

ISTAR FINANCIAL INC
Form 424B3
February 24, 2004

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The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated February 24, 2004

As Filed Pursuant to Rule 424(b)(3)
Registration No. 333-109599

PROSPECTUS SUPPLEMENT

(To Prospectus Dated December 16, 2003)

4,000,000 Shares

**% Series I Cumulative Redeemable Preferred Stock
Liquidation Preference \$25.00 Per Share**

We are offering 4,000,000 shares of our % Series I Cumulative Redeemable Preferred Stock, par value \$0.001 per share, which we refer to as our "Series I Preferred Stock." We will pay to investors cumulative dividends on the Series I Preferred Stock from March , 2004 in the amount of \$ per share each year, which is equivalent to % of the \$25.00 liquidation preference per share. Dividends on the Series I Preferred Stock will be payable quarterly in arrears, beginning on June 15, 2004. The shares of Series I Preferred Stock have no stated maturity, will not be subject to any sinking fund or mandatory redemption and will not be convertible into any other securities. Holders of shares of Series I Preferred Stock will generally have no voting rights, but will have limited voting rights if we fail to pay dividends for six or more quarters and in certain other events.

Except in limited circumstances to preserve our status as a real estate investment trust, we may not redeem the Series I Preferred Stock until March , 2009. On or after March , 2009, we may, at our option, redeem the Series I Preferred Stock, in whole or in part, at any time and from time to time, for cash at \$25.00 per share, plus accrued and unpaid dividends, if any, to and including the redemption date. Any partial redemption will generally be on a pro rata basis.

No market currently exists for our Series I Preferred Stock. We intend to apply to list our Series I Preferred Stock on the New York Stock Exchange under the symbol "SFI PrI." We expect that trading will commence within 30 days after the initial delivery of the Series I Preferred Stock. Our common stock currently trades on the NYSE under the symbol "SFI."

See "Risk Factors" beginning on page S-7 in this prospectus supplement and page two of the accompanying prospectus for a discussion of the risks relevant to an investment in our Series I Preferred Stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement and the accompanying prospectus. Any representation to the contrary is a criminal offense.

	<u>Per Share</u>	<u>Total</u>
Public offering price(1)	\$	\$

	<u>Per Share</u>	<u>Total</u>
Underwriting discount	\$	\$
Proceeds, before expenses, to us	\$	\$

(1) Plus accrued dividends, if any, from (but excluding) the date of the original issue.

The underwriters have an option to purchase up to an additional 600,000 shares of Series I Preferred Stock from us to cover over-allotments, if any.

The underwriters expect that the shares of Series I Preferred Stock will be ready for delivery in book-entry form through The Depository Trust Company on or about March , 2004.

Bear, Stearns & Co. Inc.

Sole Book-Running Manager

McDonald Investments Inc.

Stifel, Nicolaus & Company

Incorporated

Advest, Inc.

BB&T Capital Markets

The date of this prospectus supplement is March , 2004.

FORWARD-LOOKING STATEMENTS

We make statements in this prospectus supplement, the accompanying prospectus and the documents we incorporate by reference that are considered "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are usually identified by the use of words such as "will," "anticipates," "believes," "estimates," "expects," "projects," "plans," "intends," "should" or similar expressions. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995 and are including this statement for purposes of complying with those safe harbor provisions. These forward-looking statements reflect our current views about our plans, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions and expectations as reflected in or suggested by those forward-looking statements are reasonable, we can give no assurance that the plans, intentions or expectations will be achieved. We have discussed in this prospectus supplement and the accompanying prospectus some important risks, uncertainties and contingencies which could cause our actual results, performance or achievements to be materially different from the forward-looking statements we make in these documents.

We assume no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In evaluating forward-looking statements, you should consider these risks and uncertainties, together with the other risks described from time to time in our reports and documents filed with the SEC, and you should not place undue reliance on those statements.

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PROSPECTUS SUMMARY

This summary may not contain all the information that may be important to you. You should read the entire prospectus supplement and accompanying prospectus, as well as the documents incorporated by reference in them, before making an investment decision. All references to "we" or "us" in this prospectus supplement refer to iStar Financial Inc. and its consolidated subsidiaries, unless the context otherwise requires. For the definition of EBITDA and for a detailed reconciliation of EBITDA to net income determined in accordance with GAAP, see "Ratios of EBITDA to Combined Fixed Charges and Preferred Stock Dividends and EBITDA to Interest Expense."

iStar Financial Inc.

We are the leading publicly traded finance company focused exclusively on the commercial real estate industry. We provide custom-tailored financing to high-end private and corporate owners of real estate nationwide, including senior and junior mortgage debt, senior, mezzanine and subordinated corporate capital, and corporate net lease financing. Our objective is to generate consistent and attractive returns on our invested capital by providing innovative and value-added financing solutions to our customers. We are taxed as a real estate investment trust. As of September 30, 2003, our total enterprise value (market value of equity plus book value of preferred stock and debt, less cash balances) was \$8.4 billion, and our EBITDA and net income for the twelve months ended September 30, 2003 were \$523.0 million and \$275.6 million, respectively.

By capitalizing on our competitive strengths, we have delivered consistent financial performance, developed a high-quality, diversified asset base and established ourselves as a reliable provider of financial solutions for our customers. We have maintained strong credit statistics and have consistently grown our EBITDA since the quarter ended June 1998, our first quarter as a public company. Between that quarter and the quarter ended September 30, 2003, we grew our EBITDA and net income from approximately \$30.7 million and \$19.9 million, respectively, to \$134.6 million and \$74.9 million, respectively.

We began our business in 1993 through private investment funds formed to take advantage of the lack of well-capitalized lenders capable of servicing the needs of high-end customers in our markets. During our ten-year history, we have structured or originated \$9.0 billion of financing commitments.

Recent Developments

Adjusted earnings allocable to common shareholders for the fourth quarter of 2003 were \$91.2 million on a diluted basis, compared to \$74.3 million for the fourth quarter of 2002. Net income allocable to common shareholders for the fourth quarter of 2003 was \$68.8 million, or \$0.64 per diluted common share, compared to \$53.7 million, or \$0.56 per diluted common share for the fourth quarter of 2002. Net investment income for the quarter ended December 31, 2003 increased to a record \$90.5 million, up 14.9% from \$78.8 million for the fourth quarter of 2002. Net investment income represents interest income, operating lease income and equity in earnings from joint ventures and unconsolidated subsidiaries, less interest expense and operating costs for corporate tenant lease assets and loss from early extinguishment of debt, in each case, in accordance with GAAP. For a discussion of how we compute adjusted earnings, including a reconciliation to net income, see the table below.

During the fourth quarter of 2003, we closed 16 new financing commitments for a total of \$456.0 million, of which \$450.7 million was funded during the quarter. In addition, we funded \$12.9 million under nine pre-existing commitments and received \$251.7 million in principal repayments.

Adjusted earnings allocable to common shareholders for the year ended December 31, 2003 were \$338.5 million, or \$3.25 per diluted share, compared to \$262.8 million, or \$2.83 per diluted share, including a \$15.0 million non-cash charge related to performance-based vesting of restricted shares

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granted under our long-term incentive plan, for the same period in 2002. Net income allocable to common shareholders for the year ended December 31, 2003 was \$253.2 million, or \$2.43 per diluted share, compared to \$178.4 million, or \$1.93 per diluted share for the year ended December 31, 2002.

For the fiscal year ended December 31, 2003, we generated returns on average book assets and average common book equity of 6.2% and 18.9%, respectively, while leverage was 1.7x book equity. Net investment income and total revenue both increased to record levels of \$353.2 million and \$606.5 million for the year ended December 31, 2003, respectively, from \$282.8 million and \$520.3 million, respectively, for the year ended December 31, 2002.

On February 23, 2004, we redeemed all 2,000,000 outstanding shares of our 9.375% Series B Cumulative Redeemable Preferred Stock and all 1,300,000 outstanding shares of our 9.20% Series C Cumulative Redeemable Preferred Stock. The redemption price for the Series B Preferred Stock was \$25.00 per share, plus accrued and unpaid dividends to the redemption date of \$0.46 per share. The redemption price for the Series C Preferred Stock was \$25.00 per share, plus accrued and unpaid dividends to the redemption date of \$0.45 per share. The redemption was funded with the proceeds of the issuance of our Series H Variable Rate Preferred Stock, which was subsequently redeemed.

On January 15, 2004, we issued \$350 million aggregate principal amount of our 4.875% Senior Notes due 2009 to qualified institutional investors in a transaction complying with Securities and Exchange Commission Rule 144A. We used the net proceeds from the sale of the notes

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to repay outstanding secured indebtedness.

On December 16, 2003, we sold 5,000,000 shares of our common stock in an underwritten public offering. We received net proceeds of approximately \$191 million, which we used to repay indebtedness outstanding under one of our secured credit facilities.

On December 9, 2003, we completed an underwritten public offering of 3,200,000 shares of our 7.65% Series G Cumulative Redeemable Preferred Stock, having a liquidation preference of \$25.00 per share. The Series G Preferred Stock was issued in exchange for 1,600,000 shares of our 9.5% Series A Cumulative Redeemable Preferred Stock, having a liquidation preference of \$50.00 per share. We did not receive any cash proceeds from this offering. As a result of this transaction, we have retired all of our Series A Preferred Stock.

On December 5, 2003, we issued \$350 million aggregate principal amount of our 6.0% Senior Notes due 2010 and \$150 million aggregate principal amount of our 6.5% Senior Notes due 2013 in an underwritten public offering. We used the net proceeds from the sale of the notes to repay a portion of our outstanding secured indebtedness.

The results of the year ended December 31, 2003 are preliminary and unaudited.

Adjusted Earnings

Adjusted earnings represents net income to common shareholders computed in accordance with GAAP, before depreciation, amortization, gain (loss) from discontinued operations, extraordinary items and cumulative effect of change in accounting principle. Adjustments for unconsolidated partnerships and joint ventures reflect our share of adjusted earnings calculated on the same basis.

We believe that to facilitate a clear understanding of our historical operating results, adjusted earnings should be examined in conjunction with net income as shown in our Consolidated Statements of Operations. Adjusted earnings should not be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of our performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs or available for distribution to our shareholders. Our management believes that adjusted earnings more closely approximates operating cash flow and is a

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useful measure for investors to consider, in conjunction with net income and other GAAP measures, in evaluating our financial performance. This is primarily because we are a commercial finance company that focuses on real estate lending and corporate tenant leasing; therefore, our net income (determined in accordance with GAAP) reflects significant non-cash depreciation expense on corporate tenant lease assets. It should be noted that our manner of calculating adjusted earnings may differ from the calculation of similarly-titled measures by other companies.

	Three Months Ended December 31,		Year Ended December 31,	
	2003	2002	2003	2002
Adjusted Earnings:				
Net income	\$ 79,580	\$ 62,976	\$ 292,157	\$ 215,270
Add: Joint venture income	43	249	593	991
Add: Depreciation	15,236	12,988	55,905	48,041
Add: Joint venture depreciation and amortization	4,416	1,042	7,417	4,433
Add: Amortization	7,051	6,258	27,180	31,676
Less: Preferred dividends	(10,196)	(9,227)	(36,908)	(36,908)
Less: Gain from discontinued operations	(4,203)		(5,167)	(717)
Adjusted earnings allocable to common shareholders and HPU holders: (1)(2)				
Basic	\$ 91,884	\$ 74,037	\$ 340,584	\$ 261,795
Diluted	\$ 91,927	\$ 74,286	\$ 341,177	\$ 262,786
Weighted average common shares outstanding:				
Basic	102,603	93,671	100,314	89,886

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	Three Months Ended December 31,		Year Ended December 31,	
Diluted	107,637	96,650	104,248	93,020
Common shares outstanding at end of period:				
Basic	107,215	98,114	107,215	98,114
Diluted	112,132	101,217	112,132	101,217

Explanatory Note:

- (1) Includes \$14,950 of non-cash charges related to performance-based vesting of restricted shares granted under our long-term incentive plan for the year ended December 31, 2002.
- (2) Includes \$3,950 of prepayment penalties associated with early extinguishment of debt for the year ended December 31, 2002.

First Quarter Earnings Charges

As we have previously announced, we expect to incur charges to adjusted earnings and net income of approximately \$109 million in the first quarter of 2004. These charges include an estimated charge of \$80.0 million relating to the full vesting of 2.0 million incentive shares awarded to our Chief Executive Officer under his March 2001 employment agreement with us. The actual amount of the charge will depend upon the closing price of our common stock on March 30, 2004; the estimated charge of \$80.0 million assumes a common stock price of \$40.00. The first quarter charges include a charge of \$10.0 million relating to a one-time award of common stock granted to our Chief Executive Officer in connection with a new three-year employment agreement with us that will go into effect when the current agreement expires on March 30, 2004. The first quarter charges also include \$4.0 million related to the vesting of 100,000 restricted performance shares awarded to our Chief Financial Officer when she joined us in 2002. In addition, we will issue 155,000 shares of common stock to the principals of a company that we acquired in 2000, representing the final installment of contingent consideration that we will pay to the principals in respect of the acquisition. We estimate that the charge for the

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155,000 shares will be approximately \$6.2 million (assuming a common stock price of \$40.00 on the vesting date).

Finally, the estimated first quarter charges include a charge of \$9.0 million relating to the redemption of our 9.375% Series B and 9.2% Series C Preferred Stock. This amount reflects the discount at which we currently reflect the Series B and Series C Preferred Stock in our financial statements.

The estimated first quarter 2004 charges that we previously announced do not include the charge that we will recognize as a result of the redemption of a portion of our 8.75% Senior Notes due 2008 with the net proceeds of this offering. We expect to recognize an aggregate charge to first quarter 2004 net income and adjusted earnings of approximately \$9.2 million and \$7.7 million, respectively, in connection with the redemption, due to the redemption premium we will pay. We expect to complete the redemption in the first quarter of 2004; accordingly, we will also recognize the charge in the first quarter of 2004.

Our principal executive offices are located at 1114 Avenue of the Americas, New York, New York 10036, and our telephone number is (212) 930-9400. Our website is www.istarfinancial.com. The information on our website is not considered part of this prospectus supplement or the accompanying prospectus. Our six primary regional offices are located in Atlanta, Boston, Dallas, Denver, Hartford and San Francisco. iStar Asset Services, our loan servicing subsidiary, is located in Hartford, and iStar Real Estate Services, our corporate facilities management division, is headquartered in Atlanta.

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The Offering

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The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the Series I Preferred Stock, see "Description of the Series I Preferred Stock" in this prospectus supplement.

Issuer	iStar Financial Inc.
Securities Offered	4,000,000 shares of % Series I Cumulative Redeemable Preferred Stock (4,600,000 shares if the underwriters' over-allotment option is exercised in full).
Dividends	Investors will be entitled to receive cumulative cash dividends on the Series I Preferred Stock at a rate of % per year of the \$25.00 liquidation preference (equivalent to \$ per year per share). Beginning on June 15, 2004, dividends on the Series I Preferred Stock will be payable quarterly in arrears on or before March 15, June 15, September 15 and December 15 of each year, or if not a business day, the next succeeding business day. Dividends paid to investors on the Series I Preferred Stock will be cumulative from March , 2004. The first dividend we pay on June 15, 2004 will be for more than a full quarter.
Liquidation Preference	If we liquidate, dissolve or wind up, holders of the Series I Preferred Stock will have the right to receive \$25.00 per share, plus accrued and unpaid dividends (whether or not declared) to the date of payment, before any payments are made to the holders of our common stock and any other of our equity securities ranking junior to the Series I Preferred Stock as to liquidation rights. The rights of the holders of the Series I Preferred Stock to receive their liquidation preference will be subject to the proportionate rights of each other series or class of our equity securities ranking on parity with the Series I Preferred Stock, including our outstanding Series D, E, F and G Cumulative Redeemable Preferred Stock.
Maturity	The Series I Preferred Stock has no maturity date and we are not required to redeem the Series I Preferred Stock. Accordingly, the Series I Preferred Stock will remain outstanding indefinitely, unless we decide to redeem it. We are not required to set aside funds to redeem the Series I Preferred Stock.
Optional Redemption	We may not redeem the Series I Preferred Stock prior to March , 2009, except in limited circumstances to preserve our status as a REIT. On or after March , 2009, we may, at our option, redeem the Series I Preferred Stock, in whole or in part, at any time and from time to time, for cash at \$25.00 per share, plus accrued and unpaid dividends, if any, to and including the redemption date. Any partial redemption generally will be on a pro rata basis.
Ranking	The Series I Preferred Stock will rank senior to our common stock and on parity with our Series D, E, F and G Cumulative Redeemable Preferred Stock with respect to the payment of distributions and amounts upon liquidation, dissolution or winding up.

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Voting Rights	Holders of the Series I Preferred Stock will generally have no voting rights. However, if dividends on any outstanding Series I Preferred Stock have not been paid for six or more quarterly periods (whether or not consecutive), holders of the Series I Preferred Stock, voting as a class with the holders of all other classes or series of our equity securities ranking on parity with the Series I Preferred Stock which are entitled to similar voting rights, will be entitled to elect two additional directors to our board of directors to serve until all unpaid dividends have been paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of the Series I Preferred Stock cannot be made and certain other actions may not be taken without the affirmative vote of holders of at least two-thirds of the outstanding shares of Series I Preferred Stock.
Listing	We intend to apply to list the Series I Preferred Stock on the New York Stock Exchange under the symbol "SFI PrI." We expect that trading on the NYSE will commence within 30 days after the initial delivery of the Series I Preferred Stock.

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Settlement Date	Delivery of the shares of Series I Preferred Stock will be made against payment therefor on or about March , 2004.
Form	The Series I Preferred Stock will be maintained in book-entry form registered in the name of the nominee of The Depository Trust Company, except under limited circumstances.
No Conversion	The Series I Preferred Stock is not convertible into or exchangeable for any other of our property or securities.
Restrictions on Ownership	In order to ensure that we remain a qualified REIT for federal income tax purposes, no person may own more than 9.8% of the number or value of our outstanding shares of capital stock, with some exceptions. See "Description of Common Stock and Preferred Stock Restrictions on Ownership and Transfers" in the accompanying prospectus.
Use of Proceeds	The net proceeds from the offering, assuming no exercise of the underwriters' over-allotment option, will be approximately \$. We intend to use the net proceeds to redeem approximately \$88.0 million aggregate principal amount of our 8 ³ / ₄ % Senior Notes due 2008. If the underwriters exercise their over-allotment option, we will use the additional net proceeds for working capital purposes, which may include the repayment of indebtedness.
Risk Factors	See "Risk Factors" beginning on page S-7 of this prospectus supplement and page two of the accompanying prospectus, and the other information contained herein for a discussion of factors you should carefully consider before deciding to invest in the Series I Preferred Stock.
Ratio of Earnings to Fixed Charges	See "Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends and Earnings to Fixed Charges" on page S-8 of this prospectus supplement.

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RISK FACTORS

This section describes some, but not all, of the risks of purchasing our Series I Preferred Stock in the offering. You should carefully consider these risks, and the risks described under the corresponding heading beginning on page two of the accompanying prospectus, before purchasing our Series I Preferred Stock in the offering. In connection with the forward-looking statements that appear in this prospectus supplement and the accompanying prospectus, you should also carefully review the cautionary statements referred to in "Forward-Looking Statements."

The Series I Preferred Stock is a new issuance and does not have an established trading market, which may negatively affect its market value and your ability to transfer or sell your shares; the Series I Preferred Stock has no stated maturity date.

The shares of Series I Preferred Stock are a new issue of securities with no established trading market. Since the securities have no stated maturity date, investors seeking liquidity will be limited to selling their shares in the secondary market. We intend to apply to list the Series I Preferred Stock on the New York Stock Exchange under the symbol "SFI PrI." We expect that trading will commence within 30 days after the initial delivery of the Series I Preferred Stock. However, an active trading market on the New York Stock Exchange for the shares may not develop or, even if it develops, may not last, in which case the trading price of the shares could be adversely affected and your ability to transfer your shares of Series I Preferred Stock will be limited. We have been advised by the underwriters that they intend to make a market in the Series I Preferred Stock, but they are not obligated to do so and may discontinue market-making at any time without notice.

Numerous factors affect the trading price of the Series I Preferred Stock.

The trading price of our Series I Preferred Stock may depend on many factors, including:

prevailing interest rates;

the market for similar securities;

additional issuances of other series or classes of preferred stock;

general economic conditions; and

our financial condition, performance and prospects.

The Series I Preferred Stock is subordinated to existing and future debt.

Payment of amounts due on our Series I Preferred Stock will be subordinated to all of our existing and future debt and will be structurally subordinated to the payment of dividends on preferred stock, if any, issued by our subsidiaries. The Series I Preferred Stock will rank on a parity with our Series D Cumulative Redeemable Preferred Stock, Series E Cumulative Redeemable Preferred Stock, Series F Cumulative Redeemable Preferred Stock and Series G Cumulative Redeemable Preferred Stock with respect to the payment of dividends. In addition, we may issue additional Series I Preferred Stock and/or shares of another class or series of preferred stock ranking on a parity with the Series I Preferred Stock with respect to the payment of dividends and the distribution of assets upon liquidation, dissolution or winding up. These factors may affect the trading price of the Series I Preferred Stock.

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USE OF PROCEEDS

The net proceeds from the offering, assuming no exercise of the underwriters' over-allotment option, will be approximately \$ _____, after deducting underwriting discounts and commissions and expenses of the offering. We intend to use the net proceeds to redeem approximately \$88.0 million aggregate principal amount of our 8³/₄% Senior Notes due 2008 pursuant to our right under the indenture governing the notes to redeem up to 35% of the original principal amount of the notes with the net proceeds of a qualified equity offering. The redemption price per \$1,000 principal amount of notes will be \$1,087.50. If the underwriters exercise their over-allotment option, we will use the additional net proceeds for working capital purposes, which may include the repayment of indebtedness.

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

	Nine Months Ended September 30, 2003	Years Ended December 31,				
		2002	2001	2000	1999	1998
Ratio of earnings to combined fixed charges and preferred stock dividends ⁽¹⁾	2.1x	1.8x	1.9x	1.9x	1.1x ⁽²⁾	2.3x
Ratio of earnings to fixed charges ⁽¹⁾	2.5x	2.1x	2.3x	2.2x	1.4x ⁽²⁾	2.3x

(1) For the purpose of calculating the ratio of earnings to fixed charges, "earnings" consist of income from continuing operations before income taxes and cumulative effect of changes in accounting principles plus "fixed charges" and certain other adjustments. "Fixed charges" consist of interest incurred on all indebtedness related to continuing operations (including amortization of original issue discount) and the implied interest component of our rent obligations in the years presented.

(2) Includes the effect of a non-recurring, non-cash charge in the amount of approximately \$94.5 million relating to our November 1999 acquisition of the former external advisor to our company. Excluding the effect of this non-recurring, non-cash charge, our ratio of earnings to combined fixed charges and preferred stock dividends for the year ended December 31, 1999 would have been 2.0x and our ratio of earnings to fixed charges for that period would have been 2.5x.

RATIOS OF EBITDA TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS AND EBITDA TO INTEREST EXPENSE

The table below presents our ratio of EBITDA to combined fixed charges and preferred stock dividends and our ratio of EBITDA to interest expense. EBITDA should be examined in conjunction with net income as shown in the Consolidated Statements of Operations in our Quarterly Report on Form 10-Q for the nine months ended September 30, 2003 and our Annual Report on Form 10-K for the year ended December 31, 2002. EBITDA should not be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of our performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is either measure indicative of funds available to fund our cash needs or available for distribution to shareholders. Our management believes that EBITDA more closely approximates operating cash flow and that EBITDA and the ratios of EBITDA to combined fixed charges and preferred stock dividends and EBITDA to interest expense are useful measures for investors to consider, in conjunction with net income, ratio of earnings to fixed charges and other GAAP measures, in evaluating a commercial finance company that focuses on real estate lending and corporate tenant leasing, because our net income (determined in accordance with GAAP) includes significant non-cash depreciation expense on

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corporate tenant lease assets. It should be noted that our manner of calculating EBITDA may differ from the calculations of similarly-titled measures by other companies.

	Nine Months Ended September 30, 2003	Years Ended December 31,				
		2002	2001	2000	1999	1998
Ratio of EBITDA to combined fixed charges and preferred stock dividends ⁽¹⁾	2.3x	2.0x	2.1x	2.0x	2.0x	2.4x
Ratio of EBITDA to GAAP interest expense ⁽¹⁾	2.7x	2.3x	2.5x	2.4x	2.6x	2.4x

(1)

For the purpose of calculating these ratios, "EBITDA" consist of total revenue plus equity in earnings from joint ventures and unconsolidated subsidiaries minus the sum of general and administrative expenses, general and administrative- stock-based compensation (including the non-cash charge related to the performance based vesting of restricted shares granted under our long-term incentive plan for the year ended December 31, 2002), provision for loan losses, operating costs on corporate tenant lease assets and advisory fees. "Fixed charges" consist of interest incurred on all indebtedness related to continuing operations (including amortization of original issue discount) and the implied interest component of our rent obligations in the years presented.

Reconciliation of GAAP Net Income to EBITDA:

	Nine Months Ended September 30, 2003	Years Ended December 31,				
		2002	2001	2000	1999	1998
(In thousands)						
Net income	\$ 212,578	\$ 215,270	\$ 229,912	\$ 217,586	\$ 38,886	\$ 59,903
Add: Interest expense	145,357	197,541	171,594	174,446	91,159	44,697
Add: Depreciation and amortization	40,483	47,821	35,411	34,384	10,324	4,287
Add: Minority interest in consolidated entities	119	162	218	195	41	54
Add: Cumulative effect of change in accounting principle			282			
Less: (Loss) income from discontinued operations	(1,555)	(3,583)	(5,299)	(3,155)	(107)	
	(964)	(717)	(1,145)	(2,948)		

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	Nine Months Ended September 30, 2003	Years Ended December 31,				
Less: Gain from discontinued operations						
Add: Costs incurred in acquiring former external advisor					94,476	
EBITDA	\$ 396,018	\$ 456,494⁽¹⁾	\$ 430,973	\$ 420,508	\$ 234,779	\$ 108,941

(1) Includes a \$15.0 million non-cash charge incurred in the second and third quarter of 2002 related to performance-based vesting of restricted shares granted under a long-term incentive plan.

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DESCRIPTION OF THE SERIES I PREFERRED STOCK

This description of the particular terms of the Series I Preferred Stock supplements, and to the extent inconsistent therewith replaces, the description of the general terms and provisions of our preferred stock set forth in the accompanying prospectus, to which description reference is hereby made.

General

We are authorized to issue up to 30,000,000 shares of preferred stock in one or more series, with such terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption, in each case, if any, as are permitted by Maryland law and as our board of directors may determine by adoption of an amendment to our charter, without any further vote or action by our stockholders. See "Description of Common Stock and Preferred Stock Preferred Stock" in the accompanying prospectus. Our board of directors has adopted articles supplementary to our charter establishing the number and fixing the terms, designations, powers, preferences, rights, limitations and restrictions of a series of our preferred stock classified as % Series I Cumulative Redeemable Preferred Stock. Our board of directors has authorized up to 5,000,000 shares of Series I Preferred Stock. This offering relates to 4,000,000 shares of Series I Preferred Stock. The Series I Preferred Stock is a series of our preferred stock.

We intend to apply to list the Series I Preferred Stock on the New York Stock Exchange under the symbol "SFI PrI." We expect that trading will commence within 30 days after the initial delivery of the Series I Preferred Stock.

The following summary of the terms and provisions of the Series I Preferred Stock does not purport to be complete and is qualified in its entirety by reference to the pertinent sections of our charter and the articles supplementary creating the Series I Preferred Stock, each of which is available from us.

Ranking

The Series I Preferred Stock will rank senior to our common stock and on a parity with our Series D Cumulative Redeemable Preferred Stock (the "Series D Preferred Stock"), Series E Cumulative Redeemable Preferred Stock (the "Series E Preferred Stock"), Series F Cumulative Redeemable Preferred Stock (the "Series F Preferred Stock") and Series G Cumulative Redeemable Preferred Stock (the "Series G Preferred Stock") with respect to the payment of dividends.

Dividends

Holders of shares of the Series I Preferred Stock shall be entitled to receive, when and as authorized by our board of directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of % per annum of the \$25.00 liquidation preference (equivalent to a fixed annual rate of \$ per share). Such dividends shall be cumulative from March , 2004, and shall be payable to investors quarterly in arrears on or before the 15th day of each March, June, September and December or, if not a business day, the next succeeding business day (each, a "Dividend Payment Date"). The first dividend, which will be paid on June 15, 2004, will be for more than a full

quarter. Such dividend and any dividend payable on the Series I Preferred Stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in our stock records at the close of business on the applicable record date, which shall be the first day of the calendar month in which the applicable Dividend Payment Date falls or on such other date designated by our board of directors for the payment of dividends that is not more than 30 nor less than 10 days prior to such Dividend Payment Date (each, a "Dividend Record Date").

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No dividends on shares of Series I Preferred Stock shall be declared by us or paid or set apart for payment by us at such time as the terms and provisions of any of our agreements, including any agreement relating to our indebtedness, prohibit such declaration, payment or setting apart for payment or provide that such declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such declaration or payment shall be restricted or prohibited by law.

Notwithstanding the foregoing, dividends on the Series I Preferred Stock will accrue whether or not we have earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are declared. Accrued but unpaid dividends on the Series I Preferred Stock will accumulate as of the Dividend Payment Date on which they first become payable.

Except as set forth in the next sentence, unless full cumulative dividends on the Series I Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods and the then current dividend period, no dividends (other than in shares of common stock or in shares of any series of preferred stock ranking junior to the Series I Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment nor shall any other distribution be declared or made upon any of our common stock or preferred stock ranking junior to or on a parity with the Series I Preferred Stock as to dividends or upon liquidation, nor shall any shares of our common stock or preferred stock ranking junior to or on a parity with the Series I Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by us (except by conversion into or exchange for our other capital stock ranking junior to the Series I Preferred Stock as to dividends and upon liquidation and except for transfers made pursuant to the provisions of our charter relating to restrictions on ownership and transfers of our capital stock).

When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series I Preferred Stock and the shares of any other series of preferred stock ranking on a parity as to dividends with the Series I Preferred Stock, all dividends declared upon the Series I Preferred Stock and any other series of preferred stock ranking on a parity as to dividends with the Series I Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series I Preferred Stock and such other series of preferred stock shall in all cases bear to each other the same ratio that accrued dividends per share on the Series I Preferred Stock and such other series of preferred stock (which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such preferred stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the Series I Preferred Stock which may be in arrears.

Holders of shares of the Series I Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock, in excess of full cumulative dividends on the Series I Preferred Stock as provided above. Any dividend payment made on shares of the Series I Preferred Stock shall first be credited against the earliest accrued but unpaid dividend due with respect to such shares which remains payable.

Liquidation Preference

Upon any voluntary or involuntary liquidation, dissolution or winding up of our affairs, the holders of shares of Series I Preferred Stock are entitled to be paid out of our assets that are legally available for distribution to our stockholders a liquidation preference of \$25.00 per share, plus an amount equal to any accrued and unpaid dividends to the date of payment, before any distribution of assets is made to holders of our common stock or any series of our preferred stock that ranks junior to the Series I Preferred Stock as to liquidation rights.

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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 Series I Preferred Stock and the corresponding amounts payable on all shares of other classes or series of our capital stock ranking on a parity with the Series I Preferred Stock in the distribution of assets, then the holders of the Series I Preferred Stock and all other such classes or series of capital stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

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Holders of Series I Preferred Stock will be entitled to written notice of any such liquidation. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series I Preferred Stock will have no right or claim to any of our remaining assets. The consolidation or merger of us with or into any other corporation, trust or entity or of any other corporation with or into us, or the sale, lease or conveyance of all or substantially all of our assets or business, shall not be deemed to constitute a liquidation, dissolution or winding up of us. For further information regarding the rights of the holders of the Series I Preferred Stock upon the liquidation, dissolution or winding up of us, see "Description of Common Stock and Preferred Stock Preferred Stock" in the accompanying prospectus.

Redemption

The Series I Preferred Stock is not redeemable prior to March , 2009. However, in order to ensure that we remain a qualified REIT for federal income tax purposes, Series I Preferred Stock will be subject to the provisions of our charter which limit the amount of Series I Preferred Stock that may be owned by a stockholder. See "Description of Common Stock and Preferred Stock Restrictions on Ownership and Transfers" in the accompanying prospectus.

On and after March , 2009, we may redeem, at our option upon not less than 30 nor more than 60 days' written notice, shares of the Series I Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus all accrued and unpaid dividends thereon to and including the date fixed for redemption (except as provided below), without interest. Holders of Series I Preferred Stock to be redeemed shall surrender such Series I Preferred Stock at the place designated in such notice and shall be entitled to the redemption price and any accrued and unpaid dividends payable upon such redemption following such surrender. If notice of redemption of any shares of Series I Preferred Stock has been given and if the funds necessary for such redemption have been set aside by us in trust for the benefit of the holders of any shares of Series I Preferred Stock so called for redemption, then from and after the redemption date dividends will cease to accrue on such shares of Series I Preferred Stock, such shares of Series I Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price. If less than all of the outstanding Series I Preferred Stock is to be redeemed, the Series I Preferred Stock to be redeemed shall be selected pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method determined by us.

Unless full cumulative dividends on all shares of Series I Preferred Stock shall have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no shares of Series I Preferred Stock shall be redeemed unless all outstanding shares of Series I Preferred Stock are simultaneously redeemed and we shall not purchase or otherwise acquire directly or indirectly any shares of Series I Preferred Stock (except by exchange for our capital stock ranking junior to the Series I Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase by us of shares transferred to a charitable trust in accordance with our charter to ensure we remain qualified as a REIT for federal income tax purposes, or the purchase or acquisition of shares of Series I Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series I Preferred Stock.

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Notice of redemption will be mailed by us, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of the Series I Preferred Stock to be redeemed at their respective addresses as they appear on our stock transfer records. No failure to give such notice or any defect thereto or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series I Preferred Stock except as to the holder to whom notice was defective or not given. Each notice shall state:

the redemption date;

the redemption price;

the number of shares of Series I Preferred Stock to be redeemed;

the place or places where the Series I Preferred Stock is to be surrendered for payment of the redemption price; and

that dividends on the shares to be redeemed will cease to accrue on such redemption date.

If less than all of the Series I Preferred Stock held by any holder is to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series I Preferred Stock held by such holder to be redeemed.

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Immediately prior to any redemption of Series I Preferred Stock, we shall pay, in cash, any accumulated and unpaid dividends through and including the redemption date, unless a redemption date falls after a Dividend Record Date and prior to the corresponding Dividend Payment Date, in which case each holder of Series I Preferred Stock at the close of business on such Dividend Record Date shall be entitled to the dividend payable on such shares on the corresponding Dividend Payment Date notwithstanding the redemption of such shares before such Dividend Payment Date. Except as provided above, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on Series I Preferred Stock which is redeemed.

The Series I Preferred Stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption. However, in order to ensure that we remain a qualified REIT for federal income tax purposes, Series I Preferred Stock owned by a stockholder in excess of the ownership limit provided in our charter will be subject to the provisions of the charter.

Voting Rights

Holders of the Series I Preferred Stock will not have any voting rights, except as set forth below.

Whenever dividends on any shares of Series I Preferred Stock shall be in arrears for six or more quarterly periods (a "Preferred Dividend Default"), the holders of such shares of Series I Preferred Stock (voting separately as a class with all other series of preferred stock ranking on a parity with the Series I Preferred Stock as to dividends or upon liquidation ("Parity Preferred") upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of a total of two additional members of our board of directors (the "Preferred Stock Directors"), and the number of directors on the board of directors shall increase by two, at a special meeting called by the holders of record of at least 20% of the Series I Preferred Stock or any other series of Parity Preferred so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders) or at the next annual meeting of stockholders, and at each subsequent annual meeting until all dividends accumulated on such shares of Series I Preferred Stock for the past dividend periods and the dividend for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment.

If and when all accumulated dividends and the dividend for the then current dividend period on the Series I Preferred Stock shall have been paid in full or set aside for payment in full, the holders thereof shall be divested of the foregoing voting rights (subject to revesting in the event of each and every subsequent Preferred Dividend Default) and, if all accumulated dividends and the dividend for the then current dividend period have been paid in full or set aside for payment in full on all series of Parity Preferred upon which like voting rights have been conferred and are exercisable, the term of

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office of each Preferred Stock Director so elected shall terminate and the number of directors on the board of directors shall decrease by two. Any Preferred Stock Director may be removed at any time with or without cause by, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of the Series I Preferred Stock when they have the voting rights described above (voting separately as a class with all series of Parity Preferred upon which like voting rights have been conferred and are exercisable). So long as a Preferred Dividend Default shall continue, any vacancy in the office of a Preferred Stock Director may be filled by the written consent of the Preferred Stock Directors remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series I Preferred Stock when they have the voting rights described above (voting separately as a class with all series of Parity Preferred upon which like voting rights have been conferred and are exercisable). The Preferred Stock Directors shall each be entitled to one vote per director on any matter.

So long as any shares of Series I Preferred Stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the Series I Preferred Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting separately as a class with all series of Parity Preferred upon which like voting rights have been conferred and are exercisable), (a) authorize or create, or increase the authorized or issued amount of, any class or series of capital stock ranking prior to the Series I Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up or reclassify any of our authorized capital stock into such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares; or (b) amend, alter or repeal the provisions of our charter, whether by merger, consolidation or otherwise (an "Event"), so as to materially and adversely affect any right, preference, privilege or voting power of the Series I Preferred Stock; provided, however, with respect to the occurrence of any Event set forth in (b) above, so long as the Series I Preferred Stock remains outstanding with the terms thereof materially unchanged, the occurrence of any such Event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting power of holders of the Series I Preferred Stock and, provided further, that any increase in the amount of the authorized preferred stock, including the Series I Preferred Stock, or the creation or issuance of any additional Series I Preferred Stock or other series of preferred stock, or any increase in the amount of authorized shares of such series, in each case ranking on a parity with or junior to the Series I Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, shall 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 shall be effected, all outstanding shares of Series I Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

Conversion

The Series I Preferred Stock is not convertible into or exchangeable for any other of our property or securities.

Restrictions On Ownership

For information regarding restrictions on ownership of the Series I Preferred Stock, see "Description of Common Stock and Preferred Stock Restrictions on Ownership and Transfers" in the accompanying prospectus.

Transfer Agent

The transfer agent, registrar and dividend disbursing agent for the Series I Preferred Stock will be Equiserve Trust Company, N.A.

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FEDERAL INCOME TAX CONSEQUENCES

The following supplements the discussion contained in the accompanying prospectus under the heading "Material Federal Income Tax Consequences," which discussion (to the extent not inconsistent with the following) is incorporated in its entirety in this prospectus supplement. The discussions contained under the headings herein are intended to supplement, where applicable, the discussions contained in the corresponding headings of the accompanying prospectus.

Taxation of Taxable U.S. Stockholders

Redemptions

If we redeem all or a portion of the Series I Preferred Stock, under Section 302 of the Code, such redemption will be treated as a dividend, generally taxable at ordinary income tax rates (to the extent of our current and accumulated earnings and profits), unless the redemption satisfies one or more of the tests set forth in Section 302(b) of the Code that enable the redemption to be treated as a sale or exchange of the redeemed Series I Preferred Stock. A redemption will satisfy such tests if it: (i) is "substantially disproportionate" with respect to the stockholder; (ii) results in a "complete termination" of the stockholder's stock interest in us; or (iii) is "not essentially equivalent to a dividend" with respect to the stockholder, all within the meaning of Section 302(b) of the Code. In determining whether any of these tests have been met, shares considered to be owned by the stockholder by reason of certain constructive ownership rules set forth in the Code, as well as shares actually owned, must generally be taken into account. Because the determination as to whether any of the alternative tests of Section 302(b) of the Code is satisfied with respect to any particular holder of the Series I Preferred Stock will depend upon the facts and circumstances as of the time the determination is made, prospective investors are advised to consult their tax advisors to determine such tax treatment.

If a redemption of the Series I Preferred Stock is treated as a distribution that is taxable as a dividend, the amount of the distribution would be measured by the amount of cash and the fair market value of any property received by the stockholders. The stockholder's adjusted tax basis in such redeemed Series I Preferred Stock would, in that case, be transferred to the holder's remaining stockholdings in us. If, however, the stockholder has no remaining stockholdings in us, such basis may, under certain circumstances, be transferred to a related person, or it may be lost entirely.

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UNDERWRITING

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We and the underwriters for this offering named below have entered into an underwriting agreement concerning the shares of Series I Preferred Stock being offered. The underwriters' obligations are several and not joint, which means that each underwriter is required to purchase a specified number of shares, but is not responsible for the commitment of any other underwriter to purchase shares. Subject to the terms and conditions of the underwriting agreement, each underwriter has severally agreed to purchase the number of shares of Series I Preferred Stock set forth opposite its name below.

Underwriters	Number of Shares
Bear, Stearns & Co. Inc	
McDonald Investments Inc., a KeyCorp Company	
Stifel, Nicolaus & Company, Incorporated	
Advest, Inc.	
BB&T Capital Markets, a division of Scott & Stringfellow, Inc.	
Total	4,000,000

The underwriting agreement provides that the obligations of the underwriters are conditional and may be terminated at their discretion based on their assessment of the state of the financial markets. The obligations of the underwriters may also be terminated upon the occurrence of the events specified in the underwriting agreement. The underwriters are severally committed to purchase all of the shares of Series I Preferred Stock being offered if any shares are purchased, other than those shares covered by the over-allotment option described below.

We have granted the underwriters an option to purchase up to 600,000 additional shares of Series I Preferred Stock to be sold in this offering at the public offering price, less the underwriting discounts and commissions described on the cover page of this prospectus supplement. The underwriters may exercise this option solely to cover over-allotments, if any. This option may be exercised, in whole or in part, at any time within the 30-day period after the date of this prospectus supplement. To the extent the option is exercised, the underwriters will be severally committed, subject to certain conditions, to purchase the additional shares of Series I Preferred Stock in proportion to their respective commitments as indicated in the table above.

The following table provides information regarding the per share and total underwriting discounts and commissions that we will pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase up to an additional 600,000 shares of Series I Preferred Stock.

	Per Share	Total	
		Without Over-allotment	With Over-allotment
Underwriting discounts and commissions payable by us	\$	\$	\$

We estimate that the total expenses of this offering payable by us, excluding underwriting discounts and commissions, will be approximately \$244,000.

The underwriters propose to offer the Series I Preferred Stock directly to the public initially at the public offering price set forth on the cover page of this prospectus supplement and to selected dealers at such price less a concession not to exceed \$ per share. The underwriters may allow, and such selected dealers may reallow, a concession not to exceed \$ per share. The shares of Series I Preferred Stock will be available for delivery, when, as and if accepted by the underwriters and subject to prior sale and to withdrawal, cancellation or modification of the offering without notice. The underwriters reserve the right

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to reject any order for purchase of the shares in whole or in part. After the commencement of this offering, the underwriters may change the public offering price and other selling terms.

We have agreed not to sell or transfer any shares of preferred stock or to engage in certain hedging transactions with respect to the preferred stock for a period of 30 days after the date of this prospectus supplement without first obtaining the written consent of the underwriters, except in certain circumstances.

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We have agreed in the underwriting agreement to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, and where such indemnification is unavailable, to contribute to payments that the underwriters may be required to make in respect of such liabilities.

The Series I Preferred Stock is a new issue of securities and, prior to the Series I Preferred Stock being accepted for listing on the New York Stock Exchange, there will be no established trading market for the Series I Preferred Stock. We anticipate the NYSE will authorize, upon official notice of issuance, the listing of the Series I Preferred Stock under the symbol "SFI PrI." We expect that trading on the NYSE will commence within 30 days after the initial delivery of the Series I Preferred Stock. In order to meet the requirements for listing the Series I Preferred Stock on the NYSE, the underwriters have undertaken to sell: (i) Series I Preferred Stock to ensure a minimum of 100 beneficial holders with a minimum of 100,000 shares of Series I Preferred Stock outstanding; and (ii) sufficient Series I Preferred Stock so that following this offering, the Series I Preferred Stock has a minimum aggregate market value of \$2 million. The underwriters have advised us that prior to the commencement of listing on the NYSE they intend to make a market in the Series I Preferred Stock, but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Series I Preferred Stock.

In order to facilitate this offering of the Series I Preferred Stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the market price of the Series I Preferred Stock in accordance with Regulation M under the Securities Exchange Act of 1934, as amended.

The underwriters may over-allot the Series I Preferred Stock in connection with this offering, creating a short position for their own account. Short sales involve the sale by the underwriters of a greater number of shares than they are committed to purchase in this offering. A short position may involve either "covered" short sales or "naked" short sales. Covered short sales are sales made in an amount not greater than the underwriters' over-allotment option to purchase additional shares of Series I Preferred Stock as described above. The underwriters may close out any covered short position by either exercising their over-allotment option or purchasing shares in the open market. In determining the source of shares to close the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares from us through the over-allotment option. Naked short sales are sales in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the Series I Preferred Stock in the open market after pricing that could adversely affect investors who purchase in this offering.

Accordingly, to cover a short sales position or to stabilize the market price of the Series I Preferred Stock, the underwriters may bid for, and purchase, shares of Series I Preferred Stock in the open market. These transactions may be effected on the NYSE or otherwise. Additionally, the representative, on behalf of the underwriters, may also reclaim selling concessions allowed to an underwriter or dealer. Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales or to stabilize the market price of the Series I Preferred Stock may have the effect of raising or maintaining the market price of the Series I Preferred Stock or preventing or mitigating a decline in the market price of the Series I Preferred Stock. As a result, the price of the Series I Preferred Stock may be higher than the price that might otherwise exist in the open market. No representation is made as to the magnitude or effect of any

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such stabilization or other activities. The underwriters are not required to engage in these activities and, if commenced, may discontinue any of these activities at any time.

From time to time, the underwriters and/or their affiliates have in the past performed, and may in the future continue to perform, investment banking, broker dealer, lending, financial advisory or other services for us for which they have received, or may receive, customary compensation.

LEGAL MATTERS

The legality of the Series I Preferred Stock offered by this prospectus supplement and the accompanying prospectus will be passed upon for us by Clifford Chance US LLP, New York, New York. Certain legal matters will be passed upon for the underwriters by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. Clifford Chance US LLP will rely upon the opinion of Venable LLP with respect to certain matters of Maryland law. Skadden, Arps, Slate, Meagher & Flom LLP provides legal services to us from time to time.

EXPERTS

The financial statements incorporated in this prospectus supplement and the accompanying prospectus by reference to our Annual Report on Form 10-K for the year ended December 31, 2002 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

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PROSPECTUS

iSTAR FINANCIAL INC.

**Common Stock
Preferred Stock
Depositary Shares
Debt Securities
and
Warrants**

We may from time to time offer our common stock, preferred stock (which we may issue in one or more series), depositary shares representing shares of preferred stock, debt securities (which we may issue in one or more series) or warrants entitling the holders to purchase common stock, preferred stock, depositary shares or debt securities, at an aggregate initial offering price which will not exceed \$1,000,000,000. We will determine when we sell securities, the amounts of securities we will sell and the prices and other terms on which we will sell them. We may sell securities to or through underwriters, through agents or directly to purchasers.

We will describe in a prospectus supplement, which we will deliver with this prospectus, the terms of particular securities which we offer in the future. We may describe the terms of those securities in a term sheet which will precede the prospectus supplement.

In each prospectus supplement we will include the following information:

The names of the underwriters or agents, if any, through which we will sell the securities.

The proposed amount of securities, if any, which the underwriters will purchase.

The compensation, if any, of those underwriters or agents.

The initial public offering price of the securities.

Information about securities exchanges, electronic communications networks or automated quotation systems on which the securities will be listed or traded.

Any other material information about the offering and sale of the securities.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED THAT THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

An investment in these securities e