

New Mountain Finance Corp
Form 10-Q
November 14, 2011
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended September 30, 2011

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

Commission File Number: 814-00832

NEW MOUNTAIN FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

27-2978010

Edgar Filing: New Mountain Finance Corp - Form 10-Q

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

787 Seventh Avenue
48th Floor
New York, N.Y.
(Address of principal executive offices)

10019
(Zip Code)

(212) 730-0300

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant's Common Stock, \$0.01 par value outstanding as of November 14, 2011 was 10,697,691.

Table of Contents

NEW MOUNTAIN FINANCE CORPORATION

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

TABLE OF CONTENTS

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	1
<u>Item 1.</u>	
<u>Financial Statements</u>	1
<u>Statement of Assets and Liabilities as of September 30, 2011 (unaudited)</u>	1
<u>Statement of Operations for the three months ended September 30, 2011 (unaudited) and from May 19, 2011 (commencement of operations) to September 30, 2011 (unaudited)</u>	2
<u>Statement of Changes in Net Assets from May 19, 2011 (commencement of operations) to September 30, 2011 (unaudited)</u>	3
<u>Statement of Cash Flows from May 19, 2011 (commencement of operations) to September 30, 2011 (unaudited)</u>	4
<u>Notes to the Financial Statements (unaudited)</u>	5
<u>Report of Independent Registered Public Accounting Firm</u>	12
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	18
<u>Item 4.</u>	
<u>Controls and Procedures</u>	18
<u>Appendix A</u>	
<u>New Mountain Finance Holdings, L.L.C Form 10-Q</u>	A-1
<u>PART II. OTHER INFORMATION</u>	II-1
<u>Item 1.</u>	
<u>Legal Proceedings</u>	II-1
<u>Item 1A.</u>	
<u>Risk Factors</u>	II-1
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	II-1
<u>Item 3.</u>	
<u>Defaults upon Senior Securities</u>	II-1
<u>Item 4.</u>	
<u>Reserved</u>	II-1
<u>Item 5.</u>	
<u>Other Information</u>	II-1
<u>Item 6.</u>	
<u>Exhibits</u>	II-2
<u>Signatures</u>	II-4

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

New Mountain Finance Corporation

Statement of Assets and Liabilities

September 30, 2011

(unaudited)

Assets		
Investment in New Mountain Finance Holdings, L.L.C., at fair value (cost of \$144,355,856)	\$	142,518,067
Total assets	\$	142,518,067
Net assets		
Common stock, par value \$0.01 per share 10,697,691 shares issued and outstanding		106,977
Paid in capital in excess of par		144,248,879
Net unrealized (depreciation) appreciation		(1,837,789)
Total net assets	\$	142,518,067
Number of shares outstanding		10,697,691
Net asset value per share	\$	13.32

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

Table of Contents

New Mountain Finance Corporation

Statement of Operations

(unaudited)

	Three months ended September 30, 2011	From May 19, 2011 (commencement of operations) to September 30, 2011
Net investment income allocated from New Mountain Finance Holdings, L.L.C.		
Interest income	\$ 5,141,579	\$ 7,565,172
Other income	71,906	177,827
Total expenses	(1,753,053)	(2,698,438)
Net investment income allocated from New Mountain Finance Holdings, L.L.C.	3,460,432	5,044,561
Realized and unrealized gain (loss) allocated from New Mountain Finance Holdings, L.L.C.		
Realized gains on investments	485,301	346,214
Net change in unrealized (depreciation) appreciation of investments	(7,839,038)	(7,458,377)
Realized and unrealized gain (loss) allocated from New Mountain Finance Holdings, L.L.C.	(7,353,737)	(7,112,163)
Total net decrease in net assets resulting from operations allocated from New Mountain Finance Holdings, L.L.C.	(3,893,305)	(2,067,602)
Unrealized appreciation (depreciation) in New Mountain Finance Holdings, L.L.C. resulting from public offering price		6,220,520
Net (decrease) increase in net assets resulting from operations	\$ (3,893,305)	\$ 4,152,918
Basic earnings (loss) per share	\$ (0.36)	\$ 0.39
Weighted average shares of common stock outstanding - basic (See Note 8)	10,697,691	10,697,691
Diluted earnings (loss) per share	\$ (0.36)	\$ (0.19)
Weighted average shares of common stock outstanding - diluted (See Note 8)	30,919,629	30,919,629

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

Table of Contents**New Mountain Finance Corporation****Statement of Changes in Net Assets****from May 19, 2011 (commencement of operations) to September 30, 2011**

(unaudited)

Increase (decrease) in net assets resulting from operations allocated from New Mountain Finance Holdings, L.L.C.:	
Net investment income	\$ 5,044,561
Realized gains on investments	346,214
Net change in unrealized (depreciation) appreciation of investments	(7,458,377)
Total net decrease in net assets resulting from operations allocated from New Mountain Finance Holdings, L.L.C.	(2,067,602)
Unrealized appreciation (depreciation) in New Mountain Finance Holdings, L.L.C. resulting from public offering price	
	6,220,520
Total net increase in net assets resulting from operations	4,152,918
Capital transactions	
Proceeds from shares sold	129,864,996
Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C.	(3,998,597)
Contributions from exchanged shares	18,489,457
Dividends paid	(5,990,707)
Total net increase in net assets resulting from capital transactions	138,365,149
Net increase in net assets	142,518,067
Net assets at beginning of period	
Net assets at end of period	\$ 142,518,067

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

Table of Contents**New Mountain Finance Corporation****Statement of Cash Flows****from May 19, 2011 (commencement of operations) to September 30, 2011**

(unaudited)

Cash flows from operating activities:	
Net increase in net assets resulting from operations	\$ 4,152,918
Adjustments to reconcile net (increase) decrease in net assets resulting from operations to net cash used in operating activities:	
Net investment income allocated from New Mountain Finance Holdings, L.L.C.	(5,044,561)
Total realized and unrealized loss (gain) allocated from New Mountain Finance Holdings, L.L.C.	7,112,163
Unrealized (appreciation) depreciation in New Mountain Finance Holdings, L.L.C. resulting from public offering price	(6,220,520)
(Increase) decrease in operating assets:	
Purchase of investment	(129,864,996)
Distributions from New Mountain Finance Holdings, L.L.C.	5,990,707
Net cash flows used in operating activities	(123,874,289)
Cash flows from financing activities:	
Proceeds from shares sold	129,864,996
Dividends paid	(5,990,707)
Net cash flows provided by financing activities	123,874,289
Net increase (decrease) in cash and cash equivalents	
Cash and cash equivalents at the beginning of the period	
Cash and cash equivalents at the end of the period	\$
Non-cash financing activities:	
New Mountain Guardian Partners, L.P. exchange of Operating Company units for shares	\$ 18,489,457
Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C.	\$ (3,998,597)

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

Table of Contents

New Mountain Finance Corporation

Notes to the Financial Statements

As of September 30, 2011 and for the period from May 19, 2011 (commencement of operations) to September 30, 2011

(unaudited)

1. Formation and Business Purpose

New Mountain Finance Corporation (New Mountain Finance , the Company , we , us , or our) is a Delaware corporation that was originally incorporated on June 29, 2010. New Mountain Finance is a closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended (the 1940 Act). As such, the Company is obligated to comply with certain regulatory requirements. New Mountain Finance intends 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) commencing with its taxable year ending December 31, 2011.

On May 19, 2011, New Mountain Finance 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, the Company 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 (defined as New Mountain Capital Group, L.L.C. and its affiliates) in a separate private placement. New Mountain Finance entered into a joinder agreement with respect to the Limited Liability Company Agreement, as amended and restated, of New Mountain Finance Holdings, L.L.C. (the Operating Company), pursuant to which New Mountain Finance was admitted as a member of the Operating Company and 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 New Mountain Finance s common stock sold in the IPO and the concurrent private placement).

New Mountain Finance is a holding company with no direct operations of its own, and its only business and sole asset is its ownership of units of the Operating Company. The Operating Company is externally managed and has elected to be treated as a business development company under 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, 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 . In connection with New Mountain Finance 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.

Edgar Filing: New Mountain Finance Corp - Form 10-Q

This structure was designed to generally prevent New Mountain Finance from being allocated taxable income in respect of unrecognized gains in the Predecessor Entities' assets, with the result that any distributions made to New Mountain Finance's stockholders that are attributable to such gains generally will not be treated as taxable dividends.

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, New Mountain Finance AIV Holdings Corporation ("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 New Mountain Finance's common stock on a one-for-one basis. At September 30, 2011, New Mountain Finance and AIV Holdings own approximately 34.6% and 65.4%, respectively, of the units of the Operating Company.

Table of Contents

The diagram below depicts our current organizational structure.

The Company's investment objective is to generate current income and capital appreciation through the Operating Company by 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.

2. **Summary of Significant Accounting Policies**

Basis of accounting The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Company does not consolidate the Operating Company. New Mountain Finance applies investment company master-feeder financial statement preparation, as described in Accounting Standards Codification 946, *Financial Services - Investment Companies*, (ASC 946) to its interest in the Operating Company (or the Master Fund). New Mountain Finance 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 New Mountain Finance with a clearer depiction of its investment in the Master Fund. The Operating Company s Form 10-Q for the quarter ended September 30, 2011 included in this filing and should be read in conjunction with that of New Mountain Finance.

Table of Contents

Interim financial statements are prepared in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 or 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of management, all adjustments, consisting solely of normal recurring accruals considered necessary for the fair presentation of financial statements for the interim period, have been included. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the period ending December 31, 2011.

Investments New Mountain Finance is a holding company with no direct operations of its own, and its sole asset is its ownership in the Operating Company. New Mountain Finance'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. New Mountain Finance values its ownership interest on a quarterly basis, or more frequently if required under the 1940 Act. See the Operating Company's Form 10-Q for the quarter ended September 30, 2011 included in this filing for further details.

Cash and cash equivalents Cash and cash equivalents include cash and short-term, highly liquid investments with original maturities of three months or less.

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 New Mountain Finance based on its pro-rata interest in the net assets of the Operating Company. This is recorded on New Mountain Finance's Statement of Operations. New Mountain Finance 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, New Mountain Finance experienced immediate unrealized appreciation on its investment in the Operating Company equal to the difference between the cost of \$13.75 per unit and the actual net asset value per unit. This unrealized appreciation is shown separately on the Statement of Operations of New Mountain Finance. See the Operating Company's Form 10-Q for the quarter ended September 30, 2011 included in this filing for further details.

All expenses, including those of New Mountain Finance, are paid and recorded by the Operating Company, and allocated to New Mountain Finance based on pro-rata ownership interest. In addition, the Operating Company paid all of the offering costs related to the IPO. New Mountain Finance has recorded its portion of the offering costs as a direct reduction to net assets and the cost of its investment in the Operating Company.

Income taxes New Mountain Finance intends to elect to be treated, and intends to comply with the requirements to qualify annually, as a RIC under subchapter M of the Code commencing with its taxable year ending on December 31, 2011. As a RIC, the Company will not be subject to federal income tax on the portion of taxable income and gains timely distributed to stockholders; therefore, no provision for income taxes has been recorded.

To qualify as a RIC, the Company is required to meet certain income and asset diversification tests in addition to distributing at least 90.0% of its investment company taxable income and net capital gains, as defined by the Code. Since federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes.

Edgar Filing: New Mountain Finance Corp - Form 10-Q

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

The Company has adopted the Income Taxes topic of the Codification (ASC 740). ASC 740 provides guidance for how uncertain income tax positions should be recognized, measured, and disclosed in the financial statements. Based on its analysis, the Company has determined that the adoption of ASC 740 did not have a material impact to the Company's financial statements.

Dividends Distributions to common stockholders are recorded on the record date as set by the Company's board of directors. New Mountain Finance and the Operating Company are required to take certain actions in order to maintain, at all times, a one-to-one ratio between the number of units held by New Mountain Finance and the number of shares of New Mountain Finance's common stock outstanding. In addition, in order for New Mountain Finance to pay a dividend or other distribution to holders of its common stock, it must be accompanied by a prior distribution by the Operating Company to all of its unit holders. The Operating Company intends to make distributions to its unit holders that will be sufficient to enable New Mountain Finance and AIV Holdings to pay quarterly distributions to its stockholders and to obtain and maintain its status as a RIC. New Mountain

Table of Contents

Finance intends to distribute approximately all of its portion of the Operating Company's adjusted net investment income on a quarterly basis and substantially all of its portion of the Operating Company's taxable income on an annual basis, except that it may retain certain net capital gains for reinvestment in units of the Operating Company. See the Operating Company's Form 10-Q for the quarter ended September 30, 2011 included in this filing for further details.

New Mountain Finance has adopted a dividend reinvestment plan that provides on behalf of its stockholders for reinvestment of any distributions declared, unless a stockholder elects to receive cash. Cash distributions reinvested in additional shares of New Mountain Finance's common stock will be automatically reinvested by New Mountain Finance into additional units of the Operating Company.

New Mountain Finance 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, New Mountain Finance 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 New Mountain Finance's common stock on the New York Stock Exchange (NYSE) on the distribution payment date. Market price per share on that date will be the closing price for such shares on the NYSE or, if no sale is reported for such day, the average of their electronically reported bid and asked prices. If New Mountain Finance uses newly issued shares to implement the plan, New Mountain Finance 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 New Mountain Finance'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, New Mountain Finance 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 New Mountain Finance'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 New Mountain Finance's stockholders have been tabulated.

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

3. Agreements

On May 19, 2011, New Mountain Finance entered into a joinder agreement with respect to the Amended and Restated Limited Liability Company Agreement, as amended, of the Operating Company pursuant to which New Mountain Finance was admitted as a member of the Operating Company and agreed to acquire from the Operating Company a number of units of the Operating Company equal to the number of shares of common stock outstanding of New Mountain Finance.

Edgar Filing: New Mountain Finance Corp - Form 10-Q

The Operating Company entered into an Investment Management Agreement with New Mountain Finance Advisers BDC, L.L.C. (the Investment Adviser). Under the Investment Management Agreement, the Investment Adviser provides investment advisory services to the Operating Company. For providing these services, the Investment Adviser receives a fee from the Operating Company, consisting of two components a base management fee and an incentive fee. See the Operating Company s Form 10-Q for the quarter ended September 30, 2011 included in this filing for further details.

New Mountain Finance, AIV Holdings and the Operating Company have entered into an Administration Agreement, as amended and restated, with New Mountain Finance Administration, L.L.C. (the Administrator) under which the Administrator provides administrative services. The Administrator oversees New Mountain Finance s, AIV Holdings and the Operating Company s financial records, prepares reports filed with the Securities and Exchange Commission, generally monitors the payment of New Mountain Finance s, AIV Holdings and the Operating Company s expenses, and watches the performance of administrative and professional services rendered by others. The Operating Company will reimburse the Administrator for New Mountain Finance s, AIV Holdings and the Operating Company s allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations to New Mountain Finance, AIV Holdings and the Operating Company under the Administration Agreement, as amended and restated. During the first year of operations, the Operating Company has capped its direct and indirect expenses under the Administration Agreement, as amended and restated, at \$3.0 million.

Table of Contents

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

4. Regulation

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

Additionally, as a business development company, both New Mountain Finance and the Operating Company must not acquire any assets other than qualifying assets specified in the 1940 Act unless, at the time the acquisition is made, at least 70.0% of its total assets are qualifying assets (with certain limited exceptions).

5. Related Parties

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

- Together, New Mountain Finance and AIV Holdings own all the outstanding units of the Operating Company. As of September 30, 2011, New Mountain Finance and AIV Holdings own approximately 34.6% and 65.4%, respectively, of the units of the Operating Company.
- The Operating Company has entered into an Investment Management Agreement with the Investment Adviser, a wholly-owned subsidiary of New Mountain Capital. See the Operating Company's Form 10-Q for the quarter ended September 30, 2011 included in this filing for further details.
- New Mountain Finance, AIV Holdings and the Operating Company have entered into an Administration Agreement, as amended and restated, with the Administrator, a wholly-owned subsidiary of New Mountain Capital. The Operating Company reimburses the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations to the Operating Company, New Mountain Finance and AIV Holdings under the Administration Agreement, as amended and restated. During the first year of operations, the Operating Company has capped its direct and indirect expenses under the Administration Agreement, as amended and restated, at \$3.0 million. See the Operating Company's Form 10-Q for the quarter ended September 30, 2011 included in this filing for further details.

Edgar Filing: New Mountain Finance Corp - Form 10-Q

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

Concurrently with the IPO, New Mountain Finance 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 separate private placement.

6. Commitments and Contingencies

In the normal course of business, the Company may enter into contracts that contain a variety of representations and warranties and which may provide general indemnifications.

Table of Contents

7. Stockholders Equity

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

	Common Stock Shares	Common Stock Par Amount	Paid in Capital in Excess of Par	Dividends Paid	Net Unrealized Appreciation	Total Stockholders Equity
Balance at December 31, 2010		\$	\$	\$	\$	\$
Issuances of common stock in the IPO (1)	7,272,727	72,727	99,927,269			99,999,996
Issuances of common stock in private placement (2)	2,172,000	21,720	29,843,280			29,865,000
Issuances of common stock to New Mountain Guardian Partners, L.P. (3)	1,252,964	12,530	18,476,927			18,489,457
Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C.			(3,998,597)			(3,998,597)
Dividends paid				(5,990,707)		(5,990,707)
Net increase in stockholders equity resulting from operations					4,152,918	4,152,918
Balance at September 30, 2011	10,697,691	\$ 106,977	\$ 144,248,879	\$ (5,990,707)	\$ 4,152,918	\$ 142,518,067

(1) On May 19, 2011, New Mountain Finance priced its IPO of 7,272,727 shares of common stock at a public offering price of \$13.75 per share.

(2) Concurrently with the closing of the IPO and at the public offering price of \$13.75 per share, the Company 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 separate private placement.

(3) On May 19, 2011, New Mountain Finance issued 1,252,964 shares of common stock to New Mountain Guardian Partners, L.P. for their respective ownership interest in the Predecessor Entities.

8. Earnings Per Share

The following information sets forth the computation of basic and diluted net increase in stockholders equity per share resulting from operations for the period May 19, 2011 to September 30, 2011:

	Three months ended September 30, 2011	May 19, 2011 (commencement of operations) to September 30, 2011
Numerator for basic earnings (loss) per share:	\$ (3,893,305)	\$ 4,152,918
Denominator for basic weighted average share:	10,697,691	10,697,691
Basic earnings (loss) per share:	\$ (0.36)	\$ 0.39
Numerator for diluted earnings (loss) per share (a):	\$ (11,252,850)	\$ (5,975,999)

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Denominator for diluted weighted average share (b):	30,919,629	30,919,629
Diluted earnings (loss) per share:	\$ (0.36)	\$ (0.19)

(a) Includes full income at the Operating Company for the period. Does not include unrealized appreciation in the Operating Company resulting from the IPO.

(b) Assumes AIV Holdings exchanges its units in the Operating Company for public shares of New Mountain Finance on May 19, 2011 (see Note 1, *Formation and Business Purpose*)

Table of Contents**9. Financial Highlights**

The following information sets forth the financial highlights for the period May 19, 2011 to September 30, 2011. The ratios to average net assets have been annualized.

	Period Ended September 30, 2011
Per share data:	
Net asset value, beginning of period	\$ 13.50
Net increase (decrease) in net assets resulting from operations allocated from New Mountain Finance Holdings, L.L.C.:	
Net investment income	0.47
Net realized and unrealized gain (loss)	(0.67)
Total net decrease	(0.20)
Unrealized appreciation in New Mountain Finance Holdings, L.L.C. resulting from public offering price	0.58
Dividends paid	(0.56)
Net asset value, end of period	\$ 13.32
Total Return (a)	(1.70)%
Average net assets for the period	\$ 148,525,653
Ratio to average net assets:	
Total expenses allocated from New Mountain Finance Holdings, L.L.C.	4.91%
Net investment income allocated from New Mountain Finance Holdings, L.L.C.	9.18%

(a) Total Return is based on the change in market price per share and takes into account dividends paid.

10. Recent Accounting Standards Updates

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04), which provides clarification about how to measure fair value and improves comparability of fair value measurements presented and disclosed in accordance with GAAP and International Financial Reporting Standards. The amendments included in ASU 2011-04 clarify the FASB's intent about the application of existing fair value measurement and disclosure requirements outlined in ASC 820, as well as includes some instances of changes to particular principles or requirements. ASU 2011-04 clarifies that (i) the concept of the highest and best use valuation premise applies only to nonfinancial assets, (ii) instruments classified in shareholders' equity should be valued from the perspective of a market participant that holds that instrument as an asset, (iii) quantitative information should be disclosed about unobservable inputs used in a fair value measurement that is categorized within Level III of the fair value hierarchy. ASU 2011-04 changes the guidance in (i) permitting an exception to ASC 820 by allowing an entity to measure the fair value of a group of financial assets and financial liabilities exposed to market and credit risks to be consistent with the entity's net risk exposures, instead of gross risk, (ii) applying premiums and discounts in a fair value measurement lacking a Level I inputs to be consistent with the ASC 820 requirements of fair value measurement but that applying premiums and discounts in a fair value measurement related to size as a characteristic of the holding rather than as a characteristic of the asset or liability is not permitted, and (iii) requiring

Edgar Filing: New Mountain Finance Corp - Form 10-Q

additional disclosures about fair value measurements categorized within Level III of the fair value hierarchy, including the valuation processes used and the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs. ASU 2011-04 is effective for the interim and annual periods beginning after December 15, 2011. The Company is currently assessing the impact that adoption of ASU 2011-04 will have on the financial statements.

11. Subsequent Events

On November 8, 2011, the Company entered into an Administration Agreement, as amended and restated, by and among the Operating Company, New Mountain Finance, AIV Holdings and the Administrator, which added AIV Holdings as a party to, and clarified certain cost and expense allocation provisions in, the Administration Agreement, as amended and restated, as discussed in Note 3, *Agreements*.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

New Mountain Finance Corporation

New York, New York

We have reviewed the accompanying statement of assets and liabilities of New Mountain Finance Corporation (the Company) as of September 30, 2011, and the related statements of operations for the three month period ended September 30, 2011 and for the period from May 19, 2011(commencement of operations) to September 30, 2011 and the statements of changes in net assets and cash flows from May 19, 2011 (commencement of operations) to September 30, 2011. These interim financial statements are the responsibility of the Company's management.

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

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

DELOITTE & TOUCHE LLP

New York, New York

November 14, 2011

Table of Contents

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

The following analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the notes thereto contained elsewhere in the report. See **Risk Factors** for a discussion of the uncertainties, risks and assumptions associated with these statements.

Forward-Looking Statements

The information contained in this section should be read in conjunction with the financial data and financial statements and notes thereto appearing elsewhere in this quarterly report. In addition, some of the statements in this report (including in the following discussion) constitute forward-looking statements, which relate to future events or the future performance or financial condition of New Mountain Finance Corporation (**New Mountain Finance** , the **Company** , **we** , **us** , or **our**). The forward-looking statements contained in this report involve a number of risks and uncertainties, including:

- statements concerning the impact of a protracted decline in the liquidity of credit markets;
- the general economy, including interest and inflation rates, and its impact on the industries in which New Mountain Finance Holdings, L.L.C. (the **Operating Company**) invests;
- the ability of the **Operating Company**'s portfolio companies to achieve their objectives;
- the **Operating Company**'s ability to make investments consistent with its investment objectives, including with respect to the size, nature and terms of our investments;
- the ability of New Mountain Finance Advisers BDC, L.L.C. (the **Investment Adviser**) or its affiliates to attract and retain highly talented professionals;
- actual and potential conflicts of interest with the **Investment Adviser** and other affiliates of New Mountain Capital Group, L.L.C.;
- the impact of New Mountain Finance's ownership of a minority of the outstanding common membership units of the **Operating Company**, New Mountain Finance's only asset; and
- other factors, including those discussed in our Registration Statement on Form N-2, filed with the Securities and Exchange Commission on May 16, 2011.

We use words such as **anticipates** , **believes** , **expects** , **intends** , **will** , **should** , **may** and similar expressions to identify forward-looking statements. Our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in the **Risk Factors** section in our Registration Statement on Form N-2, filed with the Securities and Exchange Commission on May 16, 2011.

Edgar Filing: New Mountain Finance Corp - Form 10-Q

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

Overview

New Mountain Finance is a Delaware corporation that was originally incorporated on June 29, 2010. New Mountain Finance is a closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended (the "1940 Act"). As such, we are obligated to comply with certain regulatory requirements. We intend to be treated, and intend 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") commencing with our taxable year ending December 31, 2011.

On May 19, 2011, we priced our 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, we sold an additional 2,172,000 shares of our common stock to certain executives and employees of, and other individuals affiliated with, New Mountain Capital (defined as New Mountain Capital Group, L.L.C. and its affiliates) in a separate private placement. New Mountain Finance entered into a joinder agreement with respect to the Limited Liability Company Agreement, as amended and restated, of the Operating Company pursuant to which New Mountain Finance was admitted as a member of the Operating Company and acquired from the Operating Company, with the gross proceeds of

Table of Contents

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 New Mountain Finance s common stock sold in the IPO and the concurrent private placement).

We are a holding company with no direct operations of our own, and our only business and sole asset is our ownership of units of the Operating Company. The Operating Company is externally managed and has elected to be treated as a business development company under 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, 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 . In connection with the 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.

This structure was designed to generally prevent New Mountain Finance from being allocated taxable income in respect of unrecognized gains in the Predecessor Entities assets, with the result that any distributions made to New Mountain Finance s stockholders that are attributable to such gains generally will not be treated as taxable dividends.

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, New Mountain Finance AIV Holdings Corporation (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 New Mountain Finance s common stock on a one-for-one basis. At September 30, 2011, New Mountain Finance and AIV Holdings own approximately 34.6% and 65.4%, respectively, of the units of the Operating Company.

Table of Contents

The diagram below depicts our current organizational structure.

New Mountain Finance's investment objective is to generate current income and capital appreciation through the Operating Company by 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.

Edgar Filing: New Mountain Finance Corp - Form 10-Q

As of September 30, 2011, the Operating Company's net asset value was \$411.9 million and its portfolio had a fair value of approximately \$604.3 million in 50 portfolio companies, with a weighted average Unadjusted and Adjusted Yield to Maturity of approximately 10.9% and 14.0%, respectively. Adjusted Yield to Maturity assumes that the investments in the Operating Company's portfolio are purchased at fair value on September 30, 2011 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 New Mountain Finance SPV Funding, L.L.C (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. The actual yield to maturity may be higher or lower due to the future selection of LIBOR contracts by the individual companies in the portfolio or other factors. References to Unadjusted Yield to Maturity have the same assumptions as Adjusted Yield to Maturity except that NMF SLF is not treated as a fully levered asset of the Operating Company, but rather the assets themselves are consolidated into the Operating Company.

Table of Contents

Recent Developments

On November 8, 2011, New Mountain Finance entered into Amendment No. 1 to the Trademark License Agreement, as amended, by and among New Mountain Capital, L.L.C., the Operating Company, New Mountain Finance, AIV Holdings, the Investment Adviser and the Administrator, which amended the preamble, added New Mountain Finance to the definition of Licensed Mark and Canada and the European Union to the definition of Territory, as such terms are used in the Trademark License Agreement, as amended, added a definition of Licensed Services, and added AIV Holdings, the Investment Adviser and the Administrator as parties to the Trademark License Agreement, as amended.

On November 8, 2011, New Mountain Finance entered into an Administration Agreement, as amended and restated, by and among the Operating Company, New Mountain Finance, AIV Holdings and the Administrator, which added AIV Holdings as a party to, and clarified certain cost and expense allocation provisions in, the Administration Agreement, as amended and restated.

On November 8, 2011, New Mountain Finance entered into Amendment No. 1 to the Limited Liability Company Agreement, as amended and restated, of the Operating Company, which clarified certain cost and expense allocation provisions in such agreement.

Dividend

On November 8, 2011, the Operating Company's board of directors, and subsequently New Mountain Finance's board of directors, declared a fourth quarter 2011 distribution of \$0.30 per unit/share payable on December 30, 2011 to holders of record as of December 15, 2011.

Since New Mountain Finance is a holding company, all distributions on our common stock will be paid from distributions received from the Operating Company. The Operating Company intends to make distributions to its members that will be sufficient to enable us to pay quarterly distributions to our stockholders and to obtain and maintain our status as a RIC. The distribution per unit from the Operating Company will equal the dividend per share of New Mountain Finance. New Mountain Finance intends to distribute approximately all of our portion of the Operating Company's adjusted net investment income on a quarterly basis and substantially all of our portion of the Operating Company's taxable income on an annual basis, except that it may retain certain net capital gains for reinvestment. See the Operating Company's Form 10-Q for the quarter ended September 30, 2011 included in this filing for further details.

Critical Accounting Policies

Basis of Accounting

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

Edgar Filing: New Mountain Finance Corp - Form 10-Q

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 do not consolidate the Operating Company. New Mountain Finance applies investment company master-feeder financial statement preparation, as described in Accounting Standards Codification 946, *Financial Services - Investment Companies*, (ASC 946) to our interest in the Operating Company (or the Master Fund). New Mountain Finance believes 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 New Mountain Finance with a clearer depiction of our investment in the Master Fund. The Operating Company's Form 10-Q for the quarter ended September 30, 2011 included in this filing and should be read in conjunction with that of New Mountain Finance.

Valuation of Portfolio Investments

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

New Mountain Finance is a holding company with no direct operations of our own, and our sole asset is our ownership in the Operating Company. New Mountain Finance'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. The Operating Company values our ownership interest on a quarterly basis, or more frequently if required under the 1940 Act. See the Operating Company's Form 10-Q for the quarter ended September 30, 2011 included in this filing for further details.

Table of Contents

Revenue Recognition

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 New Mountain Finance based on our pro-rata interest in the net assets of the Operating Company. This is recorded on New Mountain Finance's Statement of Operations. New Mountain Finance used the proceeds from the 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, we experienced immediate unrealized appreciation on our investment in the Operating Company equal to the difference between the cost of \$13.75 per unit and the actual net asset value per unit. This unrealized appreciation is shown separately on the Statement of Operations of New Mountain Finance. See the Operating Company's Form 10-Q for the quarter ended September 30, 2011 included in this filing for further details.

All expenses, including those of New Mountain Finance, are paid and recorded by the Operating Company, and allocated to New Mountain Finance based on pro-rata ownership interest.

Results of Operations

As a result of the Master Fund-Feeder fund structure, New Mountain Finance's results of operations are a function of our pro-rata ownership interest in the Operating Company. Additionally, New Mountain Finance commenced operations on May 19, 2011 and therefore has no comparative periods of results of operations. See the Operating Company's Management Discussion and Analysis of Financial Condition and Results of Operations included in this filing for further details.

Liquidity and Capital Resources

On May 19, 2011, New Mountain Finance priced our 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, we sold an additional 2,172,000 shares of our common stock to certain executives and employees of, and other individuals affiliated with, New Mountain Capital in a separate private placement. New Mountain Finance used the gross proceeds from the IPO and concurrent private placement to acquire units in the Operating Company.

New Mountain Finance's liquidity is generally expected to be generated through periodic follow-on equity offerings. The primary use of any funds raised in the future is expected to be for investments in the Operating Company and cash distributions to our stockholders or for other general corporate purposes.

At September 30, 2011, we had no cash and cash equivalents. Cash used in operating activities from May 19, 2011 (commencement of operations) to September 30, 2011 was approximately \$(123.9) million.

The Operating Company's liquidity is generated and generally available through advances from its revolving credit facilities, from cash flows from operations, investment sales of liquid assets, repayments of senior and subordinated loans, income earned on investments and cash equivalents, and, we expect, through periodic follow-on equity offerings of New Mountain Finance.

Distributions and Dividends

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 our board of directors, since our IPO:

Date Declared	Record Date	Payment Date	Amount
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
Total			\$ 0.86

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

Since New Mountain Finance is a holding company, all distributions on our common stock will be paid from distributions received from the Operating Company. The Operating Company intends to make distributions to its members that will be sufficient to enable

Table of Contents

New Mountain Finance to pay quarterly distributions to our stockholders and to obtain and maintain our status as a RIC. The distribution per unit from the Operating Company will equal the dividend per share of New Mountain Finance. New Mountain Finance intends to distribute approximately our entire portion of the Operating Company's adjusted net investment income on a quarterly basis and substantially our entire portion of the Operating Company's taxable income on an annual basis, except that it may retain certain net capital gains for reinvestment. See the Operating Company's Form 10-Q for the quarter ended September 30, 2011 included in this filing for further details.

New Mountain Finance maintains an "opt out" dividend reinvestment plan for our common stockholders. As a result, if New Mountain Finance declares a dividend, then New Mountain Finance stockholders' cash dividends will be automatically reinvested in additional shares of the New Mountain Finance's common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash dividends. Cash dividends reinvested in additional shares of New Mountain Finance's common stock will be automatically reinvested by New Mountain Finance in the Operating Company in exchange for additional units of the Operating Company.

Related Parties

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

- Together, New Mountain Finance and AIV Holdings own all the outstanding units of the Operating Company. As of September 30, 2011, New Mountain Finance and AIV Holdings own approximately 34.6% and 65.4%, respectively, of the units of the Operating Company.
- The Operating Company has entered into an Investment Management Agreement with the Investment Adviser, a wholly-owned subsidiary of New Mountain Capital. See the Operating Company's Form 10-Q for the quarter ended September 30, 2011 included in this filing for further details.
- New Mountain Finance, AIV Holdings and the Operating Company have entered into an Administration Agreement, as amended and restated, with the Administrator, a wholly-owned subsidiary of New Mountain Capital. The Operating Company reimburses the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations to the Operating Company, New Mountain Finance and AIV Holdings under the Administration Agreement, as amended and restated. During the first year of operations, the Operating Company has capped its direct and indirect expenses under the Administration Agreement, as amended and restated, at \$3.0 million. See the Operating Company's Form 10-Q for the quarter ended September 30, 2011 included in this filing for further details.
- New Mountain Finance 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.
- New Mountain Finance, the Operating Company, AIV Holdings, the Investment Adviser and the Administrator have entered into a royalty-free Trademark License Agreement, as amended, with New Mountain Capital, L.L.C., pursuant to which New Mountain Capital, L.L.C. has agreed to grant New Mountain Finance, the Operating Company, AIV Holdings, the Investment Adviser and the Administrator, a non-exclusive, royalty-free license to use the name "New Mountain" and "New Mountain Finance".

Concurrently with the IPO, New Mountain Finance 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 separate private placement.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

See the Quantitative and Qualitative Disclosure about Market Risk in the Operating Company's Form 10-Q for the quarter ended September 30, 2011 included in this filing.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of September 30, 2011 (the end of the period covered by this report), we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Act of 1934, as amended). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic Securities and Exchange Commission filings is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief

Table of Contents

Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

(b) Changes in Internal Controls Over Financial Reporting

Management has not identified any change in the Company's internal control over financial reporting that occurred during the third quarter of 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

This quarterly report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

Table of Contents

APPENDIX A

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended September 30, 2011

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

Commission File Number: 814-00839

NEW MOUNTAIN FINANCE HOLDINGS, L.L.C

(Exact name of registrant as specified in its charter)

Edgar Filing: New Mountain Finance Corp - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

26-3633318
(I.R.S. Employer
Identification No.)

787 Seventh Avenue
48th Floor
New York, N.Y.
(Address of principal executive offices)

10019
(Zip Code)

(212) 730-0300

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of the registrant's common membership units outstanding as of November 14, 2011 was 30,919,629.

Table of Contents

NEW MOUNTAIN FINANCE HOLDINGS, L.L.C.

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

TABLE OF CONTENTS

PAGE