

ISTAR FINANCIAL INC  
Form 424B3  
February 24, 2005

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Registration No. 333-109599

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

**Subject to completion, dated February 23, 2005**

**Prospectus Supplement**

(to Prospectus dated February 23, 2005)

\$

**iStar Financial Inc.**

\$

**Senior Floating Rate Notes Due 2008**

\$

**% Senior Notes Due 2012**

This is an offering of \$ aggregate principal amount of our Senior Floating Rate Notes due 2008 or the "Floating Rate Notes," and \$ aggregate principal amount of our % Senior Notes due 2012 or the "Fixed Rate Notes." The Floating Rate Notes will bear interest at a rate per year equal to three-month LIBOR (as defined herein) plus %. Except as otherwise stated in this prospectus supplement, when we refer to the "Notes," we refer to the Floating Rate Notes and the Fixed Rate Notes collectively. The Floating Rate Notes will mature on March , 2008. The Fixed Rate Notes will mature on March , 2012. We will pay interest on the Floating Rate Notes on each March , June , September and December , commencing June , 2005. We will pay interest on the Fixed Rate Notes on each March and September , commencing September , 2005.

We may not redeem the Floating Rate Notes prior to their maturity. We may redeem the Fixed Rate Notes in whole or in part prior to their maturity at the redemption price described in "Description of the Notes Redemption Optional Redemption of Fixed Rate Notes."

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 not expected to be listed on any securities exchange or included in any quotation system.

This prospectus supplement and the related prospectus include additional information about the terms of the Notes, including covenants.

See "Risk Factors," beginning on page S-7 of this prospectus supplement and on page 2 of the accompanying prospectus, for a discussion of certain of the risks you should consider before investing in the Notes.

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

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	<u>Public offering price</u>	<u>Underwriting discount</u>	<u>Proceeds, before expenses, to us</u>
Per Floating Rate Note		%	%
Per Fixed Rate Note		%	%
Total	\$	\$	\$

We expect that delivery of the Notes will be made in New York, New York on or about March , 2005.

*Joint Book-Running Managers*

**Banc of America Securities LLC      Goldman, Sachs & Co.**

*Co-Managers*

**Barclays Capital      KeyBanc Capital Markets      RBS Greenwich Capital**

The date of this prospectus supplement is February , 2005

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## TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
<b>Prospectus Supplement</b>		<b>Prospectus</b>	
Forward-Looking Statements	ii	About this Prospectus	1
Summary	S-1	Forward-Looking Statements	1
Risk Factors	S-7	iStar Financial Inc.	1
Ratio of Earnings to Fixed Charges	S-8	Risk Factors	2
Use of Proceeds	S-9	Ratio of Earnings to Fixed Charges	8
Capitalization	S-9	Use of Proceeds	8
Description of Other Indebtedness	S-10	Description of Debt Securities	9
Description of the Notes	S-13	Description of Warrants	11
Certain Federal Income Tax Consequences	S-32	Description of Common Stock and	
Underwriting	S-36	Preferred Stock	12
Legal Matters	S-37	Description of Depositary Shares	17
Experts	S-37	Certain Federal Income Tax Consequences	18
		Plan of Distribution	32
		Legal Matters	33
		Experts	33
		Incorporation of Certain Documents By	33
		Reference	33
		Information We File	34

You should only rely 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.

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.

**Creative Capital Solutions and the iStar Financial logo are registered trade marks of iStar Financial Inc.**

### **FORWARD-LOOKING STATEMENTS**

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

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

**Summary**

Issuer	iStar Financial Inc.
Securities Offered	\$      principal amount of Senior Floating Rate Notes due 2008 and \$      principal amount of % Senior Notes due 2012.
Maturity	The Floating Rate Notes will mature on March      , 2008. Unless redeemed earlier, the Fixed Rate Notes will mature on March      , 2012.
Interest Rate	The Floating Rate Notes will bear interest at a rate per year equal to three-month LIBOR, plus % (calculated on the basis of a 360-day year using the actual number of days elapsed from and including an interest payment date to but excluding the next succeeding interest payment date). Interest on the Floating Rate Notes will be reset quarterly. The Fixed Rate Notes will bear interest at % per year (calculated using a 360-day year comprised of twelve 30-day months).
Interest Payment Dates	Interest on the Floating Rate Notes will be paid on each March      , June      , September      and December      , beginning on June      , 2005. Interest on the Fixed Rate Notes will be paid on each March      and September      , beginning on September      , 2005. Interest on the Notes will accrue from the date of issuance.
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 and all indebtedness of our subsidiaries. As of September 30, 2004, the aggregate amount of our outstanding consolidated indebtedness was \$4.7 billion, of which approximately \$2.1 billion was debt of our subsidiaries.
Optional Redemption	We may redeem the Fixed Rate Notes in whole or in part prior to their maturity at the redemption price described in "Description of the Notes Redemption Optional Redemption of Fixed Rate Notes." We may not redeem the Floating Rate Notes prior to their maturity.
Certain Indenture Provisions	The indenture governing the Notes contains covenants limiting our and our subsidiaries' ability to: <ul style="list-style-type: none"> <li>incur indebtedness;</li> <li>maintain unencumbered assets; or</li> <li>merge or consolidate with another person.</li> </ul> <p>These covenants are subject to a number of important limitations and exceptions. See "Description of the Notes Certain Covenants."</p>
Risk Factors	Investing in the Notes involves substantial risks. See "Risk Factors" in this prospectus supplement and in the accompanying prospectus for a description of certain risks you should consider before investing in the Notes.

**ISTAR FINANCIAL INC.**

We are the leading publicly-traded finance company focused exclusively on the commercial real estate industry. We provide custom-tailored financing to high-end private and corporate owners of real estate nationwide, including senior and junior mortgage debt, senior and mezzanine corporate capital, and corporate net lease financing. Our objective is to generate consistent and attractive returns on our invested capital by providing innovative and value-added financing solutions to our customers. We are taxed as a real estate investment trust.

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](http://www.istarfinancial.com). The information on our website is not considered part of this prospectus supplement or the accompanying prospectus. Our five primary regional offices are located in Atlanta, Boston, Dallas, Hartford and San Francisco. iStar Asset Services, our loan servicing subsidiary, is located in Hartford, and iStar Real Estate Services, our corporate facilities management division, is headquartered in Atlanta.

**RECENT DEVELOPMENTS**

On January 19, 2005, we signed a definitive agreement to acquire Falcon Financial Investment Trust, an independent finance company dedicated to providing long-term capital to automotive dealers throughout the United States. We commenced a tender offer for all of the outstanding common shares of beneficial interest of Falcon Financial Investment Trust for \$7.50 per share, net to the seller in cash, for an aggregate equity purchase price of approximately \$120 million. The tender offer was made pursuant to an Agreement and Plan of Merger, dated as of January 19, 2005 between Falcon Financial and us. The tender offer will remain open until 12:00 midnight, New York City time, on Monday, February 28, 2005, unless extended.

On January 25, 2005, we commenced a consent solicitation and offer to exchange our 5.70% Series B Senior Notes due 2014, for any and all outstanding TriNet Corporate Realty Trust 7.70% Senior Notes due 2017, referred to herein as the TriNet Notes. TriNet is our wholly-owned subsidiary. We received the requisite consents to adopt the proposed amendments to the indenture governing the TriNet Notes. The purpose of the consent solicitation and exchange offer is to enable us to simplify our corporate structure by consolidating TriNet into us through a merger, liquidation or other appropriate method. TriNet and BNY Midwest Trust Company, the trustee under the indenture, executed the supplemental indenture adopting the proposed amendments on February 11, 2005. The amendments will not become operative until we accept and consummate the exchange of all notes validly tendered. The exchange offer and consent solicitation are scheduled to expire on February 24, 2005 and issuance of the iStar notes in the exchange offer is scheduled to occur on March 1, 2005.

On February 15, 2005, we announced that we had entered into a definitive agreement to acquire a substantial minority interest in Oak Hill Advisors, L.P. and related entities. The consideration for our purchase of our interest in Oak Hill Advisors will consist of cash plus shares of iStar Financial common stock, par value \$.001 per share. The shares of common stock will have an aggregate value of approximately \$49.0 million, based upon the average of the daily dollar volume-weighted average sale price for sales of our common stock on the New York Stock Exchange, for the first 20 trading days in March 2005.

**Recent Financial Information**

Adjusted earnings allocable to common shareholders for the fourth quarter of 2004 were \$98.4 million on a diluted basis, compared to \$91.2 million for the fourth quarter of 2003. Net income allocable to common shareholders for the fourth quarter of 2004 was \$115.0 million, compared to \$68.8 million for the fourth quarter of 2003. Net income for the fourth quarter of 2004 includes a \$41.2 million gain from the sale of non-core corporate tenant lease assets. Net investment income for

the quarter ended December 31, 2004 increased to \$91.5 million, up 9.0% from \$84.0 million for the fourth quarter of 2003. Net investment income represents interest income, operating lease income and equity in earnings from joint ventures and unconsolidated subsidiaries, less interest expense and operating costs for corporate tenant lease assets and loss from early extinguishment of debt, in each case, in accordance with GAAP. For a discussion of how we compute adjusted earnings, including a reconciliation to net income, see the table below.

During the fourth quarter of 2004, we closed 10 new financing commitments for a total of \$610.1 million, of which \$392.2 million was funded during the quarter. In addition, we funded \$116.9 million under 15 pre-existing commitments and received \$359.6 million in principal repayments.

Adjusted earnings allocable to common shareholders for the year ended December 31, 2004, including first quarter compensation and securities redemption charges, were \$266.7 million on a diluted basis, compared to \$338.5 million for the year ended December 31, 2003.

Net income allocable to common shareholders for the year ended December 31, 2004 was \$205.8 million, compared to \$253.4 million for the year ended December 31, 2003.

Net investment income and total revenue both increased to \$376.6 million and \$694.4 million for the year ended December 31, 2004, respectively, from \$328.3 million and \$573.1 million, respectively, for the year ended December 31, 2003.

As of December 31, 2004, we had \$7.1 billion of loan and corporate tenant lease assets secured by over 2,700 individual properties. Approximately 86% of our asset base as of December 31, 2004 was comprised of first mortgages, junior participations in first mortgages or corporate tenant lease assets. The average loan-to-value ratio of our loans was 67.5% and our loan portfolio had a weighted average debt service coverage ratio of 2.2x, in each case as of December 31, 2004. Our \$3.2 billion portfolio of corporate tenant lease assets as of December 31, 2004 had a diversified tenant base of 93 corporate tenants, 50% of which had investment grade or implied investment grade ratings, and 78% of which were public companies or subsidiaries of public companies, based upon information available to us. The weighted average remaining lease term on our corporate tenant lease portfolio was 11.2 years as of December 31, 2004.

For the quarter ended December 31, 2004, our ratio of earnings to fixed charges was 2.4x and our ratio of earnings to fixed charges and preferred stock dividends was 2.0x. See "Ratio of Earnings to Fixed Charges" for the definitions of earnings and fixed charges.

For the quarter ended December 31, 2004, earnings before interest, taxes, depreciation and amortization, or "EBITDA," was approximately \$207.0 million. The ratio of EBITDA to GAAP interest expense for the quarter was 3.3x and the ratio of EBITDA to fixed charges for the quarter was 2.9x. Our unencumbered asset base was \$4.7 billion at December 31, 2004, representing 64% of our total asset base at that date.

As of December 31, 2004, the aggregate amount of our outstanding consolidated indebtedness was approximately \$4.6 billion, of which approximately \$1.8 billion was debt of our subsidiaries. The Company's debt to book equity plus accumulated depreciation and loan loss reserves ratio as of December 31, 2004 was 1.7x.

The results for the fourth quarter 2004 and year ended December 31, 2004 described above are preliminary and unaudited.

#### **Adjusted Earnings and EBITDA**

Adjusted earnings represents net income to common shareholders computed in accordance with GAAP, before depreciation, amortization, gain (loss) from discontinued operations, extraordinary items

and cumulative effect of change in accounting principle. Adjustments for unconsolidated partnerships and joint ventures reflect our share of adjusted earnings calculated on the same basis.

EBITDA represents net income to common shareholders computed in accordance with GAAP, before interest expense, depreciation and amortization.

We measure our performance using adjusted earnings and EBITDA, in addition to GAAP net income. We think that adjusted earnings and EBITDA are helpful measures to consider, in addition to GAAP net income, because those measures help us to evaluate how our commercial real estate finance business is performing compared to other commercial finance companies, without the effects of certain GAAP adjustments that are not necessarily indicative of current operating performance. The most significant GAAP adjustments that we exclude in determining adjusted earnings and EBITDA are depreciation and amortization. As a commercial finance company that focuses on real estate lending and corporate tenant leasing, we record significant depreciation on our real estate assets and amortization of deferred financing costs on our lending assets. These items do not affect our daily operations, but they do impact our financial results under GAAP. By measuring our performance using adjusted earnings, EBITDA and net income, we are able to evaluate how our business is performing both before and after giving effect to recurring GAAP adjustments such as depreciation and amortization and, in the case of adjusted earnings, after including income or losses from our joint venture interests on the same basis and excluding gains or losses from the sale of assets that will no longer be part of our business.

We do not think that adjusted earnings and EBITDA are alternatives or substitutes for GAAP net income as a measure of our performance. Rather, we think that adjusted earnings and EBITDA are additional measures that help us analyze how our business is performing. We also use these measures to track our compliance with covenants in our borrowing arrangements because several of our material borrowing arrangements have covenants based upon these measures. Adjusted earnings and EBITDA should not be viewed as alternative measures of either our liquidity or funds available for our cash needs or for distribution to our shareholders. In addition, we may not calculate adjusted earnings in the same manner as other companies that use a similarly titled measure.



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Reconciliation of Adjusted Earnings to Net Income

	Three Months Ended December 31		Year Ended December 31	
	2004	2003	2004	2003
	(in thousands)			
Net income (1)	\$ 127,441	\$ 79,580	\$ 260,447	\$ 292,157
Add: Joint venture income	39	43	166	593
Add: Depreciation	17,190	15,236	67,853	55,905
Add: Joint venture depreciation and amortization	72	4,416	3,544	7,417
Add: Amortization	7,053	7,051	33,651	27,180
Less: Preferred dividends (2)	(10,580)	(10,196)	(51,340)	(36,908)
Less: Gain from discontinued operations	(41,226)	(4,203)	(43,375)	(5,167)
Adjusted earnings allocable to common shareholders and High Performance Unit holders:				
Basic (3)	\$ 99,950	\$ 91,884	\$ 270,780	\$ 340,584
Diluted (4)	\$ 99,989	\$ 91,927	\$ 270,946	\$ 341,177
Weighted average common shares outstanding:				
Basic	111,402	102,603	110,205	100,314
Diluted	112,726	107,637	112,537	104,248
Common shares outstanding at end of period:				
Basic	111,432	107,215	111,432	107,215
Diluted	112,747	112,132	112,747	112,132

- (1) For the twelve months ended December 31, 2004, net income includes previously reported first quarter 2004 compensation charges of \$106.9 million and a charge of \$11.5 million for the redemption of our 8.75% Senior Notes due 2008.
- (2) For the twelve months ended December 31, 2004, preferred dividends includes a charge of \$9.0 million relating to the redemption of our 9.375% Series B and 9.20% Series C Cumulative Redeemable Preferred Stock in the first quarter of 2004.
- (3) For the three months ended December 31, 2004 and 2003, includes \$1,595 and \$728 of net income allocable to High Performance Unit ("HPU") holders, respectively. For the twelve months ended December 31, 2004 and 2003, includes \$4,317 and \$2,758 of net income allocable to HPU holders, respectively.
- (4) For the three months ended December 31, 2004 and 2003, includes \$1,577 and \$694 of net income allocable to HPU holders, respectively. For the twelve months ended December 31, 2004 and 2003, includes \$4,261 and \$2,659 of net income allocable to HPU holders, respectively.

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Reconciliation of EBITDA and EBITDA Ratios to Net Income

	<b>Three Months Ended December 31, 2004</b>	
	<b>(in thousands)</b>	
Net income	\$	127,441
Add: GAAP interest expense(1)		62,018
Add: Depreciation and amortization(2)		17,535
<b>EBITDA(3)</b>	<b>\$</b>	<b>206,994</b>
<b>Interest Coverage</b>		
EBITDA(3)	\$	206,994
GAAP interest expense(1)	\$	62,018
EBITDA/GAAP interest expense(1)		3.3x
<b>Fixed Charge Coverage</b>		
EBITDA(3)	\$	206,994
GAAP interest expense(1)	\$	62,018
Plus: Preferred dividends		10,580
<b>Total GAAP interest expense and preferred dividends(1)</b>	<b>\$</b>	<b>72,598</b>
EBITDA/GAAP interest expense and preferred dividends(1)		2.9x

(1) Includes \$170 of interest expense classified as income from discontinued operations in accordance with SFAS No. 144.

(2) Includes \$354 of depreciation and amortization classified as income from discontinued operations in accordance with SFAS No. 144.

(3) Includes \$41,226 gain from the sale of non-core corporate tenant lease assets.

## **RISK FACTORS**

This section describes some, but not all, of the risks of purchasing Notes in the offering. The prospectus to which this supplement relates also contains a Risk Factors section beginning on page 2 of that prospectus. You should carefully consider these risks, in addition to the other information contained or incorporated by reference in this document, before purchasing Notes. You should carefully review the factors discussed below and the cautionary statements referred to in "Forward-Looking Statements."

### **We Have Other Indebtedness**

As of September 30, 2004, on a pro forma basis after giving effect to this offering and the use of proceeds therefrom, our outstanding debt would have been approximately \$4.7 billion. 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.

### **The Notes Will Be Structurally Subordinated to Subsidiary Debt**

The Notes are not guaranteed by any of our subsidiaries. Our subsidiaries hold a substantial portion of our assets. After giving pro forma effect to the offering, our subsidiaries would have had approximately \$1.9 billion of indebtedness outstanding at September 30, 2004. 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.

### **As a REIT, We Must Distribute a Portion of Our Income to Our Stockholders**

We must distribute annually at least 90% of our taxable net income to our stockholders to maintain our REIT status. As a result, those earnings will not be available to pay principal or interest on the Notes. Our taxable net income has historically been lower than the cash flow generated by our business activities, primarily because our taxable net income is reduced by non-cash expenses, such as depreciation and amortization. As a result, our dividend payout ratio as a percentage of free cash flow has generally been lower than our payout ratio as a percentage of taxable net income. However, our primary unsecured revolving credit facility permits us to distribute up to the greater of 100% of our adjusted earnings or such dividends as may be necessary to maintain our REIT status.

### **There is No Public Market for the Notes**

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 debt securities, and the price of the Notes is likely to be affected by factors which affect the price of corporate 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.

## RATIO OF EARNINGS TO FIXED CHARGES

	Nine Months Ended September 30, 2004	Years Ended December 31,				
		2003	2002	2001	2000	1999
Ratio of earnings to fixed charges and preferred stock dividends(1)	1.4x(2)	2.0x	1.7x	1.8x	1.8x	1.1x(3)
Ratio of earnings to fixed charges(1)	1.7x(2)	2.4x	2.1x	2.2x	2.2x	1.4x(3)

- (1) For the purposes of calculating the ratio of earnings to fixed charges, "earnings" consist of income from continuing operations before adjustment for minority interest in consolidated subsidiaries, or income or loss from equity investees, income taxes and cumulative effect of change in accounting principle plus "fixed charges" and certain other adjustments. "Fixed charges" consist of interest incurred on all indebtedness (including amortization of original issue discount) and the implied interest component of our rent obligations in the periods presented.
- (2) Includes the effect of chief executive officer, chief financial officer and ACRE Partners compensation charges of \$106.9 million, 8.75% Senior Notes due 2008 redemption charge of \$11.5 million and, for the ratio of earnings to fixed charges and preferred dividends, preferred stock redemption charge of \$9.0 million. Excluding these charges, the ratio of earnings to fixed charges and preferred stock dividends and the ratio of earnings to fixed charges would have been 2.0x and 2.4x, respectively.
- (3) Includes the effect of a non-recurring, non-cash charge in the amount of approximately \$94.5 million relating to our November 1999 acquisition of the former external advisor to our company. Excluding these charges, the ratio of earnings to fixed charges and preferred stock dividends and the ratio of earnings to fixed charges would have been 1.9x and 2.4x, respectively.

**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 \$745 million, assuming we issue \$750 million of Notes. We intend to use the net proceeds to repay outstanding indebtedness under our secured and unsecured credit facilities. All of this indebtedness was incurred during the past year for working capital purposes. At September 30, 2004, the weighted average interest rate of the borrowings we will repay was 3.07%, and the weighted average maturity was 3.0 years. Amounts being repaid under secured and unsecured revolving credit facilities will be available for future borrowings. Affiliates of some of the underwriters are lenders under our credit facilities and will therefore receive a portion of the net proceeds from the sale of the Notes. For more information, please see the "Underwriting" section of this prospectus supplement.

**CAPITALIZATION**

The following table sets forth our capitalization at September 30, 2004 on an actual basis and as adjusted to give effect to the issuance of \$750 million of Notes in this offering and the use of proceeds therefrom to repay outstanding indebtedness under our secured and unsecured credit facilities. This table should be read in conjunction with our consolidated financial statements and the notes thereto incorporated by reference in this document.

	As of September 30, 2004	
	Actual	As Adjusted
(in thousands)		
Long-term debt, including current maturities:		
Unsecured senior notes, less discount	\$ 2,067,258	\$ 2,812,147
Unsecured revolving credit facilities	642,000	92,906
Secured revolving credit facilities	195,795	
Secured term loans, less discount	715,401	715,401
iStar Asset Receivables secured notes, less discount	1,052,205	1,052,205
Total long-term debt	\$ 4,672,659	\$ 4,672,659
Shareholders' equity	2,492,469	2,492,469
Total capitalization	\$ 7,165,128	\$ 7,165,128

**DESCRIPTION OF OTHER INDEBTEDNESS**

The table below reflects our debt obligations under various arrangements with financial institutions as of September 30, 2004. All of the indebtedness shown below which has not subsequently been repaid is non-recourse to iStar Financial, the parent company; except that, iStar Financial is the borrower under the unsecured revolving credit facility shown below; iStar Financial is the issuer of the 8.75%, 7.0%, 6.50%, 6.0%, 5.70%, 5.125%, 4.875% and senior floating rate unsecured notes shown below; and iStar Financial has provided limited guarantees of certain subsidiary borrowings. Specifically, iStar Financial is a guarantor of a \$148.0 million subsidiary financing due 2006 and a guarantor of borrowings under secured revolving credit facilities as follows: (1) up to \$30 million under the \$700 million secured facility due January 2007; (2) up to 10% of outstanding borrowings under the \$350 million and \$500 million secured facilities due August 2006 and September 2005, respectively; and (3) up to 15% of outstanding borrowings under the \$250 million secured credit facility due March 2005. In addition, iStar Financial provides guarantees under non-recourse subsidiary borrowings for customary carve-out matters such as fraud, misappropriation and voluntary bankruptcy proceedings.

We are subject to a number of covenants in our borrowing arrangements. These covenants are both financial and non-financial in nature. Significant financial covenants include limitations on our ability to incur indebtedness beyond specified levels. Significant non-financial covenants include a requirement in our publicly-held debt securities that we offer to repurchase those securities at a premium if we undergo a change of control.

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Carrying Value as of

	Maximum Amount Available	Carrying Value as of		Stated Interest Rates(1)	Scheduled Maturity Date
		September 30, 2004	December 31, 2003		
(dollars in thousands)					
<b>Secured revolving credit facilities:</b>					
Line of credit	\$ 250,000	\$ 42,000	\$ 88,640	LIBOR + 1.50% 2.05%	March 2005
Line of credit	700,000	69,900	310,364	LIBOR + 1.40% 2.15%	January 2007(2)
Line of credit(3)	350,000	10,811	117,211	LIBOR + 1.50% 2.25%	August 2006(2)
Line of credit	500,000	73,084	180,376	LIBOR + 1.50% 2.25%	September 2005
<b>Unsecured revolving credit facilities:</b>					
Line of credit	850,000	642,000		LIBOR + 1.00%	April 2008(4)
Line of credit			130,000	LIBOR + 2.125%	July 2004
<b>Total revolving credit facilities</b>	<b>\$ 2,650,000</b>	<b>\$ 837,795</b>	<b>\$ 826,591</b>		

**Secured term loans:**

Secured by CTL assets		193,000		LIBOR + 1.85%	July 2006
Secured by CTL assets		137,536	140,440	7.44%	March 2009
Secured by CTL assets		135,000	135,000	LIBOR + 1.75%	October 2008
Secured by CTL assets		41,139		7.19% and 7.22%	January 2018 and December 2026
Secured by CTL assets		24,000		LIBOR + 1.25%	November 2004
Secured by CTL assets(5)		86,113	92,876	6.80% 8.80%	Various through 2022
Secured by corporate bond investments		148,037		LIBOR + 1.05% 1.50%	January 2006
Secured by CTL assets		76,994	77,938	6.55%	November 2005
Secured by CTL assets		60,352	60,874	6.41%	January 2013
Secured by corporate lending investments			60,000	LIBOR + 2.50%	June 2004 (6)
Secured by corporate lending investments			48,000	LIBOR + 2.125%	July 2008 (7)
<b>Total term loans</b>		<b>709,171</b>	<b>808,128</b>		
<b>Less: debt premium / (discount)</b>		<b>6,230</b>	<b>(128)</b>		
<b>Total secured term loans</b>		<b>715,401</b>	<b>808,000</b>		

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### Carrying Value as of

#### iStar Asset Receivables

##### secured notes:

###### STARs Series 2002-1:

Class A1		40,011	LIBOR + 0.26%	June 2004(8)
Class A2	253,416	381,296	LIBOR + 0.38%	December 2009(8)
Class B	39,955	39,955	LIBOR + 0.65%	April 2011(8)
Class C	26,637	26,637	LIBOR + 0.75%	May 2011(8)
Class D	21,310	21,310	LIBOR + 0.85%	January 2012(8)
Class E	42,619	42,619	LIBOR + 1.235%	January 2012(8)
Class F	26,637	26,637	LIBOR + 1.335%	January 2012(8)
Class G	21,309	21,309	LIBOR + 1.435%	January 2012(8)
Class H	26,637	26,637	6.35%	January 2012(8)
Class J	26,637	26,637	6.35%	May 2012(8)
Class K	26,637	26,637	6.35%	May 2012(8)

Total STARs	511,794	679,685		
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Series 2002-1

Less: debt discount	(3,815)	(4,090)		
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###### STARs

###### Series 2003-1:

Class A1	185,050	235,808	LIBOR + 0.25%	October 2005(9)
Class A2	225,227	248,206	LIBOR +0.35%	August 2010(9)
Class B	16,744	18,452	LIBOR + 0.55%	July 2011(9)
Class C	18,418	20,297	LIBOR + 0.65%	April 2012(9)
Class D	11,720	12,916	LIBOR + 0.75%	October 2012(9)
Class E	13,395	14,762	LIBOR + 1.05%	May 2013(9)
Class F	13,395	14,762	LIBOR + 1.10%	June 2013(9)
Class G	11,721	12,916	LIBOR + 1.25%	June 2013(9)
Class H	11,721	12,916	4.97%	June 2013(9)
Class J	13,394	14,761	5.07%	June 2013(9)
Class K	23,441	25,833	5.56%	June 2013(9)

Total STARS	544,226	631,629		
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Series 2003-1

Total iStar Asset	1,052,205	1,307,224		
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Receivables secured  
notes

##### Unsecured

##### notes:

LIBOR + 1.25% Senior Notes	200,000		LIBOR + 1.25%	March 2007
4.875% Senior Notes	350,000		4.875%	January 2009
5.125% Senior Notes	250,000		5.125%	April 2011
5.70% Senior Notes	250,000		5.70%	March 2014
6.00% Senior Notes	350,000	350,000	6.00%	December 2010
6.50% Senior Notes	150,000	150,000	6.50%	December 2013
7.00% Senior Notes	185,000	185,000	7.00%	March 2008
TriNet 7.70% Notes(10)(11)	100,000	100,000	7.70%	July 2017
TriNet 7.95% Notes(10)(11)	50,000	50,000	7.95%	May 2006
8.75% Senior Notes	240,000	350,000	8.75%	August 2008

Total unsecured	2,125,000	1,185,000		
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notes

Less: debt discount	(59,427)	(47,921)		
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Plus: impact of	1,685	690		
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pay-floating swap  
agreements(12)



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Carrying Value as of

	<hr/>			
Total unsecured notes	2,067,258	1,137,769		
Other debt obligations		34,148	Various	Various
Total debt obligations	<hr/> \$ 4,672,659	<hr/> \$ 4,113,732		

S-11

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### Explanatory Notes:

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- (1) Substantially all variable-rate debt obligations are based on 30-day London Interbank Offering Rate ("LIBOR") and reprice monthly. The 30-day LIBOR rate on September 30, 2004 was 1.84%.
- (2) Maturity date reflects a one-year "term-out" extension at our option.
- (3) On July 20, 2004, this secured facility was amended to reduce the maximum amount available to \$350.0 million, to extend the maturity to August 2005 and to reduce the stated interest rate on first mortgages to LIBOR + 1.50%.
- (4) Subsequent to September 30, 2004, the interest rate and facility fees were reduced to LIBOR + 0.875% and 17.5 basis points, respectively, due to an upgrade in our senior unsecured debt rating to investment grade by both Standard & Poor's Ratings Group and Moody's Investors Services, Inc. Maturity date reflects a one-year extension at the Company's option.
- (5) During August 2004, we prepaid three term loans aggregating approximately \$3.8 million that financed three of the assets classified as held for sale at September 30, 2004.
- (6) On January 9, 2004, we repaid this term loan that had a final maturity of June 2004.
- (7) On May 25, 2004, we repaid this term loan that had a final maturity of July 2008.
- (8) Principal payments on these bonds are a function of the principal repayments on loan or corporate tenant lease assets which collateralize these obligations. The dates indicated above represent the expected date on which the final payment would occur for such class based on the assumptions that the loans which collateralize the obligations are not voluntarily prepaid, the loans are paid on their effective maturity dates and no extensions of the effective maturity dates of any of the loans are granted. The final maturity date for the underlying indenture on class A1 is May 28, 2017 and the final maturity date for classes A2, B, C, D, E, F, G, H, J and K is May 28, 2020.
- (9) Principal payments on these bonds are a function of the principal repayments on loan or corporate tenant lease assets which collateralize these obligations. The dates indicated above represent the expected date on which the final payment would occur for such class based on the assumptions that the loans which collateralize the obligations are not voluntarily prepaid, the loans are paid on their effective maturity dates and no extensions of the effective maturity dates of any of the loans are granted. The final maturity date for the underlying indenture is August 28, 2022.
- (10) The Notes are callable by us at any time for an amount equal to the total of principal outstanding, accrued interest and the applicable make-whole prepayment premium.
- (11) These obligations were assumed as part of the acquisition of TriNet. As part of the accounting for the purchase, these fixed-rate obligations were considered to have stated interest rates which were below the then-prevailing market rates at which TriNet could issue new debt obligations and, accordingly, we ascribed a market discount to each obligation. Such discounts are amortized as an adjustment to interest expense using the effective interest method over the related term of the obligations. As adjusted, the effective annual interest rates on these obligations as of September 30, 2004 were 9.51% and 9.04% for the 7.70% Notes and 7.95% Notes, respectively.
- (12) On January 15, 2004, we entered into four pay-floating interest rate swaps struck at 3.678%, 3.713%, 3.686% and 3.684% with notional amounts of \$105.0 million, \$100.0 million, \$100.0 million and \$45.0 million, respectively, and maturing on January 15, 2009. On December 17, 2003, the Company entered into three pay-floating interest rate swaps struck at 4.381%, 4.345% and 4.29% in the notional amounts of \$200.0 million, \$100.0 million and \$50.0 million, respectively. On November 27, 2002, the Company entered into two pay-floating interest rate swaps struck at 3.8775% and 3.81% in the notional amounts of \$100.0 million and \$50.0 million, respectively. These swaps are intended to mitigate the risk of changes in the fair value of \$350.0 million of five-year Senior Notes, \$350.0 million of seven-year Senior Notes and \$150.0 million of ten-year Senior Notes, respectively, attributable to changes in LIBOR. For accounting purposes, quarterly we adjust the value of the swap to its fair value and adjusts the carrying amount of the hedged liability by an offsetting amount.

## DESCRIPTION OF THE NOTES

The Company will issue the Notes under an indenture dated as of February 5, 2001 between itself and US Bank Trust National Association, as Trustee (the "Trustee"), and a supplemental indenture with respect to each of the Floating Rate Notes and the Fixed Rate Notes between itself and the Trustee dated as of February , 2005 (the indenture, together with the supplemental indenture for the Floating Rate Notes or the Fixed Rate Notes, as applicable, being the "Indenture"). The terms of each supplemental indenture are substantially similar, but differ with regard to a few items, including the maturity date, interest rate and redemption provisions, as more fully described below. The following is a summary of the material provisions of the Indenture. It does not include all of the provisions of the Indenture. Although for convenience the Floating Rate Notes and the Fixed Rate Notes are referred to as the "Notes", each will be issued as a separate series and will not together have any class voting rights. Accordingly, for purposes of this Description of Notes, references to the "Notes" shall be deemed to refer to each series of Notes separately, and not to the Floating Rate Notes and the Fixed Rate Notes on any combined basis. The following description of the particular terms of 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 Notes is inconsistent with that general description in the prospectus, the following description replaces that in the 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 (the "TIA"). A copy of the form of Indenture has been filed as an exhibit to the Registration Statement of which this Prospectus Supplement is a part. You can find definitions of certain capitalized terms used in this description under " Certain Definitions." For purposes of this section, references to the "Company" or "our" include only iStar Financial Inc. and not its subsidiaries.

The Notes will be unsecured obligations of the Company, ranking equally in right of payment with all other senior unsecured obligations of the Company from time to time outstanding.

The Company will issue the Notes in fully registered form in denominations of \$1,000 and integral multiples of \$1,000. The Trustee will initially act as paying agent and registrar for the Notes. The iStar 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 "Holders"). 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 Holders.

### Principal, Maturity and Interest

The Notes are a series of securities issued under the Indenture. The Indenture permits the Company to "re-open" this series without the consent of the Holders, and issue additional Notes at any time on the same terms (other than issuance date, initial interest accrual date and in some cases, the first interest payment dates) and conditions and with the same CUSIP number as the Notes being issued in this offering. The Floating Rate Notes will mature on March , 2008. The Fixed Rate Notes will mature on March , 2012. Interest on the Fixed Rate Notes is computed on the basis of a 360-day year comprised of twelve 30-day months.

Interest on the Fixed Rate Notes will be payable semiannually in cash on each March and September , commencing on September , 2005 to the persons who are registered Holders at the close of business on each March and September .

Interest on the Floating Rate Notes will be payable quarterly in cash on each March , June , September and December , commencing on June , 2005 to the persons who are registered Holders at the close of business on the February , May , August and November immediately preceding the applicable interest payment date. Interest on the Floating Rate Notes is calculated on the

basis of a 360-day year using the actual number of days elapsed from and including an interest payment date to but excluding the next succeeding interest payment date. If any interest payment date on a Note other than the maturity date is not a Business Day, such interest payment date will be postponed to the next succeeding Business Day, except that (in the case of the Floating Rate Notes) if such Business Day falls in the next succeeding calendar month, such interest payment date will be the immediately preceding Business Day. If the maturity date of a Note falls on a day that is not a Business Day, the required payment of principal and interest will be 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 the maturity date 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.

The Floating Rate Notes will bear interest at a rate per year, reset quarterly (the "interest reset period" and the first date in such period, the "interest reset date"), equal to three-month LIBOR plus  $\quad\quad\quad\%$ , to be determined by the calculation agent. The interest rate on the Floating Rate Notes applicable to each interest reset period commencing on the related interest reset date, or the original issue date in the case of the initial interest period, will be the rate determined as of the applicable interest determination date. The "interest determination date" will be the second London business day immediately preceding the original issue date, in the case of the initial interest reset period, or thereafter the applicable interest reset date.

US Bank Trust National Association, or its successor appointed by us, will act as calculation agent. Three-month LIBOR will be determined by the calculation agent as of the applicable interest determination date in accordance with the following provisions:

- (i) LIBOR is the rate for deposits in U.S. dollars for the three-month period which appears on Moneyline Telerate Page 3750 (as defined below) at approximately 11:00 A.M., London time, on the applicable interest determination date. "Moneyline Telerate Page 3750" means the display designated on page "3750" on Moneyline Telerate (or such other page as may replace the 3750 page on that service, any successor service or such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits). If no rate appears on Moneyline Telerate Page 3750, LIBOR for such interest determination date will be determined in accordance with the provisions of paragraph (ii) below.
  
- (ii) With respect to an interest determination date on which no rate appears on Moneyline Telerate Page 3750 as of approximately 11:00 a.m., London time, on such interest determination date, the calculation agent shall request the principal London offices of each of four major reference banks (which may include affiliates of the underwriters) in the London interbank market selected by the calculation agent (after consultation with us) to provide the calculation agent with a quotation of the rate at which deposits of U.S. dollars having a three-month maturity, commencing on the second London business day immediately following such interest determination date, are offered by it to prime banks in the London interbank market as of approximately 11:00 a.m., London time, on such interest determination date in a principal amount equal to an amount of not less than U.S. \$1,000,000 that is representative for a single transaction in such market at such time. If at least two such quotations are provided, LIBOR for such interest determination date will be the arithmetic mean of such quotations as calculated by the calculation agent. If fewer than two quotations are provided, LIBOR for such interest determination date will be the arithmetic mean of the rates quoted as of approximately 11:00 a.m., New York City time, on such interest determination date by three major banks (which may include affiliates of the underwriters) selected by the calculation agent (after consultation with us) for loans in U.S. dollars to leading European banks having a three-month maturity commencing on the second London business day

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immediately following such interest determination date and in a principal amount equal to an amount of not less than U.S. \$1,000,000 that is representative for a single transaction in such market at such time; provided, however, that if the banks selected as aforesaid by the calculation agent are not quoting such rates as mentioned in this sentence, LIBOR for such interest determination date will be LIBOR determined with respect to the immediately preceding interest determination date.

All percentages resulting from any calculation of any interest rate for the Floating Rate Notes will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point, with five one-millionths of a percentage point rounded upward and all dollar amounts will be rounded to the nearest cent, with one-half cent being rounded upward.

Promptly upon such determination, the calculation agent will notify us and the Trustee (if the calculation agent is not the Trustee) of the interest rate for the new interest reset period. Upon request of a holder of the Floating Rate Notes, the calculation agent will provide to such holder the interest rate in effect on the date of such request and, if determined, the interest rate for the next interest reset period.

All calculations made by the calculation agent for the purposes of calculating interest on the Floating Rate Notes shall be conclusive and binding on the holders and us, absent manifest error.

The Notes will not be entitled to the benefit of any mandatory sinking fund.

### **Redemption**

#### *Floating Rate Notes*

The Floating Rate Notes may not be redeemed prior to their maturity.

#### *Optional Redemption of Fixed Rate Notes*

The Fixed Rate Notes may be redeemed or purchased in whole or in part at the Company's option at any time prior to the maturity of the Fixed Rate Notes at a price equal to 100% of the principal amount thereof plus the Applicable Premium as of, and accrued but unpaid interest, if any, to the date of the redemption or purchase (the "Redemption Date") (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

"*Applicable Premium*" means, with respect to the Fixed Rate Notes at any Redemption Date, the greater of: (1) 1.0% of the principal amount of such Fixed Rate Note; and (2) the excess of (a) the present value at such Redemption Date of (i) the principal amount of such Fixed Rate Note on the redemption date plus (ii) all required remaining scheduled interest payments due on such Note through , computed using a discount rate equal to the Treasury Rate plus basis points; over (b) the principal amount of such Fixed Rate Note on such Redemption Date. Calculation of the Applicable Premium will be made by the Company or on behalf of the Company by such Person as the Company shall designate; *provided, however*, that such calculation shall not be a duty or obligation of the Trustee.

"*Treasury Rate*" means, with respect to a Redemption Date, the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15(519) that has become publicly available on the third Business Day prior to our providing notice of redemption (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from such Redemption Date to the maturity date; *provided, however*, that if the period from such Redemption Date to the maturity date is not equal to the constant maturity of the United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of

United States Treasury securities for which such yields are given, except that if the period from such Redemption Date to the maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

### **Selection and Notice of Redemption**

In the event that the Company chooses to redeem less than all of the Fixed Rate Notes, selection of the Fixed Rate Notes for redemption will be made by the Trustee either:

- (1) in compliance with the requirements of the principal national securities exchange, if any, on which the Fixed Rate Notes are listed; or
- (2) on a *pro rata* basis, by lot or by such method as the Trustee shall deem fair and appropriate.

No Fixed Rate Notes of a principal amount of \$1,000 or less shall be redeemed in part. Notice of redemption will be mailed by first-class mail at least 30 but not more than 60 days before the Redemption Date to each Holder of Notes to be redeemed at its registered address. On and after the Redemption Date, interest will cease to accrue on Notes or portions thereof called for redemption as long as the Company has deposited with the paying agent funds in satisfaction of the applicable redemption price.

### **Certain Covenants**

**The following covenants in the Indenture apply to the Notes; provided, however, that the covenants described under "Limitation on Incurrence of Additional Indebtedness" and "Maintenance of Total Unencumbered Assets" will not apply if, and only for so long as, (1) the Notes are rated BBB or Baa2, or higher, by at least two of the following three rating agencies: Standard & Poor's Ratings Group, Moody's Investors Services, Inc. and Fitch Ratings and (2) no Default or Event of Default has occurred and is continuing.**

***Limitation on Incurrence of Additional Indebtedness.*** The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, create, incur, assume, guarantee, become liable, contingently or otherwise, with respect to, or otherwise become responsible for payment of (collectively, "incur") any Indebtedness (including, without limitation, Acquired Indebtedness) other than Permitted Indebtedness.

Notwithstanding the foregoing, if no Default or Event of Default shall have occurred and be continuing at the time of or as a consequence of the incurrence of any such Indebtedness, the Company or any of its Subsidiaries may incur Indebtedness (including, without limitation, Acquired Indebtedness), in each case if on the date of the incurrence of such Indebtedness, after giving effect to the incurrence thereof, the Consolidated Fixed Charge Coverage Ratio of the Company is greater than 1.5 to 1.0.

***Maintenance of Total Unencumbered Assets.*** The Company and its Subsidiaries will maintain Total Unencumbered Assets of not less than 120% of the aggregate outstanding principal amount of the Unsecured Indebtedness of the Company and its Subsidiaries, in each case on a consolidated basis.

***Merger, Consolidation and Sale of Assets.*** The Company will not, in a single transaction or series of related transactions, consolidate or merge with or into any Person, or sell, assign, transfer, lease, convey or otherwise dispose of (or cause or permit any Subsidiary of the Company to sell, assign, transfer, lease, convey or otherwise dispose of) all or substantially all of the Company's assets (determined on a consolidated basis for the Company and the Company's Subsidiaries) whether as an entirety or substantially as an entirety to any Person unless:

- (1) either:
  - (a) the Company shall be the surviving or continuing corporation; or
  - (b) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person which acquires by sale, assignment, transfer, lease, conveyance or other disposition the properties and assets of the Company and of the Company's Subsidiaries substantially as an entirety (the "Surviving Entity"):
    - (i) shall be a corporation organized and validly existing under the laws of the United States or any State thereof or the District of Columbia; and
    - (ii) shall expressly assume, by supplemental indenture (in form and substance satisfactory to the Trustee), executed and delivered to the Trustee, the due and punctual payment of the principal of, and premium, if any, and interest on all of the Notes and the performance of every covenant of the Notes and the Indenture on the part of the Company to be performed or observed;
- (2) immediately after giving effect to such transaction and the assumption contemplated by clause (1)(b)(ii) above (including giving effect to any Indebtedness and Acquired Indebtedness incurred or anticipated to be incurred in connection with or in respect of such transaction), the Company or such Surviving Entity, as the case may be: (a) shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction; and (b) shall be able to incur at least \$1.00 of additional Indebtedness (other than Permitted Indebtedness) pursuant to the " Limitation on Incurrence of Additional Indebtedness" covenant, if such covenant is then in effect *provided, however*, that this clause (2) shall not apply in the event of a transaction between the Company and TriNet;
- (3) immediately before and immediately after giving effect to such transaction and the assumption contemplated by clause (1)(b)(ii) above (including, without limitation, giving effect to any Indebtedness and Acquired Indebtedness incurred or anticipated to be incurred and any Lien granted in connection with or in respect of the transaction), no Default or Event of Default shall have occurred or be continuing; and
- (4) the Company or the Surviving Entity shall have delivered to the Trustee an officers' certificate and an opinion of counsel, each stating that such consolidation, merger, sale, assignment, transfer, lease, conveyance or other disposition and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with the applicable provisions of the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied.

For purposes of the foregoing, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Subsidiaries of the Company the Capital Stock of which constitutes all or substantially all of the properties and assets of the Company, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

The Indenture will provide that upon any consolidation or merger or any transfer, lease, conveyance or other disposition of all or substantially all of the assets of the Company in accordance with the foregoing, in which the Company is not the continuing corporation, the successor Person formed by such consolidation or into which the Company is merged or to which such transfer, lease, conveyance or other disposition is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture and the Notes with the same effect as if such surviving entity had been named as such.

**Reports to Holders.** Whether or not required by the rules and regulations of the Commission, so long as any Notes are outstanding, the Company will furnish the Holders of Notes:

- (1) all quarterly and annual financial information that would be required to be contained in a filing with the Commission on Forms 10-Q and 10-K if the Company were required to file such Forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" that describes the financial condition and results of operations of the Company and its consolidated Subsidiaries (showing in reasonable detail, either on the face of the financial statements or in the footnotes thereto and in Management's Discussion and Analysis of Financial Condition and Results of Operations, the financial condition and results of operations of the Company and its Subsidiaries) and, with respect to the annual information only, a report thereon by the Company's independent registered public accounting firm; and
- (2) all current reports that would be required to be filed with the Commission on Form 8-K if the Company were required to file such reports, in each case within the time periods specified in the Commission's rules and regulations.

In addition, whether or not required by the rules and regulations of the Commission, the Company will file a copy of all such information and reports with the Commission for public availability within the time periods specified in the Commission's rules and regulations (unless the Commission will not accept such a filing) and make such information available to securities analysts and prospective investors upon request. In addition, the Company has agreed that, for so long as any Notes remain outstanding, it will furnish to the Holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

#### **Events of Default**

The following events are defined in the Indenture as "Events of Default":

- (1) the failure to pay interest on any Notes when the same becomes due and payable and the default continues for a period of 30 days;
- (2) the failure to pay the principal on any Notes, when such principal becomes due and payable, at maturity or otherwise;
- (3) a default in the observance or performance of any other covenant or agreement contained in the Indenture and such default continues for a period of 30 days after the Company receives written notice specifying the default (and demanding that such default be remedied) from the Trustee or the Holders of at least 25% of the outstanding principal amount of the Notes (except in the case of a default with respect to the "Merger, Consolidation and Sale of Assets" covenant, which will constitute an Event of Default with such notice requirement but without such passage of time requirement);
- (4) the failure to pay at final maturity (giving effect to any applicable grace periods and any extensions thereof) the principal amount of any Indebtedness (other than Non-Recourse Indebtedness) of the Company or any Subsidiary of the Company, or the acceleration of the final stated maturity of any such Indebtedness (which acceleration is not rescinded, annulled or otherwise cured within 20 days of receipt by the Company or such Subsidiary of notice of any such acceleration) if the aggregate principal amount of such Indebtedness, together with the principal amount of any other such Indebtedness in default for failure to pay principal at final maturity or which has been accelerated, aggregates \$50.0 million or more at any time; or
- (5) certain events of bankruptcy affecting the Company or any of its Significant Subsidiaries.



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If an Event of Default (other than an Event of Default specified in clause (5) above with respect to the Company) shall occur and be continuing, the Trustee or the Holders of at least 25% in principal amount of outstanding Notes may declare the principal of and accrued interest on all the Notes to be due and payable by notice in writing to the Company and the Trustee specifying the respective Event of Default and that it is a "notice of acceleration" (the "Acceleration Notice"), and the same shall become immediately due and payable.

If an Event of Default specified in clause (5) above with respect to the Company occurs and is continuing, then all unpaid principal of, and premium, if any, and accrued and unpaid interest on all of the outstanding Notes shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Indenture will provide that, at any time after a declaration of acceleration with respect to the Notes as described in the preceding paragraph, the Holders of a majority in principal amount of the Notes may rescind and cancel such declaration and its consequences:

- (1) if the rescission would not conflict with any judgment or decree;
- (2) if all existing Events of Default have been cured or waived except nonpayment of principal or interest that has become due solely because of the acceleration;
- (3) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid;
- (4) if the Company has paid the Trustee its reasonable compensation and reimbursed the Trustee for its expenses, disbursements and advances; and
- (5) in the event of the cure or waiver of an Event of Default of the type described in clause (5) of the description above of Events of Default, the Trustee shall have received an officers' certificate and an opinion of counsel that such Event of Default has been cured or waived. No such rescission shall affect any subsequent Default or impair any right consequent thereto.

The Holders of a majority in principal amount of the Notes may waive any existing Default or Event of Default under the Indenture, and its consequences, except a default in the payment of the principal of or interest on any Notes.

Holders of the Notes may not enforce the Indenture or the Notes except as provided in the Indenture and under the TIA. Subject to the provisions of the Indenture relating to the duties of the Trustee, the Trustee is under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any of the Holders, unless such Holders have offered to the Trustee reasonable indemnity. Subject to all provisions of the Indenture and applicable law, the Holders of a majority in aggregate principal amount of the then outstanding Notes have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee.

Under the Indenture, the Company is required to provide an officers' certificate to the Trustee promptly upon any such officer obtaining knowledge of any Default or Event of Default (*provided* that such officers shall provide such certification at least annually whether or not they know of any Default or Event of Default) that has occurred and, if applicable, describe such Default or Event of Default and the status thereof.

### **Legal Defeasance and Covenant Defeasance**

The Company may, at its option and at any time, elect to have its obligations discharged with respect to the outstanding Notes ("Legal Defeasance"). Such Legal Defeasance means that the

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Company shall be deemed to have paid and discharged the entire indebtedness represented by the outstanding Notes, except for:

- (1) the rights of Holders to receive payments in respect of the principal of, premium, if any, and interest on the Notes when such payments are due;
- (2) the Company's obligations with respect to the Notes concerning issuing temporary iStar Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payments;
- (3) the rights, powers, trust, duties and immunities of the Trustee and the Company's obligations in connection therewith; and
- (4) the Legal Defeasance provisions of the Indenture.

In addition, the Company may, at its option and at any time, elect to have the obligations of the Company released with respect to certain covenants that are described in the Indenture ("Covenant Defeasance") and thereafter any omission to comply with such obligations shall not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, reorganization and insolvency events) described under "Events of Default" will no longer constitute an Event of Default with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders cash in U.S. dollars, non-callable U.S. government obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized independent registered public accounting firm, to pay the principal of, premium, if any, and interest on the Notes on the stated date for payment thereof;
- (2) in the case of Legal Defeasance, the Company shall have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to the Trustee confirming that:
  - (a) the Company has received from, or there has been published by, the Internal Revenue Service a ruling; or
  - (b) since the date of the Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel shall confirm that, the Holders will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (3) in the case of Covenant Defeasance, the Company shall have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to the Trustee confirming that the Holders will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (4) no Default or Event of Default shall have occurred and be continuing on the date of such deposit or insofar as Events of Default from bankruptcy or insolvency events are concerned, at any time in the period ending on the 91st day after the date of deposit;
- (5) such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under the Indenture or any other material agreement or instrument to



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which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;

- (6) the Company shall have delivered to the Trustee an officers' certificate stating that the deposit was not made by the Company with the intent of preferring the Holders over any other creditors of the Company or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Company or others;
- (7) the Company shall have delivered to the Trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with;
- (8) the Company shall have delivered to the Trustee an opinion of counsel to the effect that, assuming no intervening bankruptcy of the Company between the date of deposit and the 91st day following the date of deposit and that no Holder is an insider of the Company, after the 91st day following the date of deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally; and
- (9) certain other customary conditions precedent are satisfied.

Notwithstanding the foregoing, the opinion of counsel required by clause (2) above with respect to a Legal Defeasance need not be delivered if all Notes not theretofore delivered to the Trustee for cancellation (1) have become due and payable or (2) will become due and payable on the maturity date within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company.

### **Satisfaction and Discharge**

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights or registration of transfer or exchange of the Notes, as expressly provided for in the Indenture) as to all outstanding Notes when:

- (1) either:
  - (a) all the Notes theretofore authenticated and delivered (except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust) have been delivered to the Trustee for cancellation; or
  - (b) all Notes not theretofore delivered to the Trustee for cancellation have become due and payable and the Company has irrevocably deposited or caused to be deposited with the Trustee funds in an amount sufficient to pay and discharge the entire Indebtedness on the Notes not theretofore delivered to the Trustee for cancellation, for principal of, premium, if any, and interest on the Notes to the date of deposit together with irrevocable instructions from the Company directing the Trustee to apply such funds to the payment thereof at maturity or, in the case of the Fixed Rate Notes, redemption;
- (2) the Company has paid all other sums payable under the Indenture by the Company; and
- (3) the Company has delivered to the Trustee an officers' certificate and an opinion of counsel stating that all conditions precedent under the Indenture relating to the satisfaction and discharge of the Indenture have been complied with.

### Modification of the Indenture

From time to time, the Company and the Trustee, without the consent of the Holders, may amend the Indenture for certain specified purposes, including curing ambiguities, defects or inconsistencies, so long as such change does not, in the opinion of the Trustee, adversely affect the rights of any of the Holders in any material respect. In formulating its opinion on such matters, the Trustee will be entitled to rely on such evidence as it deems appropriate, including, without limitation, solely on an opinion of counsel. Other modifications and amendments of the Indenture may be made with the consent of the Holders of a majority in principal amount of the then outstanding Floating Rate Notes or Fixed Rate Notes, as the case may be, issued under the Indenture, except that, without the consent of each Holder affected thereby, no amendment may:

- (1) reduce the amount of Notes whose Holders must consent to an amendment;
- (2) reduce the rate of or change or have the effect of changing the time for payment of interest, including defaulted interest, on any Notes;
- (3) reduce the principal of or change or have the effect of changing the fixed maturity of any Notes or, in the case of the Fixed Rate Notes, change the date on which any Fixed Rate Notes may be subject to redemption or reduce the redemption price therefor;
- (4) make any Notes payable in money other than that stated in the Notes;
- (5) make any change in provisions of the Indenture protecting the right of each Holder to receive payment of principal of and interest on such Note on or after the due date thereof or to bring suit to enforce such payment, or permitting Holders of a majority in principal amount of Notes to waive Defaults or Events of Default; or
- (6) modify or change any provision of the Indenture or the related definitions affecting the subordination or ranking of the Notes in a manner which adversely affects the Holders.

### Governing Law

The Indenture will provide that it and the Notes will be governed by, and construed in accordance with, the laws of the State of New York but without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

### The Trustee

The Indenture will provide that, except during the continuance of an Event of Default, the Trustee will perform only such duties as are specifically set forth in the Indenture. During the existence of an Event of Default, the Trustee will exercise such rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

The Indenture and the provisions of the TIA contain certain limitations on the rights of the Trustee, should it become a creditor of the Company, to obtain payments of claims in certain cases or to realize on certain property received in respect of any such claim as security or otherwise. Subject to the TIA, the Trustee will be permitted to engage in other transactions; *provided* that if the Trustee acquires any conflicting interest as described in the TIA, it must eliminate such conflict or resign.

### Certain Definitions

Set forth below is a summary of certain defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms, as well as any other terms used herein for which no definition is provided.



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"*Acquired Indebtedness*" means Indebtedness of a Person or any of its Subsidiaries existing at the time such Person becomes a Subsidiary of the Company or at the time it merges or consolidates with the Company or any of its Subsidiaries or assumed in connection with the acquisition of assets from such Person and in each case whether or not incurred by such Person in connection with, or in anticipation or contemplation of, such Person becoming a Subsidiary of the Company or such acquisition, merger or consolidation.

"*Affiliate*" means, with respect to any specified Person, any other Person who directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such specified Person. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative of the foregoing.

"*Asset Acquisition*" means: (1) an Investment by the Company or any Subsidiary of the Company in any other Person pursuant to which such Person shall become a Subsidiary of the Company or any Subsidiary of the Company, or shall be merged with or into the Company or any Subsidiary of the Company; or (2) the acquisition by the Company or any Subsidiary of the Company of the assets of any Person (other than a Subsidiary of the Company) that constitute all or substantially all of the assets of such Person or comprises any division or line of business of such Person or any other properties or assets of such Person other than in the ordinary course of business.

"*Asset Sale*" means any direct or indirect sale, issuance, conveyance, transfer, lease (other than operating leases entered into in the ordinary course of business), assignment or other transfer for value by us or any of our Subsidiaries (including any sale and leaseback transaction) to any Person other than us or our Wholly Owned Subsidiaries of:

- (1) any Capital Stock of any of our Subsidiaries; or
- (2) any of our or our Subsidiaries' other property or assets other than sales of loan-related assets made in the ordinary course of the Company's real estate lending business and other asset sales made in the ordinary course of the Company's business.

"*Board of Directors*" means, as to any Person, the board of directors of such Person or any duly authorized committee thereof.

"*Board Resolution*" means, with respect to any Person, a copy of a resolution certified by the Secretary or an Assistant Secretary of such Person to have been duly adopted by the Board of Directors of such Person and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"*Capitalized Lease Obligation*" means, as to any Person, the obligations of such Person under a lease that are required to be classified and accounted for as capital lease obligations under GAAP and, for purposes of this definition, the amount of such obligations at any date shall be the capitalized amount of such obligations at such date, determined in accordance with GAAP.

"*Capital Stock*" means:

- (1) with respect to any Person that is a corporation, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, including each class of Common Stock and Preferred Stock of such Person; and
- (2) with respect to any Person that is not a corporation, any and all partnership, membership or other equity interests of such Person.

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"Common Stock" of any Person means any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock, and includes, without limitation, all series and classes of such common stock.

"Consolidated EBITDA" means, with respect to any Person, for any period, the sum (without duplication) of:

- (1) Consolidated Net Income; and
- (2) to the extent Consolidated Net Income has been reduced thereby:
  - (a) all income taxes of such Person and its Subsidiaries paid or accrued in accordance with GAAP for such period (other than income taxes attributable to extraordinary gains or losses and direct impairment charges or the reversal of such charges on the Company's assets);
  - (b) Consolidated Interest Expense; and
  - (c) depreciation and amortization;

all as determined on a consolidated basis for such Person and its Subsidiaries in accordance with GAAP.

"Consolidated Fixed Charge Coverage Ratio" means, with respect to any Person, the ratio of Consolidated EBITDA of such Person during the four full fiscal quarters (the "Four Quarter Period") ending prior to the date of the transaction giving rise to the need to calculate the Consolidated Fixed Charge Coverage Ratio for which financial statements are available (the "Transaction Date") to Consolidated Fixed Charges of such Person for the Four Quarter Period. In addition to and without limitation of the foregoing, for purposes of this definition, "Consolidated EBITDA" and "Consolidated Fixed Charges" shall be calculated after giving effect on a pro forma basis for the period of such calculation to:

- (1) the incurrence or repayment of any Indebtedness of such Person or any of its Subsidiaries (and the application of the proceeds thereof) giving rise to the need to make such calculation and any incurrence or repayment of other Indebtedness (and the application of the proceeds thereof), other than the incurrence or repayment of Indebtedness in the ordinary course of business for working capital purposes pursuant to working capital facilities, occurring during the Four Quarter Period or at any time subsequent to the last day of the Four Quarter Period and on or prior to the Transaction Date, as if such incurrence or repayment, as the case may be (and the application of the proceeds thereof), occurred on the first day of the Four Quarter Period; and
- (2) any asset sales or other dispositions or any asset originations, asset purchases, Investments and Asset Acquisitions (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of such Person or one of its Subsidiaries (including any Person who becomes a Subsidiary as a result of the Asset Acquisition) incurring, assuming or otherwise being liable for Acquired Indebtedness and also including any Consolidated EBITDA (including any pro forma expense and cost reductions calculated on a basis consistent with Regulation S-X under the Exchange Act) attributable to the assets which are originated or purchased, the Investments that are made and the assets that are the subject of the Asset Acquisition or asset sale or other disposition during the Four Quarter Period) occurring during the Four Quarter Period or at any time subsequent to the last day of the Four Quarter Period and on or prior to the Transaction Date, as if such asset sale or other disposition or asset origination, asset purchase, Investment or Asset Acquisition (including the incurrence, assumption or liability for any such Acquired Indebtedness) occurred on the first day of the Four Quarter Period. If such Person or any of its Subsidiaries directly or indirectly



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guarantees Indebtedness of a third Person, the preceding sentence shall give effect to the incurrence of such guaranteed Indebtedness as if such Person or any Subsidiary of such Person had directly incurred or otherwise assumed such guaranteed Indebtedness.

"*Consolidated Fixed Charges*" means, with respect to any Person for any period, the sum, without duplication, of:

- (1) Consolidated Interest Expense; plus
- (2) the amount of all dividend payments on any series of Preferred Stock of such Person and, to the extent permitted under the Indenture, its Subsidiaries (other than dividends paid in Qualified Capital Stock) paid, accrued or scheduled to be paid or accrued during such period.

"*Consolidated Interest Expense*" means, with respect to any Person for any period, the sum of, without duplication:

- (1) the aggregate of the interest expense of such Person and its Subsidiaries for such period determined on a consolidated basis in accordance with GAAP, including without limitation: (a) any amortization of debt discount; (b) the net costs under Interest Swap Obligations; (c) all capitalized interest; and (d) the interest portion of any deferred payment obligation; and
- (2) to the extent not already included in clause (1), the interest component of Capitalized Lease Obligations paid, accrued and/or scheduled to be paid or accrued by such Person and its Subsidiaries during such period as determined on a consolidated basis in accordance with GAAP.

"*Consolidated Net Income*" means, with respect to any Person, for any period, the aggregate net income (or loss) of such Person and its Subsidiaries before the payment of dividends on Preferred Stock for such period on a consolidated basis, determined in accordance with GAAP; *provided* that there shall be excluded therefrom:

- (1) after-tax gains and losses from Asset Sales or abandonments or reserves relating thereto (including gains and losses from the sale of corporate tenant lease assets);
- (2) after-tax items classified as extraordinary gains or losses and direct impairment charges or the reversal of such charges on the Company's assets;
- (3) the net income (but not loss) of any Subsidiary of the referent Person to the extent that the declaration of dividends or similar distributions by that Subsidiary of that income is restricted by a contract, operation of law or otherwise;
- (4) the net income or loss of any other Person, other than a Consolidated Subsidiary of the referent Person, except:
  - (a) to the extent (in the case of net income) of cash dividends or distributions paid to the referent Person, or to a Wholly Owned Subsidiary of the referent Person (other than a Subsidiary described in clause (3) above), by such other Person; or
  - (b) that the referent Person's share of any net income or loss of such other Person under the equity method of accounting for Affiliates shall not be excluded;
- (5) any restoration to income of any contingency reserve of an extraordinary, nonrecurring or unusual nature;
- (6) income or loss attributable to discontinued operations (including, without limitation, operations disposed of during such period whether or not such operations were classified as discontinued, but not including revenues, expenses, gains and losses relating to real estate



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properties sold or held for sale, even if they were classified as attributable to discontinued operations under the provisions of SFAS No. 144); and

(7)

in the case of a successor to the referent Person by consolidation or merger or as a transferee of the referent Person's assets, any earnings of the successor corporation prior to such consolidation, merger or transfer of assets.

"*Consolidated Net Worth*" of any Person means the consolidated stockholders' equity of such Person, as of the end of the last completed fiscal quarter ending on or prior to the date of the transaction giving rise to the need to calculate Consolidated Net Worth determined on a consolidated basis in accordance with GAAP, less (without duplication) amounts attributable to Disqualified Capital Stock of such Person and interests in such Person's Consolidated Subsidiaries not owned, directly or indirectly, by such Person.

"*Consolidated Subsidiary*" means, with respect to any Person, a Subsidiary of such Person, the financial statements of which are consolidated with the financial statements of such Person in accordance with GAAP.

"*Currency Agreement*" means any foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect the Company or any Subsidiary of the Company against fluctuations in currency values.

"*Default*" means an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

"*Disqualified Capital Stock*" means that portion of any Capital Stock that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof on or prior to the final maturity date of the Notes.

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.

"*Existing Credit Agreements*" mean: (1) Revolving Credit Agreement, dated as of April 19, 2004 and as amended as of December 17, 2004, among the Company, the lenders party thereto and JP Morgan Chase Bank, as administrative agent; (2) the Amended and Restated Credit Agreement dated as of December 28, 2000 between SFI II, Inc. and Greenwich Capital Markets, Inc., as lender; (3) the credit facility between Deutsche Bank AG, New York Branch, and iStar DB Seller LLC, dated as of January 11, 2001; (4) the credit facility, dated as of August 12, 1998, between Lehman Brothers Holdings, Inc. and SFT Whole Loan A, Inc.; and (5) the Master Repurchase Agreement dated September 30, 2002 between Goldman Sachs Mortgage Company and iStar Finance Sub V LLC in each case, together with the related documents thereto (including, without limitation, any security documents), in each case as such agreements may be amended (including any amendment and restatement thereof), supplemented or otherwise modified from time to time, including any agreement extending the maturity of, refinancing, replacing or otherwise restructuring (including increasing the amount of available borrowings thereunder *provided* that such increase in borrowings is permitted by the "Limitation on Incurrence of Additional Indebtedness" covenant above) or adding Subsidiaries of the Company as additional borrowers or guarantors thereunder) all or any portion of the Indebtedness under such agreement or any successor or replacement agreement and whether by the same or any other agent, lender or group of lenders.

"*Fair market value*" means, with respect to any asset or property, the price which could be negotiated in an arm's-length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction.

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Fair market value shall be determined by the Board of Directors of the Company acting reasonably and in good faith and shall be evidenced by a Board Resolution of the Board of Directors of the Company delivered to the Trustee.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States. For the avoidance of doubt, revenues, expenses, gains and losses that are included in results of discontinued operations because of the application of SFAS No. 144 will be treated as revenues, expenses, gains and losses from continuing operations.

"*guarantor*" means: each of the Company's Subsidiaries that in the future executes a supplemental indenture in which such Subsidiary agrees to be bound by the terms of the Indenture as a guarantor; *provided* that any Person constituting a guarantor as described above shall cease to constitute a guarantor when its respective guarantee is released in accordance with the terms of the Indenture.

"*Indebtedness*" means with respect to any Person, without duplication:

- (1) all Obligations of such Person for borrowed money;
- (2) all Obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all Capitalized Lease Obligations of such Person;
- (4) all Obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations and all Obligations under any title retention agreement (but excluding trade accounts payable and other accrued liabilities arising in the ordinary course of business that are not overdue by 90 days or more or are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted);
- (5) all Obligations for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction;
- (6) guarantees and other contingent obligations in respect of Indebtedness referred to in clauses (1) through (5) above and clause (8) below;
- (7) all Obligations of any other Person of the type referred to in clauses (1) through (6) above which are secured by any lien on any property or asset of such Person, the amount of such Obligation being deemed to be the lesser of the fair market value of such property or asset and the amount of the Obligation so secured;
- (8) all Obligations under Currency Agreements and Interest Swap Obligations of such Person; and
- (9) all Disqualified Capital Stock issued by such Person with the amount of Indebtedness represented by such Disqualified Capital Stock being equal to the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price, but excluding accrued dividends, if any.

For purposes hereof, the "maximum fixed repurchase price" of any Disqualified Capital Stock which does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Capital Stock as if such Disqualified Capital Stock were purchased on any date on which Indebtedness shall be required to be determined pursuant to the Indenture, and if such price is based upon, or measured by, the fair market value of such Disqualified Capital Stock, such fair market value shall be determined reasonably and in good faith by the Board of Directors of the issuer of such Disqualified Capital Stock.

"*Interest Swap Obligations*" means the obligations of any Person pursuant to any arrangement with any other Person, whereby, directly or indirectly, such Person is entitled to receive from time to time periodic payments calculated by applying either a floating or a fixed rate of interest on a stated notional amount in exchange for periodic payments made by such other Person calculated by applying a fixed or a floating rate of interest on the same notional amount and shall include, without limitation, interest rate swaps, caps, floors, collars and similar agreements.

"*Investment*" means, with respect to any Person, any direct or indirect loan or other extension of credit (including, without limitation, a guarantee), or corporate tenant lease to or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition by such Person of any Capital Stock, bonds, notes, debentures or other securities or evidences or Indebtedness issued by, any Person. "Investment" shall exclude extensions of trade credit by us and our Subsidiaries on commercially reasonable terms in accordance with our or our Subsidiaries' normal trade practices, as the case may be.

"*Lien*" means any lien, mortgage, deed of trust, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof and any agreement to give any security interest).

"*Non-Recourse Indebtedness*" means any of our or any of our Subsidiaries' Indebtedness that is:

- (1) specifically advanced to finance the acquisition of investment assets and secured only by the assets to which such Indebtedness relates without recourse to the Company or any of its Subsidiaries (other than subject to such customary carve-out matters for which the Company or its Subsidiaries acts as a guarantor in connection with such Indebtedness, such as fraud, misappropriation and misapplication, unless, until and for so long as a claim for payment or performance has been made thereunder (which has not been satisfied) at which time the obligations with respect to any such customary carve-out shall not be considered Non-Recourse Indebtedness, to the extent that such claim is a liability of the Company for GAAP purposes);
- (2) advanced to any of our Subsidiaries or group of our Subsidiaries formed for the sole purpose of acquiring or holding investment assets against, which a loan is obtained that is made without recourse to, and with no cross-collateralization against our or any of the Company's Subsidiaries' other assets (other than subject to such customary carve-out matters for which the Company or its Subsidiaries acts as a guarantor in connection with such Indebtedness, such as fraud, misappropriation and misapplication, unless, until and for so long as a claim for payment or performance has been made thereunder (which has not been satisfied) at which time the obligations with respect to any such customary carve-out shall not be considered Non-Recourse Indebtedness, to the extent that such claim is a liability of the Company for GAAP purposes) and upon complete or partial liquidation of which the loan must be correspondingly completely or partially repaid, as the case may be; or
- (3) specifically advanced to finance the acquisition of real property and secured by only the real property to which such Indebtedness relates without recourse to the Company or any of its Subsidiaries (other than subject to such customary carve-out matters for which the Company or its Subsidiaries acts as a guarantor in connection with such Indebtedness, such as fraud, misappropriation and misapplication, unless, until and for so long as a claim for payment or performance has been made thereunder (which has not been satisfied) at which time the obligations with respect to any such customary carve-out shall not be considered Non-Recourse Indebtedness, to the extent that such claim is a liability of the Company for GAAP purposes).

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"*Obligations*" means all obligations for principal, premium, interest, penalties, fees, indemnification, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"*Permitted Indebtedness*" means, without duplication, each of the following:

- (1) Indebtedness under: (a) the Floating Rate Notes and the Fixed Rate Notes issued on February 1, 2005; (b) the Company's \$250.0 million aggregate principal amount of 5.125% Notes due 2011 that were issued on March 30, 2004; (c) the Company's \$175.0 million aggregate principal amount of floating rate notes due 2007 that were issued on March 12, 2004; (d) the Company's \$250.0 million aggregate principal amount of 5.70% Notes due 2014 issued on March 9, 2004, plus any additional notes of that series issued pursuant to the Company's offer to exchange notes of that series for any and all TriNet Corporate Realty Trust, Inc. 7.70% Notes due 2017, (e) the Company's \$350.0 million aggregate principal amount of 4.875% Senior Notes due 2009 that were issued on January 23, 2004, (f) the Company's \$350.0 million aggregate principal amount of 6.0% Senior Notes due 2010 that were issued on December 12, 2003, (g) the Company's \$150.0 million aggregate principal amount of 6.5% Senior Notes due 2013 that were issued on December 12, 2003, (h) the Company's \$350.0 million aggregate principal amount of 8<sup>3</sup>/<sub>4</sub>% Senior Notes due 2008 that were issued on the Measurement Date and (i) the Company's \$185.0 million aggregate principal amount of 7.0% Senior Notes due 2008 that were issued in March and April of 2003;
- (2) Indebtedness incurred pursuant to the Existing Credit Agreements in an aggregate principal amount at any time outstanding not to exceed the maximum aggregate amount available under the Existing Credit Agreements in existence on the Measurement Date and as in effect on the Measurement Date reduced by any required permanent repayments (which are accompanied by a corresponding permanent commitment reduction) thereunder;
- (3) other Indebtedness of the Company and its Subsidiaries outstanding on the Measurement Date reduced by the amount of any scheduled amortization payments or mandatory prepayments when actually paid or permanent reductions thereon;
- (4) Interest Swap Obligations of the Company covering Indebtedness of the Company or any of its Subsidiaries and Interest Swap Obligations of any Subsidiary of the Company covering Indebtedness of such Subsidiary; *provided, however*, that such Interest Swap Obligations are entered into to protect the Company and its Subsidiaries from fluctuations in interest rates on Indebtedness incurred in accordance with the Indenture to the extent the notional principal amount of such Interest Swap Obligation does not exceed the principal amount of the Indebtedness to which such Interest Swap Obligation relates;
- (5) Indebtedness under Currency Agreements; *provided* that in the case of Currency Agreements which relate to Indebtedness, such Currency Agreements do not increase the Indebtedness of the Company and its Subsidiaries outstanding other than as a result of fluctuations in foreign currency exchange rates or by reason of fees, indemnities and compensation payable thereunder;
- (6) Indebtedness of a Subsidiary of the Company to the Company or to a Wholly Owned Subsidiary of the Company for so long as such Indebtedness is held by the Company or a Wholly Owned Subsidiary of the Company;
- (7) Indebtedness of the Company to a Wholly Owned Subsidiary of the Company for so long as such Indebtedness is held by a Wholly Owned Subsidiary of the Company, in each case subject to no Lien; *provided* that: (a) any Indebtedness of the Company to any Wholly Owned Subsidiary of the Company is unsecured and subordinated, pursuant to a written agreement, to the Company's obligations under the Indenture and the Notes; and (b) if as of any date any

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Person other than a Wholly Owned Subsidiary of the Company owns or holds any such Indebtedness or any Person holds a Lien in respect of such Indebtedness, such date shall be deemed the incurrence of Indebtedness not constituting Permitted Indebtedness by the Company;

- (8) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business; *provided, however*, that such Indebtedness is extinguished within two business days of incurrence;
- (9) Indebtedness of the Company or any of its Subsidiaries represented by letters of credit for the account of the Company or such Subsidiary, as the case may be, in order to provide security for workers' compensation claims, payment obligations in connection with self-insurance or similar requirements in the ordinary course of business;
- (10) Refinancing Indebtedness; and
- (11) additional Indebtedness of the Company and its Subsidiaries in an aggregate principal amount not to exceed \$15.0 million at any one time outstanding (which amount may, but need not, be incurred in whole or in part under the Existing Credit Agreements).

For purposes of determining compliance with the "Limitation on Incurrence of Additional Indebtedness" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness described in clauses (1) through (11) above or is entitled to be incurred pursuant to the second paragraph of such covenant, the Company shall, in its sole discretion, classify (or later reclassify) such item of Indebtedness in any manner that complies with this covenant. Accrual of interest, accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, and the payment of dividends on Disqualified Capital Stock in the form of additional shares of the same class of Disqualified Capital Stock will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Capital Stock for purposes of the "Limitations on Incurrence of Additional Indebtedness" covenant.

"*Person*" means an individual, partnership, corporation, unincorporated organization, trust