ISTAR FINANCIAL INC
Form 424B5
November 09, 2012

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PROSPECTUS SUPPLEMENT
(TO PROSPECTUS DATED MAY 29, 2012)

$175,000,000

3.00% Convertible Senior Notes Due 2016

We are offering $175 million principal amount of our 3.00% Convertible Senior Notes due 2016, or the "Notes." We will pay interest on the Notes semi-annually, in arrears, on May 15 and November 15 of each year, beginning on May 15, 2013. The Notes will mature on November 15, 2016.

The Notes are our unsecured senior obligations and rank equally with all of our other unsecured, unsubordinated indebtedness from time to time outstanding. The Notes are effectively subordinated to any of our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness. In addition, the Notes are structurally subordinated to all indebtedness and other liabilities of our subsidiaries.

Holders may convert their notes at their option at any time prior to the close of business on the business day immediately preceding the maturity date. The Notes are convertible at a conversion rate of 84.9582 shares per $1,000 principal amount of Notes, which is equal to a conversion price of approximately $11.77 per share, subject to adjustment. If a holder elects to convert Notes in connection with a make-whole fundamental change, as described in this prospectus supplement, such holder may also be entitled to receive a make-whole premium upon conversion in certain circumstances.

We may not redeem the Notes at our option. No sinking fund is provided for the Notes.

Upon a fundamental change, as defined herein, holders may require us to repurchase all or a portion of their Notes for cash at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date, as defined herein.

We do not intend to apply to list the Notes on any securities exchange or any automated dealer quotation system. Our common stock is listed on the New York Stock Exchange under the symbol "SFI." The last reported sale price of our common stock on the New York Stock Exchange on November 7, 2012 was $8.26 per share.

Concurrently with this offering of Notes, pursuant to a separate prospectus supplement, we are offering $300 million aggregate principal amount of our 7.125% Senior Notes due 2018, or the "2018 Notes," which offering we refer to in this prospectus supplement as the

"2018 Notes Offering." Neither the completion of this offering of Notes nor the 2018 Notes Offering is contingent on the completion of the other offering.

See "Risk Factors," beginning on page S-8 of this prospectus supplement and on page 14 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, for a discussion of certain risks you should consider before investing in the Notes.

	Public offering price(1)	Underwriting discount	Proceeds, before expenses, to us(1)
Per Note	100.00%	2.00%	98.00%
Total	$175,000,000	$3,500,000	$171,500,000

(1) Plus accrued interest from November 13, 2012, if settlement occurs after that date.

The public offering price set forth above does not include accrued interest, if any. Interest on the Notes will accrue from November 13, 2012 and must be paid if the Notes are delivered after November 13, 2012.

We have granted the underwriters the option, exercisable within 30 days of the date of this prospectus supplement, to purchase up to an additional $25,000,000 aggregate principal amount of Notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Notes or the common stock, if any, into which the Notes may be converted or determined that this prospectus supplement or the accompanying prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The Notes will be ready for delivery in book-entry form only through the facilities of The Depository Trust Company in New York, New York on or about November 13, 2012.

BofA Merrill Lynch **Barclays** **J.P. Morgan**

The date of this prospectus supplement is November 7, 2012.

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This document is in two parts. The first part is the prospectus supplement, which describes the terms of this offering and adds to and updates information contained in the accompanying prospectus. The second part, the accompanying prospectus, provides more general information, some of which may not apply to this offering. Generally, when we refer to this prospectus, we are referring to both parts of this document combined. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus, on the other hand, you should rely on the information contained in this prospectus supplement.

In making your investment decision, you should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

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Unless otherwise stated or the context requires otherwise, references to "iStar," "the Company," "we," "us" and "our" are to iStar Financial Inc. and its consolidated subsidiaries.

This prospectus supplement includes information regarding the 2018 Notes Offering. This information has been included for informational purposes only in light of the possible impact of this concurrent offering on our financial position and results of operations. Nothing herein should be construed as a solicitation of an offer to purchase, or an offer to sell, any securities other than the Notes. Any offer to purchase any 2018 Notes will be made only upon the terms and conditions set forth in the prospectus supplement related to the 2018 Notes Offering and its accompanying prospectus.

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FORWARD-LOOKING STATEMENTS

We make statements in this prospectus supplement, the accompanying prospectus and the documents we incorporate by reference, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the "Exchange Act." Forward-looking statements are included with respect to, among other things, our current business plan, business strategy, portfolio management, prospects and liquidity. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result" and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results or outcomes to differ materially from those contained in the forward-looking statements. Certain important factors that we believe might cause such differences are discussed in the section entitled "Risk Factors," beginning on page S-8 of this prospectus supplement and on page 14 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In assessing all forward-looking statements, readers are urged to read carefully all cautionary statements contained in this prospectus and the documents we incorporate by reference.

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SUMMARY

iStar Financial Inc.

We are a fully-integrated finance and investment company focused on the commercial real estate industry. We provide custom-tailored investment capital to high-end private and corporate owners of real estate and invest directly across a range of real estate sectors. We are taxed as a real estate investment trust, or "REIT," for U.S. federal income tax purposes and have invested more than $35 billion over the past two decades. Our three primary business segments are lending, net leasing and real estate investment.

Our lending portfolio is primarily comprised of senior and mezzanine real estate loans that typically range in size from $20 million to $150 million and have original terms generally ranging from three to ten years. These loans may be either fixed-rate (based on the U.S. Treasury rate plus a spread) or variable-rate (based on LIBOR plus a spread) and are structured to meet the specific financing needs of borrowers. Our portfolio also includes senior and subordinated loans to corporations, particularly those engaged in real estate or real estate related businesses. These financings may be either secured or unsecured, typically range in size from $20 million to $150 million and have initial maturities generally ranging from three to ten years. Our loan portfolio includes whole loans, loan participations and debt securities.

Our net lease portfolio is primarily comprised of properties owned by us and leased to single creditworthy tenants, where the properties are generally mission critical headquarters or distribution facilities that are subject to long-term leases. Most of the leases provide for expenses at the facility to be paid by the tenant on a triple net lease basis. Net lease transactions have initial terms generally ranging from 15 to 20 years and typically range in size from $20 million to $150 million.

Our real estate investment portfolio includes real estate held for investment, or "REHI," and other real estate owned, or "OREO," properties primarily acquired through foreclosure or through deed-in-lieu of foreclosure in full or partial satisfaction of non-performing loans. Through the infusion of capital and/or intensive asset management, we generally seek to reposition and redevelop these assets with the objective of maximizing their value. We have developed significant expertise in the ownership and repositioning of multifamily, condominium, master planned and development properties.

Our primary sources of revenues are interest income, which is the interest that borrowers pay on loans, and operating lease income, which is the rent that corporate customers pay to lease our properties. We primarily generate income through the "spread" or "margin," which is the difference between the revenues generated from loans and leases and interest expense and the cost of our net lease operations. Going forward, we also expect to earn income from our other real estate investments. Income from real estate investments may include operating revenues as well as income from sales of properties either in bulk or through unit sales. This income will be reduced by holding costs while the real estate investments are redeveloped, repositioned and eventually sold.

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.

Recent Developments

On October 15, 2012, we entered into a $1.82 billion senior secured credit facility due October 15, 2017, with JPMorgan Chase Bank, N.A., as administrative agent, Barclays Bank PLC, as syndication agent, Bank of America, N.A., as documentation agent, and J.P. Morgan Securities LLC and Barclays Bank PLC, as joint physical bookrunners and, together with Merrill Lynch, Pierce, Fenner & Smith Incorporated., as joint lead arrangers and bookrunners, or the "New Credit Agreement." We used the net proceeds from the New Credit Agreement to refinance the remaining outstanding balance on our $2.95 billion secured credit

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agreement entered into on March 16, 2011, or the "2011 Credit Agreement." The New Credit Agreement bears interest at a rate of LIBOR plus 4.50%, with a 1.25% LIBOR floor, and was issued at 99.0% of par. Outstanding borrowings under the New Credit Agreement are collateralized by a first lien on a fixed pool of approximately $2.29 billion of assets, with required minimum collateral coverage of not less than 125.0% of outstanding borrowings. If our collateral coverage is less than 137.5% of outstanding borrowings, 100.0% of the proceeds from principal repayments and sales of collateral will be applied to repay outstanding borrowings under the New Credit Agreement. For so long as our collateral coverage is between 137.5% and 150.0% of outstanding borrowings, 50.0% of proceeds from principal repayments and sales of collateral will be applied to repay outstanding borrowings under the New Credit Agreement and for so long as our collateral coverage is greater than 150.0% of outstanding borrowings, we may retain all proceeds from principal repayments and sales of collateral.

As of June 30, 2012, the aggregate amount of our outstanding consolidated indebtedness was $5.7 billion, of which $3.1 billion was secured indebtedness. Since June 30, 2012 and through October 15, 2012, we have (i) repaid $469.2 million of our senior unsecured convertible notes due October 2012; (ii) repaid $276.1 million of borrowings outstanding under the 2011 Credit Agreement; and (iii) used net proceeds from the New Credit Agreement to refinance the remaining $1.82 billion balance outstanding under the 2011 Credit Agreement.

Recent Results

Third Quarter 2012 Results

On October 26, 2012, we reported our financial results for the quarter ended September 30, 2012. We reported net income (loss) allocable to common shareholders for the quarter ended September 30, 2012 of ($71.8) million, or ($0.86) per diluted common share, compared to net income (loss) allocable to common shareholders of ($62.2) million, or ($0.71) per diluted common share, for the same period last year. This increase in net loss was primarily due to the fact that our results in the prior year included a one-time $22.2 million gain from discontinued operations associated with the sale of a significant net lease asset portfolio.

Adjusted income (loss) allocable to common shareholders for the quarter ended September 30, 2012 was ($26.0) million, compared to ($19.0) million for the quarter ended September 30, 2011. Adjusted income (loss) represents net income computed in accordance with GAAP, prior to the effects of certain non-cash items, including depreciation, loan loss provisions and impairments. Please see the table below for a reconciliation of adjusted income (loss) to net income (loss).

Our adjusted EBITDA for the quarter ended September 30, 2012 was $76.6 million, compared to $83.1 million for the same period last year. Please see the table below for a reconciliation of adjusted EBITDA to net income (loss).

During the quarter ended September 30, 2012, we generated $318.0 million of proceeds from our portfolio, which was comprised of $157.9 million in principal repayments, $79.5 million of residential unit sales, $67.1 million from sales of owned real estate assets and $13.4 million from other investments. Additionally, we funded a total of $28.4 million of investments.

Our total liabilities as of September 30, 2012 were $5.53 billion and included $2.89 billion of secured debt, $2.50 billion of unsecured senior notes and other unsecured debt obligations. For the quarter ended September 30, 2012, our weighted average effective cost of debt was 6.5% and at September 30, 2012 our cash and cash equivalents, including cash reserved for repayment of indebtedness, totaled $739.3 million. We subsequently used $460.7 million of such cash to repay our senior unsecured convertible notes due October 2012.

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Portfolio Overview

As of September 30, 2012, our total portfolio had a carrying value of $6.00 billion (gross of general loan loss reserves). The portfolio was comprised of $2.16 billion of loans, $1.54 billion of net lease assets, $1.88 billion of owned real estate and $419.6 million of other investments.

As of September 30, 2012, our non-performing loans had a carrying value of $639.9 million (net of $490.6 million of specific reserves), compared to $639.0 million (net of $491.3 million of specific reserves) at June 30, 2012.

During the quarter ended September 30, 2012, we recorded $16.8 million in loan loss provision compared to $26.5 million in the quarter ended June 30, 2012. As of September 30, 2012, loan loss reserves totaled $543.5 million (or 20.4% of the total gross carrying value of our loans), compared to loan loss reserves of $563.8 million (or 19.8% of total gross carrying value of loans) at June 30, 2012.

As of September 30, 2012, our $1.54 billion of net lease assets (net of $352.7 million of accumulated depreciation) were 91.3% leased with a weighted average remaining lease term of 12.0 years. During the quarter ended September 30, 2012, we recorded $3.6 million of impairments within our net lease asset portfolio.

As of September 30, 2012, our $1.88 billion owned real estate portfolio was comprised of $985.5 million of operating commercial real estate assets and $896.1 million of land assets. Approximately $706.7 million of these assets have been classified as other real estate owned, based on management's current intention to market and sell the assets in the near term, while approximately $1.17 billion have been classified as real estate held for investment, based on management's current intention and strategy to hold, operate or develop the assets over a longer-term.

During the quarter ended September 30, 2012, our owned real estate portfolio generated $29.9 million of combined revenue and income from sales of residential property units, offset by $24.5 million of net expenses.

As of September 30, 2012, our ratio of unencumbered assets to unsecured debt was 1.5x.

Adjusted Income

	Three Months Ended September 30,	
	2012	**2011**
	(in thousands)	
	(unaudited)	
Reconciliation of Net Income (Loss) to Adjusted Income		
Net income (loss) allocable to common shareholders	$ (71,784)	$ (62,231)
Add: Depreciation and amortization	16,787	15,077
Add: Provision for loan losses	16,834	9,232
Add: Impairment of assets	6,542	9,912
Add: Stock-based compensation expense	3,512	7,153
Less: Loss on early extinguishment of debt, net	3,694	3,207
Less: HPU/Participating Security allocation	(1,555)	(1,394)
Adjusted income (loss) allocable to common shareholders(1)	$ (25,970)	$ (19,044)

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Adjusted EBITDA

	Three Months Ended September 30,	
	2012	2011
	(in thousands) (unaudited)	
Reconciliation of Net Income (Loss) to Adjusted EBITDA		
Net income (loss)	$ (64,306)	$ (54,661)
Add: Interest expense	91,777	91,777
Add: Income tax expense	1,791	1,354
Add: Depreciation and amortization	16,787	15,077
EBITDA	$ 46,049	$ 53,547
Add: Provision for loan losses	16,834	9,232
Add: Impairment of assets	6,542	9,912
Add: Stock-based compensation expense	3,512	7,153
Less: Loss on early extinguishment of debt, net	3,694	3,207
Adjusted EBITDA(1)	$ 76,631	$ 83,051

(1) Adjusted income (loss) allocable to common shareholders and adjusted EBITDA should be examined in conjunction with net income (loss) as described above. These non-GAAP financial measures should not be considered as an alternative to net income (loss) (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 are they indicative of funds available to fund our cash needs or available for distribution to shareholders. It should be noted that our manner of calculating these non-GAAP financial measures may differ from the calculations of similarly-titled measures by other companies. Management believes that it is useful to consider adjusted income (loss) and adjusted EBITDA because the adjustments are non-cash items that do not necessarily reflect an actual change in the long-term economic value or performance of our assets. Management considers these non-GAAP financial measures as supplemental information to net income in analyzing the performance of our underlying business. Interest expense and depreciation and amortization exclude adjustments from discontinued operations of $1,118 and $1,124, respectively, for the three months ended September 30, 2011.

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The Offering

The following is a brief summary of the terms of this offering. For a complete description of the terms of the Notes, see "Description of the Notes" in this prospectus supplement.

Issuer	iStar Financial Inc.
Securities Offered	$175,000,000 aggregate principal amount, or $200,000,000 aggregate principal amount if the underwriters exercise their option to purchase additional Notes in full.
Maturity	November 15, 2016, unless earlier repurchased or converted.
Interest Rate	The Notes will bear interest at 3.00% per year (calculated using a 360-day year comprised of twelve 30-day months),
Interest Payment Dates	Interest on the Notes will be paid on each May 15 and November 15, commencing May 15, 2013. Interest on the Notes will accrue from November 13, 2012.
Ranking	The Notes are our unsecured senior obligations and rank equally with our existing and future unsecured senior indebtedness and, to the extent we incur subordinated indebtedness in the future, senior to such indebtedness. The Notes will be effectively subordinated to all of our secured indebtedness to the extent of the value of the assets securing such indebtedness and all indebtedness and other liabilities of our subsidiaries (including indebtedness of iStar Financial Inc. guaranteed by its subsidiaries). As of June 30, 2012, the aggregate amount of our outstanding consolidated indebtedness was $5.7 billion, of which $3.2 billion was debt of our subsidiaries and $3.1 billion was secured indebtedness (which amount also includes debt of our subsidiaries). After giving effect to the (i) repayment of $469.2 million of our senior unsecured convertible notes due October 2012, (ii) repayment of $276.1 million of borrowings outstanding under the 2011 Credit Agreement, (iii) borrowings under the New Credit Agreement and our use of the net proceeds of the New Credit Agreement to refinance the remaining $1.82 billion balance outstanding under the 2011 Credit Agreement, (iv) issuance of the Notes in this offering and the application of the net proceeds therefrom as described under "Use of Proceeds" and (v) issuance of $300 million of Senior Notes due 2018 in the 2018 Notes Offering and the application of the net proceeds from such issuance to redeem certain of our unsecured senior notes maturing in 2013 (the transactions set forth in clauses (i) through (v) being hereinafter referred to as the "Transactions"), our outstanding consolidated indebtedness on a *pro forma*, as adjusted basis would have been $4.9 billion, of which $3.0 billion would have been debt of our subsidiaries (including indebtedness of iStar Financial Inc. guaranteed by our subsidiaries) and $2.9 billion would have been

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	secured indebtedness (which amount also includes debt of our subsidiaries), and we would have had $3.4 billion of unencumbered assets. The terms of the indenture under which the Notes are issued do not limit our or our subsidiaries' ability to incur additional debt, including secured debt.
Conversion Rights	The Notes are convertible, at the option of the holder, at any time on or prior to the close of business on the business day immediately preceding the stated maturity date, into shares of our common stock at an conversion rate of 84.9582 shares per $1,000 principal amount of Notes, which is equal to an conversion price of approximately $11.77 per share. The conversion rate is subject to adjustment as set forth in "Description of the Notes Adjustment of Conversion Rate."
Fundamental Change Make-Whole Premium	If certain make-whole fundamental changes (as described in this prospectus supplement) occur, in certain circumstances we will pay a fundamental change make-whole premium on Notes converted in connection with such make-whole fundamental change by increasing the conversion rate on such Notes. The amount of the fundamental change make-whole premium, if any, will be based on the price of our common stock and the effective date of the make-whole fundamental change. A description of how the fundamental change make-whole premium will be determined and a table showing the fundamental change make-whole premium that would apply at various hypothetical common stock prices and make-whole fundamental change effective dates is set forth under "Description of the Notes Fundamental Change Make-Whole Premium."
Repurchase of Notes by Us at the Option of the Holders upon a Fundamental Change	If a fundamental change occurs, each holder will have the option to require us to repurchase all or any portion of that holder's Notes for cash. The fundamental change repurchase price will be 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date, as defined under "Description of the Notes Repurchase at Option of Holders Upon a Fundamental Change."
Covenants	Neither the Notes nor the indenture governing the Notes will contain any financial covenants or any restrictions, among other things, on the payment of dividends, the incurrence of other indebtedness, the incurrence of liens or the issuance or repurchase of securities by us.

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Use of Proceeds	We will use a portion of the net proceeds from this offering and the 2018 Notes Offering to redeem the remaining $67 million aggregate principal amount of our 6.5% Senior Notes due 2013 and the remainder of the net proceeds from this offering and the 2018 Notes Offering to redeem approximately $381 million aggregate principal amount of our 8.625% Senior Notes due 2013. Neither the completion of this offering of Notes nor the 2018 Notes Offering is contingent on the completion of the other offering. If the 2018 Notes Offering is not completed, the aggregate principal amount of 8.625% Senior Notes due 2013 redeemed will be approximately $98 million. In the event that the 2018 Notes Offering and this offering are completed and the underwriters exercise their option to purchase additional Notes in full, then the aggregate principal amount of 8.625% Senior Notes due 2013 redeemed will be approximately $405 million. The underwriters and their affiliates may hold positions in our 6.5% Senior Notes due 2013 and our 8.625% Senior Notes due 2013 and, to the extent they hold any such notes, they may receive a portion of the proceeds from this offering. See "Use of Proceeds."
No Prior Market for the Notes	The Notes will be new securities for which there is currently no public market. The Notes will not be listed on any securities exchange or included in any automated quotation system.
NYSE Symbol for our Common Stock	Our common stock is quoted on the New York Stock Exchange under the symbol "SFI."
Certain U.S. Federal Tax Consequences	For a discussion of certain U.S. federal tax consequences relating to acquiring, owning and disposing of the Notes and any shares of our common stock received on conversion of the Notes, see "Certain U.S. Federal Income Tax Consequences."
Risk Factors	See "Risk Factors" and other information included in this prospectus supplement and the documents incorporated by reference herein for a discussion of factors you should consider carefully before deciding to invest in the Notes and our common stock issuable upon exchange of the Notes.

Unless otherwise noted, the information in this prospectus supplement assumes that the underwriters' option to purchase additional Notes will not be exercised.

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RISK FACTORS

This section describes some, but not all, of the risks of purchasing the Notes in the offering. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which is incorporated by reference into this prospectus supplement and the accompanying prospectus, also contains a "Risk Factors" section beginning on page 14 of that report. You should carefully consider the risks described in such "Risk Factors" section, in addition to the other information contained or incorporated by reference in this document, before purchasing the Notes. In addition, you should carefully review the factors discussed below and the cautionary statements referred to in "Forward-Looking Statements."

We have significant indebtedness and limitations on our liquidity and ability to raise capital may adversely affect us.

Sufficient liquidity is critical to the management of our balance sheet and our ability to meet our scheduled debt payments. However, our access to liquidity in the capital markets was constrained during the credit crisis and our cost of funds has increased. Since the credit crisis, we have primarily relied on secured borrowings, repayments from our loan assets and proceeds from asset sales to fund our operations and meet our debt maturities, and we expect to continue to rely primarily on these sources of liquidity for the foreseeable future. Our ability to access these and other sources of capital will be subject to a number of factors, many of which are outside of our control, such as conditions prevailing in the credit and real estate markets. There can be no assurance that we will have access to liquidity when needed on terms that are acceptable to us, or at all. In addition, we may decide to pursue transactions, such as sales of assets, on terms that would not otherwise be attractive to us in order to generate sufficient liquidity. We may also encounter difficulty in finding buyers of assets or executing capital raising strategies on acceptable terms in a timely manner, which could impact our ability to make scheduled repayments on our outstanding debt.

As of June 30, 2012, the aggregate amount of our outstanding consolidated indebtedness was $5.7 billion, of which $3.2 billion was debt of our subsidiaries and $3.1 billion was secured indebtedness (which amount also includes debt of our subsidiaries). As of June 30, 2012, after giving effect to the Transactions, our outstanding consolidated indebtedness on a *pro forma*, as adjusted basis would have been $4.9 billion, of which $3.0 billion would have been debt of our subsidiaries (including indebtedness of iStar Financial Inc. guaranteed by our subsidiaries) and $2.9 billion would have been secured indebtedness (which amount also includes debt of our subsidiaries), and we would have had $3.4 billion of unencumbered assets.

As of June 30, 2012, after giving *pro forma* effect to the Transactions, we would have had $682 million of debt maturing and minimum required amortization payments due during the year ending December 31, 2013.

Failure to repay or refinance our borrowings as they come due would be an event of default under the relevant instruments governing our debt, which could result in a cross default and acceleration of our other outstanding debt obligations, all of which would have a material adverse effect on our business and stock price. Our ability to make scheduled payments of principal or interest on, or to refinance, our indebtedness depends on our future performance, which, to a certain extent, is subject to general economic, financial, competitive and other factors beyond our control. For information on the repayment of certain of our indebtedness since June 30, 2012 through the date of this prospectus supplement and other recent financial results, see "Summary Recent Developments."

The Notes will be structurally subordinated to subsidiary debt.

The Notes are not guaranteed by any of our subsidiaries. As a result, the Notes will be structurally subordinated to all indebtedness and other obligations of our subsidiaries. After giving *pro forma* affect to the Transactions, our subsidiaries would have had $3.0 billion of indebtedness outstanding (including indebtedness of iStar Financial Inc. guaranteed by our subsidiaries).

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Creditors of a subsidiary are entitled to be paid what is due to them before assets of the subsidiary become available for creditors of its parent. Accordingly, claims of holders of the Notes will be structurally subordinated to any claims of creditors of our subsidiaries.

The Notes are unsecured and will be effectively subordinated to our secured indebtedness to the extent of the value of the property securing such indebtedness.

Our obligations under the Notes are not secured by any of our assets. After giving *pro forma* effect to the Transactions, $2.9 billion of our indebtedness would have been secured indebtedness.

Secured creditors are entitled to the proceeds from the sale or other disposition of assets securing their indebtedness in satisfaction of such indebtedness before any of such assets or proceeds become available to unsecured creditors. Accordingly, claims of holders of the Notes will be subordinated to our secured creditors to the extent of the value of the assets securing our secured indebtedness.

The Notes contain no financial or other restrictive covenants. Therefore, we will not be restricted from taking certain actions that might adversely affect our business, financial position and results of operations.

The indenture governing the Notes will not contain any financial covenants, restrict our ability to repurchase our securities other than the Notes in accordance with their terms, pay dividends or contain any covenants or other provisions that limit our or our subsidiaries' ability to incur additional indebtedness or liens on our or our subsidiaries' assets. Furthermore, the indenture governing the Notes will contain only limited protections in the event of a fundamental change. As a result, we may engage in many types of transactions, such as acquisitions, refinancings or recapitalizations that could substantially affect our capital structure and adversely affect the value of the Notes and our common stock. Because your right to require us to repurchase the Notes upon a fundamental change is limited, the market price of the Notes may decline if we enter into a transaction that does not constitute a fundamental change under the indenture governing the Notes. Also, the term "fundamental change" is limited and may not include every event that might cause the market price of the Notes to decline. The term "fundamental change" does not apply to a merger or similar transaction in which 90% or more of the consideration paid for our common stock, excluding cash payments for fractional shares and cash payments made in respect of dissenters' appraisal rights, is common stock that is traded or quoted on any of the New York Stock Exchange, The NASDAQ Global Select Market or The NASDAQ Global Market. In addition, our obligation to repurchase the Notes upon certain fundamental changes may not preserve the value of the Notes in the event of a highly leveraged transaction, reorganization, merger or similar transaction. See "Description of the Notes Repurchase at Option of Holders Upon a Fundamental Change."

We may not have the ability to raise funds necessary to repurchase Notes for cash upon a fundamental change as required by the indenture governing the Notes.

Holders may require us to repurchase all or a portion of their Notes for cash upon the occurrence of a fundamental change, which includes a defined change of control, at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, as described under "Description of the Notes Repurchase at Option of Holders Upon a Fundamental Change." If a fundamental change were to occur, but we did not have sufficient funds to pay the repurchase price for all of the Notes which were tendered, the failure to purchase tendered Notes would constitute an event of default under the indenture. Additionally, under our $880 million secured credit agreement entered into on March 19, 2012, or the "March 2012 Credit Agreement," and the New Credit Agreement, a change of control (as defined therein) constitutes an event of default that permits the lenders to accelerate the maturity of borrowings under the March 2012 Credit Agreement and the New Credit Agreement and the commitments to lend would terminate. Certain of our other notes also contain covenants that would require us to offer to repurchase such notes upon the occurrence of certain events constituting a "change of control" for the purposes of such notes and we may not have sufficient funds to

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pay the repurchase price for all of such notes that may be tendered pursuant to required change of control offers and any failures to purchase any tendered notes would constitute an event of default with respect to such notes which would likely give rise of an event of default under the Notes offered hereby. The occurrence of a fundamental change or change of control at a time when we could not pay for all securities which were tendered as a result thereof could result in holders receiving substantially less than the principal amount of the Notes.

One of the circumstances under which a fundamental change may occur is upon the sale, lease, exchange or other transfer of all or substantially all of our assets. However, the phrase "all or substantially all" will likely be interpreted under applicable state law and will be dependent upon particular facts or circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale, lease, exchange of other transfer of "all or substantially all" of our assets has occurred, in which case, the ability of a holder of the Notes to obtain the benefit of the offer for repurchase of all or a portion of the Notes held by such holder may be impacted.

The fundamental change make-whole premium that may be payable upon conversion in connection with certain fundamental changes may not adequately compensate you for the lost equity optionality time value of your Notes as a result of such fundamental change.

If you convert Notes in connection with certain fundamental changes, we may be required to pay a fundamental change make-whole premium by increasing the conversion rate as described under "Description of the Notes Fundamental Change Make-Whole Premium." While the fundamental change make-whole premium is designed to compensate you for the lost equity optionality time value of your Notes as a result of certain fundamental changes, the make-whole amount is only an approximation of such lost value and may not adequately compensate you for such loss. In addition, in some other cases described under "Description of the Notes Fundamental Change Make-Whole Premium," there will be no such make-whole premium. Our obligation to increase the applicable conversion rate in connection with a make-whole fundamental change could be considered a penalty, in which case the enforceability thereof would be subject to general principles of reasonableness of economic remedies, which could limit your recourse and the amount we pay you.

The definition of a fundamental change requiring us to repurchase Notes is limited and therefore the trading price of the Notes may decline if we enter into a transaction that is not a fundamental change under the indenture.

The term "fundamental change," as used in the Notes and the indenture, is limited and may not include every event that might cause the trading price of the Notes to decline. As a result, our obligation to repurchase the Notes upon a fundamental change may not preserve the value of the Notes in the event of a highly leveraged transaction, reorganization, merger or similar transaction.

Conversion of the Notes may dilute the ownership interest of existing stockholders or affect the market price of our common stock.

The conversion of some or all of the Notes may dilute the ownership interests of existing stockholders, including holders who have previously converted their Notes. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Notes may encourage short selling by market participants, because the conversion of the Notes could depress the price of our common stock.

The conversion rate of the Notes may not be adjusted for all dilutive events.

The conversion rate of the Notes is subject to adjustment for certain events, including, among others, the issuance of stock dividends on our common stock, the issuance of rights or warrants to acquire shares of our common stock, subdivisions and combinations of our common stock, dividends of our capital

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stock, certain cash dividends and certain tender or exchange offers. See "Description of the Notes Adjustment of Conversion Rate." The conversion rate will not be adjusted for other events, such as an issuance of shares of common stock for cash, that may adversely affect the trading price of the Notes or our common stock. It is also possible that an event that adversely affects the value of the Notes, but does not result in an adjustment to the conversion rate, could occur.

If you hold Notes, you are not entitled to any rights with respect to our common stock, but you are subject to all changes made with respect to our common stock.

If you hold Notes, you are not entitled to any rights with respect to our common stock, including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock, but you are subject to all changes affecting the common stock. You will only be entitled to rights on the common stock if and when you convert your Notes and in limited cases under the anti-dilution adjustment provisions of the Notes. For example, in the event that an amendment is proposed to our Articles of Incorporation or Bylaws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to your conversion of Notes, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers or rights of our common stock.

We may issue additional shares of common stock and thereby materially and adversely affect the price of the Notes.

We are not restricted from issuing additional shares of common stock or equity-linked securities during the term of the Notes. In the future, we may sell additional shares of our common stock or equity linked securities to raise capital or in connection with acquisitions. We cannot predict the size of future issuances or the effect, if any, that they may have on the market price for our common stock. The issuance and sale of substantial amounts of common stock or equity-linked securities, or the perception that such issuances and sales may occur, could adversely affect the trading price of the Notes and the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities.

Our stock price has been volatile and may continue to experience large fluctuations.

Our stock price ranged from a low of $4.61 per share to a high of $10.31 per share for the year ended December 31, 2011 and from a low of $5.50 per share to a high of $8.48 per share during the period of January 1, 2012 to September 30, 2012. The price of our common stock may continue to fluctuate greatly in the future due to a variety of factors, including those set forth in the "Risk Factors" sections of this prospectus and our filings with the SEC from time to time, as well as:

- quarter-to-quarter variations in our operating results;
- the depth and liquidity of the market for our common stock;
- shortfalls in revenue or earnings from levels expected by securities analysts and investors;
- any developments that materially impact investors' perceptions of our business prospects;
- dilution resulting from the sale of additional shares of common stock;
- general financial and other market conditions; and
- domestic and international economic conditions.

In addition, public stock markets have experienced, and may in the future experience, extreme price and trading volume volatility. This volatility has significantly affected the market prices of securities of many companies for reasons frequently unrelated to, or that disproportionately impact, the operating performance of these companies. These broad market fluctuations may adversely affect the market price of our common stock in the future.

A material decline in the price of our common stock may result in the assertion of certain claims against us, and/or the commencement of inquiries and/or investigations against us. A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock, a reduction in its ability to raise capital, and the inability for you to obtain a favorable selling price for your Notes or the common stock you receive upon conversion of your Notes. Any reduction in our ability to raise equity capital in the future may force us to reallocate funds from other planned uses and could have a significant negative effect on our business plans and operations.

Broad market fluctuations could negatively impact the market price of our common stock and the trading price of the Notes.

The stock market has experienced extreme price and volume fluctuations that have affected the market price of many companies in industries similar or related to ours and that have been unrelated to these companies' operating performance. These broad market fluctuations could reduce the market price of our common stock and the trading price of the Notes. Furthermore, our operating results and prospects may be below the expectations of public market analysts and investors or may be lower than those of companies with comparable market capitalizations, which could lead to a material decline in the market price of our common stock and the trading price of the Notes.

The issuance of common stock upon conversion of the Notes will dilute the ownership interest of existing holders of our common stock, including holders who had previously converted their Notes.

The issuance of common stock upon conversion of some or all of the Notes will dilute the ownership interests of existing holders of our common stock. Any sales in the public market of shares of our common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. The issuance of common stock upon conversion of the Notes may also have the effect of reducing net income per and could reduce the market price of our common stock unless revenue growth or cost savings sufficient to offset the effect of such issuance can be achieved. In addition, the existence of the Notes may encourage short selling by market participants because the conversion of the Notes could depress the market price of our common stock.

You may recognize taxable income upon an adjustment to the conversion rate.

The rate at which the Notes are convertible into shares of our common stock is subject to adjustment upon certain events. See "Description of the Notes Adjustment of Conversion Rate." For U.S. federal income tax purposes, holders will be deemed to receive a taxable distribution from us upon certain adjustments to the conversion rate of the Notes (or upon certain failures to adjust the conversion rate), notwithstanding that holders have not received any cash in respect of such deemed distribution. Certain holders, including Non-U.S. Holders (as defined in "Certain U.S. Federal Income Tax Consequences"), will be subject to U.S. federal income tax withholding in respect of such deemed distributions. If we pay withholding taxes on behalf of a holder as a result of a constructive distribution upon an adjustment (or the failure to make an adjustment) to the conversion rate of the Notes, we may, at our option, set off such payments against cash payments of interest on the Notes or cash or shares of common stock otherwise deliverable to a holder upon a conversion of Notes or a redemption or repurchase of Notes. See "Certain U.S. Federal Income Tax Consequences" for more information.

Certain provisions in our charter may inhibit a change in control.

Generally, to maintain our qualification as a REIT under the Internal Revenue Code of 1986, as amended, or the "Internal Revenue Code," not more than 50% in value of our outstanding shares of stock may be owned, directly or indirectly, by five or fewer individuals at any time during the last half of our taxable year. The Internal Revenue Code defines "individuals" for purposes of the requirement described in the preceding sentence to include some types of entities. Under our charter, no person may own more

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than 9.8% of our outstanding shares of stock, with some exceptions, and our charter imposes certain other restrictions on the ownership and transfer of our stock. The restrictions on transfer and ownership of our stock may delay, deter or prevent a change in control or other transaction that might involve a premium price or otherwise be in the best interest of the security holders.

The east coast of the United States has been significantly affected by Hurricane Sandy.

We have been actively monitoring the impact of Hurricane Sandy on our assets located in the affected areas and as of the date of this prospectus supplement, we have not identified any physical damage to our assets that would reasonably be expected to have a material adverse effect on us, and we have not been advised by any borrowers or tenants that they have suffered damages that would reasonably be expected to have a material adverse impact on us. The hurricane happened very recently, however, and there can be no assurance that we will not identify additional effects of the hurricane on us in the future.

As a REIT, we must distribute most of our income to our stockholders.

We must distribute annually at least 90% of our net income, excluding net capital gains, to our stockholders to maintain our REIT qualification. For so long as we maintain our qualification as a REIT, our secured credit agreements permit us to distribute 100% of our REIT taxable income on an annual basis.

Ownership limitations in our charter may impair the ability of holders to convert Notes for shares of our common stock.

Generally, to maintain our qualification as a REIT under the Internal Revenue Code, not more than 50% in value of our outstanding shares of stock may be owned, directly or indirectly, by five or fewer individuals at any time during the last half of our taxable year. The Internal Revenue Code defines "individuals" for purposes of the requirement described in the preceding sentence to include some types of entities. Under our charter, no person may own more than 9.8% of our outstanding shares of stock, with some exceptions, and our charter imposes certain other restrictions on the ownership and transfer of our stock. See "Description of Common Stock and Preferred Stock Restrictions on Ownership and Transfer" in the accompanying prospectus. Notwithstanding any other provision of the Notes, no holder of Notes will be entitled to convert such Notes for shares of our common stock to the extent that the receipt of such shares of common stock would cause such holder to exceed the ownership limit contained in our charter. See "Description of the Notes Ownership Limit; Limitation on Stock Issuable Upon Conversion."

Recent regulatory actions may adversely affect the trading price and liquidity of the Notes.

We expect that many investors in, and potential purchasers of, the Notes will employ, or seek to employ, a convertible arbitrage strategy with respect to the Notes. Investors that typically implement that strategy by selling short the common stock underlying the convertible notes and dynamically adjusting their short position while they hold the Notes. Investors may also implement this strategy by entering into swaps with respect to our common stock in lieu of or in addition to short selling the common stock. As a result, any specific rules regulating equity swaps or short selling of securities or other governmental action that interferes with the ability of market participants to effect short sales or equity swaps with respect to our common stock could adversely affect the ability of investors in, or potential purchasers of, the Notes to conduct the convertible arbitrage strategy that we believe they will employ, or seek to employ, with respect to the Notes. This could, in turn, adversely affect the trading price and liquidity of the Notes.

The SEC and other regulatory and self-regulatory authorities have implemented various rules and may adopt additional rules in the future that may impact those engaging in short selling activity involving equity securities (including our common stock). In particular, Rule 201 of SEC Regulation SHO generally restricts short selling when the price of a "covered security" triggers a "circuit breaker" by falling 10% or

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more from the security's closing price as of the end of regular trading hours on the prior day. If this circuit breaker is triggered, short sale orders can be displayed or executed only if the order price is above the current national best bid, subject to certain limited exceptions. Because our common stock is a "covered security," these Rule 201 restrictions, if triggered, may interfere with the ability of investors in, and potential purchasers of, the Notes, to effect short sales in our common stock and conduct the convertible arbitrage strategy that we believe they will employ, or seek to employ, with respect to the Notes.

In addition, the Financial Industry Regulatory Authority, or "FINRA," and exchanges have proposed a "Limit Up-Limit Down" mechanism. If approved by the Securities and Exchange Commission, or the "SEC," FINRA and the exchanges would establish procedures to prevent trading in stock covered by the mechanism outside of specific price bands during regular trading hours. If trading is unable to occur within those price bands for more than 15 seconds, there would be a five-minute trading pause. The SEC has not yet determined whether to approve the Limit Up-Limit Down proposal.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the "Dodd-Frank Act," on July 21, 2010 also introduces regulatory uncertainty that may impact trading activities relevant to the Notes. This new legislation will require many over-the-counter swaps and security-based swaps to be centrally cleared through regulated clearinghouses and traded on exchanges or comparable trading facilities. In addition, swap dealers, security-based swap dealers, major swap participants and major security-based swap participants will be required to comply with margin and capital requirements as well as public reporting requirements to provide transaction and pricing data on both cleared and uncleared swaps. These requirements could adversely affect the ability of investors in, or potential purchasers of, the Notes to maintain an convertible arbitrage strategy with respect to the Notes (including increasing the costs incurred by such investors in implementing such strategy). This could, in turn, adversely affect the trading price and liquidity of the Notes. The implementation dates for these requirements are subject to regulatory action and at this time cannot be determined with certainty. We cannot predict how this legislation will ultimately be implemented by the SEC and other regulators or the magnitude of the effect that this legislation will have on the trading price or liquidity of the Notes.

Although the direction and magnitude of the effect that the amendments to Regulation SHO, FINRA and exchange rule changes and/or implementation of the Dodd-Frank Act may have on the trading price and the liquidity of the Notes will depend on a variety of factors, many of which cannot be determined at this time, past regulatory actions have had a significant impact on the trading prices and liquidity of convertible debt instruments. For example, in September 2008, the SEC issued emergency orders generally prohibiting short sales of the common stock of certain financial services companies while Congress worked to provide a comprehensive legislative plan to stabilize the credit and capital markets. The orders made the convertible arbitrage strategy that many convertible debt investors employ difficult to execute and adversely affected both the liquidity and trading price of convertible debt instruments issued by many of the financial services companies subject to the prohibition. Any governmental action that similarly restricts the ability of investors in, or potential purchasers of, the Notes to effect short sales of our common stock, including the amendments to Regulation SHO, FINRA and exchange rule changes and the implementation of the Dodd-Frank Act, could similarly adversely affect the trading price and the liquidity of the Notes.

There is no public market for the Notes.

Prior to this offering, there was no public market for the Notes and we cannot assure you that an active trading market will develop for the Notes or, if one does develop, that it will be maintained. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price, depending upon prevailing interest rates, the market for similar securities, our performance and certain other factors. Historically, there has been substantial volatility in the prices of corporate convertible debt securities, and the price of the Notes is likely to be affected by factors which affect the price of corporate convertible debt securities generally. We do not intend to apply for listing of the Notes on any securities exchange or for inclusion of the Notes on any automated quotation system.

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RATIO OF EARNINGS TO FIXED CHARGES AND EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS

The following table sets forth our ratio of earnings to fixed charges and our ratio of earnings to fixed charges and preferred stock dividends for the periods indicated.

	For the Six Months Ended	For the Years Ended December 31,				
(in thousands except ratios)	**June 30, 2012**	**2011**	**2010**	**2009**	**2008**	**2007**
Ratio of earnings to fixed charges(1)(2)						1.2x
Ratio of earnings to fixed charges and preferred stock dividends(2)						1.2x

(1) The ratio of earnings to fixed charges is calculated in accordance with SEC Regulation S-K Item 503.

(2) For the six months ended June 30, 2012, earnings were not sufficient to cover fixed charges by $138,311 and earnings were not sufficient to cover fixed charges and preferred dividends by $159,471. For the years ended December 31, 2011, 2010, 2009 and 2008, earnings were not sufficient to cover fixed charges by $68,784, $218,353, $757,283 and $276,951, respectively, and earnings were not sufficient to cover fixed charges and preferred dividends by $111,104, $260,673, $799,603 and $319,271, respectively.

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USE OF PROCEEDS

The net proceeds from the sale of the Notes, after deducting underwriting discounts and commissions and fees and expenses related to the offering, are expected to be approximately $171 million. We will use a portion of the net proceeds from this offering and the 2018 Notes Offering to redeem the remaining $67 million aggregate principal amount of our 6.5% Senior Notes due 2013, and the remainder of the net proceeds from this offering and the 2018 Notes Offering to redeem approximately $381 million aggregate principal amount of our 8.625% Senior Notes due 2013. Neither the completion of this offering of Notes nor the 2018 Notes Offering is contingent on the completion of the other offering. If the 2018 Notes Offering is not completed, the aggregate principal amount of 8.625% Senior Notes due 2013 redeemed will be approximately $98 million. In the event that the 2018 Notes Offering and this offering are completed and the underwriters exercise their option to purchase additional Notes in full, then the aggregate principal amount of 8.625% Senior Notes due 2013 redeemed will be approximately $405 million.

The underwriters and their affiliates may hold positions in our 6.5% Senior Notes due 2013 and our 8.625% Senior Notes due 2013 and, to the extent they hold any such notes, they may receive a portion of the proceeds from this offering.

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CAPITALIZATION

The following table sets forth (i) our debt capitalization at June 30, 2012 on an actual basis; (ii) our debt capitalization on a *pro forma* basis at June 30, 2012 after giving effect to the (1) repayment of $469.2 million of our senior unsecured convertible notes due October 2012, (2) repayment of $276.1 million outstanding under the 2011 Credit Agreement and (3) borrowings under the New Credit Agreement and our use of the net proceeds of the New Credit Agreement to refinance the remaining $1.82 billion balance outstanding under the 2011 Credit Agreement; and (iii) our debt capitalization on a *pro forma* as adjusted basis at June 30, 2012, after giving further effect to the (1) issuance of the Notes in this offering and (2) issuance of $300 million of Senior Notes due 2018 in the 2018 Notes Offering, and the application of the net proceeds from each such issuance as described under "Use of Proceeds." This table should be read in conjunction with our historical consolidated financial statements and the notes thereto incorporated by reference in this prospectus supplement.

	As of June 30, 2012		
	Actual	Pro Forma(1)	Pro Forma as Adjusted(2)
		(in thousands)	
Secured credit facilities:(3)			
2011 Tranche A-1 Facility due 2013	$ 646,068	$	$
2011 Tranche A-2 Facility due 2014	1,450,000		
2012 Tranche A-1 Facility due 2016	328,605	328,605	328,605
2012 Tranche A-2 Facility due 2017	470,000	470,000	470,000
2012 Facility due 2017		1,820,000	1,820,000
Term loans:			
Term loan collateralized by net lease assets	238,425	238,425	238,425
Unsecured notes:			
LIBOR + 0.50% Convertible Notes due 2012	469,166		
8.625% Senior Notes due 2013	501,701	501,701	120,450
5.95% Senior Notes due 2013	448,453	448,453	448,453
6.5% Senior Notes due 2013	67,055	67,055	
5.70% Senior Notes due 2014	200,601	200,601	200,601
6.05% Senior Notes due 2015	105,765	105,765	105,765
5.875% Senior Notes due 2016	261,403	261,403	261,403
3.00% Convertible Senior Notes due 2016			175,000
5.85% Senior Notes due 2017	99,722	99,722	99,722
9.0% Senior Notes due 2017	275,000	275,000	275,000
7.125% Senior Notes due 2018			300,000
Other debt obligations:			
Trust preferred securities	100,000	100,000	100,000
Total debt obligations	$ 5,661,964	$ 4,916,730	$ 4,943,425

(1) Since June 30, 2012 and through October 15, 2012, we have (i) repaid $469.2 million of our senior unsecured convertible notes due October 2012; (ii) repaid $276.1 million of borrowings outstanding under the 2011 Credit Agreement; and (iii) used net proceeds from the New Credit Agreement to refinance the remaining $1.82 billion balance outstanding under the 2011 Credit Agreement.

(2) If the 2018 Notes Offering is not completed, the aggregate principal amount of 8.625% Senior Notes due 2013 redeemed will be approximately $98 million. In the event that the 2018 Notes Offering and this offering are completed and the underwriters exercise their option to purchase additional Notes in full, then the aggregate principal amount of 8.625% Senior Notes due 2013 redeemed will be approximately $405 million.

(3) The due dates of the secured credit facilities reflect their scheduled maturity dates.

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PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is traded publicly on The New York Stock Exchange under the symbol "SFI." The following table presents quarterly information on the price range of our common stock for 2010, 2011 and 2012 to date. This information indicates the high and low sales prices, on a per share basis, for each recent fiscal quarter reported by The New York Stock Exchange.

	High	Low
2012		
First quarter ended March 31	$ 7.62	$ 5.62
Second quarter ended June 30	$ 7.50	$ 5.50
Third quarter ended September 30	$ 8.48	$ 6.47
Fourth quarter (through November 7, 2012)	$ 8.93	$ 8.17
2011		
First quarter ended March 31	$ 7.18	$ 5.09
Second quarter ended June 30	$ 8.41	$ 4.61
Third quarter ended September 30	$ 9.62	$ 7.35
Fourth quarter ended December 31	$ 10.31	$ 7.84
2010		
First quarter ended March 31	$ 7.82	$ 3.06
Second quarter ended June 30	$ 5.22	$ 2.95
Third quarter ended September 30	$ 7.43	$ 4.46
Fourth quarter ended December 31	$ 5.06	$ 2.53

On November 7, 2012, the last reported sale price of our common stock on The New York Stock Exchange was $8.26 per share. We have not declared or paid dividends in 2012.

Dividends

We did not pay dividends in 2010 or 2011 nor have we paid any dividends in 2012 to date.

We expect that any net taxable income remaining after the distribution of preferred dividends and the regular quarterly or other dividends on our common stock will be distributed annually to the holders of our common stock on or prior to the date of the first regular quarterly dividend payment date of the following taxable year. The dividend policy is subject to revision by our Board of Directors. The Board of Directors has not established any minimum distribution level. No assurance can be given as to the amounts or timing of future distributions, as such distributions are subject to our earnings, financial condition, capital requirements, debt covenants and such other factors as our Board of Directors deems relevant. Distributions, if any, in excess of dividends on preferred stock or those required for us to maintain our REIT qualification will be made at the sole discretion of our Board of Directors and will depend on our net taxable income, our financial condition, and such other factors as the Board of Directors deems relevant. In order to maintain our qualification as a REIT, we intend to pay regular quarterly dividends to our shareholders that, on an annual basis, will represent at least 90% of our net taxable income (which may not necessarily equal net income as calculated in accordance with GAAP), determined without regard to the deduction for dividends paid and excluding any net capital gains. We have recorded net operating losses and may record net operating losses in the future, which may reduce our taxable income in future periods and lower or eliminate entirely our obligation to pay dividends for such periods in order to maintain our REIT qualification.

Distributions to shareholders will generally be taxable as ordinary income, although a portion of such dividends may be designated by us as capital gain or may constitute a non-taxable return of capital.

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DESCRIPTION OF CERTAIN OTHER INDEBTEDNESS

March 2012 Credit Agreement

On March 19, 2012, we entered into the March 2012 Credit Agreement with Barclays Bank PLC, as administrative agent, Bank of America, N.A., as syndication agent, JPMorgan Chase Bank, N.A., as documentation agent and Barclays Capital and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint lead arrangers and, together with J.P. Morgan Securities LLC, as joint bookrunners.

The March 2012 Credit Agreement provides for two tranches of term loans: a $410 million A-1 tranche due March 19, 2016 that bears annual interest at LIBOR plus 4.00% or a base rate plus 3.00%, and a $470 million A-2 tranche due March 19, 2017 that bears annual interest at LIBOR plus 5.75% or a base rate plus 4.75%. The A-1 Tranche and the A-2 Tranche were issued at 98.0% and 98.5% of par, respectively, and each are subject to a LIBOR floor of 1.25%.

Outstanding borrowings under the March 2012 Credit Agreement are collateralized by a first lien on a fixed pool of assets that had a value of approximately $1.1 billion as of the date of the March 2012 Credit Agreement based upon the valuation methodology applied under the March 2012 Credit Agreement. Proceeds from principal repayments and sales of collateral will be applied to repay outstanding borrowings. Proceeds received for interest, rent, lease payments and fee income are retained by us. We must meet minimum cumulative amortization requirements of $41.0 million on the A-1 Tranche beginning December 31, 2012 and every six months thereafter. After the A-1 Tranche is repaid, proceeds from principal repayments and collateral sales will be used to repay the A-2 Tranche. Outstanding borrowings under the March 2012 Credit Agreement are not guaranteed by any of our subsidiaries, and no equity interests in our subsidiaries are pledged to the lenders under the March 2012 Credit Agreement.

The March 2012 Credit Agreement contains covenants relating to the collateral, including a covenant to maintain collateral coverage of not less than 1.25x outstanding borrowings, and covenants relating to the provision of information, restricted payments and other customary matters; however, the March 2012 Credit Agreement contains no corporate level financial covenants.

The March 2012 Credit Agreement contains customary events of default, including payment defaults, failure to perform covenants, defaults under other recourse indebtedness above specified thresholds, change of control (subject to our right to repay outstanding borrowings at par), bankruptcy events and defaults under the collateral agreement. Some of the events of default are subject to cure periods.

New Credit Agreement

On October 15, 2012, we entered into the New Credit Agreement, which is a $1.82 billion senior secured credit facility due October 15, 2017. The New Credit Agreement bears annual interest at LIBOR plus 4.50% or a base rate plus 3.50%, was issued at 99.0% of par and is subject to a LIBOR floor of 1.25%.

Outstanding borrowings under the New Credit Agreement are collateralized by a first lien on a fixed pool of assets that had a value of approximately $2.29 billion as of October 15, 2012, based upon the valuation methodology applied under the New Credit Agreement. We are required to maintain minimum collateral coverage of not less than 1.25x outstanding borrowings. If our collateral coverage is less than or equal to 1.375x outstanding borrowings, 100.0% of the proceeds from principal repayments and sales of collateral will be applied to repay outstanding borrowings under the New Credit Agreement. For so long as our collateral coverage is greater than 1.375x but less than or equal to 1.5x outstanding borrowings, 50.0% of proceeds from principal repayments and sales of collateral will be applied to repay outstanding borrowings under the New Credit Agreement and for so long as our collateral coverage is greater than 1.5x outstanding borrowings, we may retain all proceeds from principal repayments and sales of collateral. Proceeds received for interest, rent, lease payments and fee income are retained by us in all cases. Outstanding borrowings under the New Credit Agreement are guaranteed by certain of our subsidiaries

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that hold direct or indirect interests in the collateral securing the borrowings and the equity interests in certain of our subsidiaries holding such interests are pledged to the lenders under the New Credit Agreement.

The New Credit Agreement contains covenants relating to the provision of information, restricted payments and other customary matters; however, the New Credit Agreement contains no corporate level financial covenants. The restricted payments covenant permits us to distribute to our stockholders real estate assets, or interests therein, having an aggregate equity value not to exceed $200 million, so long as such assets or interests are not collateral securing the borrowings or equity interest in subsidiaries holding any collateral.

The New Credit Agreement contains customary events of default, including payment defaults, failure to perform covenants, defaults under other recourse indebtedness above specified thresholds, change of control (subject to our right to repurchase outstanding borrowings at par), bankruptcy events and defaults under the collateral agreement. Some of the events of default are subject to cure periods.

Unsecured Notes

As of June 30, 2012, we had approximately $2.4 billion aggregate principal amount of senior unsecured notes outstanding, comprised of nine separate series of notes with maturity dates ranging from 2012 to 2017. The outstanding senior unsecured notes are our unsecured senior obligations and rank equally with all of our other unsecured, unsubordinated indebtedness from time to time outstanding, including the Notes. Our outstanding senior unsecured notes are not guaranteed by any of our subsidiaries. The covenants contained in the indentures governing the outstanding unsecured senior notes are substantially similar to those that will be contained in the indenture governing the 2018 Notes, except that not all of our outstanding senior unsecured notes contain provisions enabling holders to require us to repurchase such Notes upon the occurrence of a change of control event (as is required under the Notes in certain circumstances).

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DESCRIPTION OF THE NOTES

The Company will issue the Notes under an indenture dated as of February 5, 2001 between itself and U.S. Bank National Association, as trustee, or the "Trustee," and a supplemental indenture with respect to the Notes between itself and the Trustee, to be dated as of November 13, 2012, the indenture, together with the supplemental indenture for the Notes, being the "Indenture." The following is a summary of the material provisions of the Indenture and the Notes. It does not include all of the provisions of the Indenture and the Notes. The following description of the particular terms of the Indenture and the Notes supplements the description in the accompanying prospectus of the general terms and provisions of our debt securities. To the extent that the following description of the Notes is inconsistent with the general description in the accompanying prospectus, the following description replaces and supersedes the description in the accompanying prospectus. We urge you to read the Indenture because it defines your rights. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended, or the "TIA." The Trustee will make a copy of the Indenture and the Notes available to you upon request. You can find definitions of certain capitalized terms used in this description under " Certain Definitions." For purposes of this section, references to the "Company," "we" or "our" include only iStar Financial Inc. and not its subsidiaries.

General

The Notes are initially limited to an aggregate principal amount of $175,000,000 (or $200,000,000 if the underwriters exercise in full their option to purchase additional Notes). We may issue an unlimited principal amount of additional notes under the Indenture having identical terms and conditions as the Notes, or the "Additional Notes"; provided that if any Additional Notes are not fungible with the Notes for U.S. federal income tax purposes, such Additional Notes will be issued as a separate series under the Indenture and will have a separate CUSIP number from the Notes. The Notes and any Additional Notes subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including with respect to waivers and amendments. Unless the context otherwise requires, in this "Description of the Notes," references to the "Notes" include any Additional Notes.

The Company will issue the Notes in fully registered form in denominations of $2,000 and integral multiples of $1,000 in excess thereof. The Trustee will initially act as paying agent and registrar for the Notes. The Notes may be presented for registration or transfer and exchange at the offices of the registrar. The Company may change any paying agent and registrar without notice to holders of the Notes. The Company will pay principal (and premium, if any) on the Notes at the Trustee's corporate office in New York, New York. At the Company's option, interest may be paid at the Trustee's corporate trust office or by check mailed to the registered address of the holders.

The Indenture does not contain any financial covenants or any restrictions, among other things, on the payment of dividends, the incurrence of other indebtedness, the incurrence of liens or the issuance or repurchase of securities by us. The Indenture does not contain any covenants or other provisions to protect holders of the Notes in the event of a highly leveraged transaction or a change of control, except to the extent described under " Fundamental Change Make-Whole Premium" and " Repurchase at Option of Holders Upon a Fundamental Change" below.

Principal, Maturity and Interest

The Notes will mature on November 15, 2016. Interest on the Notes will be payable semiannually in cash at the rate of 3.00% per annum.

Interest will be payable on the Notes on each May 15 and November 15, commencing on May 15, 2013 to the persons who are registered holders on each May 1 and November 1. Interest on the Notes will accrue from November 13, 2012 and will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Payment of interest on the Notes will include interest accrued for the period commencing

on and including the immediately preceding interest payment date (or, if none, the original issuance date) through the day before the applicable interest payment date, fundamental change repurchase date or maturity date, as the case may be. In the event of the maturity, conversion or repurchase of a Note by us at the option of the holder thereof, interest ceases to accrue on the Note under the terms of, and subject to the conditions of, the Indenture.

If any interest payment date, any fundamental change repurchase date or the maturity date is not a Business Day, the required payment will be postponed to and made on the next succeeding Business Day as if made on the date such payment was due, and no interest will accrue on such payment for the period from and after such interest payment date, fundamental change repurchase date or the maturity date, as the case may be, to the date of such payment on the next succeeding Business Day. Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from and including the date of issuance.

No sinking fund is provided for the Notes, which means that we are not required to redeem or retire the Notes periodically. The Notes will not be redeemable at our option.

Transfer and Exchange

A Holder may convert, transfer or exchange Notes in accordance with the Indenture. The registrar and the Trustee may require a Holder to furnish appropriate endorsements and transfer documents in connection with a transfer of Notes. Holders will be required to pay all taxes due on transfer.

Ranking

The Notes will be our senior, unsecured obligations, and will be:

- equal in right of payment with all of our existing and future obligations that are not expressly subordinated to the Notes;
- effectively subordinated to all of our existing and future indebtedness that is secured by a Lien on any of our assets to the extent of the value of the assets securing such indebtedness;
- senior in right of payment to all of our existing and future indebtedness that is expressly subordinated to the Notes; and
- since the Notes will not be guaranteed by any of our Subsidiaries, effectively subordinated to all liabilities (including trade payables) of our Subsidiaries.

Our ability to pay interest on the Notes will be dependent in part upon our receipt of dividends and other distributions from our direct and indirect Subsidiaries. The availability of distributions from our Subsidiaries will, among other things, be subject to the satisfaction of any covenants and conditions contained in the applicable Subsidiaries' financing documents. As of June 30, 2012, the aggregate amount of our outstanding consolidated indebtedness was $5.7 billion, of which $3.2 billion was debt of our subsidiaries and $3.1 billion was secured indebtedness. As of June 30, 2012, after giving effect to the Transactions, our outstanding consolidated indebtedness on a pro forma, as adjusted basis would have been $4.9 billion, of which $3.0 billion would have been debt of our subsidiaries (including indebtedness of the Company guaranteed by its subsidiaries) and $2.9 billion would have been secured indebtedness (which amount also includes debt of our subsidiaries), and we would have had $3.4 billion of unencumbered assets.

Redemption; Open Market and Other Purchases

The Company will not be permitted to redeem the Notes at its option. Except as described below under " Repurchase at Option of Holders Upon a Fundamental Change," the Company will not be required to make any mandatory redemption or sinking fund payments with respect to the Notes. The

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Company may at any time and from time to time acquire Notes by tender offer, open market purchases, negotiated transactions or otherwise, in accordance with applicable securities laws.

Conversion Rights

Holders may convert their Notes into shares of our common stock at any time prior to the close of business on the Business Day immediately preceding the maturity date, unless the Notes have been previously repurchased.

A holder may convert any outstanding Notes into our common stock at an initial conversion rate of 84.9582 shares of our common stock for each $1,000 principal amount of Notes surrendered for conversion, equal to an initial conversion price of approximately $11.77 per share. Upon conversion in connection with a make- whole fundamental change, in certain circumstances we will pay a fundamental change make-whole premium to holders of Notes upon the conversion of their Notes by increasing the conversion rate, as described below under " Fundamental Change Make-Whole Premium."

The conversion rate and the equivalent conversion price in effect at any given time are referred to as the "applicable conversion rate" and the "applicable conversion price," respectively, and will be subject to adjustment as described below. A holder may convert fewer than all of such holder's Notes so long as the amount of Notes converted is an integral multiple of $1,000; provided that if, following the conversion of a portion of a Note, the remaining principal amount of such Note outstanding immediately after such conversion would be less than $2,000, then the portion of such Note so converted shall be reduced so that the remaining principal amount of such Note outstanding immediately after such conversion is $2,000.

Upon conversion of a Note, a holder will not receive any cash payment of interest (unless in certain circumstances such conversion occurs between a regular record date and the interest payment date to which it relates, as described below) and we will not adjust the conversion rate to account for accrued and unpaid interest. We will not issue fractional shares of common stock upon conversion of Notes. Instead, we will pay cash in lieu of fractional shares based on the last reported sale price (as defined under " Adjustment of Conversion Rate" below) of our common stock on the Business Day prior to the conversion date. Our delivery to the holder of the full number of shares of our common stock into which the Note is convertible, together with any cash payment for such holder's fractional shares, will be deemed to satisfy our obligation to pay the principal amount of the Note and our obligation to pay accrued and unpaid interest. As a result, any accrued but unpaid interest to the conversion date will be deemed paid in full rather than canceled, extinguished or forfeited. For a discussion of the tax treatment to you relating to conversion of a Note, see "Certain U.S. Federal Income Tax Consequences."

If a holder converts Notes, we will pay any documentary, stamp or similar issue or transfer tax due on the issuance of shares of our common stock upon the conversion, unless the tax is due because the holder requests the shares to be issued or delivered to a person other than the holder, in which case the holder will pay that tax.

If the holder holds a beneficial interest in a global Note, to convert the holder must comply with the procedures of The Depository Trust Company ("DTC") for converting a beneficial interest in a global Note and, if required, pay funds equal to the interest payable on the next interest payment date to which the holder is not entitled and, if required, pay all taxes or duties, if any.

If the holder holds a certificated Note, to convert the holder must:

- complete and manually sign the conversion notice on the back of the Note, or facsimile of the conversion notice;
- deliver the conversion notice, which is irrevocable, and the Note to the conversion agent;
- if required, furnish appropriate endorsements and transfer documents;

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if required, pay all transfer or similar taxes; and

if required, pay funds equal to the interest payable on the next interest payment date to which the holder is not entitled.

The date the holder complies with these requirements is the conversion date under the Indenture. Each conversion will be deemed to have been effected as to any Notes surrendered for conversion on the conversion date, and the person in whose name the shares of our common stock shall be issuable upon such conversion will become the holder of record of such shares as of the close of business on such conversion date. We will deliver the consideration due in respect of any conversion on the third Business Day immediately following the relevant conversion date.

However, if a holder has already delivered a fundamental change repurchase notice as described under " Repurchase at Option of Holders Upon a Fundamental Change" with respect to a Note, the holder may not surrender that Note for conversion until the holder has withdrawn the fundamental change repurchase notice in accordance with the Indenture. If a holder submits its Notes for repurchase, the holder's right to withdraw the fundamental change repurchase notice and conversion the Notes that are subject to repurchase will terminate at the close of business on the Business Day immediately preceding the fundamental change repurchase date, as the case may be.

Holders of Notes at the close of business on a regular record date will receive payment of interest payable on the corresponding interest payment date notwithstanding the conversion of such Notes at any time after the close of business on the applicable regular record date. Notes surrendered for conversion by a holder during the period from the close of business on any regular record date to the opening of business on the next interest payment date must be accompanied by payment of an amount equal to the interest that the holder is to receive on the Notes; provided, however, that no such payment need be made (1) if we have specified a repurchase date following a fundamental change that is after a record date and on or prior to the next interest payment date, (2) to the extent of overdue interest, if any overdue interest exists at the time of conversion with respect to such Note, or (3) if conversion occurs after the last record date prior to the maturity date.

Adjustment of Conversion Rate

The applicable conversion rate will be adjusted as described below, except that we will not make any adjustments to the conversion rate if holders of the Notes participate (as a result of holding the Notes, and at the same time as common stock holders participate) in any of the transactions described below as if such holders of the Notes held a number of shares of our common stock equal to the applicable conversion rate, multiplied by the principal amount (expressed in thousands) of Notes held by such holder, without having to convert their Notes.

(1) If we issue shares of our common stock as a dividend or distribution on shares of our common stock, or if we effect a share split or share combination, the conversion rate will be adjusted based on the following formula:

$$CR_1 = CR_0 \times \frac{OS_1}{OS_0}$$

where,

CR_0 = the applicable conversion rate in effect immediately prior to the close of business on the record date for such dividend or distribution, or immediately prior to the open of business on the effective date of such share split or share combination, as the case may be;

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CR_1 = the applicable conversion rate in effect immediately after the close of business on the record date for such dividend or distribution, or immediately after the open of business on the effective date of such share split or share combination, as the case may be;
OS_0 = the number of shares of our common stock outstanding immediately prior to the close of business on the record date for such dividend or distribution, or immediately prior to the effective date of such share split or share combination, as the case may be; and
OS_1 = the number of shares of our common stock outstanding immediately after giving effect to such dividend, distribution, share split or share combination, as the case may be.

Any adjustment made pursuant to this clause (1) shall become effective immediately after (x) the close of business on the record date for such dividend or distribution or (y) the open of business on the effective date of such split or combination, as applicable. If any dividend or distribution described in this clause (1) is declared but not so paid or made, effective as of the date the Company's Board of Directors determines not to pay such dividend or distribution, the new conversion rate shall be readjusted to the conversion rate that would then be in effect if such dividend or distribution had not been declared.

(2) If we distribute to all or substantially all holders of our common stock any rights, options or warrants entitling them to purchase, for a period of not more than 45 days after the ex-dividend date for the distribution, shares of our common stock at a price per share less than the average of the last reported sale prices of our common stock for the 10 consecutive trading-day period ending on, and including, the trading day preceding the announcement date for such distribution, the conversion rate will be adjusted based on the following formula:

$$CR_1 = CR_0 \times \frac{OS_0 + X}{OS_0 + Y}$$

where,

CR_0 = the conversion rate in effect immediately prior to the close of business on the record date for such distribution;
CR_1 = the new conversion rate in effect immediately after the close of business on the record date for such distribution;
OS_0 = the number of shares of our common stock outstanding immediately prior to the close of business on the record date for such distribution;
X = the total number of shares of our common stock issuable pursuant to such rights, options or warrants; and
Y = the number of shares of our common stock equal to the aggregate price payable to exercise such rights, options or warrants *divided* by the average of the last reported sale prices of our common stock over the 10 consecutive trading-day period ending on, and including, the trading day immediately preceding the announcement date of such distribution.

For purposes of this clause (2), in determining whether any rights, options or warrants entitle the holders to subscribe for or purchase our common stock at less than the average of the last reported sale prices of our common stock for the applicable 10 consecutive trading-day period, and in determining the aggregate offering price of such shares of our common stock, there shall be taken into account any consideration the Company receives for such rights, options or warrants and any amount payable on

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exercise thereof, with the value of such consideration if other than cash, to be determined by the Company's Board of Directors.

Any adjustment made pursuant to this clause (2) shall be made successively whenever any such rights, options or warrants are distributed and shall become effective immediately after the close of business on the record date for such distrib