

CBL & ASSOCIATES PROPERTIES INC
Form S-3/A
May 23, 2003
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As filed with the Securities and Exchange Commission on May 23, 2003

Registration No. 333-104882

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

Form S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

CBL & ASSOCIATES PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
Incorporation or Organization)

62-1545718
(I.R.S. Employer
Identification No.)

CBL Center

2030 Hamilton Place Blvd., Suite 500

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Chattanooga, Tennessee 37421-6000

(423) 855-0001

(Address, including Zip Code; and Telephone Number, including Area Code, of Registrant's Principal Executive Office)

Stephen D. Lebovitz

President and Secretary

Watermill Center

800 South Street, Suite 395

Waltham, MA 02453-1436

(781) 647-3330

(Name, Address, including Zip Code, and Telephone Number, including Area Code, of Agent for Service)

with copies to:

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Chattanooga, Tennessee 37421

(423) 855-1814

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement as determined by market conditions and other factors.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. "

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box. x

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. "

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| Title of Each Class of Securities to Be Registered(1) | Amount to Be Registered | Proposed Maximum Offering Price Per Security | Proposed Maximum Aggregate Offering Price (2) | Amount of Registration Fee |
|---|-------------------------------|--|---|-------------------------------|
| Preferred Stock (par value \$.01 per share)(3) | | | | |
| Common Stock (par value \$.01 per share)(4) | | | | |
| Depository Shares, representing Preferred Stock (par value \$.01 per share)(5) | | | | |
| Common Stock Warrants(6) | \$499,713,203(7) | (8) | \$499,713,203(7) | \$40,427(9) |

- (1) Pursuant to General Instruction II.D. of Form S-3 under the Securities Act of 1933, as amended (the Securities Act), the fee table does not specify by each class of securities to be registered information as to the amount to be registered, proposed maximum offering price per unit, and proposed maximum aggregate offering price. Securities registered hereunder may be sold separately, together or as units with other securities registered hereunder.
- (2) Estimated solely for purposes of calculating the registration fee. The aggregate maximum offering price of all securities issued pursuant to this Registration Statement will not exceed \$499,713,203.
- (3) There is being registered hereunder an indeterminate number of shares of Preferred Stock as may be sold, from time to time, by the Registrant.
- (4) There is being registered hereunder an indeterminate number of shares of Common Stock as may be sold, from time to time, by the Registrant. There are also being registered hereunder an indeterminate number of shares of Common Stock as shall be issuable upon exercise of Common Stock Warrants or conversion of Preferred Stock registered hereunder.
- (5) To be represented by Depository Receipts representing an interest in Common Stock or Preferred Stock.
- (6) There is being registered an indeterminate amount and number of Common Stock Warrants, representing rights to purchase Common Stock registered hereunder.
- (7) In no event will the aggregate initial offering price of all securities issued from time to time pursuant to this Registration Statement exceed \$499,713,203. The aggregate amount of Common Stock registered hereunder may be further limited to that which is permissible under Rule 415(a)(4) under the Securities Act. The securities registered hereunder may be sold separately or as units with other securities registered hereunder.
- (8) Omitted pursuant to General Instruction II.D of Form S-3 under the Securities Act.
- (9) Pursuant to Rule 429 under the Securities Act under the Securities Act of 1933, as amended, the Prospectus included in this Registration Statement also relates to \$62,286,797 of securities previously registered under the Registrant's Registration Statement on Form S-3 (File No. 333-47041) for which a registration fee of \$18,375 was previously paid to the Commission. If any such previously registered securities are offered prior to the effective date of this Registration Statement, the amount of such securities will not be included in a prospectus under this Registration Statement. The amount of securities being registered hereby, together with the remaining securities registered under Registration Statement on Form S-3 (No. 333-47041), represents the maximum amount of securities that are expected to be offered for sale. This registration statement also constitutes post-effective amendment No. 1 with respect to the Registrant's Registration Statement on Form S-3 (File No. 333-47041).

THE REGISTRANT HEREBY AMENDS THE REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

Pursuant to Rule 429 under the Securities Act, the combined Prospectus included in this Registration Statement also relates to equity securities covered by CBL & Associates Properties, Inc.'s Registration Statement on Form S-3 (File No. 333-47041).

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PROSPECTUS

CBL & ASSOCIATES PROPERTIES, INC.

\$562,000,000

**PREFERRED STOCK, COMMON STOCK, DEPOSITARY SHARES AND
COMMON STOCK WARRANTS**

We may from time to time offer in one or more series (i) shares of preferred stock, par value \$.01 per share, (ii) shares of common stock, par value \$.01 per share, (iii) common stock or preferred stock represented by depositary shares, and (iv) warrants to purchase shares of common stock, with an aggregate public offering price of up to \$562,000,000 in amounts, at prices and on terms to be determined at the time or times of offering. We may offer the preferred stock, depositary shares, common stock and common stock warrants, separately or together, in separate classes or series, in amounts, at prices and on terms to be set forth in a supplement to this Prospectus.

The specific terms of the offered securities in respect of which this Prospectus is being delivered will be set forth in the applicable prospectus supplement and will include, where applicable, (i) in the case of preferred stock, the specific series designation, number of shares, title and stated value, any dividend, liquidation, optional or mandatory redemption, conversion, voting and other rights, and any initial public offering price; (ii) in the case of common stock, any initial public offering price; (iii) in the case of depositary shares, the number of shares, the whole or fractional common stock or preferred stock represented by each such depositary share and any initial public offering price; and (iv) in the case of common stock warrants, the number, duration, offering price, exercise price and detachability. In addition, such specific terms may include limitations on direct or beneficial ownership and restrictions on transfer of the offered securities, in each case as may be appropriate to preserve our status as a real estate investment trust, or REIT, for federal income tax purposes. The applicable prospectus supplement will also contain information, where applicable, about certain United States federal income tax considerations relating to, and any listing on a securities exchange of, the offered securities covered by such prospectus supplement.

Our common stock is listed on the New York Stock Exchange under the symbol CBL. Our 9.0% Series A cumulative redeemable preferred stock is listed on the New York Stock Exchange under the symbol CBLprA. Our 8.75% Series B cumulative redeemable preferred stock is listed on the New York Stock Exchange under the symbol CBLprB. Any common stock offered pursuant to a prospectus supplement will be listed on such exchange, subject to official notice of issuance.

We may offer our securities directly, through agents we will designate from time to time, or to or through underwriters or dealers. If any agents or underwriters are involved in the sale of any of the offered securities, their names, and any applicable purchase price, fee, commission or discount arrangement with, between or among them, will be set forth, or will be calculable from the information set forth, in the applicable prospectus supplement. See Plan of Distribution.

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INVESTING IN OUR SECURITIES INVOLVES CERTAIN RISKS. SEE RISK FACTORS ON PAGE 3.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Our securities may not be sold without delivery of the applicable prospectus supplement describing the method and terms of the offering of such offered securities.

The date of this Prospectus is May 23, 2003

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WHERE TO FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance with those requirements, we file reports and other information with the SEC. The reports and other information can be inspected and copied at the public reference facilities maintained by the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of this material can be obtained by mail from the Public Reference Section of the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. The SEC maintains a Web site (<http://www.sec.gov>) that contains reports, proxy and information statements and other materials that are filed through the SEC Electronic Data Gathering, Analysis and Retrieval (EDGAR) system. In addition, our common stock and Series A and Series B preferred stock are listed on the New York Stock Exchange and we are required to file reports, proxy and information statements and other information with the New York Stock Exchange. These documents can be inspected at the principal office of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

We have filed with the SEC a registration statement on Form S-3 covering the securities offered by this Prospectus. You should be aware that this Prospectus does not contain all of the information contained or incorporated by reference in that registration statement and its exhibits and schedules, particular portions of which have been omitted as permitted by the SEC's rules. For further information about our company and our securities, we refer you to the registration statement and its exhibits and schedules. You may inspect and obtain the registration statement, including exhibits, schedules, reports and other information that we have filed with the SEC, as described in the preceding paragraph. Statements contained in this Prospectus concerning the contents of any document we refer you to are not necessarily complete and in each instance we refer you to the applicable document filed with the SEC for more complete information.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

We have filed the documents listed below with the SEC under the Securities Exchange Act of 1934 and they are incorporated herein by reference: (i) Annual Report on Form 10-K for the fiscal year ended December 31, 2002; (ii) Current Report on Form 8-K filed on April 24, 2003; (iii) the description of our common stock contained in our Registration Statement on Form 8-A dated October 25, 1993; (iv) the description of our series A preferred stock contained in our Registration Statement on Form 8-A dated October 25, 1993; and (v) the description of our series B preferred stock contained in our Registration Statement on Form 8-A dated June 11, 2002.

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Any document which we file pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Prospectus and prior to the termination of this offering of securities will be deemed to be incorporated by reference into, and to be part of, this Prospectus from the date of filing of each such document.

Any statement contained in this Prospectus or in a document incorporated or deemed to be incorporated by reference into this Prospectus will, to the extent applicable, be deemed to be modified, superseded or replaced by later statements included in supplements or amendments to this Prospectus or in subsequently filed documents which are in, or deemed to be incorporated by reference in, this Prospectus.

We will provide without charge to each person, including any beneficial owner, to whom a copy of this Prospectus is delivered, upon the written or oral request of any such person, a copy of any or all documents incorporated by reference herein (other than exhibits to those documents, unless such exhibits are specifically incorporated by reference into such documents). Such requests should be addressed to our Investor Relations Department, CBL Center, 2030 Hamilton Place Blvd., Suite 500, Chattanooga, Tennessee 37421-6000 (telephone number (423) 855-0001).

CBL & ASSOCIATES PROPERTIES, INC.

We are a self-managed, self-administered, fully integrated real estate company. We own, operate, market, manage, lease, expand, develop, redevelop, acquire and finance regional malls and community and neighborhood shopping centers. We have elected to be taxed as a REIT for federal income tax purposes. We are one of the largest mall REITs in the United States. We currently own controlling interests in a portfolio of properties consisting of 51 enclosed regional malls, 18 associated centers, each of which is part of a regional shopping mall complex, 60 community centers, one office building, joint venture investments in four regional malls, two associated centers and two community centers and income from eleven mortgages. Additionally, we have one regional mall, one associated center and three community centers currently under construction. We also own options to acquire certain shopping center development sites.

We conduct substantially all of our business through our operating partnership, CBL & Associates Limited Partnership, a Delaware limited partnership. We currently own an indirect majority interest in the operating partnership, and one of our wholly owned subsidiaries, CBL Holdings I, Inc., a Delaware corporation, is its sole general partner. To comply with certain technical requirements of the Internal Revenue Code of 1986, as amended, applicable to REITs, our property management and development activities, sales of peripheral land and maintenance operations are carried out through a separate management company, CBL & Associates Management, Inc. Currently, our operating partnership owns 100% of the preferred stock of the management company, which entitles the operating partnership to substantially all of the management company's earnings. Our operating partnership also owns 6% of the management company's common stock. Certain of our executive officers and their children hold the remaining 94% of the management company's common stock.

In order to maintain our qualification as a REIT for federal income tax purposes, we must distribute each year at least 90% of our taxable income, computed without regard to net capital gains or the dividends-paid deduction.

We were organized on July 13, 1993 as a Delaware corporation to acquire substantially all of the real estate properties owned by our predecessor company, CBL & Associates, Inc., and its affiliates. Our principal executive offices are located at CBL Center, 2030 Hamilton Place Blvd., Suite 500, Chattanooga, Tennessee 37421-6000, and our telephone number is (423) 855-0001. Our website can be found at www.cblproperties.com. The information contained in our website is not part of this Prospectus.

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**RATIOS OF EARNINGS TO FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS**

Actual

Years Ended December 31,

| 2002 | 2001 | 2000 | 1999 | 1998 |
|------|------|------|------|------|
| 1.82 | 1.57 | 1.74 | 1.64 | 1.62 |

We compute the ratios of earnings to combined fixed charges and preferred stock dividends by dividing earnings by combined fixed charges and preferred stock dividends. For this purpose, earnings consist of pre-tax income from continuing operations before extraordinary items and fixed charges (excluding capitalized interest), adjusted, as applicable, for our proportionate share of earnings of 50 percent-owned affiliates and distributed earnings from less than 50 percent-owned affiliates. Fixed charges consist of interest expense (including interest costs capitalized), amortization of debt costs and the portion of rent expense representing an interest factor.

RISK FACTORS

This Prospectus and those documents incorporated by reference herein may include certain forward-looking information statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, including (without limitation) statements with respect to anticipated future operating and financial performance, growth and acquisition opportunities and other similar forecasts and statements of expectation. Words such as expects, estimates, plans, anticipates, predicts, intends, believes, seeks, should and other similar expressions and variations of these expressions are intended to identify these forward-looking statements. Forward-looking statements made by us are based on our estimates, projections, beliefs and assumptions at the time of the statements and are not guarantees of future performance. We disclaim any obligation to update or revise any forward-looking statement based on the occurrence of future events, the receipt of new information or otherwise.

Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements made by us as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) general industry and economic conditions, interest rate trends, costs of capital, capital requirements, availability of real estate properties, competition from other companies and venues for the sale/distribution of goods and services, shifts in customer demands, tenant bankruptcies, changes in operating expenses, including employee wages, benefits and training, governmental and public policy changes, changes in applicable laws, rules and regulations (including changes in tax laws), the ability to obtain suitable equity and/or debt financing, and the continued availability of financing in the amounts and on the terms necessary to support our future business.

Risks of Expansion and Development Activities

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We intend to pursue development and expansion activities as opportunities arise. In connection with any development or expansion, we will incur various risks including the risk that development or expansion opportunities explored by us may be abandoned and the risk that construction costs of a project may exceed original estimates, possibly making the project not profitable. Other risks include the risk that we may not be able to refinance construction loans which are generally with full recourse to us, the risk that occupancy rates and rents at a completed project will not meet projections and will be insufficient to make the project profitable, and the risk that we will not be able to obtain anchor, mortgage lender and property partner approvals for certain expansion activities. In the event of an unsuccessful development project, our loss could exceed our investment in the project.

We have in the past elected not to proceed with certain development projects and anticipate that we will do so again from time to time in the future. If we elect not to proceed with a development opportunity, the

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development costs ordinarily will be charged against income for the then-current period. Any such charge could have a material adverse effect on our results of operations for the period in which the charge is taken.

General Factors Affecting Investments in Shopping Center Properties; Effect of Economic and Real Estate Conditions

A shopping center's revenues and value may be adversely affected by a number of factors, including:

The national and regional economic climates

Local real estate conditions (such as an oversupply of retail space)

Perceptions by retailers or shoppers of the safety, convenience and attractiveness of the shopping center

The willingness and ability of the shopping center's owner to provide capable management and maintenance services

In addition, other factors may adversely affect a shopping center's value without affecting its current revenues, including:

Changes in governmental regulations, zoning or tax laws

Potential environmental or other legal liabilities

Availability of financing

Changes in interest rate levels

There are numerous shopping facilities that compete with our properties in attracting retailers to lease space. In addition, retailers at our properties face continued competition from:

Discount shopping centers

Outlet malls

Wholesale clubs

Direct mail

Telemarketing

Television shopping networks

Shopping via the Internet

Competition could adversely affect revenues and funds available for distribution.

Geographic Concentration

Our properties are located principally in the southeastern United States (Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee and Virginia). The properties located in the southeastern United States accounted for approximately 59.4% of our total revenues from all properties for the year ended December 31, 2002. Our results of operations and funds available for distribution to stockholders therefore will be subject generally to economic conditions in the southeastern United States. We have mitigated our dependence on the Southeast through our 2001 acquisition of interests in 21 malls and two associated centers which are primarily located in the Midwest region of the United States. These properties accounted for approximately 26.9% of our total revenues from all properties for the year ended December 31, 2002.

Third-Party Interests in Certain Properties

We own partial interests in eight malls, six associated centers, three community centers and one office building. We manage all of these properties except for Governor's Square, Governor's Plaza and Kentucky Oaks.

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A property manager affiliated with the managing general partner performs the property management services for these properties.

Where we serve as managing general partner of the partnerships that own our properties, we may have certain fiduciary responsibilities to the other partners in those partnerships. In certain cases, the approval or consent of the other partners is required before we may sell, finance, expand or make other significant changes in the operations of such properties. To the extent such approvals or consents are required, we may experience difficulty in, or may be prevented from, implementing our plans with respect to expansion, development, financing or other similar transactions with respect to such properties.

With respect to Governor s Square, Governor s Plaza and Kentucky Oaks, we do not have day-to-day operational control or control over certain major decisions, including the timing and amount of distributions, which could result in decisions by the managing general partner that do not fully reflect our interests. This includes decisions relating to the requirements that we must satisfy in order to maintain our status as a REIT for tax purposes. However, decisions relating to sales, expansion and disposition of all or substantially all of the assets and financings are subject to approval by the operating partnership.

We have generally agreed not to sell an acquired property for a number of years if such sale would trigger adverse tax consequences for the seller.

Dependence on Key Tenants

In the year ended December 31, 2002, no tenant accounted for 5% or more of revenues except for The Limited Stores Inc. (including Intimate Brands, Inc.), which accounted for approximately 6.4% of our total revenues. The loss or bankruptcy of this key tenant could negatively affect our financial position and results of operations.

Dependence on Significant Markets

Our properties located at Nashville, Tennessee accounted for more than 9% of our revenues for the year ended December 31, 2002. No other market accounted for more than 5% of our revenues for the year ended December 31, 2002.

Our financial position and results of operations will therefore be affected by the results experienced at properties located at the Nashville, Tennessee area.

Rising Interest Rates and Other Factors Could Adversely Affect Our Stock Price and Borrowing Costs

Any significant increase in market interest rates from their current levels could lead holders of our securities to seek higher yields through other investments, which could adversely affect the market price of our stock. One of the factors that may influence the price of our stock in public

markets is the annual distribution rate we pay as compared with the yields on alternative investments. Numerous other factors, such as governmental regulatory action and tax laws, could have a significant impact on the future market price of our stock. In addition, increases in market interest rates could result in increased borrowing costs for us, which may adversely affect our cash flow and the amounts available for distributions to our stockholders.

Dependence on Management

Certain of the operating partnership's lines of credit are conditioned upon the operating partnership continuing to be managed by certain members of its current senior management and by such members of senior management continuing to own a significant direct or indirect equity interest in the operating partnership (including any shares of our common stock and preferred stock owned by such members of senior management may hold in us).

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Conflict of Interest: Retained Property Interests

Members of our senior management own interests in certain real estate properties that were retained by them at the time of our initial public offering. These consist primarily of outparcels at certain of our properties, which are being offered for sale through our management company.

Conflict of Interest: Tax Consequences of Sales of Properties

Since certain of our properties had unrealized gain attributable to the difference between the fair market value and adjusted tax basis in such properties immediately prior to their contribution to the operating partnership, the sale of any such properties, or a significant reduction in the debt encumbering such properties, could cause adverse tax consequences to the members of our senior management who owned interests in our predecessor entities. As a result, members of our senior management might not favor a sale of a property or a significant reduction in debt even though such a sale or reduction could be beneficial to us and the operating partnership. Our bylaws provide that any decision relating to the potential sale of any property that would result in a disproportionately higher taxable income for members of our senior management than for us and our stockholders, or that would result in a significant reduction in such property's debt, must be made by a majority of the independent directors of the Board of Directors. The operating partnership is required, in the case of such a sale, to distribute to its partners, at a minimum, all of the net cash proceeds from such sale up to an amount reasonably believed necessary to enable members of our senior management to pay any income tax liability arising from such sale.

Conflicts of Interest: Policies of Board of Directors

Certain entities owned in whole or in part by members of our senior management, including the construction company which built or renovated most of our properties, may continue to perform services for, or transact business with, us and the operating partnership. Furthermore, certain property tenants are affiliated with members of our senior management. Our bylaws provide that any contract or transaction between us or the operating partnership and one or more of our directors or officers, or between us or the operating partnership and any other entity in which one or more of our directors or officers are directors or officers or have a financial interest, must be approved by our disinterested directors or stockholders after the material facts of the relationship or interest of the contract or transaction are disclosed or are known to them.

Federal Tax Consequences: REIT Classification

We intend to continue to operate so as to qualify as a REIT under the Internal Revenue Code. Although we believe that we are organized and operate in such a manner, no assurance can be given that we currently qualify and in the future will continue to qualify as a REIT. Such qualification involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify. In addition, no assurance can be given that legislation, new regulations, administrative interpretations or court decisions will not significantly change the tax laws with respect to qualification or its corresponding federal income tax consequences. We have received an opinion from our counsel, Willkie Farr & Gallagher, that we have been organized and operated in conformity with the requirements to qualify as a REIT and that our proposed method of operation will enable us to continue to meet such requirements. Such legal opinion, however, is not binding on the Internal Revenue Service. See Federal Income Tax Considerations.

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If in any taxable year we were to fail to qualify as a REIT, we would not be allowed a deduction for distributions to stockholders in computing our taxable income and we would be subject to federal income tax on our taxable income at regular corporate rates. Unless entitled to relief under certain statutory provisions, we also would be disqualified from treatment as a REIT for the four taxable years following the year during which

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qualification was lost. As a result, the funds available for distribution to our stockholders would be reduced for each of the years involved. We currently intend to operate in a manner designed to qualify as a REIT. However, it is possible that future economic, market, legal, tax or other considerations may cause our Board of Directors, with the consent of a majority of our stockholders, to revoke the REIT election. See Federal Income Tax Considerations.

Federal Tax Consequences: Limits on Ownership Necessary to Maintain REIT Qualification

To maintain our status as a REIT under the Internal Revenue Code, not more than 50% in value of our outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of a taxable year. Our certificate of incorporation generally prohibits ownership of more than 6% of the outstanding shares of our capital stock by any single stockholder determined by vote, value or number of shares (other than Charles Lebovitz, David Jacobs, Richard Jacobs and their affiliates under the Internal Revenue Code's attribution rules).

Federal Tax Consequences: Effect of Distribution Requirements

To maintain our status as a REIT under the Internal Revenue Code, we generally will be required each year to distribute to our stockholders at least 90% of our taxable income after certain adjustments. However, to the extent that we do not distribute all of our net capital gain or distribute at least 90% but less than 100% of our REIT taxable income, as adjusted, we will be subject to tax on the undistributed amount at ordinary and capital gains corporate tax rates, as the case may be. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions paid by us during each calendar year are less than the sum of 85% of our ordinary income for such calendar year, 95% of our capital gain net income for the calendar year and any amount of such income that was not distributed in prior years. In the case of property acquisitions, including our initial formation, where individual properties are contributed to our operating partnership for operating partnership units, we have assumed the tax basis and depreciation schedules of the entities contributing properties. The relatively low tax basis of such contributed properties may have the effect of increasing the cash amounts we are required to distribute as dividends, thereby potentially limiting the amount of cash we might otherwise have been able to retain for use in growing our business. This low tax basis may also have the effect of reducing or eliminating the portion of distributions made by us that are treated as a non-taxable return of capital.

Environmental Matters

Under various federal, state and local laws, ordinances and regulations, a current or previous owner or operator of real estate may be liable for the costs of removal or remediation of petroleum, certain hazardous or toxic substances on, under or in such real estate. Such laws typically impose such liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such substances. The costs of remediation or removal of such substances may be substantial. The presence of such substances, or the failure to promptly remediate such substances, may adversely affect the owner's or operator's ability to lease or sell such real estate or to borrow using such real estate as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal or remediation of such substances at the disposal or treatment facility, regardless of whether such facility is owned or operated by such person. Certain laws also impose requirements on conditions and activities that may affect the environment or the impact of the environment on human health. Failure to comply with such requirements could result in the imposition of monetary penalties (in addition to the costs to achieve compliance) and potential liabilities to third parties. Among other things, certain laws require abatement or removal of friable and certain non-friable asbestos-containing materials in the event of demolition or certain renovations or remodeling. Certain laws regarding asbestos-containing materials require building owners and lessees, among other things, to notify and train certain employees working in areas known or presumed to contain asbestos-containing materials. Certain laws also impose liability for release of asbestos-containing materials into the air and third parties may seek recovery from owners or operators of real properties for personal injury or property damage associated with asbestos-containing materials. In connection with the ownership and operation of properties, we may be potentially liable for all or a portion of

such costs or claims.

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All of our properties (but not properties for which we hold an option to purchase but do not yet own) have been subject to Phase I environmental assessments or updates of existing Phase I environmental assessments within approximately the last nine years. Such assessments generally consisted of a visual inspection of the properties, review of federal and state environmental databases and certain information regarding historic uses of the property and adjacent areas and the preparation and issuance of written reports. Some of the properties contain, or contained, underground storage tanks used for storing petroleum products or wastes typically associated with automobile service or other operations conducted at the properties. Certain properties contain, or contained, dry-cleaning establishments utilizing solvents. Where believed to be warranted, samplings of building materials or subsurface investigations were undertaken. At certain properties, where warranted by the conditions, we have developed and implemented an operations and maintenance program that establishes operating procedures with respect to asbestos-containing materials. The costs associated with the development and implementation of such programs were not material.

We believe that our properties are in compliance in all material respects with all federal, state and local ordinances and regulations regarding the handling, discharge and emission of hazardous or toxic substances. We have not been notified by any governmental authority, and are not otherwise aware, of any material noncompliance, liability or claim relating to hazardous or toxic substances in connection with any of our present or former properties. We have not recorded in our financial statements any material liability in connection with environmental matters. Nevertheless, it is possible that the environmental assessments available to us do not reveal all potential environmental liabilities. It is also possible that subsequent investigations will identify material contamination, that adverse environmental conditions have arisen subsequent to the performance of the environmental assessments, or that there are material environmental liabilities of which management is unaware. Moreover, no assurances can be given that (i) future laws, ordinances or regulations will not impose any material environmental liability or (ii) the current environmental condition of the properties has not been or will not be affected by tenants and occupants of the properties, by the condition of properties in the vicinity of the properties or by third parties unrelated to us, the operating partnership or the relevant property's partnership. The existence of any such environmental liability could have an adverse effect on our results of operations, cash flow and the funds available to us to pay dividends.

Recent Events and Tenant Bankruptcies May Adversely Affect the Retail Climate

A significant portion of our earnings are derived from tenant occupancy and retail sales during the holiday season. The deterioration recently experienced in the national economy and the events related to the ongoing war against terrorism have negatively affected the retail climate. In addition, a number of local, regional and national retailers have closed locations or filed for bankruptcy within the last two years. We are unable to determine what effect these developments may have on our future earnings.

Our Insurance Coverage May Change in the Future and Not Include Coverage for Acts of Terrorism

The property and liability insurance policies on our properties currently do not exclude loss resulting from acts of terrorism, whether foreign or domestic. The cost of property and liability insurance policies that do not exclude coverage for acts of terrorism has risen significantly post-September 11, 2001. As a result, many companies within our industry are agreeing to exclude this coverage from their policies where possible. We are unable at this time to predict whether we will continue our policy coverage as currently structured when our policies are up for renewal on December 31, 2003.

USE OF PROCEEDS

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Unless otherwise described in the applicable prospectus supplement, we intend to use the net proceeds from the sale of the offered securities for general purposes, which may include the acquisition of malls or community shopping centers as suitable opportunities arise, the expansion and improvement of certain properties in our portfolio, payment of development and construction costs for new centers and the repayment of certain indebtedness outstanding at such time.

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DESCRIPTION OF CAPITAL STOCK

Under our amended and restated certificate of incorporation, we have authority to issue 110,000,000 shares of all classes of capital stock, consisting of 95,000,000 shares of common stock and 15,000,000 shares of preferred stock. As of March 10, 2003, we had 29,869,905 shares of common stock outstanding, 2,675,000 shares of our 9.0% Series A cumulative redeemable preferred stock outstanding and 2,000,000 shares of our 8.75% Series B cumulative redeemable preferred stock outstanding. Our common stock is listed on the New York Stock Exchange under the symbol CBL. Our 9.0% Series A cumulative redeemable preferred stock is listed on the New York Stock Exchange under the symbol CBLprA. Our 8.75% Series B cumulative redeemable preferred stock is listed on the New York Stock Exchange under the symbol CBLprB.

Pursuant to rights granted to us and the other limited partners in the partnership agreement of the operating partnership, each of the limited partners may, subject to certain conditions, exchange its limited partnership interests in the operating partnership for shares of common stock. Assuming the exchange of all limited partnership interests in the operating partnership for common stock, at December 31, 2002, there would be approximately 55.5 million shares of common stock outstanding.

Description of Preferred Stock

General

The following summary description of the preferred stock sets forth certain general terms and provisions of the preferred stock to which any prospectus supplement may relate. The statements below describing the preferred stock do not purport to be complete and are in all respects subject to and qualified in their entirety by reference to the applicable provisions of our certificate of incorporation, bylaws and any applicable certificate of designations and may be modified, supplemented or varied in the prospectus supplement.

Terms

Subject to the limitations prescribed by our certificate of incorporation, our Board of Directors is authorized to fix the number of shares constituting each series of preferred stock and to fix the designations, powers, preferences and rights of each series and the qualifications, limitations and restrictions, all without any further vote or action by our stockholders. In particular, the Board of Directors may determine the number of shares of each series, the dividend rate, if any, the date, if any, on which dividends will accumulate, the dates, if any, on which dividends will be payable, the redemption rights, if any, of such series, any sinking fund provisions, liquidation rights and preferences, and any conversion rights and voting rights. The preferred stock will, when issued, be fully paid and non-assessable and, unless otherwise provided in the preferred stock designations, will have no preemptive rights. Under Delaware law, holders of preferred stock generally are not responsible for our debts or obligations.

The rights, preferences, privileges and restrictions of each series of preferred stock will be fixed by the articles supplementary relating to the series. A prospectus supplement, relating to each series, will specify the terms of the preferred stock, including: (i) the title and stated value; (ii) the number of shares offered, the liquidation preference per share and the offering price; (iii) the dividend rate(s), period(s) and/or payment date(s) or method(s) of calculation applicable; (iv) the date from which dividends will accumulate, if applicable; (v) the procedures for any

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auction and remarketing, if any; (vi) the provision for a sinking fund, if any; (vii) the provision for redemption, if applicable; (viii) any listing on any securities exchange; (ix) the terms and conditions, if applicable, upon which such preferred stock will be convertible into common stock, including the conversion price (or manner of calculation thereof); (x) any other specific terms, preferences, rights, limitations or restrictions; (xi) a discussion of applicable federal income tax considerations; (xii) the relative ranking and preferences as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs; (xiii) any

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limitations on issuance of any series of preferred stock ranking senior to or on a parity with such series of preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs; and (xiv) any limitations on direct or beneficial ownership and restrictions on transfer, in each case as may be appropriate to preserve our status as a REIT.

Rank

Unless otherwise specified in any prospectus supplement, the preferred stock will, with respect to dividend rights and rights upon our liquidation, dissolution or winding up, rank (i) senior to all classes or series of common stock and to all other equity securities ranking junior, (ii) on a parity with all equity securities issued by us, the terms of which specifically provide that such equity securities rank on a parity with the preferred stock, and (iii) junior to all equity securities issued by us, the terms of which specifically provide that such equity securities rank senior to the preferred stock. The term "equity securities" does not include convertible debt securities.

Dividends

Holders of preferred stock of each series will be entitled to receive, when, as and if declared by our Board of Directors, out of our assets legally available for payment, cash dividends at rates and on dates as will be set forth in the applicable prospectus supplement. Each dividend will be payable to holders of record as they appear on our share transfer books on record dates that will be fixed by our Board of Directors.

Dividends on any series of preferred stock may be cumulative or noncumulative, as provided in the applicable prospectus supplement. Dividends, if cumulative, will be cumulative from and after the date set forth in the applicable prospectus supplement. If our Board of Directors fails to declare a dividend payable on a dividend payment date on any series of preferred stock for which dividends are noncumulative, then the holders of this series of preferred stock will have no right to receive a dividend in respect of the dividend period ending on that dividend payment date, and we will have no obligation to pay the dividend accrued for that period, whether or not dividends on that series are declared payable on any future dividend payment date.

If preferred stock of any series is outstanding, we will not declare or pay or set apart for payment any dividends on our preferred stock of any other series ranking, as to dividends, on a parity with or junior to the preferred stock of such series for any period unless (i) if such series of preferred stock has a cumulative dividend, we have declared and paid or are contemporaneously declaring and paying full cumulative dividends or we have declared and set apart or are contemporaneously declaring and setting apart a sum sufficient for such payment on the preferred stock of such series for all past dividend periods and the then current dividend period or (ii) if such series of preferred stock does not have a cumulative dividend, we have declared and paid or are contemporaneously declaring and paying full dividends for the then current dividend period or we have declared and set apart or are contemporaneously declaring and setting apart a sum sufficient for such payment on the preferred stock of such series. When we do not pay dividends in full (or we do not set apart a sum sufficient for such full payment) upon preferred stock of any series and the shares of any other series of preferred stock ranking on a parity as to dividends with the preferred stock of such series, we will declare all dividends upon preferred stock of such series and any other series of preferred stock ranking on a parity as to dividends with such preferred stock *pro rata* so that the amount of dividends we declare per share of such series of preferred stock and such other series of preferred stock will in all cases bear to each other the same ratio that accrued dividends per share on the shares of preferred stock of such series (which will not include any accumulation in respect of unpaid dividends for prior dividend periods if such preferred stock does not have a cumulative dividend) and such other series of preferred stock bear to each other. No interest, or sum of money in lieu of interest, will be payable in respect of any dividend payment or payments on preferred stock of such series which may be in arrears.

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Except as provided in the immediately preceding paragraph, unless (i) if such series of preferred stock has a cumulative dividend, we have declared and paid or are contemporaneously declaring and paying full cumulative

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dividends or we have declared and set apart or are contemporaneously declaring and setting apart a sum sufficient for such payment on the preferred stock of such series for all past dividend periods and the then current dividend period and (ii) if such series of preferred stock does not have a cumulative dividend, we have declared and paid or are contemporaneously declaring and paying full dividends for the then current dividend period or we have declared and set apart or are contemporaneously declaring and setting apart a sum sufficient for such payment on the preferred stock of such series for the then current dividend period, we will not declare or pay or set aside for payment any dividends (other than in common stock or other capital stock ranking junior to the preferred stock of such series as to dividends and upon liquidation) or declare or make any other distribution upon the common stock, or any other of our capital stock ranking junior to or on a parity with the preferred stock of such series as to dividends or upon liquidation, nor will we redeem, purchase or otherwise acquire for any consideration (or pay any moneys or to make any moneys available for a sinking fund for the redemption of such shares) any common stock, or any other of our capital stock ranking junior to or on a parity with the preferred stock of such series as to dividends or upon liquidation (except by conversion into or exchange for our capital stock ranking junior to the preferred stock of such series as to dividends and upon liquidation).

Any dividend payment made on shares of a series of preferred stock will first be credited against the earliest accrued but unpaid dividend due with respect to shares of such series which remains payable.

Redemption

If so provided in the applicable prospectus supplement, the preferred stock will be subject to mandatory redemption or redemption at our option, as a whole or in part, in each case upon the terms, at the times and at the redemption prices set forth in that prospectus supplement.

We will specify, in the prospectus supplement relating to a series of preferred stock that is subject to mandatory redemption, the number of preferred stock that we will redeem in each year commencing after a date to be specified, at a redemption price per share to be specified, together with an amount equal to all accrued and unpaid dividends (which will not, if those shares of preferred stock do not have a cumulative dividend, include any accumulation in respect of unpaid dividends for prior dividend periods) to the date of redemption. The redemption price may be payable in cash or other property, as specified in the applicable prospectus supplement.

Notwithstanding the foregoing, unless (i) if such series of preferred stock has a cumulative dividend, we have declared and paid or are contemporaneously declaring and paying full cumulative dividends or we have declared and set apart or are contemporaneously declaring and setting apart a sum sufficient for such payment on the preferred stock of such series for all past dividend periods and the then current dividend period and (ii) if such series of preferred stock does not have a cumulative dividend, we have declared and paid or are contemporaneously declaring and paying full dividends for the then current dividend period or we have declared and set apart or are contemporaneously declaring and setting apart a sum sufficient for such payment on the preferred stock of such series for the then current dividend period, we will not redeem any shares of any series of preferred stock unless we simultaneously redeem all outstanding shares of preferred stock of such series; *provided, however*, that the foregoing will not prevent the purchase or acquisition of shares of preferred stock of such series to preserve our REIT status or pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of preferred stock of such series, and, unless (x) if such series of preferred stock has a cumulative dividend, we have declared and paid or are contemporaneously declaring and paying full cumulative dividends or we have declared and set apart or are contemporaneously declaring and setting apart a sum sufficient for such payment on the preferred stock of such series for all past dividend periods and the then current dividend period and (y) if such series of preferred stock does not have a cumulative dividend, we have declared and paid or are contemporaneously declaring and paying full dividends for the then current dividend period or we have declared and set apart or are contemporaneously declaring and setting apart a sum sufficient for such payment on the preferred stock of such series for the then current dividend period, we will not purchase or otherwise acquire directly or indirectly any shares of preferred stock of such series (except by conversion into

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or exchange for our capital stock ranking junior to the preferred stock of such series as to dividends and upon liquidation); *provided, further*, that the foregoing will not prevent the purchase or acquisition of shares of preferred stock of such series to preserve our REIT status or pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of preferred stock of such series.

If we redeem fewer than all of the outstanding shares of preferred stock of any series, we will determine the number of shares of preferred stock to be redeemed and we may redeem those shares *pro rata* from the holders of record of those shares in proportion to the number of such shares held by those holders (with adjustments to avoid redemption of fractional shares) or any other equitable method that we determine will not result in the issuance of any shares-in-trust (as defined in our certificate of incorporation).

We will mail notice of redemption at least 30 days but not more than 60 days before the redemption date to each holder of record of preferred stock of any series to be redeemed at the address shown on our share transfer books. Each notice will state: (i) the redemption date; (ii) the number of shares and series of the preferred stock to be redeemed; (iii) the redemption price; (iv) the place or places where certificates for such preferred stock are to be surrendered for payment of the redemption price; (v) that dividends on the shares to be redeemed will cease to accrue on that redemption date; and (vi) the date upon which the holder's conversion rights, if any, as to those shares will terminate. If we redeem fewer than all outstanding shares of the preferred stock of any series, we will also specify, in the notice mailed to each holder, the number of shares of preferred stock to be redeemed. If we have given notice of redemption of any shares of preferred stock and if we have set aside the funds necessary for such redemption in trust for the benefit of the holders of any shares of preferred stock so called for redemption, then from and after the redemption date dividends will cease to accrue on those shares of preferred stock, and all rights of the holders of those shares will terminate, except the right to receive the redemption price.

Liquidation Preference

Upon any voluntary or involuntary liquidation, dissolution or winding up of our affairs, then, before any distribution or payment will be made to the holders of any shares of common stock, any shares-in-trust or any other class or series of our capital stock ranking junior to the preferred stock in the distribution of assets upon our liquidation, dissolution or winding up, the holders of shares of each series of preferred stock will be entitled to receive out of our assets legally available for distribution to stockholders liquidating distributions in the amount of the liquidation preference per share (set forth in the applicable prospectus supplement), plus an amount equal to all accrued and unpaid dividends (which will not include any accumulation in respect of unpaid dividends for prior dividend periods if those shares of preferred stock do not have a cumulative dividend). After payment of the full amount of the liquidating distributions to which they are entitled, the holders of shares of preferred stock will have no right or claim to any of our remaining assets. In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of preferred stock and the corresponding amounts payable on all shares of other classes or series of our capital stock ranking on a parity with such shares of preferred stock in the distribution of assets upon such liquidation, dissolution or winding up, then the holders of those shares of preferred stock and all other such classes or series of capital stock will share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled. If liquidating distributions will have been made in full to all holders of preferred stock, our remaining assets will be distributed among the holders of any other classes or series of capital stock ranking junior to the preferred stock upon liquidation, dissolution or winding up, according to their respective rights and preferences and in each case according to their respective number of shares. For such purposes, our consolidation or merger with or into any other corporation, trust or entity, or the sale, lease or conveyance of all or substantially all of our property or business, will not be deemed to constitute our liquidation, dissolution or winding up.

Voting Rights

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Holders of shares of preferred stock will not have any voting rights, except as set forth below or as otherwise from time to time required by law or as indicated in the applicable prospectus supplement.

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Whenever dividends on any shares of preferred stock will be in arrears for six consecutive quarterly periods, the holders of those shares of preferred stock (voting separately as a class with all other series of preferred stock upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of two additional directors at the next annual meeting of stockholders and at each subsequent meeting until (i) if that series of preferred stock has a cumulative dividend, we have fully paid or declared and set aside a sum sufficient for the payment of all dividends accumulated on that series of preferred stock for the past dividend periods and the then current dividend period or (ii) if that series of preferred stock does not have a cumulative dividend, we have fully paid or declared and set aside a sum sufficient for the payment of four consecutive quarterly dividends. In such case, our entire Board of Directors will be increased by two directors.

Unless provided otherwise for any series of preferred stock, so long as any shares of preferred stock remain outstanding, we will not, without the affirmative vote or consent of the holders of two-thirds of the shares of each series of preferred stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (such series voting separately as a class), (i) authorize or create, or increase the authorized or issued amount of, any class or series of capital stock ranking prior to that series of preferred stock with respect to the payment of dividends or the distribution of assets upon, liquidation, dissolution or winding up or reclassify any of our authorized capital stock into any such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares or (ii) amend, alter or repeal the provisions of our certificate of incorporation or preferred stock designation for that series of preferred stock, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of that series of preferred stock or the holders thereof; *provided, however*, with respect to the occurrence of any of the events set forth in (ii) above, so long as the preferred stock remains outstanding with the terms thereof materially unchanged, taking into account that upon the occurrence of an event, we may not be the surviving entity, the occurrence of such event will not be deemed to materially and adversely affect such rights, preferences, privileges or voting power of holders of preferred stock, and *provided, further*, that (A) any increase in amount of the authorized preferred stock or the creation or issuance of any other series of preferred stock or (B) any increase in the number of authorized shares of that series or any other series of preferred stock in each case ranking on a parity with or junior to the preferred stock of that series with respect to the payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, will not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required will be effected, all outstanding shares of such series of preferred stock are redeemed or called for redemption and we deposit sufficient funds in trust to effect such redemption.

Conversion Rights

The terms and conditions, if any, upon which any series of preferred stock is convertible into common stock will be set forth in the applicable prospectus supplement. Those terms will include the number of shares of common stock into which the preferred stock is convertible, the conversion price (or manner of calculation), the conversion period, provisions as to whether conversion will be at the option of the holders of the preferred stock or us, the events requiring an adjustment of the conversion price and provisions affecting conversion in the event of the redemption of such preferred stock.

Restrictions on Transfer

As discussed below under *Description of Common Stock Restrictions on Transfer*, for us to qualify as a REIT under the Internal Revenue Code, not more than 50% in value of our outstanding capital stock may be owned, directly or constructively, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of any taxable year. Each series of preferred stock will be subject to the

ownership limit provision of our certificate of incorporation described below in Description of Common Stock.

Transfer Agent and Registrar

The transfer agent for each series of preferred stock will be described in the related prospectus supplement.

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Delaware Anti-Takeover Statute

See Description of Common Stock Delaware Anti-Takeover Statute below.

Description of Common Stock

The following summary description of the common stock sets forth certain general terms and provisions of the common stock to which any prospectus supplement may relate. The statements below describing the common stock do not purport to be complete and are in all respects subject to and qualified in their entirety by reference to our certificate of incorporation and bylaws.

The holders of common stock are entitled to one vote per share on all matters voted on by stockholders, including elections of directors, and, except as otherwise required by law or as provided in our certificate of incorporation, the holders of those shares exclusively possess all voting power. Our certificate of incorporation does not provide for cumulative voting in the election of directors.

Subject to any preferential rights of any outstanding series of preferred stock, the holders of common stock are entitled to distributions which may be declared from time to time by our Board of Directors from funds which are legally available, and upon liquidation are entitled to receive *pro rata* all of our assets available for distribution to those holders. Holders of common stock will not be entitled to any preemptive rights. Under Delaware law, holders of common stock generally are not responsible for our debts or obligations.

Restrictions on Transfer

For us to qualify as a REIT under the Internal Revenue Code, not more than 50% in value of our outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of any taxable year. In addition, the capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year and certain percentages of our gross income must be from particular activities.

To ensure that we remain a qualified REIT, our certificate of incorporation contains provisions, collectively referred to as the ownership limit provision, restricting the acquisition of shares of our capital stock. The affirmative vote of 66²/₃% of the outstanding voting stock is required to amend this provision.

The ownership limit provision provides that, subject to certain exceptions specified in our certificate of incorporation, no person (other than Charles Lebovitz, Richard Jacobs, David Jacobs and their respective affiliates under the applicable attribution rules of the Internal Revenue Code) may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than 6% of the value of our outstanding capital stock. The ownership limit provision further provides that, subject to certain restrictions, Charles Lebovitz and his respective affiliates (as defined under the applicable attribution rules of the Internal Revenue Code) may own beneficially or constructively in the aggregate

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up to 25.4% of the value of the outstanding shares of our capital stock. The ownership limit provision further provides that, subject to certain restrictions, of the group comprised of Richard Jacobs and his respective affiliates and David Jacobs and his respective affiliates (in each case, as defined under the applicable attribution rules of the Internal Revenue Code), any individual person (that is, any person who is treated as an individual for purposes of Section 542(a)(2) of the Internal Revenue Code) may own beneficially or constructively in the aggregate up to 13.9% of the value of the outstanding shares of our capital stock. Also, any two individuals of the group comprised of Richard Jacobs and his respective affiliates or of the group comprised of David Jacobs and his respective affiliates may own beneficially or constructively in the aggregate up to 19.9% of the value of the outstanding shares of our capital stock. The ownership limit is the percentage limitation on ownership applicable to any given person pursuant to the ownership limit provision.

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Our Board of Directors may, subject to certain conditions, waive the applicable ownership limit upon receipt of a ruling from the IRS or an opinion of counsel to the effect that such ownership will not jeopardize our status as a REIT. The ownership limit provision will not apply if our Board of Directors and our stockholders determine that we will not attempt to continue to qualify as a REIT.

Any issuance or transfer of capital stock to any person in excess of the applicable ownership limit or any issuance or transfer of shares of capital stock which would cause us to be beneficially owned by fewer than 100 persons, will be null and void and the intended transferee will acquire no rights to the stock. Any acquisition of our capital stock and continued holding or ownership of our capital stock constitutes, under our certificate of incorporation, a continuous representation of compliance with the applicable ownership limit.

In the event of a purported transfer or other event that would, if effective, result in the ownership of shares of capital stock in violation of the ownership limit provision, such transfer with respect to that number of shares that would be owned by the transferee in excess of the ownership limit provision would be deemed void *ab initio* and those shares would automatically be transferred to a trust, the trustee of which we would designate, but who would not be affiliated with us or the prohibited owner, who would have owned these shares were it not for the ownership limit provision. The trust would be for the exclusive benefit of a charitable beneficiary to be designated by us.

The shares held in trust will be issued and outstanding shares of our capital stock, entitled to the same rights and privileges as all other issued and outstanding shares of capital stock of the same class and series. All dividends and other distributions paid by us with respect to the shares held in trust will be held by the trustee for the benefit of the designated charitable beneficiary. The trustee will have the power to vote all shares held in trust from and after the date the shares are deemed to be transferred into trust. The prohibited owner will be required to repay any dividends or other distributions received by it which are attributable to the shares held in trust if the record date for such dividends or distributions was on or after the date those shares were transferred to the trust. We can take all measures we deem necessary in order to recover such amounts.

The trustee will have the exclusive right to designate a permitted transferee to acquire the shares held in trust without violating the applicable ownership restrictions for an amount equal to the fair market value (determined at the time of transfer to this permitted transferee) of those shares. The trustee will pay to the aforementioned prohibited owner the lesser of: (a) the value of the shares at the time they were transferred to the trust and (b) the price received by the trustee from the sale of such shares to the permitted transferee. The excess of (x) the sale proceeds from the transfer to the permitted transferee over (y) the amount paid to the prohibited owner, if any, will be distributed to the charitable beneficiary.

We or our designee will have the right to purchase any shares-in-trust, within a limited period of time, at a price per share equal to the lesser of (i) the price per share in the transaction that created such shares-in-trust and (ii) the market price per share on the date we, or our designee, exercise such right to purchase such shares-in-trust.

The ownership limit provision will not be automatically removed even if the REIT provisions of the Internal Revenue Code are changed so as to no longer contain any ownership concentration limitation or if the ownership concentration limitation is increased. Except as otherwise described above, any change in the ownership limit would require an amendment to our certificate of incorporation, and such an amendment would require a 66²/₃% vote of the outstanding voting stock. In addition to preserving our status as a REIT, the ownership limit may have the effect of precluding an acquisition of control of us without the approval of our Board of Directors.

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All certificates representing shares of any class of stock will bear a legend referring to the restrictions described above.

All persons who own, directly or by virtue of the attribution provisions of the Internal Revenue Code, more than 5% (or such other percentage as may be required by the Treasury Regulations) of the value of the

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outstanding shares of capital stock must file an affidavit with us containing the information specified in our certificate of incorporation before January 30 of each year. In addition, each stockholder will upon demand be required to disclose to us in writing such information with respect to the direct, indirect and constructive ownership of shares of capital stock as our Board of Directors deems necessary to comply with the provisions of the Internal Revenue Code applicable to a REIT or to comply with the requirements of any taxing authority or governmental agency.

Limitation of Liability of Directors

Our certificate of incorporation provides that a director will not be personally liable for monetary damages to us or our stockholders for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to us or our stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit.

While our certificate of incorporation provides directors with protection from awards for monetary damages for breaches of their duty of care, it does not eliminate such duty. Accordingly, our certificate of incorporation will have no effect on the availability of equitable remedies such as an injunction or rescission based on a director's breach of his or her duty of care. The provisions of our certificate of incorporation described above apply to our officers only if the respective officer is one of our directors and is acting in his or her capacity as director, and do not apply to our officers who are not directors.

Indemnification Agreements

We have entered into indemnification agreements with each of our officers and directors. The indemnification agreements require, among other things, that we indemnify our officers and directors to the fullest extent permitted by law, and advance to our officers and directors all related expenses, subject to reimbursement if it is subsequently determined that indemnification is not permitted. We must also indemnify and advance all expenses incurred by officers and directors seeking to enforce their rights under the indemnification agreements, and cover officers and directors under our directors' and officers' liability insurance, provided that such insurance is commercially available at reasonable expense. Although the form of indemnification agreement offers substantially the same scope of coverage afforded by provisions in our certificate of incorporation and bylaws, it provides greater assurance to directors and officers that indemnification will be available, because, as a contract, it cannot be modified unilaterally in the future by our Board of Directors or by the stockholders to eliminate the rights it provides.

Other Provisions of Our Certificate of Incorporation and Bylaws

Our certificate of incorporation and bylaws include a number of provisions that may have the effect of encouraging persons considering unsolicited tender offers or other unilateral takeover proposals to negotiate with our Board of Directors rather than pursue non-negotiated takeover attempts. These provisions include:

Classified Board of Directors. Our certificate of incorporation provides for a Board of Directors divided into three classes, with one class to be elected each year to serve for a three-year term. As a result, at least two annual meetings of stockholders may be required for the stockholders to change a majority of our Board of Directors. In addition, our stockholders can only remove directors for cause and only by a vote of 75% of the outstanding voting stock. The classification of directors and the inability of stockholders to remove directors without cause make it more

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difficult to change the composition of our Board of Directors. The provisions of our certificate of incorporation relating to the classification of our Board of Directors may only be amended by a 66 ²/₃% vote of the outstanding voting stock and the provision relating to the removal for cause may only be amended by a 75% vote of the outstanding voting stock.

Advance Notice Requirements. Our bylaws establish advance notice procedures with regard to stockholder proposals relating to the nomination of candidates for election as directors or new business to be brought before

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meetings of our stockholders. These procedures provide that notice of such stockholder proposals must be timely given in writing to our Secretary prior to the meeting at which the action is to be taken. Generally, to be timely, notice must be received at our principal executive offices not less than 60 days nor more than 90 days prior to the meeting. The notice must contain certain information specified in the bylaws.

Written Consent of Stockholders. Our certificate of incorporation requires all stockholder actions to be taken by a vote of the stockholders at an annual or special meeting and does not permit action by stockholder consent. These provisions of our certificate of incorporation may be amended only by a vote of 80% of the outstanding voting stock.

Bylaw Amendments. A vote of 66²/₃% of the outstanding voting stock is necessary to amend the bylaws.

Delaware Anti-Takeover Statute

The Company is a Delaware corporation and is subject to Section 203 of the Delaware General Corporation Law. In general, Section 203 prevents an interested stockholder (defined generally as a person owning 15% or more of a company's outstanding voting stock) from engaging in a business combination (as defined in Section 203) with us for three years following the date that person becomes an interested stockholder unless (a) before that person became an interested holder, our Board of Directors approved the transaction in which the interested holder became an interested stockholder or approved the business combination, (b) upon completion of the transaction that resulted in the interested stockholder becoming an interested stockholder, the interested stockholder owns 85% of our voting stock outstanding at the time the transaction commenced (excluding stock held by directors who are also officers and by employee stock plans that do not provide employees with the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer), or (c) following the transaction in which that person became an interested stockholder, the business combination is approved by our Board of Directors and authorized at a meeting of stockholders by the affirmative vote of the holders of at least two-thirds of our outstanding voting stock not owned by the interested stockholder.

Under Section 203, these restrictions also do not apply to certain business combinations proposed by an interested stockholder following the announcement or notification of certain extraordinary transactions involving us and a person who was not an interested stockholder during the previous three years or who became an interested stockholder with the approval of a majority of our directors, if that extraordinary transaction is approved or not opposed by a majority of the directors who were directors before any person became an interested stockholder in the previous three years or who were recommended for election or elected to succeed such directors by a majority of directors then in office.

DESCRIPTION OF DEPOSITARY SHARES

General

We may, at our option, elect to offer depositary shares, each representing a fraction of a share of common stock or preferred stock, as will be specified in the applicable prospectus supplement. In the event we elect to do so, we will issue to the owners of record of the depositary shares receipts evidencing their depositary shares.

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The shares of common stock or preferred stock underlying the depositary shares will be deposited under a separate deposit agreement with us and a depositary selected by us. The depositary will be a bank or trust company having its principal office in the United States and having a combined capital and surplus of at least \$50,000,000. Subject to the terms of the deposit agreement, each record owner of a depositary share will be entitled, in proportion to the shares of common stock or preferred stock underlying that depositary share, to all the rights and preferences of the common stock or preferred stock underlying that depositary share (including dividend, voting, redemption and liquidation rights). As of the date of this Prospectus, there are no depositary shares outstanding.

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The depositary shares will be evidenced by depositary receipts issued pursuant to the deposit agreement. Copies of the applicable form of deposit agreement and depositary receipt will be filed with the SEC at or prior to any offering of depositary shares and may be obtained from us upon request.

The following description of the depositary shares sets forth the material terms and provisions of the depositary shares to which any prospectus supplement may relate. The particular terms of the depositary shares offered by any prospectus supplement, and the extent to which the general provisions described below may apply to the offered securities, will be described in the prospectus supplement.

Dividends and Other Distributions

The depositary will distribute to the record owners of depositary shares, in proportion to the number of such depositary shares owned by such owners on the relevant record date, all cash dividends or other distributions received in respect of the common stock or preferred stock underlying such depositary shares.

In the event of a distribution other than in cash, the depositary will distribute property received by it to the record owners of depositary shares entitled to receive it, unless the depositary determines that it is not feasible to make such distribution, in which case the depositary may, with our approval, sell such property and distribute the net proceeds from such sale to such owners.

No distribution will be made in respect of any depositary shares to the extent that it represents any preferred stock which has been converted or exchanged. The deposit agreement will also contain provisions relating to the manner in which any subscription or similar right we offer to the holders of the preferred stock will be made available to owners of depositary shares.

Withdrawal of Shares

Unless we say otherwise in the applicable prospectus supplement, holders of depositary receipts may surrender their receipts at the principal office of the depositary (unless the related depositary shares have previously been called for redemption) and, upon payment of any unpaid amount due to the depositary, be entitled to receive the number of whole shares of underlying common stock or preferred stock and any money or other property represented by the depositary shares evidenced by such depositary receipts. Owners of depositary shares will be entitled to receive whole shares of the underlying common stock or preferred stock on the basis set forth in the prospectus supplement for such depositary shares, but such owners will not thereafter be entitled to exchange such whole shares of common stock or preferred stock for depositary shares. If the depositary receipts delivered by the holder evidence a number of depositary shares in excess of the number of whole shares of common stock or preferred stock to be withdrawn, the depositary will deliver to such holder at the same time a new depositary receipt evidencing such excess number of depositary shares. In no event will fractional shares of common stock or preferred stock be delivered upon surrender of depositary receipts to the depositary.

Redemption of Depositary Shares

Whenever we redeem common stock or preferred stock held by the depositary, the depositary will redeem as of the same redemption date a number of depositary shares representing the shares so redeemed and the depositary receipts evidencing such depositary shares. The redemption price per depositary share will be equal to the applicable fraction of the redemption price per share payable with respect to the common stock or preferred stock. If less than all the depositary shares are to be redeemed, the depositary shares to be redeemed will be selected by lot or pro rata as may be determined by the depositary.

Liquidation Proceeds

In the event of liquidation, dissolution or winding up of our company, whether voluntary or involuntary, each depositary share will be entitled to the applicable fraction of the liquidation amount or liquidation preference accorded to the underlying share of common stock or preferred stock as described in the applicable prospectus supplement.

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Conversion of Preferred Stock

If so described in the applicable prospectus supplement relating to an offering of depositary shares, the depositary receipts may be surrendered by the holders to the depositary with written instructions to the depositary to instruct us to cause conversion of the underlying preferred stock into the securities into which such preferred stock is convertible, and we agree that upon receipt of such instructions and any amounts payable, we will cause the conversion of the depositary shares representing such preferred stock utilizing the same procedures as those applicable to the preferred stock. If the depositary shares are to be converted in part only, one or more new depositary receipts will be issued for any depositary shares not converted. No fractional common stock will be issued upon any conversion, and if such conversion would have resulted in a fractional share being issued, we will pay cash in an amount equal to the value of the fractional interest based upon the closing price of the common stock on the last business day prior to the conversion.

Voting the Common Stock or Preferred Stock

Upon receipt of notice of any meeting at which the holders of the common stock or preferred stock are entitled to vote, the depositary will mail the information contained in such notice of meeting to the record owners of the depositary shares relating to such common stock or preferred stock. Each record owner of such depositary shares on the record date (which will be the same date as the record date for the underlying common stock or preferred stock, as applicable) will be entitled to instruct the depositary as to the exercise of the voting rights pertaining to the shares of preferred stock or common stock underlying such owner's depositary shares. The depositary will endeavor, insofar as practicable, to vote the number of common stock or preferred stock underlying such depositary shares in accordance with such instructions, and we will agree to take all action which the depositary deems necessary in order to enable the depositary to do so. The depositary will abstain from voting the underlying shares of common stock or preferred stock to the extent it does not receive specific instructions from the owners of the applicable depositary shares. The depositary will not be responsible for any failure to carry out any instruction to vote, or for the manner or effect of any such vote, as long as such action or inaction is in good faith and does not result from gross negligence or willful misconduct.

Amendment and Termination of the Deposit Agreement

The form of depositary receipt evidencing the depositary shares and any provision of the deposit agreement may at any time be amended by agreement between us and the depositary. However, any amendment which materially and adversely alters the rights of the owners of depositary shares will not be effective unless such amendment has been approved by the owners of at least a majority of the depositary shares then outstanding.

We may terminate the deposit agreement upon not less than 30 days prior written notice to the depositary if (i) such termination is to preserve our status as a REIT or (ii) a majority of each class of common stock and preferred stock affected by such termination consents to such termination, whereupon the depositary will deliver or make available to each owner of depositary shares, upon surrender of the applicable depositary receipts, the whole shares of common stock or preferred stock underlying the depositary shares. In addition, the deposit agreement will automatically terminate if (i) all outstanding depositary shares have been redeemed or surrendered, or (ii) there has been a final distribution in respect of the underlying common stock and preferred stock in connection with our liquidation, dissolution or winding up and such distribution has been made to the owners of depositary shares.

Charges of Depositary

We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We will also pay charges of the depositary in connection with the initial deposit of underlying common stock or preferred stock and any redemption of such common stock or preferred stock. Holders of depositary receipts will pay all other transfer taxes and the other taxes and charges expressly provided in the deposit agreement.

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The depositary may refuse to effect any transfer of a depositary share or any withdrawal of shares of common stock or preferred stock until all such taxes and charges with respect to such depositary share or common stock or preferred stock are paid by the owners thereof.

Resignation and Removal of Depositary

The depositary may resign at any time by delivering to us notice of its election to do so, and we may at any time remove the depositary. Any such resignation or removal of the depositary will take effect upon the appointment of a successor depositary, which successor depositary must be appointed within 60 days after delivery of the notice of resignation or removal and must be a bank or trust company having its principal office in the United States and having a combined capital and surplus of at least \$50,000,000.

Restrictions on Transfer

We must meet certain requirements concerning the ownership of our outstanding shares in order to qualify as a REIT under the Internal Revenue Code. See the discussion above under **Description of Common Stock Restrictions on Transfer**.

Miscellaneous

The depositary will forward to owners of depositary shares all reports and communications from us which we furnish to the holders of the common stock or preferred stock.

Neither we nor the depositary will be liable if either of us is prevented or delayed by law or any circumstance beyond our control in performing our obligations under the deposit agreement. Our obligations and the obligations of the depositary under the deposit agreement will be limited to performance in good faith of our respective duties thereunder and neither we nor the depositary will be obligated to prosecute or defend any legal proceeding in respect of any depositary shares or the underlying common stock or preferred stock unless satisfactory indemnity is furnished. We and the depositary may rely on written advice of counsel or accountants, or information provided by persons presenting common stock or preferred stock for deposit, owners of depositary shares or other persons believed to be competent and on documents believed to be genuine.

If the depositary receives conflicting claims, requests or instructions from any holders of depositary receipts, on the one hand, and us, on the other hand, the depositary is entitled to act on such claims, requests or instructions received from us.

DESCRIPTION OF COMMON STOCK WARRANTS

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We may issue common stock warrants for the purchase of our common stock. We may issue our common stock warrants independently or together with any other securities offered by us in any prospectus supplement and such common stock warrants may be attached to or separate from such offered securities. We will issue each series of common stock warrants under a separate warrant agreement to be entered into between a warrant agent specified in the prospectus supplement and us. The warrant agent will act solely as our agent in connection with the common stock warrants of such series and will not assume any obligation or relationship of agency or trust for or with any holders or beneficial owners of common stock warrants. The following sets forth certain general terms and provisions of the common stock warrants offered hereby. Further terms of the common stock warrants and the applicable warrant agreements will be set forth in the applicable prospectus supplement.

We will describe, in the applicable prospectus supplement, the terms of the common stock warrants in respect of which this prospectus is being delivered, including, where applicable, the following: (i) the title of such common stock warrants; (ii) the aggregate number of such common stock warrants; (iii) the price or prices

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at which such common stock warrants will be issued; (iv) the number of shares of common stock purchasable upon exercise of such common stock warrants; (v) the designation and terms of our other securities with which such common stock warrants are issued and the number of such common stock warrants issued with each such offered security; (vi) the date, if any, on and after which such common stock warrants and related shares of common stock will be separately transferable; (vii) the price at which each share of common stock purchasable upon exercise of such common stock warrants may be purchased; (viii) the date on which the right to exercise such common stock warrants will commence and the date on which such right will expire; (ix) the minimum or maximum amount of such common stock warrants which may be exercised at any one time; (x) information with respect to book-entry procedures, if any; (xi) a discussion of certain federal income tax considerations; and (xii) any other terms of such common stock warrants, including terms, procedures and limitations relating to the exchange and exercise of such common stock warrants.

Reference is made to the section captioned "Description of Capital Stock - Description of Common Stock" for a general description of the shares of common stock to be acquired upon the exercise of the common stock warrants, including a description of certain restrictions on the ownership of common stock.

FEDERAL INCOME TAX CONSIDERATIONS

The following summary of certain U.S. federal income tax considerations is based on current law, is for general information only, and is not tax advice. The tax treatment of a holder of any of the offered securities will depend on the holder's particular situation, and this discussion does not attempt to address all aspects of federal income tax considerations that may be relevant to holders of the offered securities in light of their personal investment or tax circumstances, or to certain types of stockholders (including insurance companies, tax-exempt organizations, financial institutions or broker-dealers, foreign corporations and persons who are not citizens or residents of the United States), except to the extent discussed in this section. This summary assumes that the stockholder holds the stock as a capital asset. Current law may change, possibly with retroactive effect.

Each prospective purchaser of the offered securities is advised to consult his or her own tax advisor regarding the specific tax consequences to the purchaser of the purchase, ownership and sale of the offered securities and of our election to be taxed as a REIT, including the federal, state, local, foreign and other tax consequences of the purchase, ownership, sale and election and of potential changes in applicable tax laws. In particular, foreign investors should consult their own tax advisors concerning the tax consequences of an investment in our company, including the possibility of United States income tax withholding on our distributions.

Taxation of CBL

We have elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code and applicable Treasury Regulations, which set forth the requirements for qualifying as a REIT, commencing with our taxable year ended December 31, 1993. We believe that, commencing with our taxable year ended December 31, 1993, we have been organized and have operated, and are operating, in such a manner so as to qualify for taxation as a REIT under the Internal Revenue Code. We intend to continue to operate in such a manner, but we may not operate in a manner so as to qualify or remain qualified.

The sections of the Internal Revenue Code relating to qualification and operation as a REIT are highly technical and complex. The following sets forth the material aspects of the Internal Revenue Code sections that govern the federal income tax treatment of a REIT. This summary is qualified in its entirety by the applicable Internal Revenue Code provisions and Treasury Regulations, and administrative and judicial interpretations of the applicable Internal Revenue Code provisions and Treasury Regulations. Willkie Farr & Gallagher has acted as our special

tax counsel in connection with our election to be taxed as a REIT.

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In the opinion of Willkie Farr & Gallagher, commencing with our taxable year ended December 31, 1993, we were organized and have operated in conformity with the REIT requirements, and our proposed method of operation will enable us to continue to meet REIT requirements. Willkie Farr & Gallagher's opinion is based on certain factual representations and assumptions and methods of operations which are beyond its control and which it will not monitor on an ongoing basis. In particular, this opinion is based upon our factual representations concerning our business and properties and certain factual representations and legal conclusions of Shumacker Witt Gaither & Whitaker, P.C. Moreover, our qualification and taxation as a REIT depend upon our ability to meet, through actual annual operating results, certain distribution levels, a specified diversity of stock ownership, and the various other qualification tests imposed under the Internal Revenue Code as discussed below. The annual operating results will not be reviewed by Willkie Farr & Gallagher. Accordingly, the actual results of our operations for any particular taxable year may not satisfy these requirements. Further, the anticipated income tax treatment described in this prospectus supplement may be changed, perhaps retroactively, by legislative, administrative or judicial action at any time. For a discussion of the tax consequences of failure to qualify as a REIT, see "Federal Income Tax Considerations - Failure to Qualify" below.

For as long as we qualify for taxation as a REIT, we generally will not be subject to federal corporate income taxes on our income that is currently distributed to stockholders. The REIT requirements generally allow a REIT to deduct dividends paid to its stockholders. This treatment substantially eliminates the "double taxation" (once at the corporate level and again at the stockholder level) that generally results from investment in a corporation.

Even if we qualify for taxation as a REIT, we may be subject to federal income tax as follows:

First, we will be taxed at regular corporate rates on any undistributed real estate investment trust taxable income, including undistributed net capital gains. However, we can elect to "pass through" any of our taxes paid on our undistributed net capital gains income to our stockholders on a proportional basis.

Second, under certain circumstances, we may be subject to the alternative minimum tax on our items of tax preference, if any.

Third, if we have (1) net income from the sale or other disposition of foreclosure property that is held primarily for sale to customers in the ordinary course of business or (2) other non-qualifying net income from foreclosure property, it will be subject to tax at the highest corporate rate on that income. Foreclosure property means property acquired by reason of a default on a lease or an indebtedness held by a REIT.

Fourth, if we have net income from prohibited transactions, which are, in general, certain sales or other dispositions of property, held primarily for sale to customers in the ordinary course of business other than sales of foreclosure property and sales that qualify for a statutory safe harbor, that income will be subject to a 100% tax.

Fifth, if we should fail to satisfy the 75% gross income test or the 95% gross income test, as discussed below, and have nonetheless maintained our qualification as a REIT because certain other requirements have been met, we will be subject to a 100% tax on an amount equal to the greater of (1) the excess of (a) 90% of our gross income less (b) the amount of our gross income that is qualifying income for purposes of the 95% test or (2) the excess of (a) 75% of our gross income less (b) the amount of our gross income that is qualifying income for purposes of the 75% test, multiplied by a fraction intended to reflect our profitability.

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Sixth, if we should fail to distribute with respect to each calendar year at least the sum of (1) 85% of our REIT ordinary income for that year, (2) 95% of our REIT capital gain net income for the year, and (3) any undistributed taxable income from prior periods, we will be subject to a 4% excise tax on the excess of that required distribution over the amounts actually distributed.

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Seventh, if we acquire in the future any asset from a C corporation in a carryover basis transaction, or if we held assets beginning on the first day of the first taxable year for which we qualified as a REIT, and we subsequently recognize gain on the disposition of the asset during the 10-year period beginning on the date on which we acquired the asset or we first qualified as a REIT, then the excess of (a) the fair market value of the asset as of the beginning of the period, over (b) our adjusted basis in the asset as of the beginning of the period will generally be subject to tax at the highest regular corporate rate. A C corporation means a corporation subject to full corporate-level tax.

Eighth, for taxable years beginning after December 31, 2000, if we receive non-arm's-length income as a result of services provided by a taxable REIT subsidiary to our tenants, or if we receive certain other non-arm's-length income from a taxable REIT subsidiary, we will be subject to a 100% tax on the amount of the non-arm's-length income.

Requirements for Qualification

Organizational Requirements

In order to remain qualified as a REIT, we must continue to meet certain requirements, discussed below, relating to our organization and sources of income, the nature of our assets, and distributions of income to our stockholders.

The Internal Revenue Code defines a REIT as a corporation, trust or association (1) that is managed by one or more trustees or directors, (2) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest, (3) that would be taxable as a domestic corporation but for the REIT requirements, (4) that is neither a financial institution nor an insurance company subject to certain provisions of the Internal Revenue Code, (5) the beneficial ownership of which is held by 100 or more persons, (6) during the last half of each taxable year not more than 50% in value of the outstanding stock of which has been owned, directly or indirectly, by five or fewer individuals, and (7) that meets certain other tests, described below, regarding the nature of its income and assets. The REIT requirements provide that conditions (1) to (4), inclusive, must be met during the entire taxable year, and that condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. For purposes of condition (6), certain tax-exempt entities are generally treated as individuals. However, a pension trust generally will not be considered an individual for purposes of condition (6). Instead, beneficiaries of the pension trust will be treated as holding stock of a REIT in proportion to their actuarial interests in the trust.

We have satisfied the requirements of conditions (1) through (4) and (7), and we believe that the requirements of conditions (5) and (6) have been and are currently satisfied. In addition, our certificate of incorporation provides for restrictions regarding transfer of our shares in order to assist us in continuing to satisfy the share ownership requirements described in conditions (5) and (6) above. These transfer restrictions are described under the captions *Description of Capital Stock*, *Description of Preferred Stock*, *Restrictions on Transfer* and *Description of Common Stock*, *Restrictions on Transfer* in the accompanying prospectus.

We currently have three qualified REIT subsidiaries, CBL Holdings I, Inc., CBL Holdings II, Inc. and CBL/North Haven, Inc., and may have additional qualified REIT subsidiaries in the future. A corporation that is a qualified REIT subsidiary will not be treated as a separate corporation, and all assets, liabilities, and items of income, deduction, and credit of a qualified REIT subsidiary will be treated as assets, liabilities, and items of the REIT. Thus, in applying these requirements, the separate existence of our qualified REIT subsidiaries will be ignored, and all assets, liabilities, and items of income, deduction, and credit of these subsidiaries will be treated as our assets, liabilities and items.

In the case of a REIT that is a direct or indirect partner in a partnership, Treasury Regulations provide that the REIT will be deemed to own its proportionate share of the assets of the partnership and will be deemed to be entitled to the income of the partnership attributable to that share. In addition, the character of the assets and

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gross income of the partnership will retain the same character in the hands of the REIT for purposes of the REIT requirements, including satisfying the gross income tests and the asset tests described below. Thus, our proportionate share of the assets, liabilities and items of income of the operating partnership and the property partnerships will be treated as our assets, liabilities and items of income for purposes of applying the requirements described in this section, provided that the operating partnership and property partnerships are treated as partnerships for federal income tax purposes.

Finally, a corporation may not elect to become a REIT unless its taxable year is the calendar year. Our taxable year is the calendar year.

Income Tests

In order for us to maintain our qualification as a REIT, there are two gross income requirements that must be satisfied annually. First, at least 75% of our gross income, excluding gross income from prohibited transactions, for each taxable year must consist of defined types of income derived directly or indirectly from investments relating to real property or mortgages on real property, including rents from real property, as described below, and, in certain circumstances, interest, or from certain types of temporary investments. Second, at least 95% of our gross income, excluding gross income from prohibited transactions, for each taxable year must be derived from real property investments of those kinds, dividends, other types of interest, gain from the sale or disposition of stock or securities that do not constitute dealer property, or any combination of the foregoing. Dividends that we receive on our indirect ownership interest in the management company, as well as interest that we receive on our loan to the management company and other interest income that is not secured by real estate, generally will be includable under the 95% test but not under the 75% test.

Rents received or deemed to be received by us will qualify as rents from real property for purposes of the gross income tests only if several conditions are met:

First, the amount of rent must not be based, in whole or in part, on the income or profits of any person. However, an amount received or accrued generally will not be excluded from the term rents from real property solely by reason of being based on a fixed percentage or percentages of receipts or sales.

Second, rents received from a tenant will not qualify as rents from real property if the REIT, or a direct or indirect owner of 10% or more of the REIT, owns, directly or constructively, 10% or more of the tenant, except that for tax years beginning after December 31, 2000, rents received from a taxable REIT subsidiary under certain circumstances qualify as rents from real property even if we own more than a 10% interest in the subsidiary.

Third, if rent attributable to personal property leased in connection with a lease of real property is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as rents from real property.

Fourth, a REIT may provide services to its tenants and the income will qualify as rents from real property if the services are of a type that a tax exempt organization can provide to its tenants without causing its rental income to be unrelated business taxable income under the Internal Revenue Code. Services that would give rise to unrelated business taxable income if provided by a tax exempt organization must be provided either by the management company or by an independent contractor who is adequately compensated and from whom the REIT does not derive any income; otherwise, all of the rent received from the tenant for whom the services are provided will fail to qualify as rents from real property

if the services income exceeds a *de minimis* amount. However, rents will not be disqualified if a REIT provides *de minimis* impermissible services. For this purpose, services provided to tenants of a property are considered *de minimis* where income derived from the services rendered equals 1% or less of all income derived from the property, with the threshold determined on a property-by-property basis. For purposes of the 1% threshold, the amount treated as received for any service may not be

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less than 150% of the direct cost incurred in furnishing or rendering the service. Also note, however, that receipts for services furnished, whether or not rendered by an independent contractor, which are not customarily provided to tenants in properties of a similar class in the geographic market in which our property is located will in no event qualify as rents from real property.

Substantially all of our income is derived from our partnership interest in the operating partnership. The operating partnership's real estate investments, including those held through the property partnerships, give rise to income that enables us to satisfy all of the income tests described above. The operating partnership's income is largely derived from its interests, both direct and indirect, in the properties, which income, for the most part, qualifies as rents from real property for purposes of the 75% and the 95% gross income tests. The operating partnership also derives dividend income from its interest in the management company.

None of us, the operating partnership or any of the property partnerships currently under existing leases, nor will any of them in the future in connection with new leases, (1) charge rent for any property that is based in whole or in part on the income or profits of any person (except by reason of being based on a percentage of receipts or sales, as described above) other than relatively minor amounts that do not affect compliance with the above tests; (2) rent any property to a tenant of which we, or an owner of 10% or more of our stock, directly or indirectly, own 10% or more, other than under leases with CBL & Associates, Inc., certain of our affiliates and officers and certain affiliates of those persons that produce a relatively minor amount of non-qualifying income and that we believe will not, either singly or when combined with other non-qualifying income, exceed the limits on non-qualifying income; (3) derive rent attributable to personal property leased in connection with property that exceeds 15% of the total rents other than relatively minor amounts that do not affect compliance with the above tests; or (4) directly perform any services that would give rise to income derived from services that give rise to unrelated business taxable income as defined in Section 512(a) of the Internal Revenue Code, and none of them will in the future enter into new leases that would, either singly or in the aggregate, result in our disqualification as a REIT.

We have obtained from the IRS a ruling that direct performance of the services and the undertaking of the activities described above by the management company with respect to properties owned by us or by the operating partnership or the property partnerships, and the management company's other services to third parties, will not cause the amounts received directly or through partnerships by us from the rental of our properties and of properties of the partnerships to be treated as something other than rents from real property for purposes of the Internal Revenue Code.

The management company receives fees in exchange for the performance of certain management and administrative services. These fees do not accrue to us, but we receive dividends and interest from the management company, which qualify under the 95% gross income test. We believe that the aggregate amount of any non-qualifying income in any taxable year will not exceed the limits on non-qualifying income under the 75% and 95% gross income tests.

For purposes of the gross income tests, the term interest generally does not include any amount received or accrued, directly or indirectly, if the determination of the amount depends in whole or in part on the income or profits of any person. However, an amount received or accrued generally will not be excluded from the term interest solely by reason of being based on a fixed percentage or percentage of receipts or sales. Although the operating partnership or the property owners may advance money from time to time to tenants for the purpose of financing tenant improvements, we and the operating partnership do not intend to charge interest in any transaction that will depend in whole or in part on the income or profits of any person or to make loans that are not secured by mortgages of real estate in amounts that could jeopardize our compliance with the 5% asset test described below.

Any net income derived from a prohibited transaction is subject to a 100% tax. We believe that no asset owned by us, the operating partnership or the property partnerships is held for sale to customers, and that the sale of any property will not be in the ordinary course of our business, or that of the operating partnership or the

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relevant property partnership. Whether property is held primarily for sale to customers in the ordinary course of a trade or business and, therefore, is subject to the 100% tax, depends on the facts and circumstances in effect from time to time, including those related to a particular property. We and the operating partnership will attempt to comply with the terms of safe-harbor provisions in the Internal Revenue Code prescribing when asset sales will not be characterized as prohibited transactions. We may not always be able to comply with the safe-harbor provisions of the Internal Revenue Code or avoid owning property that may be characterized as property held primarily for sale to customers in the ordinary course of business.

If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for that year if we are entitled to relief under certain provisions of the Internal Revenue Code. These relief provisions generally will be available if our failure to meet those tests is due to reasonable cause and not willful neglect, we attach a schedule of our sources of income to our return, and any incorrect information on the schedule was not due to fraud with intent to evade tax. It is not possible to state whether in all circumstances we would be entitled to the benefit of these relief provisions. As discussed above in Taxation of CBL, even if these relief provisions apply, a tax would be imposed with respect to the excess net income.

In addition to the two income tests described above, we were subject to a third income test for our taxable years before 1998. Under this test, short-term gains from the sale or other disposition of stock or securities, gain from prohibited transactions and gain on the sale or other disposition of real property held for less than four years, apart from involuntary conversions and sales of foreclosure property, were required to represent less than 30% of our gross income, including gross income from prohibited transactions, for each of these taxable years.

Asset Tests

In order for us to maintain our qualification as a REIT, we, at the close of each quarter of our taxable year, must also satisfy three tests relating to the nature of our assets. First, at least 75% of the value of our total assets must be represented by real estate assets. Real estate assets for the purpose of this asset test include (1) our allocable share of real estate assets held by partnerships in which we own an interest or held by qualified REIT subsidiaries and (2) stock or debt instruments held for not more than one year purchased with the proceeds of our stock offering or long-term (at least five years) debt offering, cash items and government securities. Second, although the remaining 25% of our assets generally may be invested without restriction, securities in this class may not exceed either (1) 5% of the value of our total assets as to any one issuer, or (2) 10% of the outstanding voting securities of any one issuer.

In addition to the asset tests described above, we are prohibited, in taxable years beginning after December 31, 2000, from owning more than 10% of the value of the outstanding debt and equity securities of any subsidiary other than a qualified REIT subsidiary, subject to an exception. The exception is that we and a non-qualified REIT subsidiary may make a joint election for the subsidiary to be treated as a taxable REIT subsidiary. The securities of a taxable REIT subsidiary are not subject to the 10% value test and the 10% voting securities test, and also are exempt from the 5% asset test. However, no more than 20% of the total value of a REIT's assets can be represented by securities of one or more taxable REIT subsidiaries. The management company is a taxable REIT subsidiary.

It should be noted that the 20% value limitation must be satisfied at the end of any quarter in which we increase our interest in the management company. In this respect, if any partner of the operating partnership exercises its option to exchange interests in the operating partnership for shares of common stock (or we otherwise acquire additional interests in the operating partnership), we will thereby increase our proportionate (indirect) ownership interest in the management company, thus requiring us to recalculate our ability to meet the 20% test in any quarter in which the exchange option is exercised. Although we plan to take steps to ensure that we satisfy the 20% value test for any quarter with respect to which retesting is to occur, these steps may not always be successful or may require a reduction in the operating partnership's overall interest in the management company.

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The new rules regarding taxable REIT subsidiaries contain provisions generally intended to insure that transactions between a REIT and its taxable REIT subsidiary occur at arm's length and on commercially reasonable terms. These requirements include a provision that prevents a taxable REIT subsidiary from deducting interest on direct or indirect indebtedness to its parent REIT if, under a specified series of tests, the taxable REIT subsidiary is considered to have an excessive interest expense level or debt to equity ratio. In some cases, a 100% tax is imposed on the REIT with respect to certain items attributable to any of its rental, service or other agreements with its taxable REIT subsidiary that are not on arm's-length terms.

We believe that we are in compliance with the asset tests. Substantially all of our investments are in properties that are qualifying real estate assets.

After initially meeting the asset tests at the close of any quarter, we will not lose our status as a REIT for failure to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values. If the failure to satisfy the asset tests results from an acquisition of securities or other property during a quarter, the failure can be cured by disposition of sufficient nonqualifying assets within 30 days after the close of that quarter. We intend to maintain adequate records of the value of our assets to ensure compliance with the asset tests and to take such other actions within 30 days after the close of any quarter as may be required to cure any noncompliance.

Annual Distribution Requirements

In order to remain qualified as a REIT, we are required to distribute dividends, other than capital gain dividends, to our stockholders in an amount at least equal to (A) the sum of (1) 90% of our real estate investment trust taxable income, computed without regard to the dividends paid deduction and our net capital gain, and (2) 90% of the after tax net income, if any, from foreclosure property, minus (B) the sum of certain items of noncash income. In addition, if we dispose of any asset with built-in gain during the ten-year period beginning on the date we acquired the property from a C corporation or became a REIT, we will be required, according to guidance issued by the IRS, to distribute at least 90% of the after tax built-in gain, if any, recognized on the disposition of the asset. These distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return for the year and if paid on or before the first regular dividend payment after the declaration. For taxable years beginning on or before December 31, 2000, the 90% distribution requirement was a 95% distribution requirement.

To the extent that we do not distribute all of our net capital gain or distribute at least 90% but less than 100% of our real estate investment trust taxable income, as adjusted, we will be subject to tax on the undistributed amount at ordinary and capital gains corporate tax rates, as the case may be.

If we so choose, we may retain, rather than distribute, our net long-term capital gains and pay the tax on those gains. In this case, our stockholders would include their proportionate share of the undistributed long-term capital gains in income. However, our stockholders would then be deemed to have paid their share of the tax, which would be credited or refunded to them. In addition, our stockholders would be able to increase their basis in our shares they hold by the amount of the undistributed long-term capital gains, less the amount of capital gains tax we paid, included in the stockholders' long-term capital gains.

Furthermore, if we should fail to distribute during each calendar year at least the sum of (1) 85% of our REIT ordinary income for the year, (2) 95% of our REIT capital gain income for the year, and (3) any undistributed taxable income from prior periods, we would be subject to a 4%

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excise tax on the excess of the required distribution over the amounts actually distributed. We intend to make timely distributions sufficient to satisfy all annual distribution requirements.

Our taxable income consists substantially of our distributive share of the income of the operating partnership. We expect that our taxable income will be less than the cash flow we receive from the operating

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partnership, due to the allowance of depreciation and other non-cash charges in computing REIT taxable income. Accordingly, we anticipate that we will generally have sufficient cash or liquid assets to enable us to satisfy the 90% distribution requirement.

It is possible that, from time to time, we may experience timing differences between (1) the actual receipt of income and actual payment of deductible expenses and (2) the inclusion of the income and deduction of the expenses in arriving at our taxable income. Further, it is possible that, from time to time, we may be allocated a share of net capital gain attributable to the sale of depreciated property which exceeds our allocable share of cash attributable to that sale. In these cases, we may have less cash available for distribution than is necessary to meet our annual 90% distribution requirement. To meet the 90% distribution requirement, we may find it appropriate to arrange for short-term or possibly long-term borrowings or to pay distributions in the form of taxable stock dividends. Any borrowings for the purpose of making distributions to stockholders are required to be arranged through the operating partnership.

Under certain circumstances, we may be able to rectify a failure to meet the distribution requirement for a year by paying deficiency dividends to stockholders in a later year, which may be included in our deduction for dividends paid for the earlier year. Thus, we may be able to avoid being taxed on amounts distributed as deficiency dividends; however, we will be required to pay penalties and interest to the IRS based upon the amount of any deduction taken for deficiency dividends.

Under applicable Treasury Regulations, we must maintain certain records and request certain information from our stockholders designed to disclose the actual ownership of our stock. We have complied with these requirements.

Failure to Qualify

If we fail to qualify for taxation as a REIT in any taxable year and the relief provisions do not apply, we will be subject to tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. Distributions to stockholders in any year in which we fail to qualify will not be deductible by us nor will they be required to be made. In this event, to the extent of current and accumulated earnings and profits, all distributions to stockholders will be taxable as ordinary income, and, subject to certain limitations of the Internal Revenue Code, corporate distributees may be eligible for the dividends-received deduction. Unless we are entitled to relief under specific statutory provisions, we will also be disqualified from taxation as a REIT for the four taxable years following the year in which our qualification was lost. It is not possible to state whether in all circumstances we would be entitled to statutory relief.

Taxation of U.S. Stockholders

As used in this section, the term "U.S. stockholder" means a holder of our common or preferred stock that for United States federal income tax purposes is (1) a citizen or resident of the United States, (2) a corporation, partnership, or other entity created or organized in or under the laws of the United States or of any political subdivision of the United States, (3) an estate the income of which is subject to United States federal income taxation regardless of its source, (4) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (5) a person or entity otherwise subject to U.S. federal income taxation on a net income basis. For any taxable year for which we qualify for taxation as a REIT, amounts distributed to taxable U.S. stockholders will be taxed as follows.

Distributions Generally

Distributions to U.S. stockholders, other than capital gain dividends discussed below, will constitute dividends to those holders up to the amount of our current or accumulated earnings and profits and are taxable to

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the stockholders as ordinary income. These distributions are not eligible for the dividends-received deduction for corporations. To the extent that we make distributions in excess of our current or accumulated earnings and profits, the distributions will first be treated as a tax-free return of capital, reducing the tax basis in the U.S. stockholder's shares, and distributions in excess of the U.S. stockholder's tax basis in its shares are taxable as capital gain realized from the sale of the shares. Dividends declared by us in October, November or December of any year payable to a U.S. stockholder of record on a specified date in any of these months will be treated as both paid by us and received by the U.S. stockholder on December 31 of the year, provided that we actually paid the dividend during January of the following calendar year. U.S. stockholders may not include on their own income tax returns any of our tax losses.

We will be treated as having sufficient earnings and profits to treat as a dividend any distribution we make up to the amount required to be distributed in order to avoid imposition of the 4% excise tax discussed in "Taxation of CBL" above. As a result, our stockholders may be required to treat certain distributions that would otherwise result in a tax-free return of capital as taxable dividends. Moreover, any deficiency dividend will be treated as a dividend— an ordinary dividend or a capital gain dividend, as the case may be— regardless of our earnings and profits.

Capital Gain Dividends

Dividends to U.S. stockholders that we properly designate as capital gain dividends will be treated as long-term capital gain, to the extent they do not exceed our actual net capital gain, for the taxable year without regard to the period for which the stockholder has held his stock. Capital gain dividends are not eligible for the dividends-received deduction for corporations; however, corporate stockholders may be required to treat up to 20% of certain capital gain dividends as ordinary income. If we elect to retain capital gains rather than distribute them, a U.S. stockholder will be deemed to receive a capital gain dividend equal to the amount of its proportionate share of the retained capital gains. In this case, a U.S. stockholder will receive certain tax credits and basis adjustments reflecting the deemed distribution and deemed payment of taxes by the U.S. stockholder.

Passive Activity Loss and Investment Interest Limitations

Our distributions and gain from the disposition of our common or preferred stock will not be treated as passive activity income and, therefore, U.S. stockholders may not be able to apply any passive losses against that income. Our dividends, to the extent they do not constitute a return of capital, will generally be treated as investment income for purposes of the investment income limitation. Net capital gain from the disposition of our common or preferred stock and capital gains generally will be eliminated from investment income unless the taxpayer elects to have the gain taxed at ordinary income rates.

Certain Dispositions of Our Common or Preferred Stock

A U.S. stockholder will recognize gain or loss on the sale or exchange of our common or preferred stock to the extent of the difference between the amount realized on the sale or exchange and the holder's tax basis in the common or preferred stock. The gain or loss generally will constitute long-term capital gain or loss if the holder held the securities for more than one year. Losses incurred on the sale or exchange of our common or preferred stock held for six months or less will be deemed long-term capital loss to the extent of any capital gain dividends received by the U.S. stockholder with respect to the securities.

Treatment of Tax-Exempt Stockholders

Our distributions to a stockholder that is a tax-exempt entity generally should not constitute unrelated business taxable income, provided that the tax-exempt entity has not financed the acquisition of our common or preferred stock with acquisition indebtedness within the meaning of the Internal Revenue Code and that the common or preferred stock is not otherwise used in an unrelated trade or business of the tax-exempt entity. If we

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were to be a pension-held REIT (which we do not expect to be the case) and were to meet certain other requirements, certain pension trusts owning more than 10% of our equity interests could be required to report a portion of any dividends they receive from us as unrelated business taxable income.

Special Tax Considerations for Foreign Stockholders

The rules governing United States income taxation of non-resident alien individuals, foreign corporations, foreign partnerships and foreign trusts and estates, which we refer to collectively as non-U.S. stockholders, are complex, and the following discussion is intended only as a summary of these rules. Prospective non-U.S. stockholders should consult with their own tax advisors to determine the impact of federal, state and local income tax laws on an investment in our common or preferred stock, including any reporting requirements.

In general, a non-U.S. stockholder will be subject to regular United States income tax with respect to its investment in our common or preferred stock if the investment is effectively connected with the non-U.S. stockholder's conduct of a trade or business in the United States. A corporate non-U.S. stockholder that receives income that is, or is treated as, effectively connected with a U.S. trade or business may also be subject to the branch profits tax under Section 884 of the Internal Revenue Code, which is payable in addition to regular United States corporate income tax.

The following discussion will apply to non-U.S. stockholders whose investment in our common or preferred stock is not effectively connected, as discussed above.

A distribution that we make that is not attributable to gain from our sale or exchange of a United States real property interest and that we do not designate as a capital gain dividend will be treated as an ordinary income dividend to the extent that it is made out of current or accumulated earnings and profits. Generally, unless the dividend is effectively connected with the non-U.S. stockholder's conduct of a United States trade or business, the dividend will be subject to a United States withholding tax equal to 30% of the gross amount of the dividend unless this withholding is reduced by an applicable tax treaty. A distribution of cash in excess of our earnings and profits will be treated first as a nontaxable return of capital that will reduce a non-U.S. stockholder's basis in its shares, but not below zero, and then as gain from the disposition of such shares, the tax treatment of which is described under the rules discussed below with respect to disposition of the shares. A distribution in excess of our earnings and profits will be subject to 30% dividend withholding if at the time of the distribution it cannot be determined whether the distribution will be in an amount in excess of our current and accumulated earnings and profits. If it is subsequently determined that the distribution is, in fact, in excess of current and accumulated earnings and profits, the non-U.S. stockholder may seek a refund from the IRS. We expect to withhold United States income tax at the rate of 30% on the gross amount of any distributions made to a non-U.S. stockholder unless (1) a lower tax treaty rate applies and the required form evidencing eligibility for that reduced rate is filed with us or (2) the non-U.S. stockholder files IRS Form W-8ECI with us claiming that the distribution is effectively connected income.

For any year in which we qualify as a REIT, our distributions that are attributable to gain from the sale or exchange of a United States real property interest will be taxed to a non-U.S. stockholder in accordance with the Foreign Investment in Real Property Tax Act of 1980, which we call FIRPTA. Under FIRPTA, distributions of this kind are taxed to a non-U.S. stockholder as if the distributions were gains effectively connected with a United States trade or business. Accordingly, a non-U.S. stockholder will be taxed at the normal capital gain rates applicable to a U.S. stockholder, subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals. Distributions subject to FIRPTA may also be subject to a 30% branch profits tax in the hands of a foreign corporate stockholder that is not entitled to treaty exemption. We will be required to withhold from distributions to non-U.S. stockholders, and remit to the IRS, 35% of the amount of any distribution that could be designated as capital gain dividends. This amount is creditable against the non-U.S. stockholder's tax liability. It should be noted that the 35% withholding tax rate on capital gain dividends is higher than the maximum rate on long-term capital gains of individuals. Capital gain dividends not

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attributable to gain on the sale or exchange of United States real property interests are not subject to United States taxation if there is no requirement of withholding.

Tax treaties may reduce our withholding obligations. If the amount of tax we withheld with respect to a distribution to a non-U.S. stockholder exceeds the stockholder's United States liability with respect to the distribution, the non-U.S. stockholder may file for a refund of the excess from the IRS.

If our common or preferred stock fails to constitute a United States real property interest within the meaning of FIRPTA, a sale of our common or preferred stock by a non-U.S. stockholder generally will not be subject to United States taxation unless (1) investment in the common or preferred stock is effectively connected with the non-U.S. stockholder's United States trade or business, in which case, as discussed above, the non-U.S. stockholder would be subject to the same treatment as U.S. stockholders on the gain, (2) investment in the common or preferred stock is attributable to a permanent establishment that the non-U.S. stockholder maintains in the United States if that is required by an applicable income tax treaty as a condition for subjecting the non-U.S. stockholder to U.S. taxation on a net income basis, in which case the same treatment would apply to the non-U.S. stockholder as to U.S. stockholders with respect to the gain or (3) the non-U.S. stockholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and who has a tax home in the United States, in which case the nonresident alien individual will be subject to a 30% tax on the individual's capital gains.

The offered securities will not constitute a United States real property interest if we are a domestically controlled REIT. A domestically controlled REIT is a real estate investment trust in which at all times during a specified testing period less than 50% in value of its shares is held directly or indirectly by non-U.S. stockholders. We believe we are a domestically controlled REIT, and therefore that the sale of our common or preferred stock will not be subject to taxation under FIRPTA. However, because we are publicly traded, we may not continue to be a domestically controlled REIT.

If we did not constitute a domestically controlled REIT, whether a non-U.S. stockholder's sale of our common or preferred stock would be subject to tax under FIRPTA as sale of a United States real property interest would depend on whether the common or preferred stock is regularly traded, as defined by applicable Treasury Regulations, on an established securities market (*e.g.*, the New York Stock Exchange, on which the common or preferred stock will be listed) and on the size of the selling stockholder's interest in our company. If the gain on the sale of our common or preferred stock were subject to taxation under FIRPTA, the non-U.S. stockholder would be subject to the same treatment as a U.S. stockholder with respect to the gain, and subject to applicable alternative minimum tax or a special alternative minimum tax in the case of nonresident alien individuals. In any event, a purchaser of our common or preferred stock from a non-U.S. stockholder will not be required under FIRPTA to withhold on the purchase price if the purchased common or preferred stock is regularly traded on an established securities market or if we are a domestically controlled REIT. Otherwise, under FIRPTA, the purchaser of common or preferred stock may be required to withhold 10% of the purchase price and remit that amount to the IRS.

Information Reporting Requirements and Backup Withholding Tax

U.S. Stockholders

Under certain circumstances, U.S. stockholders may be subject to backup withholding on payments made with respect to, or on cash proceeds of a sale or exchange of, our common or preferred stock. Backup withholding will apply only if the holder (1) fails to furnish its taxpayer identification number, which, for an individual, would be his social security number, (2) furnishes an incorrect taxpayer identification number, (3) is notified by the IRS that it has failed to report properly payments of interest and dividends or (4) under certain circumstances fails to

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certify, under penalty of perjury, that it has furnished a correct taxpayer identification number and has not been notified by the IRS that it is subject to backup withholding for failure to report interest and dividend payments. Backup withholding generally will not apply with respect to payments made to certain

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exempt recipients, such as corporations and tax-exempt organizations. U.S. stockholders should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining this exemption.

Non-U.S. Stockholders

Proceeds from a disposition of our common or preferred stock will not be subject to information reporting and backup withholding if the beneficial owner of the common or preferred stock is a non-U.S. stockholder. However, if the proceeds of a disposition are paid by or through a United States office of a broker, the payment may be subject to backup withholding or information reporting if the broker cannot document that the beneficial owner is a non-U.S. person. In order to document the status of a non-U.S. stockholder, a broker may require the beneficial owner of the common or preferred stock securities to provide it with a completed, executed IRS Form W-8BEN, certifying under penalty of perjury to the beneficial owner's non-U.S. status.

Refunds

Backup withholding is not an additional tax. Rather, the amount of any backup withholding with respect to a payment to a stockholder will be allowed as a credit against any United States federal income tax liability of the stockholder. If withholding results in an overpayment of taxes, a refund may be obtained, provided that the required information is furnished to the United States.

State and Local Taxation

We and our stockholders may be subject to state or local taxation in various state or local jurisdictions, including those in which we or they transact business or reside. The state and local tax treatment of us and our stockholders may not conform to the federal income tax consequences discussed above. Consequently, prospective stockholders should consult their own tax advisors regarding the effect of state and local tax laws on an investment in our company.

Tax Aspects of the Operating Partnership

The following discussion summarizes certain federal income tax considerations applicable solely to our investment in the operating partnership through CBL Holdings I and CBL Holdings II and represents the view of Willkie Farr & Gallagher. The discussion does not cover state or local tax laws or any federal tax laws other than income tax laws.

Income Taxation of the Operating Partnership and Its Partners

Partners, Not the Operating Partnership, Subject to Tax. A partnership is not a taxable entity for federal income tax purposes. Rather, we will be required to take into account our allocable share of the operating partnership's income, gains, losses, deductions and credits for any taxable

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year of the operating partnership ending within or with our taxable year, without regard to whether we have received or will receive any direct or indirect distribution from the operating partnership.

Operating Partnership Allocations. Although a partnership agreement will generally determine the allocation of income and losses among partners, these allocations will be disregarded for tax purposes under Section 704(b) of the Internal Revenue Code if they do not comply with the provisions of that section and the Treasury Regulations promulgated under that section.

If an allocation is not recognized for federal income tax purposes, the item subject to the allocation will be reallocated in accordance with the partners' interests in the partnership, which will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to the

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item. The operating partnership's allocations of taxable income and loss, and those of the property partnerships, are intended to comply with the requirements of Section 704(b) of the Internal Revenue Code and the Treasury Regulations promulgated under that section.

Tax Allocations with Respect to Contributed Properties. Under Section 704(c) of the Internal Revenue Code, income, gain, loss and deduction attributable to appreciated or depreciated property that is contributed to a partnership in exchange for an interest in the partnership must be allocated for federal income tax purposes in a manner such that the contributor is charged with, or benefits from, the unrealized gain or unrealized loss that is generally equal to the difference between the fair market value of the contributed property at the time of contribution and the adjusted tax basis of the property at that time. The partnership agreement for the operating partnership requires allocations of income, gain, loss and deduction attributable to contributed property to be made by the operating partnership in a manner that is consistent with Section 704(c) of the Internal Revenue Code.

The allocation methods proposed to be applied by the operating partnership are described below.

Basis in Operating Partnership Interest. Our adjusted tax basis in our indirect partnership interest in the operating partnership generally (1) will be equal to the amount of cash and the basis of any other property that we contribute to the operating partnership, (2) will be increased by (a) our allocable share of the operating partnership's income and (b) our allocable share of certain indebtedness of the operating partnership and of the property partnerships and (3) will be reduced, but not below zero, by our allocable share of (a) the operating partnership's loss and (b) the amount of cash distributed directly or indirectly to us, and by constructive distributions resulting from a reduction in our share of certain indebtedness of the operating partnership and of the property partnerships. With respect to increases in our adjusted tax

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

)

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

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*.

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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

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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 Risk Factors section in our Registration Statement on Form N-2, filed with the Securities and Exchange Commission on May 16, 2011.

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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

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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.

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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.

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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.

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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

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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.

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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

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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

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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.

**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)

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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.

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NEW MOUNTAIN FINANCE HOLDINGS, L.L.C.

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

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****New Mountain Finance Holdings, L.L.C.****Consolidated Statements of Assets, Liabilities and Members Capital**

| | September 30, 2011 (unaudited) | December 31, 2010 |
|--|-----------------------------------|-----------------------|
| Assets | | |
| Investments at fair value (cost of \$606,704,749 and \$414,308,823, respectively) | \$ 604,334,414 | \$ 441,057,840 |
| Cash and cash equivalents | 18,438,567 | 10,744,082 |
| Interest receivable | 6,761,269 | 3,007,787 |
| Receivable from unsettled securities sold | 6,755,000 | |
| Deferred credit facility costs (net of accumulated amortization of \$610,866 and \$69,909, respectively) | 3,766,729 | 1,880,120 |
| Deferred offering costs | | 3,528,110 |
| Receivable from affiliate | 1,003,530 | |
| Other assets | 521,556 | 5,842 |
| Total assets | \$ 641,581,065 | \$ 460,223,781 |
| Liabilities | | |
| SLF Credit Facility | 166,606,448 | 56,936,000 |
| Holdings Credit Facility | 57,903,125 | 59,696,938 |
| Payable for unsettled securities purchased | | 94,462,500 |
| Management fee payable | 1,930,140 | |
| Incentive fee payable | 700,610 | |
| Interest payable | 1,229,640 | 813,192 |
| Payable to affiliates | | 2,531,319 |
| Other liabilities | 1,289,898 | 3,856,571 |
| Total liabilities | 229,659,861 | 218,296,520 |
| Members Capital | 411,921,204 | 241,927,261 |
| Total liabilities and members capital | \$ 641,581,065 | \$ 460,223,781 |
| Outstanding common membership units (a) | 30,919,629 | |
| Capital per unit (a) | \$ 13.32 | |

(a) Fund was not unitized as of December 31, 2010.

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, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Investment income | | | | |
| Interest income | \$ 14,860,750 | \$ 13,598,152 | \$ 38,838,944 | \$ 30,818,117 |
| Other income | 207,831 | 282,837 | 557,648 | 736,771 |
| Total investment income | 15,068,581 | 13,880,989 | 39,396,592 | 31,554,888 |
| Expenses | | | | |
| Interest and other credit facility expenses | 1,686,113 | 688,686 | 4,767,013 | 1,910,649 |
| Management fee | 1,930,140 | 17,751 | 2,737,649 | 53,249 |
| Incentive fee | 700,610 | | 1,205,003 | |
| Professional fees (net of reimbursable expenses of \$816,530, \$0, \$946,716 and \$0, respectively) | 55,138 | (78,628) | 624,972 | 114,714 |
| Administrative expenses (net of reimbursable expenses of \$218,396, \$0, \$398,651 and \$0, respectively) | 314,250 | 87,858 | 517,668 | 284,537 |
| Other general and administrative expenses | 380,612 | 20,668 | 559,180 | 62,368 |
| Total expenses | 5,066,863 | 736,335 | 10,411,485 | 2,425,517 |
| Net investment income | 10,001,718 | 13,144,654 | 28,985,107 | 29,129,371 |
| Realized gains on investments | 1,402,671 | 18,695,670 | 13,954,834 | 47,889,272 |
| Net change in unrealized (depreciation) appreciation of investments | (22,657,239) | (13,135,223) | (29,119,352) | (29,539,318) |
| Net (decrease) increase in capital resulting from operations | \$ (11,252,850) | \$ 18,705,101 | \$ 13,820,589 | \$ 47,479,325 |

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, 2011 | Nine months ended September 30, 2010 |
|---|---|---|
| Increase (decrease) in members' capital resulting from operations: | | |
| Net investment income | \$ 28,985,107 | \$ 29,129,371 |
| Realized gains on investments | 13,954,834 | 47,889,272 |
| Net change in unrealized (depreciation) appreciation of investments | (29,119,352) | (29,539,318) |
| Net increase in members' capital resulting from operations | 13,820,589 | 47,479,325 |
| Distributions | (10,249,155) | (71,570,191) |
| Contributions | 195,294,674 | 53,549,727 |
| Dividends paid | (17,314,992) | |
| Offering costs | (11,557,173) | |
| Net increase in members' capital | 169,993,943 | 29,458,861 |
| Members' capital at beginning of period | 241,927,261 | 239,440,683 |
| Members' capital at end of period | \$ 411,921,204 | \$ 268,899,544 |

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

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New Mountain Finance Holdings, L.L.C.

Consolidated Statements of Cash Flows

(unaudited)

| | Nine months ended | |
|---|----------------------|---------------------|
| | September 30, 2011 | September 30, 2010 |
| Cash flows from operating activities | | |
| Net increase in capital resulting from operations | \$ 13,820,589 | \$ 47,479,325 |
| Adjustments to reconcile net (increase) decrease in capital resulting from operations to net cash (used in) provided by operating activities: | | |
| Realized gains on investments | (13,954,834) | (47,889,272) |
| Net change in unrealized depreciation (appreciation) of investments | 29,119,352 | 29,539,318 |
| Amortization of purchase discount | (5,048,033) | (13,812,206) |
| Amortization of deferred credit facility costs | 540,957 | |
| Non-cash interest | (957,171) | (1,231,190) |
| (Increase) decrease in operating assets: | | |
| Purchase of investments | (355,424,928) | (131,240,778) |
| Proceeds from sales and paydowns of investments | 182,264,633 | 156,845,630 |
| Cash received for purchase of undrawn portion of revolving credit facility | 1,260,000 | |
| Cash paid for sale of undrawn portion of revolving credit facility | | (1,837,500) |
| Cash paid for drawn revolver | (535,593) | |
| Interest receivable | (3,753,482) | (3,682,468) |
| Receivable from unsettled securities sold | (6,755,000) | (5,270,124) |
| Receivable from affiliate | (1,003,530) | |
| Other assets | (515,714) | (20,675) |
| Increase (decrease) in operating liabilities: | | |
| Payable for unsettled securities purchased | (94,462,500) | (10,394,765) |
| Management fee payable | 1,930,140 | |
| Incentive fee payable | 700,610 | |
| Interest payable | 416,448 | 87,437 |
| Payable to affiliates | (202,180) | (331,154) |
| Other liabilities | 525,198 | 268,254 |
| Net cash flows (used in) provided by operating activities | (252,035,038) | 18,509,832 |
| Cash flows from financing activities | | |
| Contributions | 195,294,674 | 53,549,727 |
| Distributions | (10,249,155) | (71,570,191) |
| Dividends paid | (17,314,992) | |
| Offering costs paid | (11,500,044) | |
| Proceeds from Holdings Credit Facility | 205,870,450 | 43,650,495 |
| Repayment of Holdings Credit Facility | (207,664,263) | (38,637,548) |
| Proceeds from SLF Credit Facility | 134,361,800 | |
| Repayment of SLF Credit Facility | (24,691,352) | |
| Deferred credit facility costs paid | (4,377,595) | |
| Net cash flows provided by (used in) financing activities | 259,729,523 | (13,007,517) |
| Net increase in cash and cash equivalents | 7,694,485 | 5,502,315 |
| Cash and cash equivalents at the beginning of the period | 10,744,082 | 4,110,193 |
| Cash and cash equivalents at the end of the period | \$ 18,438,567 | \$ 9,612,508 |
| Supplemental disclosure of cash flow information | | |
| Interest paid | \$ 3,025,253 | \$ 1,489,461 |

Non-cash financing activities:

| | | | | |
|---------------------------|----|--------|----|-----------|
| Accrual of offering costs | \$ | 57,129 | \$ | 1,971,635 |
|---------------------------|----|--------|----|-----------|

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

Table of Contents**New Mountain Finance Holdings, L.L.C.****Consolidated Schedule of Investments****September 30, 2011**

(unaudited)

| Portfolio Company, Location and Industry | Type of Investment | Interest Rate | Maturity Date | Principal Amount, Par Value or Shares | Cost | Fair Value | Percent of Members Capital |
|---|---------------------------|-----------------------------|----------------------|--|-------------|-----------------------|---|
| United States | | | | | | | |
| Stratus Technologies, Inc. | | | | | | | |
| Information Technology | Ordinary shares (2) | | | 144,270 | \$ 65,123 | \$ 44,838 | |
| | Preferred shares (2) | | | 32,830 | 14,819 | 10,203 | |
| | | | | | 79,942 | 55,041 | 0.01% |
| Total shares | | | | | 79,942 | 55,041 | 0.01% |
| United States | | | | | | | |
| Alion Science and Technology Corporation | | | | | | | |
| Federal Services | Warrants (2) | | | 6,000 | 292,851 | 316,551 | 0.08% |
| Learning Care Group (US), Inc. | | | | | | | |
| Education | Warrants (2) | | | 844 | 193,850 | 30,140 | 0.01% |
| Total warrants | | | | | 486,701 | 346,691 | 0.09% |
| United States | | | | | | | |
| Decision Resources, LLC | | | | | | | |
| Business Services | First lien (3) | 7.00% (Base Rate + 5.50%) | 12/28/2016 | \$ 17,865,000 | 17,623,450 | 17,686,350 | |
| | Second lien (2) | 9.50% (Base Rate + 8.00%) | 5/7/2018 | 14,500,000 | 14,362,809 | 14,427,500 | |
| | | | | 32,365,000 | 31,986,259 | 32,113,850 | 7.80% |
| Meritas Schools Holdings, LLC | | | | | | | |
| Education | First lien (3) | 7.50% (Base Rate + 6.00%) | 7/29/2017 | 9,750,000 | 9,654,742 | 9,408,750 | |
| | Second lien (2) | 11.50% (Base Rate + 10.00%) | 1/29/2018 | 20,000,000 | 19,703,975 | 19,650,000 | |
| | | | | 29,750,000 | 29,358,717 | 29,058,750 | 7.06% |
| Lawson Software, Inc. (fka SoftBrands, Inc.) | | | | | | | |
| Software | First lien (3) | 6.75% (Base Rate + 5.25%) | 7/5/2017 | 20,000,000 | 19,227,852 | 18,983,340 | |
| | Subordinated (2) | 11.50% | 7/15/2018 | 10,500,000 | 9,758,283 | 9,397,500 | |
| | | | | 30,500,000 | 28,986,135 | 28,380,840 | 6.89% |

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| | | | | | | | |
|--|------------------|-----------------------------|------------|------------|------------|------------|-------|
| Managed Health Care Associates, Inc. | | | | | | | |
| Healthcare Services | | | | | | | |
| | First lien (2) | 3.49% (Base Rate + 3.25%) | 8/1/2014 | 15,467,673 | 12,720,508 | 14,926,304 | |
| | Second lien (2) | 6.74% (Base Rate + 6.50%) | 2/1/2015 | 15,000,000 | 11,759,149 | 13,350,000 | |
| | | | | 30,467,673 | 24,479,657 | 28,276,304 | 6.87% |
| Novell, Inc. (fka Attachmate Corporation, NetIQ Corporation) | | | | | | | |
| Software | | | | | | | |
| | First lien (3) | 6.50% (Base Rate + 5.00%) | 4/27/2017 | 12,000,000 | 11,911,515 | 11,591,256 | |
| | Second lien (2) | 9.50% (Base Rate + 8.00%) | 10/27/2017 | 15,000,000 | 14,859,699 | 14,400,000 | |
| | | | | 27,000,000 | 26,771,214 | 25,991,256 | 6.31% |
| Insight Pharmaceuticals LLC | | | | | | | |
| Healthcare Products | | | | | | | |
| | Second lien (2) | 13.25% (Base Rate + 11.75%) | 8/25/2017 | 25,000,000 | 24,008,514 | 24,000,000 | 5.83% |
| Unitek Global Services, Inc. | | | | | | | |
| Business Services | | | | | | | |
| | First lien (2) | 9.00% (Base Rate + 7.50%) | 4/15/2018 | 19,900,000 | 19,340,601 | 19,825,375 | 4.81% |
| U.S. Healthworks Holding Company, Inc. | | | | | | | |
| Healthcare Services | | | | | | | |
| | Second lien (2) | 10.50% (Base Rate + 9.00%) | 6/15/2017 | 20,000,000 | 19,713,799 | 19,500,000 | 4.73% |
| Learning Care Group (US), Inc. | | | | | | | |
| Education | | | | | | | |
| | First lien (2) | 12.00% | 4/27/2016 | 17,368,421 | 17,101,011 | 16,710,234 | |
| | Subordinated (2) | 15.00% | 6/30/2016 | 3,044,655 | 2,851,664 | 2,748,385 | |
| | | | | 20,413,076 | 19,952,675 | 19,458,619 | 4.72% |
| Ipreo Holdings LLC | | | | | | | |
| Information Services | | | | | | | |
| | First lien (3) | 8.00% (Base Rate + 6.50%) | 8/5/2017 | 18,750,000 | 18,340,674 | 17,718,750 | 4.30% |
| KeyPoint Government Solutions, Inc. | | | | | | | |
| Federal Services | | | | | | | |
| | First lien (2) | 10.00% (Base Rate + 8.00%) | 12/31/2015 | 17,865,000 | 17,550,644 | 17,329,050 | 4.21% |

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

Table of Contents**New Mountain Finance Holdings, L.L.C.****Consolidated Schedule of Investments (continued)****September 30, 2011**

(unaudited)

| Portfolio Company, Location and Industry | Type of Investment | Interest Rate | Maturity Date | Principal Amount, Par Value or Shares | Cost | Fair Value | Percent of Members Capital |
|---|---------------------------|--------------------------------|----------------------|--|---------------|-----------------------|---|
| Smile Brands Group Inc. Healthcare Services | First lien (3) | 7.00% (Base Rate + 5.25%) | 12/21/2017 | \$ 17,368,750 | \$ 17,129,958 | \$ 16,847,688 | 4.09% |
| Sotera Defense Solutions, Inc. (Global Defense Technology & Systems, Inc.) Federal Services | First lien (3) | 7.00% (Base Rate + 5.50%) | 4/21/2017 | 16,957,500 | 16,799,558 | 16,703,138 | 4.05% |
| SonicWALL, Inc. Software | First lien (3) | 8.25% (Base Rate + 6.25%) | 1/23/2016 | 5,519,759 | 5,532,394 | 5,492,159 | |
| | Second lien (2) | 12.00% (Base Rate + 10.00%) | 1/23/2017 | 10,000,000 | 9,737,356 | 9,975,000 | |
| | | | | 15,519,759 | 15,269,750 | 15,467,159 | 3.75% |
| Volume Services America, Inc. (Centerplate) Consumer Services | First lien (2) | 10.50% (Base Rate + 8.50%) | 9/16/2016 | 14,850,000 | 14,497,289 | 14,757,262 | 3.58% |
| MLM Holdings, Inc. Software | First lien (3) | 7.00% (Base Rate + 5.25%) | 12/1/2016 | 14,850,000 | 14,652,060 | 14,590,125 | 3.54% |
| Pacific Architects and Engineers Incorporated Federal Services | First lien (3) | 7.50% (Base Rate + 6.00%) | 4/4/2017 | 15,000,000 | 14,719,535 | 14,475,000 | 3.51% |
| Virtual Radiologic Corporation Healthcare Information Technology | First lien (3) | 7.75% (Base Rate + 4.50%) | 12/22/2016 | 14,889,987 | 14,696,646 | 14,145,488 | 3.43% |
| LANDesk Group, Inc. Software | First lien (3) | 7.00% (Base Rate + 5.25%) | 3/28/2016 | 14,250,000 | 14,000,807 | 13,982,813 | 3.39% |

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| | | | | | | | |
|--|------------------|----------------------------|------------|------------|------------|------------|-------|
| SRA International, Inc. | | | | | | | |
| Federal Services | | 6.50% (Base Rate + 5.25%) | | | | | |
| | First lien (3) | | 7/20/2018 | 15,000,000 | 14,338,789 | 13,912,500 | 3.38% |
| Brock Holdings III, Inc. | | | | | | | |
| Industrial Services | | 10.00% (Base Rate + 8.25%) | | | | | |
| | Second lien (2) | | 3/16/2018 | 15,000,000 | 14,731,215 | 13,725,000 | 3.33% |
| Fibertech Networks, LLC (fka Firefox Merger Sub, LLC) | | | | | | | |
| Telecommunication | | 6.75% (Base Rate + 5.00%) | | | | | |
| | First lien (3) | | 11/30/2016 | 11,910,000 | 11,751,903 | 11,731,350 | 2.85% |
| PODS Holding Funding Corp. | | | | | | | |
| Consumer Services | | 16.64% | | | | | |
| | Subordinated (2) | | 12/23/2015 | 11,664,000 | 10,277,442 | 11,664,000 | 2.83% |
| Mailsouth, Inc. | | | | | | | |
| Media | | 6.75% (Base Rate + 4.99%) | | | | | |
| | First lien (3) | | 12/14/2016 | 11,940,000 | 11,779,280 | 11,581,800 | 2.81% |
| Vision Solutions, Inc. | | | | | | | |
| Software | | 9.50% (Base Rate + 8.00%) | | | | | |
| | Second lien (2) | | 7/23/2017 | 12,000,000 | 11,889,250 | 11,580,000 | 2.81% |
| TravelCLICK, Inc. (fka TravelCLICK Acquisition Co.) | | | | | | | |
| Information Services | | 6.50% (Base Rate + 5.00%) | | | | | |
| | First lien (3) | | 3/16/2016 | 11,430,031 | 11,225,450 | 11,087,130 | 2.69% |
| Merrill Communications LLC | | | | | | | |
| Business Services | | 7.50% (Base Rate + 5.50%) | | | | | |
| | First lien (2) | | 12/22/2012 | 11,421,788 | 10,026,422 | 11,062,002 | 2.69% |
| CHG Companies, Inc. | | | | | | | |
| Healthcare Services | | 11.25% (Base Rate + 9.50%) | | | | | |
| | Second lien (2) | | 4/7/2017 | 10,000,000 | 9,820,654 | 9,975,000 | 2.42% |
| Porex Corporation | | | | | | | |
| Specialty Chemicals and Materials | | 6.76% (Base Rate + 5.24%) | | | | | |
| | First lien (3) | | 3/31/2015 | 10,000,000 | 9,860,319 | 9,850,000 | 2.39% |
| Immucor, Inc. | | | | | | | |
| Healthcare Services | | 7.25% (Base Rate + 5.75%) | | | | | |
| | First lien (3) | | 8/19/2018 | 5,000,000 | 4,803,215 | 4,943,750 | |
| | Subordinated (2) | 11.13% | 8/15/2019 | 5,000,000 | 4,936,289 | 4,887,500 | |
| | | | | 10,000,000 | 9,739,504 | 9,831,250 | 2.39% |

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

Table of Contents**New Mountain Finance Holdings, L.L.C.****Consolidated Schedule of Investments (continued)****September 30, 2011**

(unaudited)

| Portfolio Company, Location and Industry | Type of Investment | Interest Rate | Maturity Date | Principal Amount, Par Value or Shares | Cost | Fair Value | Percent of Members Capital |
|--|---------------------------|-------------------------------|----------------------|--|--------------|-----------------------|---|
| Airvana Network Solutions Inc. Software | First lien (2) | 10.00% (Base Rate + 8.00%) | 3/25/2015 | \$ 9,676,190 | \$ 9,506,763 | \$ 9,760,857 | 2.37% |
| Vertafore, Inc. Software | Second lien (2) | 9.75% (Base Rate + 8.25%) | 10/29/2017 | 10,000,000 | 9,909,344 | 9,641,670 | 2.34% |
| Merge Healthcare Inc. Healthcare Services | First lien (2) | 11.75% | 5/1/2015 | 9,000,000 | 8,870,249 | 9,180,000 | 2.23% |
| Sunquest Information Systems, Inc. (Misys Hospital Systems, Inc.) Healthcare Services | Second lien (2) | 9.75% (Base Rate + 8.50%) | 6/16/2017 | 9,000,000 | 8,835,218 | 8,955,000 | 2.17% |
| Mach Gen, LLC Power Generation | Second lien (2) | 7.83% (Base Rate + 7.50%) | 2/22/2015 | 11,829,753 | 9,608,302 | 7,869,832 | 1.91% |
| Research Pharmaceutical Services, Inc. Healthcare Services | First lien (3) | 6.75% (Base Rate + 5.24%) | 2/18/2017 | 7,453,125 | 7,350,346 | 7,192,266 | 1.75% |
| Surgery Center Holdings, Inc. Healthcare Services | First lien (3) | 6.50% (Base Rate + 5.00%) | 2/6/2017 | 6,965,000 | 6,932,609 | 6,581,925 | 1.60% |
| Stratus Technologies, Inc. Information Technology | First lien (2) | 12.00% | 3/29/2015 | 6,827,000 | 6,474,599 | 6,007,760 | 1.46% |
| Alion Science and Technology Corporation Federal Services | First lien (2) | 12.00% | 11/1/2014 | 6,133,884 | 5,526,935 | 5,377,372 | 1.31% |
| Ozburn-Hessey Holding Company LLC Logistics | Second lien (2) | | 10/8/2016 | 6,000,000 | 5,887,996 | 5,280,000 | 1.28% |

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| | | | | | | | |
|--|-------------------------------|----------------------------|------------|-----------|-------------|-----------|---------|
| | | 10.50% (Base Rate + 8.50%) | | | | | |
| Datatel, Inc. | | | | | | | |
| Software | Second lien (2) | 8.75% (Base Rate + 7.25%) | 2/19/2018 | 5,000,000 | 4,976,545 | 5,025,000 | 1.22% |
| Asurion, LLC (fka Asurion Corporation) | | | | | | | |
| Business Services | Second lien (2) | 9.00% (Base Rate + 7.50%) | 5/24/2019 | 5,000,000 | 4,976,041 | 4,798,440 | 1.16% |
| Physiotherapy Associates, Inc. / Benchmark Medical, Inc. | | | | | | | |
| Healthcare Facilities | First lien (2) | 7.50% (Base Rate + 4.25%) | 6/28/2013 | 3,792,954 | 3,232,454 | 3,755,024 | 0.91% |
| LVI Services Inc. | | | | | | | |
| Industrial Services | First lien (2) | 9.25% (Base Rate + 7.50%) | 3/31/2014 | 5,130,971 | 4,995,403 | 3,732,782 | 0.91% |
| Brickman Group Holdings, Inc. | | | | | | | |
| Business Services | First lien (3) | 7.25% (Base Rate + 5.50%) | 10/14/2016 | 2,977,500 | 3,008,919 | 2,947,725 | 0.72% |
| ATI Acquisition Company (fka Ability Acquisition, Inc.) | | | | | | | |
| Education | First lien (2) | 8.25% (Base Rate + 6.00%) | 12/30/2014 | 4,432,500 | 4,306,438 | 1,440,563 | 0.35% |
| Education Management LLC | | | | | | | |
| Education | First lien (1), (2) - Undrawn | | 6/1/2012 | 3,000,000 | (1,215,000) | (291,810) | (0.07)% |

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

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New Mountain Finance Holdings, L.L.C.

Consolidated Schedule of Investments (continued)

September 30, 2011

(unaudited)

| Portfolio Company, Location and Industry | Type of Investment | Interest Rate | Maturity Date | Principal Amount, Par Value or Shares | Cost | Fair Value | Percent of Members Capital |
|---|----------------------------------|---------------|---------------|--|-----------------------|-----------------------|----------------------------------|
| Kronos Incorporated | | | | | | | |
| Software | First lien (1), (2) - Undrawn | | 6/11/2013 | \$ 4,198,500 | \$ (629,775) | (356,873) | (0.09)% |
| RGIS Services, LLC | | | | | | | |
| Business Services | First lien (1), (2) - Undrawn | | 4/30/2013 | 5,000,000 | (2,850,000) | (431,350) | (0.10)% |
| Advantage Sales & Marketing Inc. | | | | | | | |
| Business Services | First lien (1), (2) - Undrawn | | 12/17/2015 | 10,500,000 | (1,260,000) | (1,155,000) | (0.28)% |
| Total United States | | | | \$ 657,979,941 | \$ 606,138,106 | \$ 603,932,682 | 146.61% |
| Total investments | | | | | \$ 606,704,749 | \$ 604,334,414 | 146.71% |

- (1) Par Value amounts represent the drawn or undrawn (as indicated in type of investment) portion of revolving credit facilities. Cost amounts represent the cash received at settlement date net the impact of paydowns and cash paid for drawn revolvers.
- (2) The Holdings Credit Facility is collateralized by the indicated investments.
- (3) The SLF Credit Facility is collateralized by the indicated investments.

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

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New Mountain Finance Holdings, L.L.C.

Consolidated Schedule of Investments

December 31, 2010

| Portfolio Company, Location and Industry | Type of Investment | Interest Rate | Maturity Date | Principal Amount, Par Value or Shares | Cost | Fair Value | Percent of Members Capital |
|--|--------------------|-------------------------------|---------------|--|------------|---------------|----------------------------------|
| United States | | | | | | | |
| Stratus Technologies, Inc. | | | | | | | |
| Information Technology | Ordinary shares | | | 103,050 | \$ 47,063 | \$ 45,149 | |
| | Preferred shares | | | 23,450 | 10,710 | 10,274 | |
| | | | | | 57,773 | 55,423 | 0.02% |
| Total shares | | | | | 57,773 | 55,423 | 0.02% |
| United States | | | | | | | |
| Alion Science and Technology Corporation | | | | | | | |
| Federal Services | Warrants (3) | | | 6,000 | 292,851 | 283,698 | 0.12% |
| Learning Care Group (US), Inc. | | | | | | | |
| Education | Warrants | | | 845 | 193,850 | 193,742 | 0.08% |
| Total warrants | | | | | 486,701 | 477,440 | 0.20% |
| Canada | | | | | | | |
| Trident Exploration Corp. (2) | | | | | | | |
| Energy | First lien (3) | 12.50% (Base Rate + 9.50%) | 6/30/2014 | \$ 4,477,500 | 4,357,151 | 4,746,150 | 1.96% |
| Total Canada | | | | | 4,477,500 | 4,357,151 | 1.96% |
| United States | | | | | | | |
| Managed Health Care Associates, Inc. | | | | | | | |
| Healthcare Services | First lien (3) | 3.52% (Base Rate + 3.25%) | 8/1/2014 | 22,467,673 | 17,462,237 | 20,557,920 | |
| | Second lien (3) | 6.77% (Base Rate + 6.50%) | 2/1/2015 | 15,000,000 | 11,227,497 | 13,200,001 | |
| | | | | 37,467,673 | 28,689,734 | 33,757,921 | 13.96% |
| Attachmate Corporation, NetIQ Corporation | | | | | | | |
| Software | Second lien (3) | 7.04% (Base Rate + 6.75%) | 10/13/2013 | 22,500,000 | 17,121,571 | 22,275,000 | 9.21% |
| Learning Care Group (US), Inc. | | | | | | | |
| Education | First lien (3) | 12.00% | 4/27/2016 | 17,368,422 | 17,057,656 | 17,192,834 | |
| | Subordinated | 15.00% | 6/30/2016 | 2,832,237 | 2,610,113 | 2,630,413 | |
| | | | | 20,200,659 | 19,667,769 | 19,823,247 | 8.19% |

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| | | | | | | | |
|---|-----------------|-----------------------------|------------|------------|------------|------------|-------|
| Decision Resources, LLC | | | | | | | |
| Business Services | First lien (4) | 7.75% (Base Rate + 4.50%) | 12/28/2016 | 18,000,000 | 17,730,000 | 17,820,001 | 7.37% |
| KeyPoint Government Solutions, Inc. | | | | | | | |
| Federal Services | First lien (3) | 10.00% (Base Rate + 8.00%) | 12/31/2015 | 18,000,000 | 17,640,000 | 17,730,000 | 7.33% |
| Smile Brands Group, Inc. | | | | | | | |
| Healthcare Services | First lien (4) | 7.50% (Base Rate + 4.25%) | 12/21/2017 | 17,500,000 | 17,237,500 | 17,390,625 | 7.19% |
| Volume Services America, Inc. (Centerplate) | | | | | | | |
| Consumer Services | First lien (3) | 10.50% (Base Rate + 8.50%) | 9/16/2016 | 14,962,500 | 14,527,858 | 15,056,016 | 6.22% |
| MLM Holdings, Inc. | | | | | | | |
| Software | First lien (4) | 7.00% (Base Rate + 5.25%) | 12/1/2016 | 14,962,500 | 14,739,863 | 14,775,469 | 6.11% |
| LANDesk Software, Inc. | | | | | | | |
| Software | First lien (4) | 7.00% (Base Rate + 5.25%) | 3/28/2016 | 15,000,000 | 14,701,917 | 14,718,750 | 6.08% |
| SonicWALL, Inc. | | | | | | | |
| Software | First lien (4) | 8.26% (Base Rate + 6.19%) | 1/23/2016 | 4,485,887 | 4,507,797 | 4,519,531 | |
| | Second lien (3) | 12.00% (Base Rate + 10.00%) | 1/23/2017 | 10,000,000 | 9,712,391 | 10,050,000 | |
| | | | | 14,485,887 | 14,220,188 | 14,569,531 | 6.02% |

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

Table of Contents**New Mountain Finance Holdings, L.L.C.****Consolidated Schedule of Investments (continued)****December 31, 2010**

| Portfolio Company, Location and Industry | Type of Investment | Interest Rate | Maturity Date | Principal Amount, Par Value or Shares | Cost | Fair Value | Percent of Members Capital |
|--|---------------------------|----------------------------|----------------------|--|---------------|-----------------------|---|
| Virtual Radiologic Corporation | | | | | | | |
| Healthcare Information Technology | First lien (4) | 7.75% (Base Rate + 4.50%) | 12/22/2016 | \$ 14,000,000 | \$ 13,790,000 | \$ 13,965,000 | 5.77% |
| Asurion, LLC | | | | | | | |
| Business Services | First lien (4) | 6.75% (Base Rate + 5.25%) | 3/31/2015 | 13,000,000 | 12,494,497 | 13,052,234 | 5.40% |
| Aspen Dental Management, Inc. | | | | | | | |
| Healthcare Services | First lien (4) | 7.72% (Base Rate + 6.00%) | 10/6/2016 | 12,967,500 | 12,713,475 | 13,016,128 | 5.38% |
| Firefox Merger Sub, LLC (fka Fibertech Networks, LLC) | | | | | | | |
| Telecommunication | First lien (4) | 6.75% (Base Rate + 5.00%) | 11/30/2016 | 12,000,000 | 11,821,633 | 12,240,000 | 5.06% |
| Airvana Network Solutions Inc. | | | | | | | |
| Software | First lien (3) | 11.00% (Base Rate + 9.00%) | 8/27/2014 | 11,833,333 | 11,611,357 | 11,890,039 | 4.91% |
| Mailsouth, Inc. | | | | | | | |
| Media | First lien (4) | 7.00% (Base Rate + 3.75%) | 12/14/2016 | 12,000,000 | 11,820,000 | 11,880,000 | 4.91% |
| Merge Healthcare Inc. | | | | | | | |
| Healthcare Services | First lien (3) | 11.75% | 5/1/2015 | 11,000,000 | 10,808,642 | 11,770,000 | 4.87% |
| Merrill Communications LLC | | | | | | | |
| Business Services | First lien (3) | 8.50% (Base Rate + 6.50%) | 12/22/2012 | 11,421,788 | 9,332,773 | 11,393,234 | 4.71% |
| PODS Holding Funding Corp. | | | | | | | |
| Consumer Services | Subordinated | 16.64% | 12/23/2015 | 11,664,000 | 10,137,299 | 10,117,351 | 4.18% |
| Vertafore, Inc. | | | | | | | |
| Software | Second lien (3) | | 10/29/2017 | 10,000,000 | 9,901,457 | 10,106,250 | 4.18% |

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| | | | | | | | |
|--|------------------|----------------------------|------------|------------|-------------|-----------|-------|
| | | 9.75% (Base Rate + 8.25%) | | | | | |
| CHG Companies, Inc. | | | | | | | |
| Healthcare Services | Second lien (3) | 11.25% (Base Rate + 9.50%) | 4/7/2017 | 10,000,000 | 9,804,011 | 9,900,000 | 4.09% |
| First Data Corporation | | | | | | | |
| Business Services | First lien (3) | 3.01% (Base Rate + 2.75%) | 9/24/2014 | 10,646,143 | 7,932,011 | 9,842,273 | 4.07% |
| Focus Brands, Inc. | | | | | | | |
| Franchises | First lien (4) | 7.25% (Base Rate + 5.50%) | 11/5/2016 | 9,181,818 | 9,091,224 | 9,285,114 | 3.84% |
| Sunquest Information Systems, Inc. | | | | | | | |
| Healthcare Services | Second lien | 9.75% (Base Rate + 8.50%) | 6/16/2017 | 9,000,000 | 8,820,000 | 9,000,000 | 3.72% |
| Mach Gen, LLC | | | | | | | |
| Power Generation | Second lien | 7.79% (Base Rate + 7.50%) | 2/22/2015 | 11,145,736 | 8,580,242 | 7,803,431 | 3.23% |
| SSI Investments II Limited | | | | | | | |
| Education | Subordinated (3) | 11.13% | 6/1/2018 | 7,000,000 | 7,064,923 | 7,630,000 | 3.15% |
| Hyland Software, Inc. | | | | | | | |
| Software | First lien (4) | 6.75% (Base Rate + 5.00%) | 12/19/2016 | 7,500,000 | 7,425,000 | 7,528,125 | 3.11% |
| Wyle Services Corporation | | | | | | | |
| Federal Services | First lien (4) | 7.75% (Base Rate + 5.75%) | 3/25/2016 | 7,481,234 | 7,508,583 | 7,509,290 | 3.10% |
| RGIS Services, LLC | | | | | | | |
| Business Services | First lien (3) | 2.80% (Base Rate + 2.50%) | 4/30/2014 | 7,394,480 | 5,807,941 | 6,913,839 | |
| | First lien (1) | | 4/30/2013 | 5,000,000 | (2,850,000) | (406,350) | |
| | | | | 12,394,480 | 2,957,941 | 6,507,489 | 2.69% |
| Alion Science and Technology Corporation | | | | | | | |
| Federal Services | First lien (3) | 12.00% | 11/1/2014 | 6,073,149 | 5,392,607 | 6,273,057 | 2.59% |
| Kronos Incorporated | | | | | | | |
| Software | First lien (1) | | 6/11/2013 | 4,198,500 | (629,775) | (346,376) | |
| | Second lien (3) | 6.05% (Base Rate + 5.75%) | 6/11/2015 | 6,700,000 | 5,041,455 | 6,563,206 | |
| | | | | 10,898,500 | 4,411,680 | 6,216,830 | 2.57% |

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

Table of Contents**New Mountain Finance Holdings, L.L.C.****Consolidated Schedule of Investments (continued)****December 31, 2010**

| Portfolio Company, Location and Industry | Type of Investment | Interest Rate | Maturity Date | Principal Amount, Par Value or Shares | Cost | Fair Value | Percent of Members Capital |
|---|---------------------------|-------------------------------|----------------------|--|--------------|-----------------------|---|
| Bartlett Holdings, Inc. | | | | | | | |
| Industrial Services | First lien (4) | 6.75% (Base Rate + 5.00%) | 11/23/2016 | \$ 6,000,000 | \$ 5,940,644 | \$ 6,037,500 | 2.50% |
| Ozburn-Hessey Holding Company LLC | | | | | | | |
| Logistics | Second lien | 10.50% (Base Rate + 8.50%) | 10/8/2016 | 6,000,000 | 5,874,951 | 5,985,000 | 2.47% |
| Vision Solutions, Inc. | | | | | | | |
| Software | First lien (4) | 7.75% (Base Rate + 6.00%) | 7/23/2016 | 5,775,000 | 5,662,174 | 5,753,344 | 2.38% |
| LVI Services Inc | | | | | | | |
| Industrial Services | First lien (3) | 9.25% (Base Rate + 7.50%) | 3/31/2014 | 5,162,883 | 4,304,472 | 4,388,450 | 1.81% |
| Stratus Technologies, Inc. | | | | | | | |
| Information Technology | First lien | 12.00% | 3/29/2015 | 5,000,000 | 4,796,989 | 4,225,000 | 1.75% |
| ATI Acquisition Company | | | | | | | |
| Education | First lien (3) | 8.25% (Base Rate + 5.99%) | 12/30/2014 | 4,455,000 | 4,304,106 | 4,076,325 | 1.68% |
| Physiotherapy Associates, Inc. / Benchmark Medical, Inc. | | | | | | | |
| Healthcare Facilities | First lien (3) | 7.50% (Base Rate + 4.25%) | 6/28/2013 | 3,823,549 | 3,063,441 | 3,594,136 | 1.49% |
| Brickman Group Holdings, Inc. | | | | | | | |
| Business Services | First lien (4) | 7.25% (Base Rate + 5.50%) | 10/14/2016 | 3,000,000 | 3,035,496 | 3,042,501 | 1.26% |
| Datatel, Inc. | | | | | | | |
| Software | Second lien (3) | 10.25% (Base Rate + 8.25%) | 12/9/2016 | 2,000,000 | 1,964,077 | 2,042,500 | 0.84% |
| Applied Systems, Inc. | | | | | | | |
| Software | Second lien | 9.25% (Base Rate + 7.75%) | 6/8/2017 | 2,000,000 | 1,980,093 | 2,009,166 | 0.83% |

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| | | | | | | |
|--------------------------|----------------|----------|----------------|----------------|----------------|---------|
| Education Management LLC | | | | | | |
| Education | First lien (1) | 6/1/2012 | 3,000,000 | (1,215,000) | (217,500) | -0.09% |
| Total United States | | | \$ 460,503,332 | \$ 409,407,198 | \$ 435,778,827 | 180.13% |
| Total debt investments | | | \$ 464,980,832 | \$ 413,764,349 | \$ 440,524,977 | 182.09% |
| Total investments | | | \$ 414,308,823 | \$ 441,057,840 | | 182.31% |

-
- (1) Par Value amounts represent the undrawn portion of revolving credit facilities. Cost amounts represent the cash received at settlement date increased for paydowns at par minus the purchase price.
 - (2) The company is headquartered in Canada. The debt is issued in United States dollars.
 - (3) The Holdings credit facility (formerly known as the Debt Funding Credit Facility) is collateralized by the indicated investments.
 - (4) The SLF credit facility is collateralized by the indicated investments.

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

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New Mountain Finance Holdings, L.L.C.

Notes to the Consolidated Financial Statements

September 30, 2011

(unaudited)

1. Formation and Business Purpose

New Mountain Finance Holdings, L.L.C. (NMF Holdings , the Company , we , us , or our) is a Delaware limited liability company. NMF Holdings is externally managed and 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. NMF Holdings intends to be treated as a partnership for federal income tax purposes for so long as it has at least two members.

NMF Holdings is externally managed by New Mountain Finance Advisers BDC, L.L.C. (the Investment Adviser). New Mountain Finance Administration, L.L.C. (the Administrator) provides the administrative services necessary for operations. The Investment Adviser and Administrator are wholly-owned subsidiaries of New Mountain Capital (defined as New Mountain Capital Group, L.L.C. and its affiliates). New Mountain Capital is a firm with a track record of investing in the middle market and with assets under management (which includes amounts committed, not all of which have been drawn down and invested to date) totaling approximately \$9.0 billion as of September 30, 2011. New Mountain Capital focuses on investing in defensive growth companies across its private equity, public equity, and credit investment vehicles. NMF Holdings, formerly known as New Mountain Guardian (Leveraged), L.L.C., was originally formed as a subsidiary of New Mountain Guardian AIV, L.P. (Guardian AIV) by New Mountain Capital in October 2008. Guardian AIV was formed through an allocation of approximately \$300.0 million of the \$5.1 billion of commitments supporting New Mountain Partners III, L.P., a private equity fund managed by New Mountain Capital. In February 2009, New Mountain Capital formed a co-investment vehicle, New Mountain Guardian Partners, L.P., comprising \$20.4 million of commitments. New Mountain Guardian (Leveraged), L.L.C. and New Mountain Guardian Partners, L.P., together with their respective direct and indirect wholly-owned subsidiaries, are defined as the Predecessor Entities .

New Mountain Finance Corporation (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 1940 Act. As such, New Mountain Finance 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, 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.

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New Mountain Finance is a holding company with no direct operations of its own, and its sole asset is its ownership in NMF Holdings. New Mountain Finance entered into a joinder agreement with respect to the Limited Liability Company Agreement, as amended and restated, of NMF Holdings, pursuant to which New Mountain Finance was admitted as a member of NMF Holdings and acquired from NMF Holdings, with the gross proceeds of the IPO and the concurrent private placement, common membership units (units) of NMF Holdings (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). In connection with New Mountain Finance s IPO and through a series of transactions, the Company owns all of the operations of the Predecessor Entities, including all of the assets and liabilities related to such operations.

Guardian AIV was the parent of the Company prior to the IPO and, as a result of the transactions completed in connection with the IPO, obtained units in NMF Holdings. Guardian AIV contributed its units in NMF Holdings 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 NMF Holdings for shares of New Mountain Finance s common stock on a one-for-one basis. As of September 30, 2011, New Mountain Finance and AIV Holdings own approximately 34.6% and 65.4%, respectively, of the units of NMF Holdings.

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The diagram below depicts our current organizational structure.

The 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, our 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 consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Company consolidates its wholly-owned subsidiary, New Mountain Finance SPV Funding, L.L.C. (NMF SLF). The consolidated financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the results of operations and financial condition for all periods presented. All intercompany transactions have been eliminated. Revenues are recognized when earned and expenses when incurred.

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 fiscal year ending December 31, 2011.

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

NMF Holdings values its assets on a quarterly basis, or more frequently if required under the 1940 Act. In all cases, the Company's Board of Directors is ultimately and solely responsible for determining the fair value of the Company's 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 the Company's portfolio investments require a fair value determination. Security transactions are accounted for on a trade date basis. The 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 Bloomberg.
- (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 Interactive Data Corporation. Analytics are performed by the investment professionals of the Company's Investment Adviser to ensure that the quote obtained is representative of fair value in accordance with GAAP and if so, the quote is used. If the Investment Adviser is unable to sufficiently validate the quote(s) internally and if the investment's par value exceeds the materiality threshold, the investment is valued similarly to those assets with no readily available quotes (see (3) below); and
 - b. For investments other than bonds, the Company looks at the number of quotes readily available and performs the following:
 - i. Investments for which more than two 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 or two quotes are 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(s) 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 Company's senior management;
 - c. If an investment falls into (3) above for four consecutive quarters, then at least once each fiscal year, the valuation for each portfolio investment for which the Company does not have a readily available market quotation will be reviewed by an independent valuation firm engaged by our board of directors; and

d. Also, when deemed appropriate by the Company's management, an independent valuation firm may be engaged to review and value investment(s) in 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, the Company will consider the pricing indicated by the external event to corroborate the private valuation.

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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 NMF Holdings' investments may fluctuate from period to period.

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

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

Revenue recognition The 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 Company has loans in the portfolio that contain a payment-in-kind (PIK) provision. PIK represents interest that is accrued and recorded as interest income at the contractual rates, added to the loan principal on the respective capitalization dates, and generally due at maturity.

Non-accrual income: Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan 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 and 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.

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

Deferred credit facility costs Deferred credit facility costs consist of expenses related to the origination of the existing credit facilities. These expenses are amortized using the straight-line method over the stated life of the related credit facility. See Note 7, *Borrowing Facilities*, for details.

Income taxes NMF Holding intends to be treated as a partnership for federal income tax purposes. Accordingly, no provision for income taxes has been made in the accompanying financial statements, as the partners are individually responsible for reporting income or loss based on their respective share of the revenues or expenses. NMF Holdings files United States (U.S.) federal, state, and local income tax returns.

NMF Holdings 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, NMF Holdings has determined that the adoption of ASC 740 did not have a material impact to the Company's financial statements.

Dividends Distributions to common unit holders are recorded on the record date as set by the Company's board of directors. The Company and New Mountain Finance 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 NMF Holdings to all of its unit holders. NMF Holdings intends to make distributions to its unit holders that will be sufficient to enable New Mountain Finance to pay quarterly distributions to its stockholders and to obtain and maintain its status as a RIC. New Mountain Finance intends to distribute approximately all of its portion of the Company's adjusted net investment income (see Note 5, *Agreements*) on a quarterly basis and substantially all of its portion of the Company's taxable income on an annual basis, except that it may retain certain net capital gains for reinvestment.

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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 NMF Holdings.

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 NMF Holdings 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.

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

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

Use of estimates The preparation of the consolidated 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 consolidated 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. Investments

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At September 30, 2011 investments consisted of the following:

Investment Cost and Fair Value by Type

| | Cost | Fair Value |
|-------------------|----------------|-------------------|
| First lien | \$ 383,534,562 | \$ 383,082,855 |
| Second lien | 194,779,866 | 192,152,442 |
| Subordinated | 27,823,678 | 28,697,385 |
| Equity and other | 566,643 | 401,732 |
| Total investments | \$ 606,704,749 | \$ 604,334,414 |

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Table of Contents**Investment Cost and Fair Value by Industry**

| | Cost | Fair Value |
|-----------------------------------|----------------|-------------------|
| Business Services | \$ 65,228,242 | \$ 69,161,042 |
| Consumer Services | 24,774,731 | 26,421,262 |
| Education | 52,596,680 | 49,696,262 |
| Federal Services | 69,228,312 | 68,113,611 |
| Healthcare Facilities | 3,232,454 | 3,755,024 |
| Healthcare Information Technology | 14,696,646 | 14,145,488 |
| Healthcare Products | 24,008,514 | 24,000,000 |
| Healthcare Services | 112,871,994 | 116,339,433 |
| Industrial Services | 19,726,618 | 17,457,782 |
| Information Services | 29,566,124 | 28,805,880 |
| Information Technology | 6,554,541 | 6,062,801 |
| Logistics | 5,887,996 | 5,280,000 |
| Media | 11,779,280 | 11,581,800 |
| Power Generation | 9,608,302 | 7,869,832 |
| Software | 135,332,093 | 134,062,847 |
| Specialty Chemicals and Materials | 9,860,319 | 9,850,000 |
| Telecommunication | 11,751,903 | 11,731,350 |
| Total investments | \$ 606,704,749 | \$ 604,334,414 |

At December 31, 2010 investments consisted of the following:

Investment Cost and Fair Value by Type

| | Cost | Fair Value |
|-------------------|----------------|-------------------|
| First lien | \$ 303,924,269 | \$ 321,212,659 |
| Second lien | 90,027,745 | 98,934,554 |
| Subordinated | 19,812,335 | 20,377,764 |
| Equity and other | 544,474 | 532,863 |
| Total investments | \$ 414,308,823 | \$ 441,057,840 |

Investment Cost and Fair Value by Industry

| | Cost | Fair Value |
|-----------------------------------|---------------|-------------------|
| Business Services | \$ 53,482,718 | \$ 61,657,732 |
| Consumer Services | 24,665,157 | 25,173,367 |
| Education | 30,015,648 | 31,505,814 |
| Energy | 4,357,151 | 4,746,150 |
| Federal Services | 30,834,041 | 31,796,045 |
| Franchises | 9,091,224 | 9,285,114 |
| Healthcare Facilities | 3,063,441 | 3,594,136 |
| Healthcare Information Technology | 13,790,000 | 13,965,000 |

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| | | |
|------------------------|----------------|----------------|
| Healthcare Services | 88,073,362 | 94,834,674 |
| Industrial Services | 10,245,116 | 10,425,950 |
| Information Technology | 4,854,762 | 4,280,423 |
| Logistics | 5,874,951 | 5,985,000 |
| Media | 11,820,000 | 11,880,000 |
| Power Generation | 8,580,242 | 7,803,431 |
| Software | 103,739,377 | 111,885,004 |
| Telecommunication | 11,821,633 | 12,240,000 |
| Total investments | \$ 414,308,823 | \$ 441,057,840 |

As of September 30, 2011 and December 31, 2010, there were no assets being accounted for on a non-accrual basis.

As of September 30, 2011 and December 31, 2010, the Company had unfunded commitments on revolving credit facilities of \$22,698,500 and \$12,198,500, respectively, which are disclosed on the Consolidated Schedules of Investments.

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4. Fair Value

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

Level I Quoted prices (unadjusted) are available in active markets for identical investments and the Company has the ability to access such quotes as of the reporting date. The type of investments which would generally be included in Level I include active exchange-traded equity securities and exchange-traded derivatives. As required by ASC 820, the Company, to the extent that it holds such investments, does not adjust the quoted price for these investments, even in situations where the 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:

- a) Quoted prices for similar assets or liabilities in active markets;
- b) Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);
- c) 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
- d) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

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

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

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

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The following table summarizes the levels in the fair value hierarchy that the Company's portfolio investments fall into as of September 30, 2011:

| | Total | Level I | Level II | Level III |
|--------------------------|-----------------------|----------------|-----------------------|----------------------|
| First lien | \$ 383,082,855 | | \$ 368,607,654 | \$ 14,475,201 |
| Second lien | 192,152,442 | | 168,152,442 | 24,000,000 |
| Subordinated | 28,697,385 | | 14,285,000 | 14,412,385 |
| Equity and other | 401,732 | | | 401,732 |
| Total investments | \$ 604,334,414 | | \$ 551,045,096 | \$ 53,289,318 |

The following table summarizes the levels in the fair value hierarchy that the Company's portfolio investments fall into as of December 31, 2010:

| | Total | Level I | Level II | Level III |
|--------------------------|-----------------------|----------------|-----------------------|----------------------|
| First lien | \$ 321,212,659 | | \$ 304,237,325 | \$ 16,975,334 |
| Second lien | 98,934,554 | | 98,934,554 | |
| Subordinated | 20,377,764 | | 7,630,000 | 12,747,764 |
| Equity and other | 532,863 | | | 532,863 |
| Total investments | \$ 441,057,840 | | \$ 410,801,879 | \$ 30,255,961 |

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The following table summarizes the changes in fair value of Level III portfolio investments for the three months ended September 30, 2011, as well as the portion of appreciation (depreciation) included in income attributable to unrealized appreciation (depreciation) related to those assets and liabilities still held at September 30, 2011:

| | Total | First Lien | Second Lien | Subordinated | Equity and other |
|--|---------------|----------------|---------------|---------------|------------------|
| Fair value, June 30, 2011 | \$ 44,501,997 | \$ 30,794,495 | \$ | \$ 13,231,138 | \$ 476,364 |
| Total gains or losses included in earnings: | | | | | |
| Net change in unrealized appreciation (depreciation) | 22,914 | (1,083,701) | | 1,181,247 | (74,632) |
| Purchases, including capitalized PIK and revolver fundings | 24,000,000 | | 24,000,000 | | |
| Proceeds from sales and paydowns of investments | (535,593) | (535,593) | | | |
| Transfer out of Level III (1) | (14,700,000) | (14,700,000) | | | |
| Fair value, September 30, 2011 | \$ 53,289,318 | \$ 14,475,201 | \$ 24,000,000 | \$ 14,412,385 | \$ 401,732 |
| Unrealized appreciation (depreciation) for the period relating to those Level III assets that were still held by the Company at the end of the period: | \$ 22,914 | \$ (1,083,701) | \$ | \$ 1,181,247 | \$ (74,632) |

(1) Portfolio investments are transferred into and out of Level III at fair value as of the beginning of the quarter in which the reclassifications occur.

The following table summarizes the changes in fair value of Level III portfolio investments for the three months ended September 30, 2010, as well as the portion of appreciation (depreciation) included in income attributable to unrealized appreciation (depreciation) related to those assets and liabilities still held at September 30, 2010:

| | Total | First Lien | Subordinated | Equity and other |
|--|---------------|---------------|---------------|------------------|
| Fair value, June 30, 2010 | \$ 19,989,340 | \$ 17,101,778 | \$ 2,372,314 | \$ 515,248 |
| Total gains or losses included in earnings: | | | | |
| Net change in unrealized appreciation (depreciation) | 65,120 | 88,327 | (28,773) | 5,566 |
| Purchases, including capitalized PIK | 8,518,811 | 16,079 | 8,444,959 | 57,773 |
| Fair value, September 30, 2010 | \$ 28,573,271 | \$ 17,206,184 | \$ 10,788,500 | \$ 578,587 |
| Unrealized appreciation (depreciation) for the period relating to those Level III assets that were still held by the Company at the end of the period: | \$ 65,120 | \$ 88,327 | \$ (28,773) | \$ 5,566 |

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The following table summarizes the changes in fair value of Level III portfolio investments for the nine months ended September 30, 2011, as well as the portion of appreciation (depreciation) included in income attributable to unrealized appreciation (depreciation) related to those assets and liabilities still held at September 30, 2011:

| | Total | First Lien | Second Lien | Subordinated | Equity and other |
|--|---------------|-------------------|--------------------|---------------------|-------------------------|
| Fair value, December 31, 2010 | \$ 30,255,961 | \$ 16,975,334 | \$ | \$ 12,747,764 | \$ 532,863 |
| Total gains or losses included in earnings: | | | | | |
| Net change in unrealized appreciation (depreciation) | 811,495 | (487,407) | | 1,452,203 | (153,301) |
| Purchases, including capitalized PIK and revolver fundings | 38,210,181 | 13,975,593 | 24,000,000 | 212,418 | 22,170 |
| Proceeds from sales and paydowns of investments | (535,593) | (535,593) | | | |
| Transfers into Level III (1) | (752,726) | (752,726) | | | |
| Transfers out of Level III (1) | (14,700,000) | (14,700,000) | | | |
| Fair value, September 30, 2011 | \$ 53,289,318 | \$ 14,475,201 | \$ 24,000,000 | \$ 14,412,385 | \$ 401,732 |
| Unrealized appreciation (depreciation) for the period relating to those Level III assets that were still held by the Company at the end of the period: | \$ 811,495 | \$ (487,407) | \$ | \$ 1,452,203 | \$ (153,301) |

(1) Portfolio investments are transferred into and out of Level III at fair value as of the beginning of the quarter in which the reclassifications occur.

The following table summarizes the changes in fair value of Level III portfolio investments for the nine months ended September 30, 2010, as well as the portion of appreciation (depreciation) included in income attributable to unrealized appreciation (depreciation) related to those assets and liabilities still held at September 30, 2010:

| | Total | First Lien | Subordinated | Equity and other |
|--|---------------|-------------------|---------------------|-------------------------|
| Fair value, December 31, 2009 | \$ | \$ | \$ | \$ |
| Total gains or losses included in earnings: | | | | |
| Net change in unrealized appreciation (depreciation) | 150,729 | 162,095 | (45,479) | 34,113 |
| Purchases, including capitalized PIK | 28,422,542 | 17,044,089 | 10,833,979 | 544,474 |
| Fair value, September 30, 2010 | \$ 28,573,271 | \$ 17,206,184 | \$ 10,788,500 | \$ 578,587 |
| Unrealized appreciation (depreciation) for the period relating to those Level III assets that were still held by the Company at the end of the period: | \$ 150,729 | \$ 162,095 | \$ (45,479) | \$ 34,113 |

Except as noted in the tables above, there were no other transfers in or out of Level I, II, or III during the three and nine months ended September 30, 2011 and September 30, 2010. Transfers into Level III occurred as quotations obtained through pricing services were not deemed representative of fair value as of the balance sheet date and such assets were internally valued. As quotations obtained through pricing services

were substantiated through additional market sources, investments were transferred out of Level III. The Company invests in revolving credit facilities. These investments are categorized as Level III investments as these assets are not actively traded and their fair values are often implied by the term loans of the respective portfolio companies.

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

5. Agreements

NMF Holdings entered into an Investment Management Agreement with New Mountain Finance Advisers BDC, L.L.C. Under the Investment Management Agreement, the Investment Adviser manages the day-to-day operations of, and provides

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investment advisory services to, NMF Holdings. For providing these services, the Investment Adviser receives a fee from NMF Holdings, consisting of two components – a base management fee and an incentive fee.

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

The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20.0% of the Company’s Pre-Incentive Fee Adjusted Net Investment Income for the immediately preceding quarter, subject to a preferred return, or hurdle, and a catch-up feature. Pre-Incentive Fee Net Investment Income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that the Company receives from portfolio companies) accrued during the calendar quarter, minus the Company’s operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement, as amended and restated, with the Administrator, and any interest expense and distributions paid on any issued and outstanding preferred membership units, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with PIK interest and zero coupon securities), accrued income that the Company has not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation.

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

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

- No incentive fee is payable to the Investment Adviser in any calendar quarter in which the Company’s Pre-Incentive Fee Adjusted Net Investment Income does not exceed the hurdle rate of 2.0% (the preferred return or hurdle).
- 100.0% of the Company’s Pre-Incentive Fee Adjusted Net Investment Income with respect to that portion of such Pre-Incentive Fee Adjusted Net Investment Income, if any, that exceeds the hurdle rate but is less than or equal to 2.5% in any calendar quarter (10.0% annualized) is payable to the Investment Adviser. This portion of the Company’s Pre-Incentive Fee Adjusted Net Investment Income (which exceeds the hurdle rate but is less than or equal to 2.5%) is referred to as the catch-up. The catch-up provision is intended to provide the Investment Adviser

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with an incentive fee of 20.0% on all of the Company's Pre-Incentive Fee Adjusted Net Investment Income as if a hurdle rate did not apply when the Company's Pre-Incentive Fee Adjusted Net Investment Income exceeds 2.5% in any calendar quarter.

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

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

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In accordance with GAAP, NMF Holdings accrues a hypothetical capital gains incentive fee based upon the cumulative net Adjusted Realized Capital Gains and Losses and the cumulative net Adjusted Unrealized Capital Appreciation and 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 the 1940 Act, and are based on actual Adjusted Realized Capital Gains computed net of all Adjusted Realized Capital Losses and Adjusted Unrealized Capital Depreciation on a cumulative basis. No accrual was required for the three months ended September 30, 2011 and for the period from May 19, 2011 (effective date of the Investment Management Agreement) to September 30, 2011.

The management fee and incentive fee were \$1,930,140 and \$700,610 for the three months ended September 30, 2011 and \$2,737,649 and \$1,205,003 for the period from May 19, 2011 (effective date of the Investment Management Agreement) to September 30, 2011. The Consolidated Statement of Operations below is adjusted as if step-up in cost basis to fair market value had occurred at the IPO date. This statement begins on May 19, 2011, the effective date of the Investment Management Agreement.

The following Statement of Operations for the three months ended September 30, 2011 is adjusted to reflect this step-up to fair market value.

| | Three months ended to September 30, 2011 | Adjustments | Adjusted Three months ended to September 30, 2011 |
|--|---|----------------|---|
| Investment income | | | |
| Interest income | \$ 14,860,750 | \$ (1,189,611) | \$ 13,671,139 |
| Other income | 207,831 | | 207,831 |
| Total investment income | 15,068,581 | (1,189,611) | 13,878,970 |
| Total expenses pre-incentive fee | 4,366,253 | | 4,366,253 |
| Pre-Incentive Fee Net Investment Income | 10,702,328 | (1,189,611) | 9,512,717 |
| Incentive fee | 700,610 | | 700,610 |
| Post-Incentive Fee Net Investment Income | 10,001,718 | (1,189,611) | 8,812,107 |
| Realized gain on investments | 1,402,671 | (1,396,525) | 6,146 |
| Net change in unrealized (depreciation) appreciation of investments | (22,657,239) | 2,586,136 | (20,071,103) |
| Net decrease in capital resulting from operations | \$ (11,252,850) | | \$ (11,252,850) |

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The following Statement of Operations for the period May 19, 2011 (effective date of the Investment Management Agreement) to September 30, 2011 is adjusted to reflect this step-up to fair market value.

| | Period from May 19, 2011 to September 30, 2011 | Adjustments | Adjusted Period from May 19, 2011 to September 30, 2011 |
|---|--|----------------|--|
| Investment income | | | |
| Interest income | \$ 21,865,682 | \$ (1,748,300) | \$ 20,117,382 |
| Other income | 513,975 | | 513,975 |
| Total investment income | 22,379,657 | (1,748,300) | 20,631,357 |
| Total expenses pre-incentive fee | 6,594,310 | | 6,594,310 |
| Pre-Incentive Fee Net Investment Income | 15,785,347 | (1,748,300) | 14,037,047 |
| Incentive fee | 1,205,003 | | 1,205,003 |
| Post-Incentive Fee Net Investment Income | 14,580,344 | (1,748,300) | 12,832,044 |
| Realized gain (loss) on investments | 1,000,668 | (1,181,204) | (180,536) |
| Net change in unrealized (depreciation) appreciation of investments | (21,557,011) | 2,929,504 | (18,627,507) |
| Net decrease in capital resulting from operations | \$ (5,975,999) | | \$ (5,975,999) |

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

Pursuant to the Administration Agreement, as amended and restated, NMF Holdings incurred \$1,345,367 in expenses in excess of the expense cap for the nine months ended September 30, 2011, of which \$816,530 was receivable from affiliate as of September 30, 2011.

The Company, New Mountain Finance, 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 the Company, New Mountain Finance, 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, the Company, New Mountain Finance, AIV Holdings, the Investment Adviser and the Administrator will have a right to use the New Mountain and New Mountain Finance names, for so long as the Investment Adviser or one of its affiliates remains the investment adviser of the Company. Other than with respect to this limited license, the Company, New Mountain Finance, AIV Holdings, the Investment Adviser and the

Administrator will have no legal right to the New Mountain or the New Mountain Finance names.

6. Related Parties

NMF Holdings has entered into a number of business relationships with affiliated or related parties, including the following:

- NMF Holdings has entered into an 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.

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- NMF Holdings, New Mountain Finance, and AIV Holdings have entered into an Administration Agreement, as amended and restated, with the Administrator, a wholly-owned subsidiary of New Mountain Capital. The Administrator arranges office space for NMF Holdings, New Mountain Finance, and AIV Holdings and provides office equipment and administrative services necessary to conduct their respective day-to-day operations pursuant to the Administration Agreement, as amended and restated. NMF Holdings reimburses the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations to NMF Holdings, New Mountain Finance, and AIV Holdings under the Administration Agreement, as amended and restated, including rent, the fees and expenses associated with performing administrative, finance and compliance functions, and the compensation of the Company's chief financial officer and chief compliance officer and their respective staffs. During the first year of operations, the Company has capped its direct and indirect expenses under the Administration Agreement, as amended and restated, at \$3.0 million.
- Together, New Mountain Finance and AIV Holdings own all the outstanding units of the Company. As of September 30, 2011, New Mountain Finance and AIV Holdings own approximately 34.6% and 65.4%, respectively, of the units of NMF Holdings.
- The Company, New Mountain Finance, 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 the Company, New Mountain Finance, AIV Holdings, the Investment Adviser and the Administrator, a non-exclusive, royalty-free license to use the name New Mountain and New Mountain Finance.

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

Concurrently with the IPO, 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.

7. Borrowing Facilities

Holdings Credit Facility The Loan and Security Agreement, as amended and restated, dated May 19, 2011 (the Holdings Credit Facility) among NMF Holdings 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 21, 2015. The maximum amount of revolving borrowings available under the Holdings Credit Facility is \$160,000,000. Under the terms of the Holdings Credit Facility, the Company is permitted to borrow up to 45.0% or 25.0% of the purchase price of pledged first lien debt securities or 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 NMF Holdings on an investment by investment basis. All fees associated with the origination or upsizing of the Holdings Credit Facility are capitalized on the Consolidated Statement of Assets, Liabilities, and Member's Capital and charged against income 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 Company to maintain a minimum asset coverage ratio. However, the covenants are generally not tied to mark to market fluctuations in the prices of our investments, but rather to the performance of the underlying portfolio companies.

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The Company became a party to the Holdings Credit Facility upon the IPO of New Mountain Finance. The Holdings Credit Facility amends and restates the credit facility of the Predecessor Entities (the Predecessor Credit Facility). The Predecessor Credit Facility consisted of two separate facilities. First, the Loan and Security Agreement dated October 21, 2009 among New Mountain Guardian (Leveraged), L.L.C. as the Collateral Manager, New Mountain Guardian Debt Funding, L.L.C. as the Borrower, Wells Fargo Securities, L.L.C. as the Administrative Agent, and Wells Fargo Bank, National Association, as the Collateral Custodian, was structured as a revolving credit facility that matured on October 21, 2014. The maximum amount of revolving borrowings available under this credit facility was \$112,500,000. Second, the Loan and Security Agreement dated November 19, 2009 among New Mountain Guardian Partners (Leveraged), L.L.C. as the Collateral Manager, New Mountain Guardian Partners Debt Funding, L.L.C. as the Borrower, 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 that matures on October 21, 2014. The maximum amount of revolving borrowings available under this credit facility was \$7,500,000.

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The Holdings Credit Facility (as well as the Predecessor Credit Facility) bears interest at a rate of LIBOR plus 3.0% per annum 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 \$1,162,756 and \$538,464, respectively, for the nine months ended September 30, 2011. Interest expense and non-usage fees were \$1,608,048 and \$227,601, respectively, for the nine months ended September 30, 2010. The weighted average interest rate for the nine months ended September 30, 2011 and September 30, 2010 was 3.2% and 3.3%, respectively. The average debt outstanding for the nine months ended September 30, 2011 and September 30, 2010 was \$46,718,994 and \$64,764,538, respectively. The outstanding balance as of September 30, 2011 and December 31, 2010 was \$57,903,125 and \$59,696,938, respectively. As of September 30, 2011 and December 31, 2010, the Company was in compliance with all financial and operational covenants required by the credit facilities existing on such dates.

SLF Credit Facility The Loan and Security Agreement, as amended and restated, dated October 27, 2010 (the SLF Credit Facility) among NMF SLF as the Borrower, NMF Holdings 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, 2015. Amendments to the Loan and Security Agreement, dated March 9, 2011 and July 15, 2011, increased the facility size from \$100.0 million to \$150.0 million and \$175.0 million, respectively. The SLF Credit Facility is non-recourse to NMF Holdings and is secured by all assets owned by NMF SLF 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 Member s Capital and charged against income over the life of the SLF Credit Facility. The SLF Credit Facility contains certain customary affirmative and negative covenants and events of default, including the occurrence of a change in control. The covenants are generally not tied to mark to market fluctuations in the prices of our investments, but rather to the performance of the underlying portfolio companies.

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 and bears interest at a rate of LIBOR plus 2.25% per annum. 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 \$2,305,096 and \$82,742, respectively, for the nine months ended September 30, 2011. The weighted average interest rate for the nine months ended September 30, 2011 for the facility was 2.5%. The average debt outstanding for the nine months ended September 30, 2011 was \$123,049,814. The SLF Credit Facility did not exist during the nine months ended September 30, 2010. The outstanding balance as of September 30, 2011 and December 31, 2010 was \$166,606,448 and \$56,936,000, respectively. As of September 30, 2011 and December 31, 2010, NMF SLF was in compliance with all financial and operational covenants required by the SLF Credit Facility.

8. Regulation

As a business development company, NMF Holdings 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).

9. Commitments and Contingencies

In the normal course of business, the Company enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Company has unfunded commitments on revolving credit facilities, which are disclosed on the Consolidated Schedules of Investments and in Note 3, *Investments*. The Company may from time to time enter into financing commitment letters. As of September 30, 2011, the Company has entered into commitment letters to purchase debt investments in an aggregate par amount of \$45.0 million, which could require funding in the future. The Company may also enter into bridge financing commitments, an obligation to provide

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interim financing to a counterparty until permanent credit can be obtained. These commitments are short-term in nature and may expire unfunded. As of September 30, 2011 and December 31, 2010, the Company had no outstanding bridge financing commitments. The Company also has revolving borrowings available under the Holdings Credit Facility and the SLF Credit Facility as of September 30, 2011. See Note 7, *Borrowing Facilities*, for details.

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The following information sets forth the financial highlights for the nine months ended September 30, 2011 and 2010. The ratios to average net assets have been annualized. The total return is not annualized.

| | Nine months ended September 30, 2011 | Nine months ended September 30, 2010 |
|---|---|---|
| Total Return | 6.05% | 19.94% |
| Average net assets for the period | \$ 346,162,848 | \$ 250,372,804 |
| Ratio to average net assets: | | |
| Net investment income | 11.16% | 15.51% |
| Total expenses (gross) | 4.53% | 1.29% |
| Total expenses (net of reimbursable expenses) | 4.01% | 1.29% |

| | May 19, 2011 to September 30, 2011 (a) |
|--|---|
| Per unit data: | |
| Net asset value, May 19, 2011 | \$ 14.08 |
| Net investment income | 0.47 |
| Net realized and unrealized loss | (0.67) |
| Dividends paid | (0.56) |
| Net decrease in net assets resulting from operations | (0.76) |
| Net asset value, September 30, 2011 | \$ 13.32 |

(a) Data presented from May 19, 2011 forward as the fund became unitized on that date, the IPO date.

11. 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 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.

12. Subsequent Events

On October 27, 2011, NMF SLF entered into a fifth amendment to the SLF Credit Facility, which removed the restriction to purchase or sell loans to an affiliate.

On October 27, 2011, NMF Holdings entered into a second amendment to the Holdings Credit Facility, which permitted NMF Holdings to borrow 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.

On November 8, 2011, the Company entered into an Administration Agreement, as amended and restated, by and among the 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. See Note 5, *Agreements*, for further details.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of

New Mountain Finance Holdings, L.L.C.

New York, New York

We have reviewed the accompanying consolidated statement of assets, liabilities and members' capital of New Mountain Finance Holdings, L.L.C. (the Company), including the consolidated schedule of investments as of September 30, 2011, and the related consolidated statements of operations for the three and nine month periods ended September 30, 2011 and September 30, 2010 and the consolidated statements of changes in members' capital and cash flows for the nine month periods ended September 30, 2011 and September 30, 2010. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the combined statements of assets, liabilities and capital of New Mountain Finance Holdings, L.L.C. (Formerly New Mountain Guardian (Leveraged), L.L.C.), including the combined schedule of investments as of December 31, 2010, and the related combined statements of operations, changes in capital, and cash flows for the year then ended (not presented herein); and in our report dated February 25, 2011 (March 28, 2011 as to note 12), we expressed an unqualified opinion on those combined financial statements. In our opinion, the information set forth in the accompanying consolidated statement of assets, liabilities and members' capital, including the consolidated schedule of investments, as of December 31, 2010 is fairly stated, in all material respects, in relation to the combined statement of assets, liabilities, and members' capital, including the combined schedule of investments, from which it has been derived.

DELOITTE & TOUCHE LLP

New York, New York

November 14, 2011

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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 Holdings, L.L.C. (NMF Holdings , 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 we invest;
- the ability of our portfolio companies to achieve their objectives;
- our ability to make investments consistent with our 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.; 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 **Risk Factors** section in our Registration Statement on Form N-2, filed with the Securities and Exchange Commission on May 16, 2011.

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

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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

NMF Holdings is a Delaware limited liability company. NMF Holdings is externally managed and 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. NMF Holdings intends to be treated as a partnership for federal income tax purposes for so long as it has at least two members.

NMF Holdings is externally managed by the Investment Adviser. New Mountain Finance Administration, L.L.C. (the Administrator) provides the administrative services necessary for our 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, 2011. New Mountain Capital focuses on investing in defensive growth companies across its private equity, public equity, and credit investment vehicles. NMF Holdings, 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 .

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This structure was designed to generally prevent New Mountain Finance Corporation (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.

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 1940 Act. As such, New Mountain Finance is obligated to comply with certain regulatory requirements. New Mountain Finance intends to be treated, and intends 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, 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.

New Mountain Finance is a holding company with no direct operations of its own, and its sole asset is its ownership in NMF Holdings. New Mountain Finance entered into a joinder agreement with respect to the Limited Liability Company Agreement, as amended and restated, of NMF Holdings, pursuant to which New Mountain Finance was admitted as a member of NMF Holdings and acquired from NMF Holdings, with the gross proceeds of the IPO and the concurrent private placement, common membership units (units) of NMF Holdings (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). In connection with New Mountain Finance's IPO and through a series of transactions, NMF Holdings owns all of the operations of the Predecessor Entities, including all of the assets and liabilities related to such operations.

Guardian AIV was the parent of NMF Holdings prior to the IPO and as a result of the transactions completed in connection with the IPO obtained units in NMF Holdings. Guardian AIV contributed its units in NMF Holdings 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 NMF Holdings for shares of New Mountain Finance's common stock on a one-for-one basis. As of September 30, 2011, New Mountain Finance and AIV Holdings own approximately 34.6% and 65.4%, respectively, of the units of NMF Holdings.

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The diagram below depicts our current organizational structure.

NMF Holdings 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, our 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, 2011, our net asset value was \$411.9 million and our 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 our portfolio are purchased at fair value on September 30, 2011 and held until their

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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 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 our 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 Company, but rather the assets themselves are consolidated into the Company.

Recent Developments

On October 27, 2011, NMF SLF entered into a fifth amendment to the SLF Credit Facility, which removed the restriction to purchase or sell loans to an affiliate.

On October 27, 2011, NMF Holdings entered into a second amendment to the Holdings Credit Facility, which permitted NMF Holdings to borrow 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.

On November 8, 2011, NMF Holdings entered into Amendment No. 1 to the Trademark License Agreement, as amended, by and among New Mountain Capital, L.L.C., NMF Holdings, New Mountain Finance, AIV Holdings, the Investment Adviser and the

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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, NMF Holdings entered into an Administration Agreement, as amended and restated, by and among NMF Holdings, 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, NMF Holdings entered into Amendment No. 1 to the Limited Liability Company Agreement, as amended and restated, of NMF Holdings, which clarified certain cost and expense allocation provisions in such agreement.

Dividend

On November 8, 2011, our 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 its common stock will be paid from distributions received from NMF Holdings. NMF Holdings intends to make distributions to its unit holders that will be sufficient to enable New Mountain Finance to pay quarterly distributions to its stockholders and to obtain and maintain its status as a RIC. New Mountain Finance intends to distribute approximately all of its portion of our adjusted net investment income (see Results of Operations) on a quarterly basis and substantially all of its portion of our taxable income on an annual basis, except that it may retain certain net capital gains for reinvestment.

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.

Valuation of Portfolio Investments

NMF Holdings conducts the valuation of 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.

NMF Holdings values its assets on a quarterly basis, or more frequently if required under the 1940 Act. In all cases, our Board of Directors is ultimately and solely responsible for determining the fair value of our 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 our portfolio investments require a fair value determination. Security transactions are accounted for on a trade date basis. Our 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 Bloomberg.
- (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 Interactive Data Corporation. Analytics are performed by the investment professionals of the Company's Investment Adviser to ensure that the quote obtained is representative of fair value in accordance with GAAP and if so, the quote is used. If the Investment Adviser is unable to sufficiently validate the quote(s) internally and if the investment's par value 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, we look at the number of quotes readily available and perform the following:
 - i. Investments for which more than two 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 or two quotes are 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

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to sufficiently validate the quote(s) 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 our senior management;

c. If an investment falls into (3) above for four consecutive quarters, then at least once each fiscal year, the valuation for each portfolio investment for which we do not have a readily available market quotation will be reviewed by an independent valuation firm engaged by our board of directors.

d. Also, when deemed appropriate by our management, an independent valuation firm may be engaged to review and value investment(s) in 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.

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 NMF Holdings 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), NMF Holdings, to the extent that we hold such investments, does not adjust the quoted price for these investments, even in situations where NMF Holdings 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:

- A) Quoted prices for similar assets or liabilities in active markets;
- B) Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);
- C) 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
- D) 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.

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The following table summarizes the levels in the fair value hierarchy that our portfolio investments fall into as of September 30, 2011:

(in thousands)

| | Total | Level I | Level II | Level III |
|-------------------|--------------|----------------|-----------------|------------------|
| First lien | \$ 383,083 | \$ | 368,608 | \$ 14,475 |
| Second lien | 192,152 | | 168,152 | 24,000 |
| Subordinated | 28,697 | | 14,285 | 14,412 |
| Equity and other | 402 | | | 402 |
| Total investments | \$ 604,334 | \$ | 551,045 | \$ 53,289 |

Monitoring of Portfolio Investments

We monitor the performance and financial trends of our portfolio companies on at least a quarterly basis. We attempt to identify any developments within the portfolio company, the industry or the macroeconomic environment that may alter any material element of our original investment strategy.

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

- Investment Rating 1 Investment is performing above expectations;
- Investment Rating 2 Investment is performing in-line with expectations. All new loans are rated 2 when approved;
- Investment Rating 3 Investment is performing below expectations and risk has increased since the original investment; and
- Investment Rating 4 Investment is performing substantially below expectations and risks have increased substantially since the original investment.

As of September 30, 2011, all investments in our portfolio had an Investment Rating of 1 or 2 with the exception of one investment. As of September 30, 2011, ATI Acquisition Company had an Investment Rating of 3 due to the underlying business encountering some regulatory headwinds which, while we believe will ultimately be resolved, have led to the company's underperformance in the current quarter. As of September 30, 2011, our investment in ATI Acquisition Company had a cost basis of \$4.3 million and a fair value of \$1.4 million.

Revenue Recognition

The 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. NMF Holdings has loans in the portfolio that contain a payment-in-kind (PIK) provision. PIK represents interest that is accrued and recorded as interest income at the contractual rates, added to the loan principal on the respective capitalization dates, and generally due at maturity.

Non-accrual income: Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan 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 and 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.

Table of Contents***Portfolio and Investment Activity***

The fair value of our investments was approximately \$604.3 million in 50 portfolio companies at September 30, 2011 and \$441.1 million in 43 portfolio companies at December 31, 2010. For the nine months ended September 30, 2011, NMF Holdings made approximately \$354.2 million of new investments in 28 portfolio companies. For the year ended December 31, 2010, NMF Holdings made approximately \$332.7 million of new investments in 34 portfolio companies.

For the nine months ended September 30, 2011, NMF Holdings 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. In addition, during the nine months ended September 30, 2011, NMF Holdings 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. For the year ended December 31, 2010, NMF Holdings had approximately \$40.3 million in debt repayments in existing portfolio companies and sales of securities in 16 portfolio companies aggregating approximately \$217.9 million. During the year ended December 31, 2010, NMF Holdings had a change in unrealized appreciation on 36 portfolio companies totaling approximately \$13.0 million, which was offset by a change in unrealized depreciation on 18 portfolio companies totaling approximately \$53.0 million.

At September 30, 2011, our weighted average Unadjusted and Adjusted Yield to Maturity was approximately 10.9% and 14.0%, respectively.

Results of Operations

Under GAAP, New Mountain Finance's IPO did not step-up the cost basis of our existing investments to fair market value at the IPO date. Since the total value of our 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 investments are sold or mature in the future. We track the transferred (or fair market) value of each of our investment as of the time of the IPO and, for purposes of the incentive fee calculation, adjust 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 (as defined in Note 5, *Agreements*, of the notes to the financial statements included in this report) is used in calculating both the incentive fee and dividend payments. The below Statement of Operations for the three months ended September 30, 2011 is adjusted to reflect this step-up to fair market value.

(in thousands)

| | Three months ended to September 30, 2011 | Adjustments | Adjusted Three months ended to September 30, 2011 |
|--------------------------|---|-------------|---|
| Investment income | | | |
| Interest income | \$ 14,861 | \$ (1,190) | \$ 13,671 |
| Other income | 208 | | 208 |

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| | | | |
|---|-------------|---------|----------|
| Total investment income | 15,069 | (1,190) | 13,879 |
| Total expenses | 5,067 | | 5,067 |
| Net Investment Income | 10,002 | (1,190) | 8,812 |
| Realized gain on investments | 1,402 | (1,396) | 6 |
| Net change in unrealized (depreciation) appreciation of investments | (22,657) | 2,586 | (20,071) |
| Net decrease in capital resulting from operations | \$ (11,253) | \$ | (11,253) |

For the three months ended September 30, 2011, we had a \$1.2 million adjustment to interest income for amortization and a decrease of \$1.4 million to realized gains to adjust for the stepped-up cost basis of the transferred investments. Adjusted Net Investment Income was \$8.8 million for the three months ended September 30, 2011.

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The following table for the period May 19, 2011 (effective date of the Investment Management Agreement) to September 30, 2011 is adjusted to reflect the step-up to fair market value.

(in thousands)

| | Period from May 19, 2011 to September 30, 2011 | Adjustments | Adjusted Period from May 19, 2011 to September 30, 2011 |
|---|--|-------------|--|
| Investment income | | | |
| Interest income | \$ 21,865 | \$ (1,748) | \$ 20,117 |
| Other income | 514 | | 514 |
| Total investment income | 22,379 | (1,748) | 20,631 |
| Total expenses | 7,799 | | 7,799 |
| Net Investment Income | 14,580 | (1,748) | 12,832 |
| Realized gain (loss) on investments | 1,001 | (1,182) | (181) |
| Net change in unrealized (depreciation) appreciation of investments | (21,557) | 2,930 | (18,627) |
| Net decrease in capital resulting from operations | \$ (5,976) | | \$ (5,976) |

For the period May 19, 2011 (effective date of the Investment Management Agreement) to September 30, 2011, we had a \$1.7 million adjustment to interest income for amortization and a decrease of \$1.2 million to realized gains to adjust for the stepped-up cost basis of the transferred investments. Adjusted Net Investment Income was \$12.8 million for the period May 19, 2011 (effective date of the Investment Management Agreement) to September 30, 2011.

Results of Operations for the Quarter Ended September 30, 2011 compared to the Quarter Ended September 30, 2010

Revenue

| | Three months ended | | |
|-------------------------|--------------------|--------------------|----------|
| | September 30, 2011 | September 30, 2010 | % Change |
| | (in thousands) | | |
| Interest income | \$ 14,861 | \$ 13,598 | 9% |
| Other income | 208 | 283 | (27)% |
| Total investment income | \$ 15,069 | \$ 13,881 | |

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Total investment income increased by \$1.2 million for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. The increase in investment income during the three months ended September 30, 2011 was primarily attributable to larger invested balances, which were mainly driven by the proceeds of the IPO on May 19, 2011 and the formation of NMF SLF. NMF SLF, formed on October 7, 2010 as our wholly-owned subsidiary, uses cash injected by NMF Holdings and leverage from its revolving credit facility to invest primarily in first lien debt securities.

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| | Three months ended | | % Change |
|---|--------------------|--------------------|----------|
| | September 30, 2011 | September 30, 2010 | |
| | (in thousands) | | |
| Interest and other credit facility expenses | \$ 1,686 | \$ 689 | 145% |
| Management fee | 1,930 | 18 | NM* |
| Incentive fee | 701 | | N/A |
| Professional fees | 55 | (79) | 170% |
| Other expenses | 695 | 108 | 544% |
| Total operating expenses | \$ 5,067 | \$ 736 | |

* Not meaningful.

Total operating expenses increased by \$4.3 million for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. Interest and other credit facility expenses increased by \$1.0 million during the three months ended September 30, 2011. The credit facility of NMF SLF was originally executed in October 2010 and therefore not outstanding at anytime during the three months ended September 30, 2010. Costs associated with the closing of the credit facility of NMF SLF are capitalized and charged against income as other credit facility expenses.

Additionally, management fees and incentive fees increased \$1.9 million and \$0.7 million, respectively, for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. As a result of the IPO on May 19, 2011, NMF Holdings 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 and other expenses that have been incurred following the completion of the IPO. Accordingly, our historical operating expenses are not comparable to our operating expenses after the completion of the IPO.

Realized Gains and Net Change in Unrealized (Depreciation) Appreciation

| | Three Months Ended | |
|--|--------------------|--------------------|
| | September 30, 2011 | September 30, 2010 |
| | (in thousands) | |
| Realized gains on investments | \$ 1,402 | \$ 18,696 |
| Net change in unrealized (depreciation) appreciation of investments | (22,657) | (13,135) |
| Total net realized gains and net change in unrealized (depreciation) appreciation of investments | \$ (21,255) | \$ 5,561 |

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The net realized and unrealized gains or losses resulted in a net loss of \$21.3 million for the three months ended September 30, 2011 compared to a net gain of \$5.6 million for the same period in 2010. The net loss for the three months ended September 30, 2011 was primarily driven by the overall decline in market prices during the period. The net gain for the three months ended September 30, 2010 was primarily driven by the sale of investments at values higher than the fair values of the investments at the beginning of the quarter.

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Table of Contents*Results of Operations for the Nine Months Ended September 30, 2011 compared to the Nine Months Ended September 30, 2010**Revenue*

| | Nine months ended | | |
|-------------------------|--------------------|--------------------|----------|
| | September 30, 2011 | September 30, 2010 | % Change |
| | (in thousands) | | |
| Interest income | \$ 38,839 | \$ 30,818 | 26% |
| Other income | 558 | 737 | (24)% |
| Total investment income | \$ 39,397 | \$ 31,555 | |

Total investment income increased by \$7.8 million for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. The increase in investment income during the nine months ended September 30, 2011 was primarily attributable to larger and additional invested balances, which were mainly driven by the proceeds of the IPO on May 19, 2011 and the formation of NMF SLF. NMF SLF, formed on October 7, 2010, uses cash injected by NMF Holdings and leverage from its revolving credit facility to invest primarily in first lien debt securities. Additionally in 2011, interest income increased due to prepayment premiums associated with the refinancing and early repayment of the debt of multiple portfolio companies.

Operating Expenses

| | Nine months ended | | |
|---|--------------------|--------------------|----------|
| | September 30, 2011 | September 30, 2010 | % Change |
| | (in thousands) | | |
| Interest and other credit facility expenses | \$ 4,767 | \$ 1,911 | 149% |
| Management fee | 2,738 | 53 | NM* |
| Incentive fee | 1,205 | | N/A |
| Professional fees | 625 | 115 | 443% |
| Other expenses | 1,076 | 347 | 210% |
| Total operating expenses | \$ 10,411 | \$ 2,426 | |

* Not meaningful.

Total operating expenses increased by \$8.0 million for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. Interest and other credit facility expenses increased by \$2.9 million during the nine months ended September 30, 2011. The credit facility of NMF SLF was originally executed in October 2010 and therefore not outstanding at anytime during the nine months ended September 30, 2010. Costs associated with the closing of the credit facility of NMF SLF are capitalized and charged against income as other credit facility expense.

Additionally, management fees and incentive fees increased \$2.7 million and \$1.2 million, respectively, for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. As a result of the IPO on May 19, 2011, NMF Holdings 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 and other expenses that have been incurred following the completion of the IPO. Accordingly, our historical operating expenses are not comparable to our operating expenses after the completion of the IPO.

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

| | Nine months ended | |
|--|--------------------|--------------------|
| | September 30, 2011 | September 30, 2010 |
| | (in thousands) | |
| Realized gains on investments | \$ 13,955 | \$ 47,889 |
| Net change in unrealized (depreciation) appreciation of investments | (29,119) | (29,539) |
| Total net realized gains and net change in unrealized (depreciation) appreciation of investments | \$ (15,164) | \$ 18,350 |

The net realized and unrealized gains or losses resulted in a net loss of \$15.2 million for the nine months ended September 30, 2011 compared to a net gain of \$18.4 million for the same period in 2010. 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. The net gain during the nine months ended September 30, 2010 was primarily driven by the sharp rise in market prices. We look at total realized and unrealized gains or losses together as movement in unrealized appreciation or depreciation can be the result of realizations.

Liquidity and Capital Resources

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

Guardian AIV and New Mountain Guardian Partners, L.P. contributed a portfolio to NMF Holdings in connection with the IPO of New Mountain Finance, receiving 20,221,938 units of NMF Holdings and 1,252,965 shares of New Mountain Finance, respectively. On May 19, 2011, New Mountain Finance 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, 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. New Mountain Finance used the gross proceeds from the IPO and concurrent private placement to acquire units in NMF Holdings.

NMF Holdings 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 New Mountain Finance.

At September 30, 2011 and December 31, 2010, we had cash and cash equivalents of approximately \$18.4 and \$10.7 million, respectively. Cash (used in) provided by operating activities for the nine months ended September 30, 2011 and 2010 was approximately \$(252.0) million and \$18.5 million, respectively. We expect that all current liquidity needs 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 NMF Holdings 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 21, 2015. The maximum amount of revolving borrowings available under the Holdings Credit Facility is \$160.0 million. Under the terms of the Holdings Credit Facility, we are permitted to borrow up to 45.0% or 25.0% of the purchase price of pledged first lien debt securities or 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 NMF Holdings on an investment by investment basis. All fees associated with the origination or upsizing of the facility are capitalized on the Consolidated Statement of Assets, Liabilities, and Members Capital and charged against income 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 us to maintain a minimum asset coverage ratio. However, the covenants are generally not tied to mark to market fluctuations in the prices of our investments, but rather to the performance of the underlying portfolio companies.

The Holdings Credit Facility bears interest at a rate of LIBOR plus 3.0% per annum 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 \$1.2 million and \$0.5 million, respectively, for the nine months ended September 30, 2011. Interest expense and non-usage fees were \$1.6 million and \$0.2 million, respectively, for the nine months ended September 30, 2010. The weighted average interest rate for the nine months ended September 30, 2011 and September 30, 2010 was 3.2% and 3.3%, respectively. The average debt outstanding for the nine months ended September 30, 2011 and September 30, 2010 was \$46.7 million and \$64.8 million, respectively. The outstanding balance of Holdings Credit Facility as of September 30, 2011 and December 31, 2010 was \$57.9 million and \$59.7

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million, respectively. As of September 30, 2011 and December 31, 2010, the Company was in compliance with all financial and operational covenants required by the existing credit facilities.

SLF Credit Facility The Loan and Security Agreement, as amended and restated, dated October 27, 2010 (the SLF Credit Facility) among NMF SLF as the Borrower, NMF Holdings 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, 2015. Amendments to the Loan and Security Agreement, dated March 9, 2011 and July 15, 2011, increased the facility size from \$100.0 million to \$150.0 million and \$175.0 million, respectively. The loan is non-recourse to NMF Holdings 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 over the life of the SLF Credit Facility. The SLF Credit Facility contains certain customary affirmative and negative covenants and events of default, including the occurrence of a change in control. The covenants are generally not tied to mark to market fluctuations in the prices of our investments, but rather to the performance of the underlying portfolio companies.

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 and bears interest at a rate of LIBOR plus 2.25% per annum. 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 \$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, 2011 for the facility was 2.5%. The average debt outstanding for the nine months ended September 30, 2011 was \$123.0 million. The SLF Credit Facility did not exist during the nine months ended September 30, 2010. The outstanding balance as of September 30, 2011 and December 31, 2010 was \$166.6 million and \$56.9 million, respectively. As of September 30, 2011 and December 31, 2010, NMF SLF was in compliance with all financial and operational covenants required by the existing credit facilities.

Off-Balance Sheet Arrangements

NMF Holdings may become a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our 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, 2011 and December 31, 2010, NMF Holdings had outstanding commitments to third parties to fund investments totaling \$22.7 million and \$12.2 million, respectively, under various undrawn revolving credit and other credit facilities.

NMF Holdings may from time to time enter into financing commitment letters or bridge financing commitments. As of September 30, 2011, we entered into commitment letters to purchase debt investments in an aggregate par amount of \$45.0 million, which could require funding in the future.

Borrowings

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Borrowings of \$57.9 million and \$59.7 million were outstanding as of September 30, 2011 and December 31, 2010, respectively, under the Holdings Credit Facility. Borrowings of \$166.6 million and \$56.9 million were outstanding as of September 30, 2011 and December 31, 2010, respectively, under the SLF Credit Facility.

Contractual Obligations

A summary of our significant contractual payment obligations as of September 30, 2011 is as follows:

| | Contractual Obligations | | | | |
|--------------------------------------|--|-----------------------------|------------------------|------------------------|------------------------------|
| | Payments Due by Period (in thousands) | | | | |
| | Total | Less than 1 Year | 1 - 3 Years | 3 - 5 Years | More than 5 Years |
| Holdings Credit Facility (1) | \$ 57,903 | \$ | \$ | \$ 57,903 | \$ |
| SLF Credit Facility (2) | 166,606 | | | 166,606 | |
| Total Contractual Obligations | \$ 224,509 | \$ | \$ | 224,509 | \$ |

(1) Under the terms of the \$160.0 million Holdings Credit Facility, all outstanding borrowings under that facility (\$57.9 million as of September 30, 2011) were required to be repaid on or before October 21, 2015. As of September 30, 2011, there was approximately \$102.1 million of possible capacity remaining under the Holdings Credit Facility.

(2) Under the terms of the \$175.0 million SLF Credit Facility, all outstanding borrowings under that facility (\$166.6 million as of September 30, 2011) must be repaid on or before October 27, 2015. As of September 30, 2011, there was approximately \$8.4 million of possible capacity remaining under the SLF Credit Facility.

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NMF Holdings has certain contracts under which it has material future commitments. NMF Holdings has \$22.7 million of undrawn funding commitments as of September 30, 2011 related to its participation as a lender in revolving credit facilities of our portfolio companies.

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 us 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, New Mountain Finance, and AIV Holdings have also entered into an Administration Agreement, as amended and restated, with the Administrator. Under the Administration Agreement, as amended and restated, the Administrator has agreed to arrange office facilities for us, New Mountain Finance, and AIV Holdings and provide office equipment and clerical, bookkeeping and record keeping services and other administrative services necessary to conduct their respective day-to-day operations.

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, as amended and restated.

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 our board of directors, and subsequently New Mountain Finance's board of directors, since New Mountain Finance's 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 NMF Holdings and New Mountain Finance will be determined by the respective board of directors.

Since New Mountain Finance is a holding company, distributions will be paid on its common stock from distributions received from NMF Holdings. NMF Holdings intends to make distributions to its unit holders that will be sufficient to enable New Mountain Finance to pay quarterly distributions to its stockholders and to obtain and maintain its status as a RIC. New Mountain Finance intends to distribute approximately its entire portion of the NMF Holdings Adjusted Net Investment Income on a quarterly basis and substantially its entire portion of NMF Holdings taxable income on an annual basis, except that it may retain certain net capital gains for reinvestment.

New Mountain Finance maintains an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, then New Mountain Finance stockholders' cash dividends will be automatically reinvested in additional shares of 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 NMF Holdings in exchange for additional units of NMF Holdings.

Related Parties

NMF Holdings has entered into a number of business relationships with affiliated or related parties, including the following:

- NMF Holdings has entered into an 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.
- NMF Holdings, New Mountain Finance, and AIV Holdings have entered into an Administration Agreement, as amended and restated, with the Administrator, a wholly-owned subsidiary of New Mountain Capital. The Administrator arranges office space for NMF Holdings, New Mountain Finance and AIV Holdings and provides office equipment and administrative services necessary to conduct their respective day-to-day operations pursuant to the Administration Agreement, as amended

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and restated. NMF Holdings reimburses the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations to NMF Holdings, New Mountain Finance, and AIV Holdings under the Administration Agreement, as amended and restated, including rent, the fees and expenses associated with performing administrative, finance, and compliance functions, and the compensation of NMF Holdings' chief financial officer and chief compliance officer and their respective staffs. During the first year of operations, NMF Holdings has capped its direct and indirect expenses under the Administration Agreement, as amended and restated, at \$3.0 million.

- Together, New Mountain Finance and AIV Holdings own all the outstanding units of NMF Holdings. As of September 30, 2011, New Mountain Finance and AIV Holdings own approximately 34.6% and 65.4%, respectively, of the units of NMF Holdings.
- NMF Holdings, New Mountain Finance, 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 NMF Holdings, New Mountain Finance, AIV Holdings, the Investment Adviser and the Administrator, a non-exclusive, royalty-free license to use the name New Mountain and New Mountain Finance.

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

In addition, New Mountain Finance and NMF Holdings 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.

Table of Contents**Item 3. Quantitative and Qualitative Disclosure about Market Risk**

We are subject to certain financial market risks, such as interest rate fluctuations. During the three months ended September 30, 2011, certain of the loans held in our portfolio had floating interest rates. Interest rates on the loans held within our portfolio of investments are typically based on floating LIBOR, with many of these assets also having a LIBOR floor. Additionally, our senior secured revolving credit facilities are also subject to floating interest rates and are currently paid based on 1-month floating LIBOR rates.

The following table estimates the potential changes in net cash flow generated from interest income and expenses, should interest rates increase by 100, 200 or 300 basis points, or decrease by 25 basis points. Interest income is calculated as revenue from interest generated from our portfolio of investments held on September 30, 2011. Interest expense is calculated based on the terms of our two outstanding revolving credit facilities. For our floating rate credit facilities, we use the outstanding balance as of September 30, 2011. Interest expense on our floating rate credit facilities are calculated using the interest rate as of September 30, 2011, adjusted for the hypothetical changes in rates, as shown below. The base interest rate case assumes the rates on our portfolio investments remain unchanged from the actual effective interest rates as of September 30, 2011. These hypothetical calculations are based on a model of the investments in our portfolio, held as of September 30, 2011, and are only adjusted for assumed changes in the underlying base interest rates.

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

| Change in Interest Rates | Estimated Percentage Change in Interest Income Net of Interest Expense (unaudited) |
|--------------------------|--|
| -25 Basis Points | 1.1% |
| Base Interest Rate | 0.0% |
| +100 Basis Points | (3.8)% |
| +200 Basis Points | 1.0% |
| +300 Basis Points | 9.3% |

We were not exposed to any foreign currency exchange risks as of September 30, 2011.

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 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 reporting companies.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We, New Mountain Finance Advisers BDC, L.L.C. and New Mountain Finance Administration, L.L.C., are not currently subject to any material pending legal proceedings threatened against us. From time to time, we may be a party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our business, financial condition or results of operations.

Item 1A. Risk Factors

The recent downgrade of the U.S. credit rating could negatively impact our liquidity, financial condition and earnings. Due to the current federal budget deficit concerns, Standard & Poor's (S&P) downgraded the federal government's credit rating from AAA to AA+ for the first time in history on August 5, 2011. This downgrade could lead to subsequent downgrades by S&P, as well as to downgrades by the other two major credit rating agencies, Moody's and Fitch Ratings. These developments and the government's credit concerns in general, could cause interest rates and borrowing costs to rise, which may negatively impact both the perception of credit risk associated with our debt portfolio and our ability to access the debt markets on favorable terms. In addition, a decreased credit rating could create broader financial turmoil and uncertainty, which may weigh heavily on our stock price and our financial performance.

Besides the risk mentioned above, there has been no material change in the information provided under the heading "Risk Factors" in our Registration Statement on Form N-2 dated May 16, 2011. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may materially affect our business, financial condition and/or operating results.

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

We did not engage in unregistered sales of securities during the quarter ended September 30, 2011.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

On October 27, 2011, NMF SLF entered into a fifth amendment to the SLF Credit Facility, which removed the restriction to purchase or sell loans to an affiliate.

On October 27, 2011, NMF Holdings entered into a second amendment to the Holdings Credit Facility, which permitted NMF Holdings to borrow 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.

On November 8, 2011, NMF Holdings entered into Amendment No. 1 to the Trademark License Agreement, as amended, by and among New Mountain Capital, L.L.C., NMF Holdings, 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, NMF Holdings entered into an Administration Agreement, as amended and restated, by and among NMF Holdings, 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, NMF Holdings entered into Amendment No. 1 to the Limited Liability Company Agreement, as amended and restated, of NMF Holdings, which clarified certain cost and expense allocation provisions in such agreement.

Table of Contents**Item 6. Exhibits**

(a) Exhibits

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

| Exhibit Number | Description |
|---------------------------|--|
| 2.1 | Merger Agreement, dated May 19, 2011 by and between New Mountain Finance Holdings, L.L.C. and New Mountain Guardian Debt Funding, L.L.C.** |
| 2.2 | Merger Agreement, dated May 19, 2011 by and between New Mountain Guardian Partners Debt Funding, L.L.C. and New Mountain Guardian Partners (Leveraged), L.L.C.** |
| 2.3 | Merger Agreement, dated May 19, 2011 by and between New Mountain Finance Holdings, L.L.C. and New Mountain Guardian Partners (Leveraged), L.L.C.** |
| 3.1 | Certificate of Formation of New Mountain Guardian (Leveraged), L.L.C.* |
| 3.2 | Certificate of Amendment to Certificate of Formation of New Mountain Guardian (Leveraged), L.L.C. changing its name to New Mountain Finance Holdings, L.L.C.** |
| 3.3 | Amended and Restated Limited Liability Company Agreement of New Mountain Finance Holdings, L.L.C.** |
| 3.4 | First Joinder Agreement with Respect to the Amended and Restated Limited Liability Company Agreement of New Mountain Finance Holdings, L.L.C.** |
| 3.5 | Second Joinder Agreement with Respect to the Amended and Restated Limited Liability Company Agreement of New Mountain Finance Holdings, L.L.C.** |
| 3.6 | Amendment No. 1 to the Amended and Restated Limited Liability Company Agreement of New Mountain Finance Holdings, L.L.C.** |
| 10.1 | Letter Agreement relating to entry into Amended and Restated Loan and Security Agreement by and among New Mountain Finance Holdings, L.L.C., as Borrower and Collateral Administrator, each of the lenders thereto, Wells Fargo Securities, LLC, as Administrative Agent and Wells Fargo Bank, N.A., as Collateral Custodian.* |
| 10.2 | Form of Variable Funding Note of New Mountain Finance Holdings, L.L.C., as the Borrower* |
| 10.3 | Form of Amended and Restated Account Control Agreement among New Mountain Finance Holdings, L.L.C., Wells Fargo Securities, LLC as the Administrative Agent and Wells Fargo Bank, National Association, as Securities Intermediary* |
| 10.4 | First Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent and Wells Fargo Bank, N.A., as Lender*** |
| 10.5 | Second Amendment to Amened and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent and Wells Fargo Bank, N.A., as Lender*** |
| 10.6 | Third Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities LLC, As Administrative Agent and Wells Fargo Bank, N.A., as Lender*** |

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- 10.7 Loan and Security Agreement by and among New Mountain Guardian (Leveraged), L.L.C., as Collateral Administrator, New Mountain Guardian SPV Funding, L.L.C., as Borrower, each of the lenders party thereto, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Collateral Custodian*
- 10.8 First Amendment to Loan and Security Agreement between New Mountain Guardian SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender*
- 10.9 Second Amendment to Loan and Security Agreement between New Mountain Guardian SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender*
- 10.10 Third Amendment to Loan and Security Agreement between New Mountain Guardian SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender***
- 10.11 Fourth Amendment to Loan and Security Agreement between New Mountain Finance SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender***
- 10.12 Fifth Amendment to Loan and Security Agreement between New Mountain SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender***
- 10.13 Account Control Agreement by and between New Mountain Guardian SPV Funding, L.L.C., as Pledgor, Wells Fargo Securities, LLC, as Administrative Agent on behalf of the Secured Parties, and Wells Fargo Bank, N.A., as Securities Intermediary*
- 10.14 Variable Funding Note of New Mountain Guardian SPV Funding, L.L.C., as the Borrower*

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| Exhibit Number | Description |
|-------------------|--|
| 10.15 | Form of Investment Management Agreement* |
| 10.16 | Form of Safekeeping Agreement among New Mountain Finance Holdings, L.L.C., Wells Fargo Securities, LLC as the Administrative Agent and Wells Fargo Bank, National Association, as Safekeeping Agent* |
| 10.17 | Amended and Restated Administration Agreement*** |
| 10.18 | Form of Trademark License Agreement* |
| 10.19 | Form of Registration Rights Agreement* |
| 10.20 | Form of Indemnification Agreement by and between New Mountain Finance Holdings, L.L.C. and each director* |
| 10.21 | Form of Letter Agreement relating to Lock-Up Period by and among New Mountain Finance Holdings, L.L.C. and New Mountain Finance Advisers BDC, L.L.C.* |
| 10.22 | Amendment No. 1 to Trademark License Agreement*** |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 |

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

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

*** Previously filed in connection with New Mountain Finance Corporation's quarterly report on Form 10-Q filed on November 14, 2011.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 14, 2011.

NEW MOUNTAIN FINANCE HOLDINGS, L.L.C.

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

By: **/s/ Adam B. Weinstein**
Adam B. Weinstein
Chief Financial Officer
(Principal Financial and Accounting Officer)

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We, the Operating Company, New Mountain Finance Advisers BDC, L.L.C., and New Mountain Finance Administration, L.L.C are not currently subject to any material pending legal proceedings threatened against us. From time to time, we may be a party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our business, financial condition or results of operations.

Item 1A. Risk Factors

The recent downgrade of the U.S. credit rating could negatively impact our liquidity, financial condition and earnings. Due to the current federal budget deficit concerns, Standard & Poor's (S&P) downgraded the federal government's credit rating from AAA to AA+ for the first time in history on August 5, 2011. This downgrade could lead to subsequent downgrades by S&P, as well as to downgrades by the other two major credit rating agencies, Moody's and Fitch Ratings. These developments and the government's credit concerns in general, could cause interest rates and borrowing costs to rise, which may negatively impact both the perception of credit risk associated with our debt portfolio and our ability to access the debt markets on favorable terms. In addition, a decreased credit rating could create broader financial turmoil and uncertainty, which may weigh heavily on our stock price and our financial performance.

There has been no other material change in the information provided under the heading "Risk Factors" in our Registration Statement on Form N-2 dated May 16, 2011. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may materially affect our business, financial condition and/or operating results.

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

We did not engage in unregistered sales of securities during the quarter ended September 30, 2011.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

On October 27, 2011, NMF SLF entered into a fifth amendment to the SLF Credit Facility, which removed the restriction to purchase or sell loans to an affiliate.

On October 27, 2011, NMF Holdings entered into a second amendment to the Holdings Credit Facility, which permitted NMF Holdings to borrow 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.

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., New Mountain Finance, the Operating Company, 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 New Mountain Finance, the Operating Company, 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.

Table of Contents**Item 6. Exhibits**

(a) Exhibits

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

| Exhibit Number | Description |
|-----------------------|---|
| 2.1 | Merger Agreement dated May 19, 2011 by and between New Mountain Finance Holdings, L.L.C. and new Mountain Guardian Debt Funding, L.L.C.*** |
| 2.2 | Merger Agreement dated May 19, 2011 by and between New Mountain Guardian Partners Debt Funding, L.L.C. and New Mountain Guardian Partners (Leveraged), L.L.C.*** |
| 2.3 | Merger Agreement dated May 19, 2011 by and between New Mountain Finance Holdings, L.L.C. and New Mountain Guardian Partners (Leveraged), L.L.C.*** |
| 3.1 | Certificate of Incorporation of New Mountain Finance Corporation* |
| 3.2 | Certificate of Amendment to Certificate of Incorporation of New Mountain Guardian Corporation changing its name to New Mountain Finance Corporation** |
| 3.3 | Amended and Restated Certificate of Incorporation of New Mountain Finance Corporation*** |
| 3.4 | Certificate of Change of Registered Agent and/or Registered office of New Mountain Finance Corporation**** |
| 3.5 | Bylaws of New Mountain Finance Corporation* |
| 3.6 | Amended and Restated Bylaws of New Mountain Finance Corporation*** |
| 4.1 | Form of Common Stock Certificate** |
| 10.1 | Letter Agreement relating to entry into Amended and Restated Loan and Security Agreement by and among New Mountain Finance Holdings, L.L.C., as Borrower and Collateral Administrator, each of the lenders thereto, Wells Fargo Securities, LLC, as Administrative Agent and Wells Fargo Bank, N.A., as Collateral Custodian* |
| 10.2 | Form of Variable Funding Note of New Mountain Finance Holdings, L.L.C., as the Borrower* |
| 10.3 | Form of Amended and Restated Account Control Agreement among New Mountain Finance Holdings, L.L.C., Wells Fargo Securities, LLC as the Administrative Agent and Wells Fargo Bank, National Association, as Securities Intermediary* |
| 10.4 | First Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent and Wells Fargo Bank, N.A., as Lender |
| 10.5 | Second Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent and Wells Fargo Bank, N.A., as Lender |
| 10.6 | Third Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities LLC, As Administrative Agent and Wells Fargo Bank, N.A., as Lender |

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- 10.7 Loan and Security Agreement by and among New Mountain Guardian (Leveraged), L.L.C., as Collateral Administrator, New Mountain Guardian SPV Funding, L.L.C., as Borrower, each of the lenders party thereto, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Collateral Custodian*
- 10.8 First Amendment to Loan and Security Agreement between New Mountain Guardian SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender*
- 10.9 Second Amendment to Loan and Security Agreement between New Mountain Guardian SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender*
- 10.10 Third Amendment to Loan and Security Agreement between New Mountain Guardian SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender
- 10.11 Fourth Amendment to Loan and Security Agreement between New Mountain Finance SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender
- 10.12 Fifth Amendment to Loan and Security Agreement between New Mountain SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender
- 10.13 Account Control Agreement by and between New Mountain Guardian SPV Funding, L.L.C., as Pledgor, Wells Fargo Securities, LLC, as Administrative Agent on behalf of the Secured Parties, and Wells Fargo Bank, N.A., as Securities Intermediary*

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| Exhibit Number | Description |
|-------------------|--|
| 10.14 | Variable Funding Note of New Mountain Guardian SPV Funding, L.L.C., as the Borrower* |
| 10.15 | Form of Investment Management Agreement* |
| 10.16 | Form of Safekeeping Agreement among New Mountain Finance Holdings, L.L.C., Wells Fargo Securities, LLC as the Administrative Agent and Wells Fargo Bank, National Association, as Safekeeping Agent* |
| 10.17 | Amended and Restated Administration Agreement |
| 10.18 | Form of Trademark License Agreement* |
| 10.19 | Form of Registration Rights Agreement* |
| 10.20 | Form of Indemnification Agreement by and between New Mountain Finance Holdings, L.L.C. and each executive officer and director* |
| 10.21 | Form of Letter Agreement relating to Lock-Up Period by and among New Mountain Finance Holdings, L.L.C. and New Mountain Finance Advisers BDC, L.L.C.* |
| 10.22 | Dividend Reinvestment Plan*** |
| 10.23 | Second Joinder Agreement with Respect to the Amended and Restated Limited Liability Company Agreement of New Mountain Finance Holdings, L.L.C.*** |
| 10.24 | Amendment No. 1 to the Amended and Restated Limited Liability Company Agreement of New Mountain Finance Holdings, L.L.C. |
| 10.25 | Amendment No. 1 to Trademark License Agreement |
| 11 | Computation of Per Share Earnings (included in the notes to the financial statements contained in this report) |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 |
| 32.2 | Certificate of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 |

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

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

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

**** Previously filed in connection with New Mountain Finance Corporation's report on Form 8-K filed on August 25, 2011.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 14, 2011.

NEW MOUNTAIN FINANCE CORPORATION

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

By: **/s/ Adam B. Weinstein**
Adam B. Weinstein
Chief Financial Officer
(Principal Financial and Accounting Officer)

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