended September 30, 2012 was derived from our unaudited financial statements and related notes. 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 periods, have been included. Our results for the interim period may not be indicative of our results for the full year. See Management's Discussion and Analysis of Financial Condition and Results of Operations elsewhere in this prospectus supplement and Senior Securities in the accompanying prospectus for more information.

(in thousands except shares and per share data)

New Mountain Finance Holdings, L.L.C.	Year ended December 31,				Period from October 29, 2008 (commencement of operations) to December 31, 2008
	Nine months ended September 30, 2012	2011	2010	2009	
<b>Statement of Operations Data:</b>					
Total investment income	\$ 61,073	\$ 56,523	\$ 41,375	\$ 21,767	\$ 256
Net expenses	29,378	17,998	3,911	1,359	
Net investment income	31,695	38,525	37,464	20,408	256
Net realized and unrealized gains (losses)	25,301	(6,848)	26,328	105,272	(1,435)
Net increase (decrease) in net assets resulting from operations	56,996	31,677	63,792	125,680	(1,179)
<b>Per share data:</b>					
Net asset value	\$ 14.10	\$ 13.60	N/A	N/A	N/A
Net increase (decrease) in net assets resulting from operations (basic and diluted)	1.74	1.02	N/A	N/A	N/A
Dividends paid(1)	1.23	0.86	N/A	N/A	N/A
<b>Balance sheet data:</b>					
Total assets	\$ 886,828	\$ 730,579	\$ 460,224	\$ 330,558	\$ 61,669
SLF Credit Facility	200,000	165,928	56,936		
Holdings Credit Facility	135,665	129,038	59,697	77,745	
Total net assets	520,355	420,502	241,927	239,441	30,354
<b>Other data:</b>					
Total return at net asset value(2)	13.06%	10.09%	26.54%	76.38%	NM
Number of portfolio companies at period end	58	55	43	24	6
Total new investments for the period	\$ 392,162	\$ 493,331	\$ 332,708	\$ 268,382	\$ 63,018
Investment sales and prepayments for the period	268,370	231,962	258,202	125,430	132
Weighted average Yield to Maturity on debt portfolio at period end(3) (unaudited)	9.9%	10.7%	N/A(4)	N/A(4)	N/A(4)
Weighted average Adjusted Yield to Maturity on debt portfolio at period end(5) (unaudited)	N/A	13.1%	12.5%	12.7%	18.8%
Weighted average common membership units outstanding at period end	32,671,954	30,919,629	N/A	N/A	N/A
Portfolio turnover	34.77%	42.13%	76.69%	57.50%	0.22%

N/A Fund was not unitized as of December 31, 2010, December 31, 2009 and December 31, 2008.

## Edgar Filing: New Mountain Finance Holdings, L.L.C. - Form 497

NM Total return from commencement of operations through December 31, 2008 was deemed not meaningful due to the scaling of operations during this short time period.

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- (1) Dividends paid in the nine months ended September 30, 2012 include a special dividend related to estimated realized capital gains attributable to the Operating Company's investments in Lawson Software, Inc. and Infor Lux Bond Company. Actual cash payments on the dividends declared to AIV Holdings, only, for the quarters ended March 31, 2012 and June 30, 2012, were made on April 4, 2012 and July 9, 2012, respectively.
- (2) For the nine months ended September 30, 2012, total return is calculated assuming a purchase at net asset value on the opening of the first day of the year and a sale at net asset value on the last day of the period. For the year ended December 31, 2011, total return is calculated in two parts: (1) from the opening of the first day of the year to NMFC's IPO date, total return is calculated based on net income over weighted average net assets and (2) from NMFC's IPO date to the last day of the year, total return is calculated assuming a purchase at net asset value on NMFC's IPO date and a sale at net asset value on the last day of the year. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at net asset value. For the years ended December 31, 2010 and December 31, 2009, total return is the ratio of net income compared to capital, adjusted for capital contributions and distributions.
- (3) The Operating Company's weighted average Yield to Maturity calculation assumes that all investments not on non-accrual are purchased at fair value on the respective period ends and held until their respective maturities with no prepayments or losses and exited at par at maturity.
- (4) Prior to NMFC's IPO, for yield calculation purposes, NMF SLF was treated as a fully levered asset of the Operating Company with NMF SLF's net asset value being included in the yield to maturity calculations. Since NMF SLF is consolidated in accordance with GAAP, at the time of the IPO, the Operating Company began using the weighted average Yield to Maturity concept instead of the Adjusted Yield to Maturity concept for yield calculation purposes.
- (5) Adjusted Yield to Maturity assumes that the investments in the Operating Company's portfolio are purchased at fair value on the respective period ends 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, except for the non-recourse debt of NMF SLF. NMF SLF is treated as a fully levered asset of the Operating Company, with NMF SLF's net asset value being included for yield calculation purposes.

(in thousands except shares and per share data)

	Nine months ended September 30, 2012	Period from May 19, 2011 (commencement of operations) to December 31, 2011
<b>New Mountain Finance Corporation</b>		
<b>Statement of Operations Data:</b>		
Total investment income allocated from the Operating Company	\$ 23,346	\$ 13,669
Net expenses allocated from the Operating Company	11,313	5,324
Net investment income allocated from the Operating Company	12,033	8,345
Net realized and unrealized gains (losses) allocated from the Operating Company	9,988	(4,235)
Net change in unrealized (depreciation) appreciation of investment in the Operating Company	(43)	6,221
Net increase (decrease) in net assets resulting from operations	21,978	10,331
<b>Per share data:</b>		
Net asset value	\$ 14.10	\$ 13.60
Net increase (decrease) in net assets resulting from operations (basic)	1.75	0.97
Net increase (decrease) in net assets resulting from operations (diluted)	1.74	0.38
Dividends paid(1)	1.23	0.86
<b>Balance sheet data:</b>		
Total assets	\$ 291,675	\$ 145,487
Total net assets	291,675	145,487
<b>Other data:</b>		
Total return at market value(2)	20.27%	4.16%
Total return at net asset value(3)	13.06%	2.82%
Weighted average shares outstanding for the period	12,537,607	10,697,691

- (1) Dividends paid in the nine months ended September 30, 2012 include a 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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- (2) For the nine months ended September 30, 2012, total return is calculated assuming a purchase of common stock on the opening of the first day of the year and a sale on the closing of the last business day of the period. For the period ended December 31, 2011, total return is calculated assuming a purchase of common stock at IPO 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.
- (3) For the nine months ended September 30, 2012, 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 business day of the period. For the period ended December 31, 2011, 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.

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**Table of Contents****SELECTED QUARTERLY FINANCIAL DATA**

The following table sets forth certain quarterly financial data for the quarters ended September 30, 2012, June 30, 2012 and March 31, 2012 and for each of the quarters for the fiscal years ended December 31, 2011, December 31, 2010 and December 31, 2009 of the Operating Company and for the quarters ended September 30, 2012, June 30, 2012 and March 31, 2012 and for each of the quarters from May 19, 2011 (commencement of operations) through December 31, 2011 of NMFC. This data is derived from our unaudited financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter.

The below selected quarterly financial data is for the Operating Company.

(in thousands except for per unit data)

Quarter Ended	Investment Income		Net Investment Income		Total Net Realized Gains and Net Changes in Unrealized Appreciation (Depreciation) of Investments		Net Increase (Decrease) in Capital Resulting from Operations	
	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit
September 30, 2012	\$ 21,752	\$ 0.60	\$ 10,136	\$ 0.28	\$ 12,109	\$ 0.34	\$ 22,245	\$ 0.62
June 30, 2012	20,299	0.66	11,646	0.38	(561)	(0.02)	11,085	0.36
March 31, 2012	19,022	0.62	9,913	0.32	13,754	0.45	23,667	0.77
December 31, 2011	\$ 17,127	\$ 0.55	\$ 9,540	\$ 0.31	\$ 8,317	\$ 0.27	\$ 17,857	\$ 0.58
September 30, 2011	15,069	0.49	10,002	0.32	(21,255)	(0.68)	(11,253)	(0.36)
June 30, 2011	13,116	0.42	9,554	0.31	(899)	(0.03)	8,655	0.28
March 31, 2011	11,212	N/A	9,429	N/A	6,990	N/A	16,419	N/A
December 31, 2010	\$ 9,820	N/A	\$ 8,335	N/A	\$ 7,978	N/A	\$ 16,313	N/A
September 30, 2010	13,881	N/A	13,145	N/A	5,560	N/A	18,705	N/A
June 30, 2010	8,597	N/A	7,777	N/A	(5,349)	N/A	2,428	N/A
March 31, 2010	9,077	N/A	8,208	N/A	18,138	N/A	26,346	N/A
December 31, 2009	\$ 7,617	N/A	\$ 6,617	N/A	\$ 1,617	N/A	\$ 8,234	N/A
September 30, 2009	6,148	N/A	6,030	N/A	33,709	N/A	39,739	N/A
June 30, 2009	5,092	N/A	4,877	N/A	42,562	N/A	47,439	N/A
March 31, 2009	2,910	N/A	2,883	N/A	27,385	N/A	30,268	N/A

N/A Not applicable, as the Operating Company was not unitized until May 19, 2011.

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The below selected quarterly financial data is for NMFC.

(in thousands except for per share data)

Quarter Ended	Net Investment Income allocated from the Operating Company		Total Net Realized and Unrealized Gains (Losses)		Net Increase (Decrease) in Net Assets Resulting from Operations	
	Total	Per Share	Total	Per Share	Total	Per Share
September 30, 2012	\$ 4,574	\$ 0.28	\$ 5,381	\$ 0.34	\$ 9,955	\$ 0.62
June 30, 2012	4,029	0.38	(194)	(0.02)	3,835	0.36
March 31, 2012	3,430	0.32	4,758	0.45	8,188	0.77
December 31, 2011	\$ 3,301	\$ 0.31	\$ 2,877	\$ 0.27	\$ 6,178	\$ 0.58
September 30, 2011	3,460	0.32	(7,353)	(0.68)	(3,893)	(0.36)
June 30, 2011	1,584	0.15	6,462	0.60	8,046	0.75
March 31, 2011	N/A	N/A	N/A	N/A	N/A	N/A

N/A Not applicable, as NMFC did not commence operations until May 19, 2011.



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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus supplement contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about us, the Operating Company's current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, would, should, targets, projects, and variations of these words and similar expressions are intended to identify forward-looking statements. The forward-looking statements contained in this prospectus supplement involve risks and uncertainties, including statements as to:

the preliminary estimates of our net asset value

our future operating results;

the Operating Company's business prospects and the prospects of its portfolio companies;

the impact of investments that the Operating Company expects to make;

our contractual arrangements and relationships with third parties;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

the ability of the Operating Company's portfolio companies to achieve their objectives;

the Operating Company's expected financings and investments;

the adequacy of our cash resources and working capital; and

the timing of cash flows, if any, from the operations of the Operating Company's portfolio companies.

These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

an economic downturn could impair the Operating Company's portfolio companies' ability to continue to operate, which could lead to the loss of some or all of the Operating Company's investments in such portfolio companies;

a contraction of available credit and/or an inability to access the equity markets could impair our lending and investment activities;

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interest rate volatility could adversely affect our results, particularly if we elect to use leverage as part of our investment strategy;

currency fluctuations could adversely affect the results of the Operating Company's investments in foreign companies, particularly to the extent that we receive payments denominated in foreign currency rather than U.S. dollars; and

the risks, uncertainties and other factors we identify in Risk Factors and elsewhere in this prospectus supplement, the accompanying prospectus and in our filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include the Operating Company's ability to originate new loans and investments, certain margins and

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levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus supplement should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in Risk Factors and elsewhere in this prospectus supplement and the accompanying prospectus. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus supplement. However, we will update this prospectus supplement to reflect any material changes to the information contained herein. The forward-looking statements and projections contained in this prospectus supplement are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, or the Securities Act.

**Table of Contents****CAPITALIZATION**

The following table sets forth our capitalization as of September 30, 2012:

on an actual basis; and

on an as adjusted basis to give effect to the sale of 3,000,000 shares of NMFC's common stock in this offering at an assumed public offering price of \$15.18 per share (the last reported closing price of NMFC's common stock on November 30, 2012), after deducting the estimated underwriting discounts and commissions of approximately \$1.8 million (excluding the sales load borne by the Investment Adviser) and estimated offering expenses of approximately \$0.2 million payable by the Operating Company.

You should read this table together with Use of Proceeds and financial statements and related notes thereto included elsewhere in this prospectus supplement and the accompanying prospectus.

	<b>As of September 30, 2012</b>	
	<b>Actual</b>	<b>As Adjusted (unaudited)</b>
	<b>(in thousands)</b>	
<b>Assets:</b>		
Cash and cash equivalents	\$ 12,671	\$ 12,671
Investments at fair value	858,884	858,884
Other assets	15,273	15,092
<b>Total assets</b>	<b>\$ 886,828</b>	<b>\$ 886,647</b>
<b>Liabilities:</b>		
Credit facilities payable	\$ 335,665	\$ 292,128
Other liabilities	30,808	30,627
<b>Total liabilities</b>	<b>\$ 366,473</b>	<b>\$ 322,755</b>
<b>Net assets</b>	<b>\$ 520,355</b>	<b>\$ 563,892</b>
<b>Stockholders' equity:</b>		
Common stock, par value \$0.01 per share; 100,000,000 shares authorized, 39,912,573 shares outstanding		\$ 399
Capital in excess of par value		563,493
<b>Total stockholders' equity</b>		<b>\$ 563,892</b>

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**USE OF PROCEEDS**

We estimate that we will receive net proceeds from the sale of the 3,000,000 shares of NMFC's common stock in this offering of approximately \$43.5 million (using the last reported closing price of NMFC's common stock on November 30, 2012 of \$15.18 per share), after deducting estimated offering expenses of approximately \$0.2 million payable by the Operating Company and underwriting discounts and commissions of approximately \$1.8 million. In addition, the Investment Adviser has agreed to bear an additional \$\_\_\_\_\_ of commissions in connection with this offering, which will not be subject to reimbursement by either NMFC or the Operating Company.

The Operating Company intends to use the net proceeds from this offering primarily for new investments in portfolio companies in accordance with the Operating Company's investment objective and strategies described in this prospectus supplement and the accompanying prospectus. The Operating Company may also use a portion of the net proceeds for other general corporate purposes, including to temporarily repay indebtedness (which will be subject to reborrowing), and other working capital needs. The Operating Company is continuously identifying, reviewing and, to the extent consistent with its investment objective, funding new investments. As a result, we typically raise capital as we deem appropriate to fund such new investments.

We expect the Operating Company to substantially invest the net proceeds of this offering by the end of the calendar year, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurance that we will be able to achieve this goal.

Proceeds not immediately used for new investments or the temporary repayment of debt will be invested primarily in cash, cash equivalents, U.S. government securities and other high-quality investments that mature in one year or less from the date of investment. These temporary investments are expected to provide a lower net return than we hope to achieve from the Operating Company's target investments.

**Table of Contents****PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS**

NMFC's common stock is traded on the New York Stock Exchange ( NYSE ) under the symbol NMFC . The following table sets forth the net asset value ( NAV ) per share of NMFC's common stock, the high and low closing sale price for NMFC's common stock, the closing sale price as a percentage of NAV and the quarterly dividend distributions per share for each fiscal quarter since NMFC's IPO on May 19, 2011.

Fiscal Year Ended	NAV Per Share(2)	Closing Sales Price(4)		Premium or Discount of High Sales to NAV(5)	Premium or Discount of Low Sales to NAV(5)	Declared Dividends Per Share(6)
		High	Low			
<b>December 31, 2012</b>						
Fourth Quarter(1)	*	\$ 15.18	\$ 13.75	*	*	\$ 0.34
Third Quarter	\$ 14.10	\$ 15.50	\$ 14.18	9.93%	0.57%	\$ 0.34
Second Quarter	\$ 13.83	\$ 14.29	\$ 13.28	3.33%	(3.98)%	\$ 0.57(8)
First Quarter	\$ 14.05	\$ 13.75	\$ 13.14	(2.14)%	(6.48)%	\$ 0.32
<b>December 31, 2011(2)</b>						
Fourth Quarter	\$ 13.60	\$ 13.41	\$ 12.27	(1.40)%	(9.78)%	\$ 0.30
Third Quarter	\$ 13.32	\$ 13.37	\$ 10.77	0.38%	(19.14)%	\$ 0.29
Second Quarter(7)	\$ 14.25	\$ 13.55	\$ 12.35	(4.91)%	(13.33)%	\$ 0.27

(1) Period from October 1, 2012 through November 30, 2012.

(2) NMFC was not unitized until the IPO date of May 19, 2011.

(3) NAV is determined as of the last date in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.

(4) Closing sales price is determined as the high or low closing sales price noted within the respective quarter, not adjusted for dividends.

(5) Calculated as of the respective high or low sales price divided by the quarter end NAV.

(6) Represents the dividend paid for the specified quarter.

(7) Period from May 19, 2011 through June 30, 2011 (excludes IPO price of \$13.75).

(8) Includes a special dividend of \$0.23 per share payable on May 31, 2012 and a second quarter dividend of \$0.34 per share payable on June 29, 2012.

\* Not determinable at the time of filing.

On November 30, 2012, the last reported sales price of NMFC's common stock was \$15.18 per share. As of September 30, 2012, the Operating Company had two record holders, which were NMFC and AIV Holdings, whereas NMFC had approximately 17 stockholders of record and approximately three beneficial owners whose shares are held in the names of brokers, dealers, funds, trusts and clearing agencies. The Operating Company is not a publicly traded entity.

Shares of BDCs may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that NMFC's shares of common stock will trade at a discount from net asset value or at premiums that are unsustainable over the long term are separate and distinct from the risk that our net asset value will decrease. Since NMFC's initial public offering on May 19, 2011, NMFC's shares of common stock have traded at times at a discount to the net assets attributable to those shares. As of November 30, 2012, NMFC's shares of common stock traded at a premium of approximately 7.7% of the net asset value attributable to those shares as of September 30, 2012. It is not possible to predict whether the shares offered hereby will trade at, above, or below net asset value.

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Since NMFC is a holding company, distributions will be paid on NMFC's common stock from distributions received from the Operating Company. The Operating Company intends to make distributions to its unit holders that will be sufficient to enable NMFC to pay quarterly distributions to NMFC's stockholders and to maintain NMFC's status as a regulated investment company. 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 they may retain certain net capital gains for reinvestment.

NMFC has adopted an opt out dividend reinvestment plan on behalf of its stockholders, whereas NMFC stockholders' cash dividends will be automatically reinvested in additional shares of NMFC's common stock, unless the stockholder elects to receive cash. Cash dividends reinvested in additional shares of NMFC's common stock will be automatically reinvested by NMFC into 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 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.

The following table reflects the 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:

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount</b>
August 8, 2012	September 14, 2012	September 28, 2012	\$0.34
May 8, 2012	June 15, 2012	June 29, 2012	0.34
May 8, 2012(1)	May 21, 2012	May 31, 2012	0.23
March 7, 2012	March 15, 2012	March 30, 2012	0.32
November 8, 2011	December 15, 2011	December 30, 2011	\$0.30
August 10, 2011	September 15, 2011	September 30, 2011	0.29
August 10, 2011	August 22, 2011	August 31, 2011	0.27
<b>Total</b>			<b>\$2.09</b>

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- (1) Special dividend related to estimated realized capital gains attributable to the Operating Company's investments in Lawson Software, Inc. and Infor Lux Bond Company.

Tax characteristics of all dividends paid by NMFC are reported to stockholders on Form 1099 after the end of the calendar year. Future quarterly dividends, if any, for the New Mountain Finance Entities will be determined by their respective board of directors.

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The information contained in this section should be read in conjunction with the Selected Financial and Other Data and our Financial Statements and notes thereto appearing elsewhere in this prospectus supplement and the accompanying prospectus. In addition to historical information, the following discussion and other parts of this prospectus supplement and the accompanying prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under "Risk Factors" appearing in the accompanying prospectus and "Cautionary Statement Regarding Forward-Looking Statements" appearing elsewhere in this prospectus supplement.

#### **Overview**

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

The Operating Company is externally managed by 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 approximately \$9.0 billion as of September 30, 2012. 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 treated as a BDC under the 1940 Act. As such, NMFC is obligated to comply with certain regulatory requirements. NMFC has elected to be treated, and intends to comply with the requirements to continue to qualify annually, as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended, (the "Code").

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

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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 limited partners of New Mountain Guardian Partners, L.P. at that time for their ownership interest in the Predecessor Entities. In connection with NMFC's IPO and through a series of transactions, the Operating Company owns all of the operations of the Predecessor Entities, including all of the assets and liabilities related to such operations.

On July 10, 2012, NMFC's shelf registration statement became effective. On July 17, 2012, NMFC completed a public offering of 5,250,000 shares of its common stock at a public offering price of \$14.35 per share. In connection with the offering, the underwriters purchased an additional 676,802 shares with the exercise of the over-allotment option to purchase up to an additional 787,500 shares of common stock. As a result of this public offering, NMFC and AIV Holdings owned approximately 45.1% and 54.9%, respectively, of the units of the Operating Company.

On September 28, 2012, NMFC completed an underwritten secondary public offering of 4,000,000 shares of its common stock at a public offering price of \$15.00 per share on behalf of a selling stockholder, AIV Holdings. No shares were sold by NMFC, and it did not receive any proceeds from this secondary public offering. 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. After completion of this underwritten secondary public offering, NMFC and AIV Holdings owned approximately 56.0% and 44.0%, respectively, of the units of the Operating Company.

NMFC and AIV Holdings are holding companies with no direct operations of their own, and their sole asset is their ownership in the Operating Company. NMFC and AIV Holdings each entered into a joinder agreement with respect to the Limited Liability Company Agreement, as amended and restated, of the Operating Company, pursuant to which NMFC and AIV Holdings were admitted as members of the Operating Company. NMFC acquired from the Operating Company, with the gross proceeds of the IPO and the Concurrent Private Placement, common membership units (units) of the Operating Company (the number of units are equal to the number of shares of NMFC's common stock sold in the IPO and the Concurrent Private Placement). Additionally, NMFC received units of the Operating Company equal to the number of shares of common stock of NMFC issued to the limited 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 has the right to exchange all or any portion of its units in the Operating Company for shares of NMFC's common stock on a one-for-one basis.

As part of the third quarter 2012 dividend payment, NMFC issued an additional 66,142 shares in conjunction with its dividend reinvestment plan at a price of \$14.82. As of September 30, 2012, NMFC and AIV Holdings own approximately 56.1% and 43.9%, respectively, of the units of the Operating Company.

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

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The diagram below depicts our current organizational structure (percentages are prior to this offering).

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) opportunities for niche market dominance.

As of September 30, 2012, the Operating Company's net asset value was \$520.4 million and its portfolio had a fair value of approximately \$858.9 million in 58 portfolio companies, with a weighted average Yield to Maturity of approximately 9.9%. This Yield to Maturity calculation assumes that all investments not on non-accrual are purchased at fair value on September 30, 2012 and held until their respective maturities with no prepayments or losses and exited at par at maturity. The actual yield to maturity may be higher or lower due to the future selection of the London Interbank Offered Rate ( LIBOR ) contracts by the individual companies in the Operating Company's portfolio or other factors.

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### **Recent Developments**

On November 6, 2012, the Operating Company's board of directors, and subsequently NMFC's board of directors, declared a fourth quarter 2012 distribution of \$0.34 per unit/share payable on December 28, 2012 to holders of record as of December 14, 2012.

### **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 does not consolidate the Operating Company. NMFC applies 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 observes that it is industry practice to follow the presentation prescribed for a Master Fund-Feeder Fund structure in ASC 946 in instances in which a Master Fund is owned by more than one feeder fund and that such presentation provides stockholders of NMFC with a clearer depiction of their investment in the Master Fund.

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

The Operating Company conducts the valuation of assets, pursuant to which its net asset value, and, consequently, NMFC's net asset value is determined, at all times consistent with GAAP and the 1940 Act.

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.

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

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investment's par value exceeds the materiality threshold, the investment is valued similarly to those assets with no readily available quotes (see (3) below);

b. For investments other than bonds, the investment professionals of the Investment Adviser look at the number of quotes readily available and perform 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 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 exceeds the materiality threshold, then at least once each fiscal year, the valuation for each portfolio investment for which the investment professionals of the Investment Adviser do not have a readily available market quotation will be reviewed by an independent valuation firm engaged by the Operating Company's board of directors.

d. Also, 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.

Valuation methods may include comparisons of financial ratios of the portfolio companies that issued such private securities to peer companies that are public, the nature of and the realizable value of any collateral, the portfolio company's earnings, discounted cash flows, the ability to make payments, the markets in which the portfolio company conducts business, and other relevant factors, including available market data such as relevant and applicable market trading and transaction comparables; applicable market yields and multiples; security covenants; call protection provisions; information rights; comparable merger and acquisition transactions; and the principal market and enterprise values. When an external event such as a purchase transaction, public offering or subsequent sale occurs, we will consider the pricing indicated by the external event to corroborate the private valuation.

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 certain investments may fluctuate from period to period.

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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 we hold 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 into the determination of fair value require significant judgment or estimation by management. 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 reclassification of certain investments within the fair value hierarchy from period to period.

The following table summarizes the levels in the fair value hierarchy that the Operating Company's portfolio investments fall into as of September 30, 2012:

(in thousands)	Total	Level I	Level II	Level III
First lien	\$ 516,697	\$	\$ 466,136	\$ 50,561
Second lien	306,001		262,746	43,255
Subordinated	29,798		22,259	7,539
Equity and other	6,388			6,388
<b>Total investments</b>	<b>\$ 858,884</b>	<b>\$</b>	<b>\$ 751,141</b>	<b>\$ 107,743</b>

NMFC is a holding company with no direct operations of its own, and its sole asset is its ownership in the Operating Company. NMFC's investment in the Operating Company is carried at fair value and represents the pro-rata interest in the net assets of the Operating Company as of the applicable reporting date. NMFC values its 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.



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***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.

***Market Based Approach:*** The Operating Company typically estimates the total enterprise value of each portfolio company by utilizing market value cash flow (EBITDA) multiples of publicly traded comparable companies. The Operating Company carefully 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 generally applies 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. This is done in order to ensure that there is an appropriate level of value coverage for each investment. In applying the market based approach as of September 30, 2012, the Operating Company used a relevant EBITDA range of 3.50x to 11.60x for first lien debt investments and 5.50x to 8.00x for second lien and subordinated debt investments to determine the enterprise value of seven 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 typically uses 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 September 30, 2012, the Operating Company used a discount range of 6.5% to 14.5% for first lien debt investments, 11.5% to 13.1% for second lien debt investments and 17.0% to 22.1% for subordinated debt investments to value six of its portfolio companies.

### ***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 )



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provision. PIK represents interest that is accrued and recorded as interest income at the contractual rates, added to the loan principal on the respective capitalization dates, and generally due at maturity.

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

*Other income:* Other income represents delayed compensation, consent or amendment fees, revolver fees and other miscellaneous fees received. Delayed compensation is income earned from counterparties on trades that do not settle within a set number of business days after trade date.

NMFC's revenue recognition policy is 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 based on its pro-rata interest in the net assets of the Operating Company. This is recorded on NMFC's Statements of Operations. Realized gains and losses are recorded upon sales of NMFC's 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.

All expenses are paid and recorded by the Operating Company. Expenses are allocated to NMFC based on pro-rata ownership interest. In addition, the Operating Company paid all of the offering costs related to the IPO. NMFC has recorded its portion of the offering costs excluding underwriters' discounts or commissions as a direct reduction to net assets and the cost of its 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 units of the Operating Company, AIV Holdings is 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 at the portfolio company or within the industry or the macroeconomic environment that may alter any material element of its original investment strategy.

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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:

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 September 30, 2012, 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 September 30, 2012, the Operating Company's first lien positions in ATI Acquisition Company 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 September 30, 2012, the Operating Company's original first lien position 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. As of September 30, 2012, this first lien debt investment had a cost basis of \$4.3 million, a fair value of \$0.3 million and total unearned interest income of \$0.2 million and \$0.5 million, respectively, for the three and nine months then ended. Additionally, the Operating Company has two super priority first lien debt investments in ATI Acquisition Company with a combined cost basis of \$1.6 million and a combined fair value of \$1.1 million as of September 30, 2012. Unrealized gains include a fee that the Operating Company would receive upon maturity of the two super priority first lien debt investments. During the third quarter of 2012, the Operating Company placed the super priority first lien positions on non-accrual status as well, resulting in the aggregate reversal of accrued interest income of \$0.2 million, of which \$0.1 million was previously earned and accrued in prior periods (prior to the quarter ended September 30, 2012 and dating back to October 1, 2011). No PIK was recorded during the quarter ended September 30, 2012 related to the two super priority first lien positions. As of September 30, 2012, the Operating Company's total investment in ATI Acquisition Company had an aggregate cost basis of \$5.9 million and an aggregate fair value of \$1.5 million, putting the entire ATI Acquisition Company positions on non-accrual.

### **Portfolio and Investment Activity**

The fair value of the Operating Company's investments was approximately \$858.9 million in 58 portfolio companies at September 30, 2012 and approximately \$703.5 million in 55 portfolio companies at December 31, 2011. For the nine months ended September 30, 2012, the Operating Company made approximately \$392.2 million of new investments in 30 portfolio companies. For the nine months ended September 30, 2011, the Operating Company made approximately \$354.2 million of new investments in 28 portfolio companies.

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For the nine months ended September 30, 2012, the Operating Company had approximately \$190.5 million in debt repayments in existing portfolio companies and sales of securities in 13 portfolio companies aggregating approximately \$77.9 million. In addition, during the nine months ended September 30, 2012, the Operating Company had a change in unrealized appreciation on 43 portfolio companies totaling approximately \$20.6 million, which was offset by a change in unrealized depreciation on 14 portfolio companies totaling approximately \$9.9 million. For the nine months ended September 30, 2011, the Operating Company had approximately \$113.6 million in debt repayments in existing portfolio companies and sales of securities in 13 portfolio companies aggregating approximately \$68.7 million. During the nine months ended September 30, 2011, the Operating Company had a change in unrealized appreciation on seven portfolio companies totaling approximately \$2.3 million, which was offset by a change in unrealized depreciation on 52 portfolio companies totaling approximately \$31.4 million.

At September 30, 2012, the Operating Company's weighted average Yield to Maturity was approximately 9.9%.

### **Results of Operations**

Since NMFC is a holding company with no direct operations of its own, and its only business and sole asset is its ownership of common membership units of the Operating Company, NMFC's results of operations is 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 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. 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 ). 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 September 30, 2012 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 September 30, 2012	Stepped-up Cost Basis Adjustments	Incentive Fee Adjustments (1)	Adjusted three months ended September 30, 2012
<b>Investment income</b>				
Interest income	\$ 21,362	\$ (806)	\$	\$ 20,556
Dividend income	215			215
Other income	175			175
Total investment income	21,752	(806)		20,946
Total expenses pre-incentive fee	6,055			6,055
<b>Pre-Incentive Fee Net Investment Income</b>	15,697	(806)		14,891
Incentive fee	5,561		(2,583)	2,978
<b>Post-Incentive Fee Net Investment Income</b>	10,136	(806)	2,583	11,913
Net realized gains on investments	1,615	(168)		1,447
Net change in unrealized appreciation of investments	10,494	974		11,468
Capital gains incentive fees			(2,583)	(2,583)
<b>Net increase in capital resulting from operations</b>	\$ 22,245			\$ 22,245

(1) For the three months ended September 30, 2012, the Operating Company incurred total incentive fees of \$5.6 million, of which \$2.6 million related to capital gains incentive fees on a hypothetical liquidation basis.

For the three months ended September 30, 2012, the Operating Company had a \$0.8 million adjustment to interest income for amortization, a decrease of \$0.2 million to net realized gains and an increase of \$1.0 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 September 30, 2012, total adjusted interest income of \$20.5 million consisted of approximately \$18.1 million in cash interest from investments, approximately \$0.5 million in payment-in-kind interest from investments, approximately \$1.2 million in prepayment fees and net amortization of purchase premiums/discounts and origination fees of approximately \$0.7 million. The Operating Company's Adjusted Net Investment Income was \$11.9 million for the three months ended September 30, 2012.

The following table for the Operating Company for the nine months ended September 30, 2012 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.

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	Nine months ended September 30, 2012	Stepped-up Cost Basis Adjustments	Incentive Fee Adjustments(1)	Adjusted nine months ended September 30, 2012
<b>Investment income</b>				
Interest income	\$ 60,087	\$ (2,654)	\$	\$ 57,433
Other income	771			771
Dividend income	215			215
Total investment income	61,073	(2,654)		58,419
Total expenses pre-incentive fee	17,684			17,684
<b>Pre-Incentive Fee Net Investment Income</b>	43,389	(2,654)		40,735
Incentive fee	11,694		(3,547)	8,147
<b>Post-Incentive Fee Net Investment Income</b>	31,695	(2,654)	3,547	32,588
Net realized gains on investments	14,591	(5,386)		9,205
Net change in unrealized appreciation of investments	10,710	8,040		18,750
Capital gains incentive fees			(3,547)	(3,547)
<b>Net increase in capital resulting from operations</b>	\$ 56,996			\$ 56,996

(1) For the nine months ended September 30, 2012, the Operating Company incurred total incentive fees of \$11.7 million, of which \$3.5 million related to capital gains incentive fees on a hypothetical liquidation basis. For the nine months ended September 30, 2012, the Operating Company had a \$2.7 million adjustment to interest income for amortization, a decrease of \$5.4 million to net realized gains and an increase of \$8.0 million to net change in unrealized appreciation to adjust for the stepped-up cost basis of the transferred investments as discussed above. For the nine months ended September 30, 2012, total adjusted interest income of \$57.4 million consisted of approximately \$51.4 million in cash interest from investments, approximately \$1.6 million in payment-in-kind interest from investments, approximately \$2.5 million in prepayment fees and net amortization of purchase premiums/discounts and origination fees of approximately \$1.9 million. The Operating Company's Adjusted Net Investment Income was \$32.6 million for the nine months ended September 30, 2012.

In accordance with GAAP, for the nine months ended September 30, 2012, the Operating Company accrued \$3.5 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

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sold at fair value. As of September 30, 2012, no actual capital gains incentive fee was owed under the Investment Management Agreement, as cumulative net Adjusted Realized Gains did not exceed cumulative Adjusted Unrealized Depreciation.

**Results of Operations for the Operating Company for the  
Three Months Ended September 30, 2012 and September 30, 2011**

**Revenue**

<i>(in thousands)</i>	Three months ended		Percent Change
	September 30, 2012	September 30, 2011	
Interest income	\$ 21,362	\$ 14,861	44%
Dividend income	215		N/A
Other income	175	208	(16)%
<b>Total investment income</b>	<b>\$ 21,752</b>	<b>\$ 15,069</b>	

The Operating Company's total investment income increased by \$6.7 million for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011. The increase in investment income from the three months ended September 30, 2011 to the three months ended September 30, 2012 was primarily attributable to larger invested balances, driven by the proceeds of the IPO on May 19, 2011, the proceeds from the July 2012 offering, and the Operating Company's use of leverage from its revolving credit facilities to originate new investments. Additionally during the three months ended September 30, 2012, the Operating Company received a distribution on its warrant membership interest in YP Equity Investors LLC.

**Operating Expenses**

<i>(in thousands)</i>	Three months ended		Percent Change
	September 30, 2012	September 30, 2011	
Incentive fee(1)	\$ 5,561	\$ 701	693%
Management fee	2,768	1,930	43%
Interest and other credit facility expenses	2,402	1,686	42%
Professional fees	233	55	324%
Other expenses	652	695	(6)%
<b>Total operating expenses</b>	<b>\$ 11,616</b>	<b>\$ 5,067</b>	

(1) For the three months ended September 30, 2012, the total incentive fees incurred of \$5.6 million included \$2.6 million related to capital gains incentive fees on a hypothetical liquidation basis.

The Operating Company's total operating expenses increased by \$6.5 million for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011. Interest and other credit facility expenses increased by \$0.7 million during the three months ended September 30, 2012, primarily due to the increase of average debt outstanding from \$32.7 million to \$105.8 million for the Holdings Credit Facility and from \$152.0 million to \$184.1 million for the SLF Credit Facility for the three months ended September 30, 2011 compared to September 30, 2012. As of September 30, 2012, the Operating Company incurred \$10.6 thousand in other expenses that was not subject to the expense cap pursuant to the Administration Agreement, as amended and restated, and further restricted by the Operating Company.

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Additionally, the Operating Company's management fees and incentive fees increased by \$0.8 million and \$4.9 million, respectively, for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011. The increase in management and incentive fees from the three months ended September 30, 2011 to the three months ended September 30, 2012 was attributable to larger invested balances, driven by the proceeds of the IPO on May 19, 2011, the proceeds from the July 2012 offering, and the Operating Company's use of leverage from its revolving credit facilities to originate new investments. As a result of the net increase in Adjusted Realized Capital Gains (Losses) and Adjusted Unrealized Capital Appreciation (Depreciation), the Operating Company's capital gains incentive fees accrual for the quarter increased from \$1.0 million as of June 30, 2012 to \$3.5 million as of September 30, 2012, accounting for \$2.6 million of the \$5.6 million total incentive fees for the three months ended September 30, 2012.

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

	<b>Three months ended</b>		<b>Percent Change</b>
	<b>September 30, 2012</b>	<b>September 30, 2011</b>	
Net realized gains on investments	\$ 1,615	\$ 1,402	15%
Net change in unrealized (depreciation) appreciation of investments	10,494	(22,657)	146%
Total net realized gains and net change in unrealized (depreciation) appreciation of investments	\$ 12,109	\$ (21,255)	

The Operating Company's net realized and unrealized gains or losses resulted in a net gain of \$12.1 million for the three months ended September 30, 2012 compared to a net loss of \$21.3 million for the same period in 2011. 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 September 30, 2012 was primarily driven by the overall increase in the market prices of the Operating Company's investments during the period. The net loss for the three months ended September 30, 2011 was primarily driven by the overall decline in market prices during the period.

**Results of Operations for the Operating Company for the Nine months Ended****September 30, 2012 and September 30, 2011****Revenue***(in thousands)*

	<b>Nine months ended</b>		<b>Percent Change</b>
	<b>September 30, 2012</b>	<b>September 30, 2011</b>	
Interest income	\$ 60,087	\$ 38,839	55%
Other income	771	558	38%
Dividend income	215		N/A
Total investment income	\$ 61,073	\$ 39,397	

The Operating Company's total investment income increased by \$21.7 million for the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011. The increase in investment income from the nine months ended September 30, 2011 to the nine months ended

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September 30, 2012 was primarily attributable to larger invested balances, driven by the proceeds of the IPO on May 19, 2011, the proceeds from the July 2012 offering, and the Operating Company's use of leverage from its revolving credit facilities to originate new investments. In the nine months ended September 30, 2012, the Operating Company's other income increased due to commitment fees received associated with the closing of its two bridge facilities held as of December 31, 2011 and fees received associated with the early repayments or partial repayments of 10 different portfolio companies held by the Operating Company as of December 31, 2011. Additionally during the three months ended September 30, 2012, the Operating Company received a distribution on its warrant membership interest in YP Equity Investors LLC.

**Operating Expenses***(in thousands)*

	Nine months ended		Percent Change
	September 30, 2012	September 30, 2011	
Incentive fee(1)	\$ 11,694	\$ 1,205	870%
Management fee	7,887	2,738	188%
Interest and other credit facility expenses	7,286	4,767	53%
Professional fees	743	625	19%
Other expenses	1,768	1,076	64%
 Total operating expenses	 \$ 29,378	 \$ 10,411	

(1) For the nine months ended September 30, 2012, the total incentive fees incurred of \$11.7 million included \$3.5 million related to capital gains incentive fees on a hypothetical liquidation basis.

The Operating Company's total operating expenses increased by \$19.0 million for the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011. Interest and other credit facility expenses increased by \$2.5 million during the nine months ended September 30, 2012, primarily due to the increase of average debt outstanding from \$46.7 million to \$122.9 million for the Holdings Credit Facility and from \$123.0 million to \$174.8 million for the SLF Credit Facility for the nine months ended September 30, 2011 compared to September 30, 2012. As of September 30, 2012, the Operating Company incurred \$10.6 thousand in other expenses that was not subject to the expense cap pursuant to the Administration Agreement, as amended and restated, and further restricted by the Operating Company.

Additionally, the Operating Company's management fees and incentive fees increased by \$5.1 million and \$10.5 million, respectively, for the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011. The increase in management and incentive fees from the nine months ended September 30, 2011 to the nine months ended September 30, 2012 was attributable to larger invested balances, driven by the proceeds of the IPO on May 19, 2011, the proceeds from the July 2012 offering, and the Operating Company's use of leverage from its revolving credit facilities to originate new investments. As a result of the net increase in Adjusted Realized Capital Gains (Losses) and Adjusted Unrealized Capital Appreciation (Depreciation), a capital gains incentive fees accrual of \$3.5 million was booked for the nine months ended September 30, 2012. No capital gains incentive fees were booked for the nine months ended September 30, 2011. As a result of the IPO on May 19, 2011, the Operating Company pays management fees and incentive fees under its Investment Management Agreement, which provides a different basis for the calculation of these fees as compared to amounts previously paid prior to the completion of the IPO. Prior to the IPO, an affiliate of the Predecessor Entities paid a majority of the management and incentive fees. In addition, historical operating expenses do not reflect the allocation of certain professional fees, administrative



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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.

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

(in thousands)	Nine months ended		Percent Change
	September 30, 2012	September 30, 2011	
Net realized gains on investments	\$ 14,591	\$ 13,955	5%
Net change in unrealized appreciation (depreciation) of investments	10,710	(29,119)	137%
Total net realized gains and net change in unrealized (depreciation) appreciation of investments	\$ 25,301	\$ (15,164)	

The Operating Company's net realized and unrealized gains or losses resulted in a net gain of \$25.3 million for the nine months ended September 30, 2012 compared to a net loss of \$15.2 million for the same period in 2011. 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 nine months ended September 30, 2012 was primarily related to the overall increase in the market and the quality of the Operating Company's portfolio, directly impacting the prices of the Operating Company's portfolio. The net gain was driven by the appreciation of the Operating Company's portfolio and the sale or repayment of investments with fair values in excess of December 31, 2011 valuations, resulting in net realized gains being greater than the reversal of the cumulative net unrealized gains for those investments. The net loss for the nine months ended September 30, 2011 was primarily driven by the depreciation of our portfolio as a result of the overall decline in market prices.

**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.

Guardian AIV and New Mountain Guardian Partners, L.P. contributed a portfolio to the Operating Company in connection with the IPO of NMFC, receiving 20,221,938 units of the Operating Company and 1,252,964 shares of NMFC, respectively. On May 19, 2011, NMFC priced its initial offering 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 the Concurrent Private Placement. NMFC used the gross proceeds from the IPO and Concurrent Private Placement to acquire units in the Operating Company.

On July 10, 2012, NMFC's shelf registration statement became effective. On July 17, 2012, NMFC completed a public offering of 5,250,000 shares of its common stock at a public offering price of \$14.35 per share. In connection with this offering, the underwriters purchased an additional 676,802 shares with the exercise of the overallotment option to purchase up to an additional 787,500 shares of common stock.

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On September 28, 2012, NMFC completed an underwritten secondary public offering of 4,000,000 shares of its common stock at a public offering price of \$15.00 per share on behalf of a selling stockholder, AIV Holdings. No shares were sold by NMFC, and it did not receive any proceeds from this secondary public offering. The Operating Company and NMFC did not bear any expenses in connection with the offering. The offering expenses were borne by the selling stockholder, AIV Holdings.

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.

At September 30, 2012 and December 31, 2011, the Operating Company had cash and cash equivalents of approximately \$12.7 million and \$15.3 million, respectively. Cash (used in) operating activities for the nine months ended September 30, 2012 and September 30, 2011 was approximately \$(83.8) million and \$(252.0) million, respectively. We expect that all current liquidity needs by the Operating Company will be met with cash flows from operations and other activities.

### ***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 \$185.0 million, as amended on August 7, 2012. The Operating Company is 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 67.0% 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 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 (as well as the Predecessor 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). Interest expense and non-usage fees were \$0.8 million and \$0.2 million, respectively, for the three months ended September 30, 2012. Interest expense and non-usage fees were \$2.9 million and \$0.3 million, respectively, for the nine months ended September 30, 2012. Interest expense and non-usage fees were \$0.3 million and \$0.2 million, respectively, for the three months ended September 30, 2011. Interest expense and non-usage fees were \$1.2 million and \$0.5 million, respectively, for the nine months ended September 30, 2011. The weighted average interest rate for the nine months ended September 30, 2012 and September 30, 2011 was 3.1% and 3.2%, respectively. The average debt outstanding for the nine months ended September 30, 2012 and September 30, 2011 was \$122.9 million and \$46.7 million, respectively. The outstanding balance as of September 30, 2012 and December 31, 2011 was \$135.7 million and \$129.0

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million, respectively. As of September 30, 2012 and December 31, 2011, the Operating Company was in compliance with all financial and operational covenants required by the credit facilities existing on such dates.

**SLF Credit Facility** The Operating Company's senior loan fund'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 \$200.0 million, as amended on August 7, 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 market fluctuations in the prices of our investments, but rather to the performance of the underlying portfolio companies.

The SLF Credit Facility permits borrowings of up to 67.0% of the purchase price of pledged debt securities subject to approval by Wells Fargo Bank, National Association. Due to a fifth 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.

The SLF Credit Facility bears interest at a rate of LIBOR plus 2.00% per annum, as amended on May 8, 2012. 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). Interest expense and non-usage fees were \$1.0 million and \$7.4 thousand, respectively, for the three months ended September 30, 2012. Interest expense and non-usage fees were \$3.1 million and \$19.8 thousand, respectively, for the nine months ended September 30, 2012. Interest expense and non-usage fees were \$1.0 million and \$24.6 thousand, respectively, for the three months ended September 30, 2011. Interest expense and non-usage fees were \$2.3 million and \$0.1 million, respectively, for the nine months ended September 30, 2011. The weighted average interest rate for the nine months ended September 30, 2012 and September 30, 2011 for the facility was 2.4% and 2.5%, respectively. The average debt outstanding for the nine months ended September 30, 2012 and September 30, 2011 was \$174.8 million and \$123.0 million, respectively. The outstanding balance as of September 30, 2012 and December 31, 2011 was \$200.0 million and \$165.9 million, respectively. As of September 30, 2012 and December 31, 2011, NMF SLF was in compliance with all financial and operational covenants required by the SLF Credit Facility.

***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 September 30, 2012 and December 31, 2011, the Operating Company had outstanding commitments to third parties to fund investments totaling \$13.9 million and \$27.0 million, respectively, under various undrawn revolving credit facilities, delayed draw commitments or other future funding commitments.

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The Operating Company may from time to time enter into financing commitment letters or bridge financing commitments. As of September 30, 2012 and December 31, 2011, the Operating Company did not have any commitment letters to purchase debt investments. As of September 30, 2012 and December 31, 2011, the Operating Company had bridge financing commitments in an aggregate par amount of \$0 million and \$35.0 million, respectively, which could require funding in the future.

**Borrowings**

The Operating Company had borrowings of \$135.7 million and \$129.0 million outstanding as of September 30, 2012 and December 31, 2011, respectively, under the Holdings Credit Facility. The Operating Company had borrowings of \$200.0 million and \$165.9 million outstanding as of September 30, 2012 and December 31, 2011, respectively, under the SLF Credit Facility.

**Contractual Obligations**

A summary of the Operating Company's significant contractual payment obligations as of September 30, 2012 is as follows:

	<b>Contractual Obligations Payments Due by Period (in thousands)</b>				
	<b>Total</b>	<b>Less than 1 Year</b>	<b>1 - 3 Years</b>	<b>3 - 5 Years</b>	<b>More than 5 Years</b>
Holdings Credit Facility(1)	\$ 135,665	\$	\$	\$ 135,665	\$
SLF Credit Facility(2)	200,000			200,000	
<b>Total Contractual Obligations</b>	<b>\$ 335,665</b>	<b>\$</b>	<b>\$</b>	<b>\$ 335,665</b>	<b>\$</b>

- (1) Under the terms of the \$185.0 million Holdings Credit Facility, all outstanding borrowings under that facility (\$135.7 million as of September 30, 2012) must be repaid on or before October 27, 2016. As of September 30, 2012, there was approximately \$49.3 million of possible capacity remaining under the Holdings Credit Facility.
- (2) Under the terms of the \$200.0 million SLF Credit Facility, all outstanding borrowings under that facility (\$200.0 million as of September 30, 2012) must be repaid on or before October 27, 2016. As of September 30, 2012, there was zero of possible capacity remaining under the SLF Credit Facility.

The Operating Company has certain contracts under which it has material future commitments. The Operating Company has \$13.9 million of undrawn funding commitments as of September 30, 2012 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 September 30, 2012, 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, as amended and restated (the Administration Agreement), with the Administrator. Under the Administration Agreement, the Administrator has agreed to arrange office space for us and provide office equipment and clerical,

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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 New Mountain Finance Entities for the nine months ended September 30, 2012 totaled \$40.0 million. Tax characteristics of all dividends paid by NMFC and AIV Holdings are reported to stockholders on Form 1099 after the end of the calendar year. Future quarterly dividends, if any, for the New Mountain Finance Entities will be determined by their respective board of directors.

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:

<b>Fiscal Year Ended</b>	<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Per Share/ Unit Amount</b>
<b>December 31, 2012</b>				
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(1)	May 8, 2012	May 21, 2012	May 31, 2012	0.23
First Quarter	March 7, 2012	March 15, 2012	March 30, 2012	0.32
<b>December 31, 2011</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
<b>Total</b>				\$ 2.09

- (1) Special dividend related to estimated realized capital gains attributable to the Operating Company's investments in Lawson Software, Inc. and Infor Lux Bond Company.

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 holders that will be sufficient to enable NMFC to pay quarterly distributions to its stockholders and to maintain its status as a RIC. 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

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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.

### **Related Parties**

The New Mountain Finance Entities have entered into a number of business relationships with affiliated or related parties, including the following:

Together, NMFC and AIV Holdings own all the outstanding units of the Operating Company. As of September 30, 2012, NMFC and AIV Holdings own approximately 56.1% and 43.9%, respectively, 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 New Mountain Finance Entities have entered into an Administration Agreement, with the Administrator, a wholly-owned subsidiary of New Mountain Capital. The Administrator arranges office space for the New Mountain Finance Entities 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 New Mountain Finance Entities 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, as amended and restated, 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.

The New Mountain Finance Entities, 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 New Mountain Finance Entities, 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,

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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.

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**UNDERWRITING**

NMFC, the Operating Company and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co. and Wells Fargo Securities, LLC are the representatives of the underwriters.

Underwriter	Number of Shares
Goldman, Sachs & Co.	
Wells Fargo Securities, LLC	
RBC Capital Markets, LLC	
Stifel, Nicolaus & Company, Incorporated	
<b>Total</b>	<b>3,000,000</b>

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 450,000 shares from NMFC. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions (sales load) to be paid to the underwriters by the Operating Company. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase 450,000 additional shares. In addition, the Investment Adviser has agreed to bear an additional \$ , or \$ per share, and \$ , or \$ per share, respectively, of commissions (sales load) in connection with this offering in the event of no exercise and full exercise of the underwriters' option to purchase 450,000 additional shares, which is not reflected in the following table.

	No Exercise	Full Exercise
Per Share	\$	\$
Total	\$	\$

Because the Financial Industry Regulatory Authority, or FINRA, views the common stock offered hereby as interests in a direct participation program, the offering is being made in compliance with the requirements of FINRA Rule 2310. In compliance with such requirements, the underwriting discounts and commissions in connection with the sale of securities will not exceed 10.0% of gross proceeds of this offering. Investor suitability with respect to the common stock should be judged similarly to suitability with respect to other securities that are listed for trading on a national securities exchange.

In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the issuer. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.



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Shares sold by the underwriters to the public will initially be offered at the public offering price set forth on the cover of this prospectus supplement. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to \$ \_\_\_\_\_ per share from the public offering price. If all the shares are not sold at the initial offering price, the representatives may change the public offering price and the other selling terms. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part.

NMFC, each of its officers and directors, each of the members of the Investment Adviser's investment committee and AIV Holdings have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any shares of NMFC's common stock or securities convertible into or exchangeable for shares of NMFC's common stock during the period from the date of this prospectus supplement continuing through the date 60 days after the date of this prospectus supplement, except with the prior written consent of Goldman, Sachs & Co. and Wells Fargo Securities, LLC.

The 60 day restricted period described in the preceding paragraph will be automatically extended if: (1) during the last 17 days of the 60 day restricted period the NMFC issues an earnings release or announce material news or a material event; or (2) prior to the expiration of the 60 day restricted period, the NMFC announces that it will release earnings results during the 15-day period following the last day of the 60 day period, in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or material event.

NMFC's common stock is listed on the New York Stock Exchange under the symbol NMFC .

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. Covered short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from us in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares pursuant to the option granted to them. Naked short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions, as well as other purchases by the underwriters for their own account, may have the effect of preventing or retarding a decline in the market price of the company's stock, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the New York Stock Exchange, in the over-the-counter market or otherwise.

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The underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of shares offered.

We estimate that our share of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately \$181,254. The Operating Company will pay all of the expenses incurred by us in connection with this offering.

NMFC and the Operating Company have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

The underwriters and their respective affiliates are full-service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates may, from time to time, perform various financial advisory and investment banking services for the company, for which they will receive customary fees and expenses. In addition, an affiliate of Wells Fargo Securities, LLC is a lender under our Credit Facilities.

In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and such investment and securities activities may involve securities and/or instruments of the issuer. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The net proceeds from the sale of the shares of NMFC's common stock in this offering are expected to be used to temporarily pay down outstanding indebtedness under the Credit Facilities and for general corporate purposes. Affiliates of Wells Fargo Securities, LLC are lenders under the Credit Facilities. Accordingly, affiliates of Wells Fargo Securities, LLC may receive more than 5% of the net proceeds of this offering to the extent such proceeds are used to temporarily repay outstanding indebtedness under the Credit Facilities.

The principal business address of Goldman, Sachs & Co. is 200 West Street, New York, New York 10282 and the principal business address of Wells Fargo Securities, LLC is 375 Park Avenue, New York, New York 10152.

Each of the underwriters may arrange to sell common shares offered hereby in certain jurisdictions outside the United States, either directly or through affiliates, where they are permitted to do so. In that regard, Wells Fargo Securities, LLC may arrange to sell shares in certain jurisdictions through an affiliate, Wells Fargo Securities International Limited, or WFSIL. WFSIL is a wholly-owned indirect subsidiary of Wells Fargo & Company and an affiliate of Wells Fargo Securities, LLC. WFSIL is a United Kingdom incorporated investment firm regulated by the Financial Services Authority. Wells Fargo Securities is the trade name for certain corporate and investment banking services of Wells Fargo & Company and its affiliates, including Wells Fargo Securities, LLC and WFSIL.

### ***European Economic Area***

Each underwriter has represented and agreed that, in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), it has not made and will not make an offer of shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the

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Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares to the public in that Relevant Member State at any time:

- (1) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (2) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the representative or representatives nominated by NMFC for any such offer; or
- (3) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of shares shall require NMFC or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of shares to the public in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe for the shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State; Prospectus Directive means European Council Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive) and includes any relevant implementing measure in the Relevant Member State; and 2010 PD Amending Directive means Directive 2010/73/EU.

### ***United Kingdom***

Each underwriter has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the shares in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorized person, apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

### ***Switzerland***

This document does not constitute a prospectus within the meaning of Art. 652a of the Swiss Code of Obligations. The shares of common stock may not be sold directly or indirectly in or into Switzerland except in a manner which will not result in a public offering within the meaning of the Swiss Code of Obligations. Neither this document nor any other offering materials relating to the shares of common stock may be distributed, published or otherwise made available in Switzerland except in a manner which will not constitute a public offer of the shares of common stock in Switzerland.

### ***Hong Kong***

The shares may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of

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issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

### ***Singapore***

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the shares under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

### ***Japan***

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

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**LEGAL MATTERS**

Certain legal matters in connection with the securities offered hereby will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, District of Columbia. Certain legal matters in connection with the securities offered hereby will be passed upon for the underwriters by Fried, Frank, Harris, Shriver & Jacobson LLP, New York, New York.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

With respect to the unaudited interim financial information of New Mountain Finance Holdings, L.L.C. as of September 30, 2012 and for the three and nine month periods ended September 30, 2012 and 2011, and of New Mountain Finance Corporation and New Mountain Finance AIV Holdings Corporation as of September 30, 2012 and for the three and nine month periods then ended, the three months ended September 30, 2011 and the period May 19, 2011 to September 30, 2011, which is included in this prospectus supplement, Deloitte & Touche LLP, an independent registered public accounting firm, has applied limited procedures in accordance with the standards of the Public Company Accounting Oversight Board (United States) for a review of such information. However, as stated in their reports included in this prospectus supplement, they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their reports on such information should be restricted in light of the limited nature of the review procedures applied. Deloitte & Touche LLP are not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their reports on the unaudited interim financial information because those reports are not reports or a part of the Registration Statement prepared or certified by an accountant within the meaning of Sections 7 and 11 of the Act.

The financial statements of New Mountain Finance Holdings, L.L.C. as of December 31, 2011 and 2010 and for each of the three years ended December 31, 2011, and the financial statements of New Mountain Finance Corporation and New Mountain Finance AIV Holdings Corporation as of December 31, 2011 and for the period from May 19, 2011 (Commencement of Operations) to December 31, 2011, including the Senior Securities table included in the accompanying prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports appearing herein and elsewhere in the Registration Statement. Such financial statements and information included in the Senior Securities table as of December 31, 2011, 2010 and 2009 have been so included in reliance upon the reports of such firm, given their authority as experts in accounting and auditing.

The principal business address of Deloitte & Touche LLP is 2 World Financial Center, New York, New York 10281.

**AVAILABLE INFORMATION**

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the shares of common stock offered by this prospectus supplement and the accompanying prospectus. The registration statement contains additional information about us and the shares of common stock being offered by this prospectus supplement and the accompanying prospectus.

We are required to file with or submit to the SEC annual, quarterly and current reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration

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statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, District of Columbia 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC, which are available on the SEC's website at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, District of Columbia 20549. This information will also be available free of charge by contacting us at 787 Seventh Avenue, 48th Floor, New York, New York 10019, by telephone at (212) 720-0300, or on our website at <http://www.newmountainfinance.com>. Information contained on our website or on the SEC's web site about us is not incorporated into this prospectus supplement and the accompanying prospectus and you should not consider information contained on our website or on the SEC's website to be part of this prospectus supplement and the accompanying prospectus.

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**Table of Contents****New Mountain Finance Holdings, L.L.C.****Consolidated Statements of Assets, Liabilities and Members Capital**

	<b>September 30, 2012 (unaudited)</b>	<b>December 31, 2011</b>
<b>Assets</b>		
Investments at fair value (cost of \$844,524,713 and \$699,864,784, respectively)	\$ 858,884,178	\$ 703,513,560
Cash and cash equivalents	12,670,690	15,318,811
Interest and dividend receivable	8,579,017	7,307,092
Deferred credit facility costs (net of accumulated amortization of \$1,680,588 and \$855,955, respectively)	5,317,053	3,713,739
Receivable from affiliate	170,909	369,017
Other assets	1,206,326	356,486
<b>Total assets</b>	<b>\$ 886,828,173</b>	<b>\$ 730,578,705</b>
<b>Liabilities</b>		
SLF Credit Facility	200,000,000	165,928,000
Holdings Credit Facility	135,664,913	129,037,813
Payable for unsettled securities purchased	19,800,000	7,604,931
Incentive fee payable	6,525,063	2,317,328
Management fee payable	2,767,648	2,200,354
Interest payable	580,796	1,747,095
Payable to affiliate	22,728	
Other liabilities	1,112,085	1,241,366
<b>Total liabilities</b>	<b>366,473,233</b>	<b>310,076,887</b>
<b>Members Capital</b>	<b>520,354,940</b>	<b>420,501,818</b>
<b>Total liabilities and members capital</b>	<b>\$ 886,828,173</b>	<b>\$ 730,578,705</b>
Outstanding common membership units	36,912,573	30,919,629
Capital per unit	\$ 14.10	\$ 13.60

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**

(unaudited)

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
<b>Investment income</b>				
Interest income	\$ 21,362,055	\$ 14,860,750	\$ 60,087,281	\$ 38,838,944
Dividend income	215,160		215,160	
Other income	174,515	207,831	770,313	557,648
Total investment income	21,751,730	15,068,581	61,072,754	39,396,592
<b>Expenses</b>				
Incentive fee	5,561,173	700,610	11,693,825	1,205,003
Management fee	2,767,649	1,930,140	7,887,506	2,737,649
Interest and other credit facility expenses	2,401,847	1,686,113	7,286,164	4,767,013
Administrative expenses (net of reimbursable expenses of \$267,973, \$218,396, \$850,816 and \$398,651, respectively)	276,277	314,250	753,021	517,668
Professional fees (net of reimbursable expenses of \$170,909, \$816,530, \$535,771 and \$946,716, respectively)	233,561	55,138	742,934	624,972
Other general and administrative expenses	375,777	380,612	1,014,660	559,180
Total expenses	11,616,284	5,066,863	29,378,110	10,411,485
<b>Net investment income</b>	10,135,446	10,001,718	31,694,644	28,985,107
Net realized gains on investments	1,615,032	1,402,671	14,590,819	13,954,834
Net change in unrealized appreciation (depreciation) of investments	10,494,213	(22,657,239)	10,710,689	(29,119,352)
<b>Net increase (decrease) in capital resulting from operations</b>	\$ 22,244,691	\$ (11,252,850)	\$ 56,996,152	\$ 13,820,589

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**

(unaudited)

	Nine months ended	
	September 30, 2012	September 30, 2011
<b>Increase (decrease) in members' capital resulting from operations:</b>		
Net investment income	\$ 31,694,644	\$ 28,985,107
Net realized gains on investments	14,590,819	13,954,834
Net change in unrealized appreciation (depreciation) of investments	10,710,689	(29,119,352)
<b>Net increase in members' capital resulting from operations</b>	<b>56,996,152</b>	<b>13,820,589</b>
<b>Distributions</b>		<b>(10,249,155)</b>
<b>Contributions</b>		<b>65,429,677</b>
<b>Net proceeds from issuance of members' units</b>	<b>82,299,574</b>	<b>129,864,997</b>
<b>Dividends declared</b>	<b>(40,046,256)</b>	<b>(17,314,992)</b>
<b>Offering costs</b>	<b>(376,559)</b>	<b>(11,557,173)</b>
<b>Reinvestment of dividends</b>	<b>980,211</b>	
<b>Net increase in members' capital</b>	<b>99,853,122</b>	<b>169,993,943</b>
<b>Members' capital at beginning of period</b>	<b>420,501,818</b>	<b>241,927,261</b>
<b>Members' capital at end of period</b>	<b>\$ 520,354,940</b>	<b>\$ 411,921,204</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**

(unaudited)

	Nine months ended	
	September 30, 2012	September 30, 2011
<b>Cash flows from operating activities</b>		
Net increase in members' capital resulting from operations	\$ 56,996,152	\$ 13,820,589
Adjustments to reconcile net (increase) decrease in capital resulting from operations to net cash (used in) provided by operating activities:		
Net realized gains on investments	(14,590,819)	(13,954,834)
Net change in unrealized (appreciation) depreciation of investments	(10,710,689)	29,119,352
Amortization of purchase discount	(4,548,871)	(5,048,033)
Amortization of deferred credit facility costs	824,634	540,957
Non-cash interest income	(888,438)	(957,171)
<b>(Increase) decrease in operating assets:</b>		
Purchase of investments	(392,161,971)	(355,424,928)
Proceeds from sales and paydowns of investments	268,370,176	182,264,633
Cash received for purchase of undrawn portion of revolving credit facility		1,260,000
Cash paid for drawn revolvers	(10,710,000)	(535,593)
Cash repayments on drawn revolvers	9,870,000	
Interest and dividend receivable	(1,271,925)	(3,753,482)
Receivable from unsettled securities sold		(6,755,000)
Receivable from affiliate	198,108	(1,003,530)
Other assets	(641,517)	(515,714)
<b>Increase (decrease) in operating liabilities:</b>		
Payable for unsettled securities purchased	12,195,069	(94,462,500)
Incentive fee payable	4,207,735	700,610
Management fee payable	567,294	1,930,140
Interest payable	(1,166,299)	416,448
Payable to affiliate	22,728	(202,180)
Other liabilities	(322,345)	525,198
<b>Net cash flows (used in) provided by operating activities</b>	<b>(83,760,978)</b>	<b>(252,035,038)</b>
<b>Cash flows from financing activities</b>		
Contributions		65,429,677
Distributions		(10,249,155)
Net proceeds from issuance of members' units	82,299,574	129,864,997
Dividends paid	(39,066,045)	(17,314,992)
Offering costs paid	(258,516)	(11,500,044)
Proceeds from Holdings Credit Facility	311,326,025	205,870,450
Repayment of Holdings Credit Facility	(304,698,925)	(207,664,263)
Proceeds from SLF Credit Facility	89,031,051	134,361,800
Repayment of SLF Credit Facility	(54,959,051)	(24,691,352)
Deferred credit facility costs paid	(2,561,256)	(4,377,595)