

SAUL CENTERS INC  
Form 424B5  
November 06, 2014  
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**This prospectus supplement and the accompanying prospectus relate to an effective registration statement under the Securities Act of 1933, but this prospectus supplement is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED NOVEMBER 6, 2014**

**Filed Pursuant to Rule 424(b)(5)**

**Registration No. 333-185595**

**PROSPECTUS SUPPLEMENT**

**(To prospectus dated January 3, 2013)**

**1,600,000 Depositary Shares**

**Each Representing 1/100<sup>th</sup> of a Share of**

**6.875% Series C Cumulative Redeemable Preferred Stock**

**(Liquidation Preference Equivalent to \$25.00 Per Depositary Share)**

We are offering 1,600,000 depositary shares, each representing a 1/100th fractional interest in a share of 6.875% Series C Cumulative Redeemable Preferred Stock, which we refer to in this prospectus as the depositary shares. 16,000 shares of Series C preferred stock underlying the depositary shares will be deposited with Continental Stock Transfer & Trust Company, as depositary. As a holder of the depositary shares, you will be entitled to all proportional rights, preferences and privileges of the Series C preferred stock represented thereby, including dividend, voting, redemption and liquidation rights and preferences. The proportionate liquidation preference of each depositary share is \$25.00.

The depositary shares offered by this prospectus supplement constitute a new issuance of additional depositary shares that we initially issued on February 12, 2013. See Description of Series C Preferred Stock and Depositary Shares General. As of the date of this prospectus supplement, there were 5,600,000 depositary shares outstanding.

We will pay quarterly cumulative distributions on shares of Series C preferred stock underlying the depositary shares, from the date of original issuance of such shares, in the amount of \$1.71875 per depositary share each year, which is

equivalent to 6.875% of the \$25.00 liquidation preference per depositary share. Dividends on the depositary shares are payable quarterly in arrears, on January 15, April 15, July 15 and October 15. The first dividend payment of the depositary shares offered by this prospectus supplement will be payable on January 15, 2015 in the amount of \$0.4296875 per depositary share.

Generally, we may not redeem the Series C preferred stock underlying the depositary shares until February 12, 2018, except as intended to preserve our qualification as a real estate investment trust (a REIT ) for federal income tax purposes and except as described below upon the occurrence of a Change of Control (as defined herein) or Delisting Event (as defined herein). On and after February 12, 2018, we may, at our option, redeem the shares of the Series C preferred stock underlying the depositary shares, in whole or from time to time in part, by paying \$2,500.00 per share (\$25.00 per depositary share), plus any accumulated and unpaid dividends to, but not including, the redemption date. In addition, upon the occurrence of a Change of Control or Delisting Event, we may, at our option, redeem the Series C preferred stock underlying the depositary shares, in whole or in part and within 120 days after the first date on which such Change of Control occurred, or within 90 days after the date of the Delisting Event, by paying \$2,500.00 per share (\$25.00 per depositary share), plus any accumulated and unpaid dividends to, but not including, the redemption date. If we exercise any of our redemption rights relating to the Series C preferred stock underlying the depositary shares, the holders of the depositary shares representing the Series C preferred stock will not have the conversion right described below.

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Upon the occurrence of a Change of Control or Delisting Event, each holder of depositary shares underlying the Series C preferred stock will have the right (unless, prior to the applicable conversion date, we have provided or provide notice of our election to redeem the Series C preferred stock) to direct the depositary, on such holder's behalf, to convert some or all of the Series C preferred stock underlying the depositary shares held by such holder on the applicable conversion date into a number of our common shares per depositary share equal to the lesser of:

the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference plus the amount of any accumulated and unpaid dividends thereon to, but not including, the applicable conversion date (unless the applicable conversion date is after a record date for a Series C preferred stock dividend payment and prior to the corresponding Series C preferred stock dividend payment date, in which case no additional amount for such accrued and unpaid dividend will be included in this sum) by (ii) the Common Stock Price (as defined herein); and

1.1385 (i.e., the Share Cap), subject to certain adjustments; subject, in each case, to the conditions described in this prospectus supplement, including, under specified circumstances, an aggregate cap on the total number of common shares issuable upon conversion and to provisions for the receipt of alternative consideration.

The Series C preferred stock underlying the depositary shares has no maturity date and will remain outstanding indefinitely unless redeemed by us or converted into common shares in connection with a Change of Control or Delisting Event by the holders of the depositary shares representing the Series C preferred stock. Investors in the depositary shares generally will have no voting rights, but will have limited voting rights if we fail to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events.

The Series C preferred stock underlying the depositary shares is subject to certain restrictions on ownership designed to preserve our qualification as a REIT for federal income tax purposes.

Our depositary shares are listed for trading on the New York Stock Exchange, or NYSE, under the symbol BFSPrC. The last reported sale price of the depositary shares on the NYSE on November 5, 2014 was \$25.85 per depositary share. We have applied to list the depositary shares offered by this prospectus supplement on the NYSE under the same symbol.

**Investing in the depositary shares and our preferred stock involves risks. See Risk Factors beginning on page S-9 of this prospectus supplement and beginning on page 12 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which is incorporated herein by reference.**

	<b>Per Share</b>	<b>Total</b>
Public offering price <sup>(1)</sup>	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to us	\$	\$

(1) Plus accumulated dividends, if any, from the original date of issuance.

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

The underwriter expects to deliver the depositary shares on or about \_\_\_\_\_, 2014.

**RAYMOND JAMES**

**The date of this prospectus supplement is \_\_\_\_\_, 2014.**

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

This document is in two parts. The first part is this prospectus supplement, which describes the depositary shares and the specific terms of the Series C preferred stock underlying the depositary shares and certain other matters relating to us and also adds to and updates information contained in the accompanying base prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part, the accompanying prospectus, provides more general information about securities we may offer from time to time, some of which does not apply to the depositary shares and the Series C preferred stock underlying the depositary shares. When we refer to the prospectus, we are referring to both parts combined. We may also provide you with a free writing prospectus regarding the depositary shares and the underlying Series C preferred stock.

If there is any inconsistency between information in or incorporated by reference into the base prospectus and information in or incorporated by reference into this prospectus supplement, you should rely only on the information contained in or incorporated by reference into this prospectus supplement. This prospectus supplement, the accompanying prospectus and the documents incorporated into each by reference include important information about us, the depositary shares being offered and other information you should know before investing. You should read this prospectus supplement and the accompanying prospectus together with the additional information described under the heading, *Where You Can Find More Information* before investing in the depositary shares.

References to *we*, *us* or *our* refer to Saul Centers, Inc. and Saul Holdings Limited Partnership, which we refer to as the *Partnership*, and their respective directly or indirectly owned subsidiaries, unless the context otherwise requires. References to *Saul Centers* refer solely to Saul Centers, Inc. We conduct our business and operations through the Partnership and/or directly or indirectly owned subsidiaries. The term *you* refers to a prospective investor. Saul Centers is the sole general partner of the Partnership and, as of September 30, 2014, owned an approximately 74.4% common partnership interest in the Partnership. In addition, B. Francis Saul II, our Chairman and Chief Executive Officer, family members of Mr. Saul, entities controlled by Mr. Saul and other affiliates of Mr. Saul, whom we collectively refer to as *The Saul Organization*, hold all of the limited partnership interests in the Partnership, which are represented by units. In general, units are convertible into shares of our common stock on a one-for-one basis.

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

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus supplement and the accompanying prospectus, including the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the *Securities Act*), and Section 21E of the Securities Exchange Act of 1934, as amended (the *Exchange Act*). When we refer to forward-looking statements or information, sometimes we use words such as *may*, *will*, *could*, *should*, *plans*, *intends*, *expects*, *believes*, *estimates*, *anticipates* and *continues* and other similar words. Forward-looking statements include information about possible or assumed future results of our business and our financial condition, liquidity, results of operations, plans and objectives. They also may include, among other things, statements concerning anticipated revenues, income or loss,

capital expenditures, dividends, capital structure, or other financial terms, as well as statements regarding subjects that are forward-looking by their nature, such as:

our business and financing strategy;

our ability to obtain future financing arrangements;

our understanding of our competition and our ability to compete effectively;

our projected operating results;

market and industry trends;

estimates relating to our future dividends;

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projected capital expenditures; and

interest rates.

The forward-looking statements are based on our beliefs, assumptions, and expectations of our future performance, taking into account the information currently available to us. These beliefs, assumptions, and expectations may change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity, and results of operations may vary materially from those expressed in our forward-looking statements. You should consider carefully these risks when you make a decision concerning an investment in the depositary shares, along with the following factors, among others, that may cause actual results to vary from our forward-looking statements:

challenging domestic and global credit markets and their effect on discretionary spending;

the ability of our tenants to pay rent;

our reliance on shopping center anchor tenants and other significant tenants;

our substantial relationships with members of The Saul Organization;

risks of financing, such as increases in interest rates, restrictions imposed by our debt, our ability to meet existing financial covenants and our ability to consummate planned and additional financings on acceptable terms;

our development activities;

our access to additional capital;

our ability to successfully complete additional acquisitions or redevelopments, or if they are consummated, whether such acquisitions or developments perform as expected;

risks generally incident to the ownership of real property, including adverse changes in economic conditions, changes in the investment climate for real estate, changes in real estate taxes and other operating expenses, adverse changes in governmental rules and fiscal policies, the relative illiquidity of real estate and environmental risks;



risks related to our status as a REIT for federal income tax purposes, such as the existence of complex regulations relating to our status as a REIT, the effect of future changes in REIT requirements as a result of new legislation and the adverse consequences of the failure to qualify as a REIT; and

other risks described in the section captioned **Risk Factors** beginning on page 12 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and under the heading **Risk Factors** in this prospectus supplement.

Given these uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. We do not intend and disclaim any duty or obligation to update any of the forward-looking statements or to publicly release the results if we revise any of them, except as required under U.S. federal securities laws. You should review carefully the risks and the risk factors described in the section captioned **Risk Factors** in this prospectus supplement and the section captioned **Risk Factors** beginning on page 12 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which is incorporated herein by reference, as well as the other information in this prospectus supplement and the accompanying prospectus, before investing in the depositary shares.

### **SUMMARY**

*This summary highlights key information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. It does not contain all of the information that is important to you. Before making an investment decision to invest in the depositary shares, you should read carefully the entire prospectus supplement, the accompanying prospectus, especially the **Risk Factors** section beginning on page S-9 of this prospectus supplement and the **Where You Can Find More Information** section beginning on page S-44 of this prospectus supplement, or any free writing prospectus as well as the documents incorporated by reference in this prospectus supplement and in the accompanying prospectus.*

**Table of Contents****The Company****General**

We are a self-administered and self-managed real estate company operating as a REIT. Our primary business activity is the ownership, management and development of income-producing properties. Our long-term objectives are to increase cash flow from operations and to maximize capital appreciation of our real estate.

As of September 30, 2014, our properties consisted of 50 operating shopping center properties, six mixed-use properties, which are comprised of office, retail and multi-family residential uses, and three (non-operating) development properties.

Our principal executive offices are located at 7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20814 and our telephone number is (301) 986-6200. Our website address is *www.saulcenters.com*. The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this prospectus supplement or the accompanying prospectus or any other report or document we file with our furnish to the SEC.

**The Offering**

For a more complete description of the rights, preferences and other terms of the Series C preferred stock underlying the depositary shares specified in the following summary, please see the information under the caption *Description of Series C Preferred Stock and Depositary Shares* beginning on page S-13 in this prospectus supplement and

*Description of Preferred Stock* and *Description of Depositary Shares* beginning on pages 3 and 7, respectively, in the accompanying prospectus.

Issuer	Saul Centers, Inc.
Securities Offered	1,600,000 depositary shares, each representing a 1/100th fractional interest in a share of 6.875% Series C Cumulative Redeemable Preferred Stock. The depositary shares offered by this prospectus supplement and the depositary shares originally issued on February 12, 2013 have identical terms (other than issue date, the issue price and the date upon which dividends accumulate) and will form a single series of depositary shares. In this prospectus supplement, the term <i>depositary shares</i> means the depositary shares offered by this prospectus supplement and the depositary shares originally issued on February 12, 2013, unless the context otherwise requires.
Depositary shares outstanding as of November 6, 2014	5,600,000
Depositary shares outstanding upon completion of this offering	7,200,000
Dividends	We will pay cumulative dividends on the Series C preferred stock underlying the depositary shares at a rate of \$1.71875 per depositary

share each year, which is equivalent to 6.875% of the \$25.00 liquidation preference per depositary share. Dividends on the depositary shares are payable quarterly in arrears, on January 15, April 15, July 15 and October 15; provided that if any dividend payment date is not a business day, then the dividend which would otherwise have been payable on that dividend payment date may be paid on the next succeeding business day. The first dividend on the depositary shares offered by this prospectus supplement is scheduled to be paid on January 15, 2015 and will be in the amount of \$0.4296875 per depositary share. Dividends on the Series C preferred stock underlying the depositary shares will continue to accumulate even if any of our agreements prohibit the current payment of dividends, we do not have earnings or funds legally available to pay the dividends or our Board of Directors does not declare the payment of the dividends.

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Liquidation Preference	The liquidation preference of each share of Series C preferred stock is \$2,500.00 (\$25.00 per depositary share). Upon liquidation, Series C preferred shareholders will be entitled to receive the liquidation preference with respect to their shares of Series C preferred stock plus an amount equal to accumulated but unpaid dividends with respect to such shares. See Description of Series C Preferred Stock and Depositary Shares Liquidation Preference on page S-15 of this prospectus supplement.
Optional Redemption	We may not redeem the Series C preferred stock underlying the depositary shares prior to February 12, 2018, except as described below under Special Optional Redemption and as intended to preserve our qualification as a REIT. At any time on and after February 12, 2018, we may, at our option, redeem the Series C preferred stock, in whole or from time to time in part, by paying \$2,500.00 per share (equivalent to \$25.00 per depositary share), plus any accumulated and unpaid dividends to, but not including, the date of redemption, and the depositary may redeem a proportional number of depositary shares. We refer to this redemption as an optional redemption.
Special Optional Redemption	Upon the occurrence of a Delisting Event (as defined below), we may, at our option, redeem the Series C preferred stock, in whole or in part, within 90 days after the Delisting Event, by paying \$2,500.00 per share (equivalent to \$25.00 per depositary share), plus any accumulated and unpaid dividends to, but not including, the date of redemption, and the depositary may redeem a proportional number of depositary shares.  A Delisting Event occurs when, after the original issuance of Series C preferred stock, both (i) the Series C preferred stock (or the depositary shares) are no longer listed on the NYSE, the NYSE MKT or NASDAQ, or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE MKT or NASDAQ, and (ii) we are not subject to the reporting requirements of the Exchange Act, but any Series C preferred stock is still outstanding.  Upon the occurrence of a Change of Control (as defined below), we may, at our option, redeem the Series C preferred stock underlying the depositary shares, in whole or in part and within 120 days after the first date on which such Change of Control occurred, by paying \$2,500.00 per share (equivalent to \$25.00 per depositary share), plus any accumulated and unpaid dividends to, but not including, the date of redemption and the depositary may redeem a proportional number of depositary shares.

We refer to redemption following a Delisting Event or a Change of Control as a special optional redemption. If, prior to the applicable conversion date, we have provided or provide notice of exercise of any of our redemption rights relating to the Series C preferred stock (whether our optional redemption right or our special optional redemption right), the holders of depositary shares representing interests in the Series C preferred stock will not have the conversion right described below.

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A Change of Control is deemed to occur when, after the original issuance of the Series C preferred stock, the following have occurred and are continuing:

the acquisition by any person, including any syndicate or group deemed to be a person under Section 13(d)(3) of the Exchange Act, of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of shares of Saul Centers entitling that person to exercise more than 50% of the total voting power of all shares of Saul Centers entitled to vote generally in elections of directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and

following the closing of any transaction referred to in the bullet point above, neither we nor any acquiring or surviving entity has a class of common securities (or ADRs representing such securities) listed on the NYSE, the NYSE MKT or NASDAQ, or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE MKT or NASDAQ.

**Conversion Rights**

Upon the occurrence of a Change of Control or Delisting Event, each holder of depositary shares representing interests in the Series C preferred stock will have the right (unless, prior to the applicable conversion date, we have provided or provide notice of our election to redeem the Series C preferred stock) to direct the depositary, on such holder's behalf, to convert some or all of the Series C preferred stock underlying the depositary shares held by such holder on the applicable conversion date into a number of shares of our common stock (or equivalent value of alternative consideration) per depositary share equal to the lesser of:

the quotient obtained by dividing (1) the sum of the \$25.00 per depositary share liquidation preference plus the amount of any accumulated and unpaid dividends to, but not including, the applicable conversion date (unless the applicable conversion date is after a record date for a Series C preferred stock dividend payment and prior to the corresponding Series C preferred stock dividend payment date, in which case no additional amount for such accrued and unpaid dividend will be included in this sum) by (2) the Common Stock Price (as defined herein); and

1.1385 (i.e., the Share Cap), subject to certain adjustments;

and subject, in each case, to the conditions described in this prospectus supplement, including, under specified circumstances, an aggregate cap on the total number of common shares issuable upon conversion and to

provisions for the receipt of alternative consideration.

If, prior to the applicable conversion date, we have provided or provide a redemption notice, whether pursuant to our special optional redemption right or our optional redemption right, holders of depositary shares representing interests in the Series C preferred stock will not have any right to direct the depositary to convert

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the Series C preferred stock, and any Series C preferred stock subsequently selected for redemption that has been tendered for conversion will be redeemed on the related date of redemption instead of converted on the applicable conversion date.

Because each depositary share represents a 1/100th interest in a share of the Series C preferred stock, the number of shares of common stock ultimately received for each depositary share will be equal to the number of shares of common stock received upon conversion of each share of Series C preferred stock divided by 100. In the event that the conversion would result in the issuance of fractional shares of common stock, we will pay the holder of depositary shares cash in lieu of such fractional shares.

For a definition **Common Stock Price** and for a description of the adjustments and provisions for the receipt of alternative consideration that may be applicable to the conversion rights described above, see **Description of Series C Preferred Stock and Depositary Shares Conversion**.

Except as provided above in connection with a Change of Control and in other limited circumstances to maintain our qualification as a REIT, shares of the Series C preferred stock are not convertible into or exchangeable for any other securities or property.

**Maturity**

The Series C preferred stock underlying the depositary shares does not have any stated maturity date. Accordingly, the Series C preferred stock and depositary shares will remain outstanding indefinitely unless we decide to redeem them or they are converted in connection with a Change of Control.

**Restrictions on Ownership**

Ownership by a single holder of more than 2.5% or, in the case of The Saul Organization, of more than 39.9%, in value of our issued and outstanding equity securities (which include the depositary shares) is restricted in an effort to ensure that we remain a qualified REIT for U.S. federal income tax purposes. See **Certain Provisions of Maryland Law and Our Articles of Incorporation and Bylaws Restrictions on Ownership and Transfer** beginning on page 10 of the accompanying prospectus.

**Ranking**

The Series C preferred stock underlying the depositary shares will rank, as to dividend rights and rights upon our liquidation, dissolution or winding up, (1) senior to shares of our common stock and to all other equity securities issued by us other than equity securities referred to in clauses (2) and (3); (2) on a parity with our outstanding 8% Series A Cumulative Redeemable Preferred Stock, which we refer to as our Series A preferred stock, and any equity securities that we may issue in the future the terms of which specifically provide that such equity securities



rank on a parity with the Series C preferred stock with respect to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up; (3) junior to all equity securities issued by us with terms specifically providing that those equity securities rank senior to the Series C preferred stock with respect to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up; and (4) effectively junior to all our existing and future indebtedness (including indebtedness convertible to our common stock or preferred stock) and to the indebtedness of our existing or future subsidiaries.

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**Table of Contents****Voting Rights**

Holders of the depositary shares representing interests in the Series C preferred stock generally will have no voting rights. However, if we do not pay dividends on any outstanding shares of Series C preferred stock for six or more quarterly dividend periods (whether or not declared or consecutive), holders of depositary shares representing interests in the Series C preferred stock (voting separately as a class with all other series of preferred stock upon which like voting rights have been conferred and are exercisable, including the Series A preferred stock) will be entitled to elect two additional directors to our Board of Directors to serve until all unpaid dividends have been fully paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of the Series C preferred stock cannot be made without the affirmative vote of holders of at least 66  $\frac{2}{3}$ % of the outstanding shares of Series C preferred stock, voting as a separate class. See Description of Series C Preferred Stock and Depositary Shares Voting Rights beginning on page S-22 of this prospectus supplement. In any matter in which the Series C preferred stock may vote, each depositary share will be entitled to 1/100th of a vote.

**Information Rights**

During any period in which we are not subject to Section 13 or 15(d) of the Exchange Act and any shares of Series C preferred stock are outstanding, we will use our best efforts to (i) transmit by mail (or other permissible means under the Exchange Act) to all holders of the depositary shares representing interests in the Series C preferred stock, as their names and addresses appear on our record books and without cost to such holders, copies of the annual reports on Form 10-K and quarterly reports on Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject thereto (other than any exhibits that would have been required) and (ii) promptly, upon request, supply copies of such reports to any holders of the depositary shares representing interests in the Series C preferred stock or prospective holders of depositary shares representing interests in the Series C preferred stock, subject to certain exceptions described in this prospectus supplement. Under the circumstances described above, we will use our best effort to mail (or otherwise provide) the information to the holders of depositary shares representing interests in the Series C preferred stock within 15 days after the respective dates by which a periodic report on Form 10-K or Form 10-Q, as the case may be, in respect of such information would have been required to be filed with the SEC, if we were subject to Section 13 or 15(d) of the Exchange Act, in each case, based on the dates on which we would be required to file such periodic reports if we were a non-accelerated filer within the meaning of the Exchange Act.

**Listing**

Our depositary shares initially issued on February 12, 2013 are listed on the NYSE under the symbol BFSPrC. We have applied to list the depositary shares offered by this prospectus supplement on the NYSE

under the same symbol. The Series C preferred stock is not listed and we do not expect that there will be any trading market for the Series C preferred stock.

Form

The depositary shares will be issued and maintained in book-entry form registered in the name of the nominee of The Depositary Trust Company, except under limited circumstances.

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Use of Proceeds	We intend to contribute the net proceeds from this offering to the Partnership in exchange for a preferred interest in the Partnership. The terms of the preferred interest in the Partnership will be substantially equivalent to the terms of the Series C preferred stock. The Partnership intends to use the amounts received from us, together with cash on hand, to redeem our preferred interest in the Partnership relating to the Series A preferred stock, and we intend to use the proceeds of such redemption to redeem all outstanding shares of Series A preferred stock and the depositary shares related thereto. See <b>Use of Proceeds</b> in this prospectus supplement.
Risk Factors	Investing in the depositary shares and preferred stock involves risks. See <b>Risk Factors</b> beginning on page S-9 of this prospectus supplement and beginning on page 12 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which is incorporated herein by reference.
Material Federal Income Tax Considerations	Material federal income tax considerations of purchasing, owning and disposing of the depositary shares representing interests in the Series C preferred stock are summarized in <b>Material Federal Income Tax Considerations</b> in this prospectus supplement.

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**RISK FACTORS**

*You should consider carefully the risks described below, as well as the risks described in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, before making a decision to invest in the depositary shares. These risks are not the only ones faced by us. The trading price of the depositary shares could decline due to any of these risks, and you may lose all or part of your investment. This prospectus supplement and the accompanying prospectus and the documents incorporated herein and therein by reference also contain forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and in the documents incorporated herein by reference, particularly in the section captioned Risk Factors beginning on page 12 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which is incorporated herein by reference.*

**Risks Relating to This Offering**

***Listing on the NYSE does not guarantee a market for the depositary shares, and the market value of the depositary shares could be substantially affected by various factors.***

Although the depositary shares that we initially issued on February 12, 2013 are listed for trading on the NYSE and we have applied to list the depositary shares offered by this prospectus supplement on the NYSE under the same symbol, there can be no assurance that our listing application will be approved by the NYSE. Further, even if approved for listing by the NYSE, there may be little or no secondary market for the depositary shares and an active trading market on the NYSE for the depositary shares may not develop or last, in which case the trading price of the depositary shares could be adversely affected. If an active trading market does develop on the NYSE, the depositary shares may trade at prices higher or lower than their initial offering price.

The trading price of the depositary shares would also depend on many factors, including:

prevailing interest rates;

the market for similar securities;

general economic and financial market conditions;

our financial condition, results of operations and prospects; and

the matters discussed in this prospectus supplement under the captions Risk Factors and Cautionary Note Regarding Forward-Looking Statements and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 under the caption Risk Factors.

***Our ability to pay dividends is limited by the requirements of Maryland law.***

Our ability to pay dividends on the Series C preferred stock and the depositary shares is limited by the laws of the State of Maryland. Under the Maryland General Corporation Law, a Maryland corporation may not make a distribution if, after giving effect to the distribution, the corporation would not be able to pay its debts as the debts become due in the usual course of business, or the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution. Accordingly, we may not make a distribution on the Series C preferred stock and the depositary shares if, after giving effect to the distribution, we would not be able to pay our debts as they become due in the usual course of business or our total assets would be less than the sum of our total liabilities plus the amount that would be needed to satisfy the preferential rights upon dissolution of the holders of any preferred stock then outstanding, if any, with preferences senior to those of the Series C preferred stock.

***The Series C preferred stock and the depositary shares rank junior to all of our indebtedness and other liabilities and are effectively junior to all indebtedness and other liabilities of our subsidiaries.***

In the event of our bankruptcy, liquidation, dissolution or winding-up of our affairs, our assets will be available to pay obligations on the Series C preferred stock only after all of our indebtedness and other liabilities have been paid. The rights of holders of the Series C preferred stock to participate in the distribution of our assets will rank junior to the prior claims of our current and future creditors and any future series or class of preferred stock we may issue that ranks senior to the Series C preferred stock. In

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addition, the Series C preferred stock effectively ranks junior to all existing and future indebtedness and other liabilities of (as well as any preferred equity interests held by others in) our existing subsidiaries and any future subsidiaries. Our existing subsidiaries are and any future subsidiaries would be separate legal entities and have no legal obligation to pay any amounts to us in respect of dividends due on the Series C preferred stock. If we are forced to liquidate our assets to pay our creditors, we may not have sufficient assets to pay amounts due on any or all of the Series C preferred stock then outstanding. We and our subsidiaries have incurred and may in the future incur substantial amounts of debt and other obligations that will rank senior to the Series C preferred stock. As of September 30, 2014, we had approximately \$846.5 million of debt outstanding, \$786.7 million of which was long-term fixed rate debt and was secured by 34 of our properties. The remaining \$59.8 million of outstanding debt was variable rate debt under a our revolving credit facility and two bank term loans. We may incur additional indebtedness and become more highly leveraged in the future, which could harm our financial position and potentially limit our cash available to pay dividends. As a result, we may not have sufficient funds remaining to satisfy our dividend obligations relating to our Series C preferred stock if we incur additional indebtedness.

Future offerings of debt or senior equity securities may adversely affect the market price of the depositary shares. If we decide to issue debt or senior equity securities in the future, it is possible that these securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of the Series C preferred stock and may result in dilution to owners of the depositary shares. We and, indirectly, our shareholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of the depositary shares will bear the risk of our future offerings reducing the market price of the depositary shares and diluting the value of their holdings in us.

***Because we conduct substantially all of our operations through the Partnership, our ability to pay dividends on our Series C preferred stock and the depositary shares depends almost entirely on the distributions we receive from the Partnership. We may not be able to pay dividends regularly.***

We may not be able to pay dividends on a regular quarterly basis in the future. We intend to contribute the entire net proceeds from this offering to the Partnership in exchange for preferred interests that have substantially the same economic terms as the Series C preferred stock. Because we conduct substantially all of our operations through the Partnership, our ability to pay dividends on the Series C preferred stock and the depositary shares will depend almost entirely on payments and distributions we receive on our interests in the Partnership. If the Partnership fails to operate profitably and to generate sufficient cash from operations (and the operations of its subsidiaries), we may not be able to pay dividends on the Series C preferred stock. Furthermore, any new shares of common stock issued will substantially increase the cash required to continue to pay cash dividends at current levels. Any common stock or preferred stock that may in the future be issued to finance acquisitions, upon exercise of stock options or otherwise, would have a similar effect.

***We may issue additional shares of the Series C preferred stock and additional series of preferred stock that rank on a parity with the Series C preferred stock as to dividend rights, rights upon liquidation or voting rights.***

We are allowed to issue additional shares of Series C preferred stock and additional series of preferred stock that would rank on a parity with the Series C preferred stock as to dividend payments and rights upon our liquidation, dissolution or winding up of our affairs pursuant to our articles of incorporation and the articles supplementary for the Series C preferred stock without any vote of the holders of the Series C preferred stock. Our articles of incorporation authorize us to issue up to 1,000,000 shares of preferred stock in one or more series on terms determined by our Board

of Directors. As of September 30, 2014, we had 16,000 shares of Series A preferred stock outstanding, interests in which were represented by 1,600,000 outstanding depositary shares, and 56,000 shares of Series C preferred stock outstanding, interests in which were represented by 5,600,000 outstanding depositary shares. However, the use of depositary shares enables us to issue significant amounts of preferred stock, notwithstanding the number of shares authorized by our articles of incorporation. The issuance of additional shares of Series C preferred stock and additional series of parity preferred stock could have the effect of reducing the amounts available to the Series C preferred stock upon our liquidation or dissolution or the winding up of our affairs. It also may reduce dividend payments on the Series C preferred stock if we do not have sufficient funds to pay dividends on all Series C preferred stock outstanding and other classes of stock with equal priority with respect to dividends.

In addition, although holders of the depositary shares are entitled to limited voting rights, as described in [Description of Series C Preferred Stock and Depositary Shares Voting Rights](#), with respect to such matters, the holders of the depositary shares will vote separately as a class along with all other series of our preferred stock that we may issue upon which like voting rights have been conferred and are exercisable. As a result, the voting rights of holders of the depositary shares may be significantly diluted, and the holders of such other series of preferred stock that we may issue may be able to control or significantly influence the outcome of any vote.



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Future issuances and sales of parity preferred stock, or the perception that such issuances and sales could occur, may cause prevailing market prices for the depositary shares and our common stock to decline and may adversely affect our ability to raise additional capital in the financial markets at times and prices favorable to us.

***As a holder of depositary shares representing interests in the Series C preferred stock, you will have extremely limited voting rights.***

Your voting rights as a holder of depositary shares will be limited. Our common stock is the only class of our securities that carries full voting rights. Voting rights for holders of depositary shares will exist primarily with respect to the ability to elect (together with the holders of other series of our preferred stock, including our Series A preferred stock, or depositary shares representing interests in our preferred stock, or additional series of preferred stock we may issue in the future and upon which similar voting rights have been or are in the future conferred) two additional directors to our Board of Directors in the event that six quarterly dividends (whether or not declared or consecutive) payable on the Series C preferred stock are in arrears, and with respect to voting on amendments to our articles of incorporation or articles supplementary (in some cases voting together with the holders of other series of our preferred stock as a single class) that materially and adversely affect the rights of the holders of depositary shares representing interests in the Series C preferred stock (and other series of preferred stock, as applicable) or create additional classes or series of our stock that are senior to the Series C preferred stock, provided that in any event adequate provision for redemption has not been made. Other than the limited circumstances described in this prospectus supplement, holders of depositary shares will not have any voting rights. See Description of Series C Preferred Stock and Depositary Shares Voting Rights.

***The depositary shares have not been rated.***

We have not sought to obtain a rating for the depositary shares representing interests in the Series C preferred stock, and the depositary shares may never be rated. It is possible, however, that one or more rating agencies might independently decide to assign a rating to the depositary shares or that we may elect to obtain a rating of the depositary shares in the future. Furthermore, we may elect to issue other securities for which we may seek to obtain a rating. If any ratings are assigned to the depositary shares in the future or if we issue other securities with a rating, such ratings, if they are lower than market expectations or are subsequently lowered or withdrawn, could adversely affect the market for, or the market value of, the depositary shares.

Ratings reflect the views of the issuing rating agency or agencies, and such ratings could at any time be revised downward, placed on negative outlook or withdrawn entirely at the discretion of the issuing rating agency or agencies. Furthermore, a rating is not a recommendation to purchase, sell or hold any particular security, including the depositary shares. Ratings do not reflect market prices or the suitability of a security for a particular investor, and any future rating of the depositary shares may not reflect all risks related to us and our business, or the structure or market value of the depositary shares.

***The conversion feature may not adequately compensate you, and the conversion and redemption features of the Series C preferred stock and the depositary shares may make it more difficult for a party to take over our company and may discourage a party from taking over our company.***

Upon the occurrence of a Change of Control or a Delisting Event, holders of the depositary shares representing interests in the Series C preferred stock will have the right (unless, prior to the applicable conversion date, we have provided or provide notice of our election to redeem the Series C preferred stock) to direct the depositary to convert some or all of the Series C preferred stock underlying their depositary shares into our common stock (or equivalent value of alternative consideration), and under these circumstances we will also have a special optional redemption

right to redeem the Series C preferred stock. See Description of Series C Preferred Stock and Depositary Shares Conversion and Special Optional Redemption. Upon such a conversion, the holders will be limited to a maximum number of shares of our common stock equal to the Share Cap multiplied by the number of depositary shares converted. If the Common Stock Price is less than \$21.96, subject to adjustment, the holders will receive a maximum of shares of our common stock per depositary share, which may result in a holder receiving value that is less than the liquidation preference of the depositary shares. In addition, those features of the Series C preferred stock and depositary shares may have the effect of inhibiting a third party from making an acquisition proposal for our company or of delaying, deferring or preventing a change of control of our company under circumstances that otherwise could provide the holders of our common stock and depositary shares representing interests in the Series C preferred stock with the opportunity to realize a premium over the then-current market price or that shareholders may otherwise believe is in their best interests.

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*The market price of the Series C preferred stock could be substantially affected by various factors.*

The market price of the depositary shares will depend on many factors, which may change from time to time, including:

prevailing interest rates, increases in which may have an adverse effect on the market price of the depositary shares;

trading prices of common and preferred equity securities issued by REITs and other real estate companies;

the annual yield from distributions on the depositary shares as compared to yields on other financial instruments;

general economic and financial market conditions;

government action or regulation;

the financial condition, performance and prospects of us and our competitors;

changes in financial estimates or recommendations by securities analysts with respect to us, our competitors or our industry;

our issuance of additional preferred equity or debt securities; and

actual or anticipated variations in quarterly operating results of us and our competitors.

As a result of these and other factors, investors who purchase the depositary shares in this offering may experience a decrease, which could be substantial and rapid, in the market price of the depositary shares, including decreases unrelated to our operating performance or prospects.

***Our articles of incorporation and the articles supplementary establishing the terms of the Series C preferred stock contain restrictions upon ownership and transfer of the depositary shares, which may impair the ability of holders to convert the depositary shares into our common stock.***

Our articles of incorporation and the articles supplementary establishing the terms of the Series C preferred stock contain restrictions on ownership and transfer of the Series C preferred stock intended to assist us in maintaining our qualification as a REIT for federal income tax purposes. Ownership by a single holder of more than 2.5% or, in the case of The Saul Organization, of more than 39.9%, in value of our issued and outstanding equity securities (which include the depositary shares) is restricted in an effort to ensure that we remain a qualified REIT for U.S. federal

income tax purposes. See Certain Provisions of Maryland Law and Our Articles of Incorporation and Bylaws Restrictions on Ownership and Transfer beginning on page 10 of the accompanying prospectus. You should consider these ownership limitations prior to your purchase of the depositary shares. Notwithstanding any other provision of the Series C preferred stock, no holder of the depositary shares will be entitled to convert such stock into our common stock to the extent that receipt of our common stock would cause the holder to exceed the ownership limitations contained in our articles of incorporation and in the articles supplementary for the Series C preferred stock. In addition, these restrictions could have anti-takeover effects and could reduce the possibility that a third party will attempt to acquire control of us, which could adversely affect the market price of the Series C preferred stock.

***Disruptions in the financial markets could affect our ability to obtain financing on reasonable terms and have other adverse effects on us and the market price of the depositary shares.***

Over the last several years, the United States stock and credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks and debt securities to fluctuate substantially and the spreads on prospective debt financings to widen considerably. In addition, concerns that certain European countries may be unable to pay their national debt has had a similar, although less pronounced, effect. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in certain cases have resulted in the unavailability of certain types of financing. Unrest in certain Middle Eastern countries and resultant increases in petroleum prices from time to time have added to the uncertainty in the capital markets. Continued uncertainty in the stock and credit markets may negatively impact our ability to access additional financing at reasonable terms, which may negatively affect our ability to purchase agency securities at the times, in the volumes, on the terms and with the leverage that we desire. A prolonged downturn in the stock or credit markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our investment strategy accordingly. These types of events in the stock and credit markets may make it more difficult or costly for us to raise capital through the issuance of our common stock, preferred stock or debt securities. The potential disruptions in the financial markets may have a material adverse effect on the market value of our common stock, preferred stock and the depositary shares offered pursuant to this prospectus supplement, the return we receive on our investments, as well as other unknown adverse effects on us or the economy in general.

**Table of Contents****USE OF PROCEEDS**

The net proceeds from the sale of the depositary shares in this offering, after deducting the underwriting discount and other estimated expenses of this offering payable by us, are estimated to be approximately \$ million. We intend to contribute the net proceeds from this offering to the Partnership in exchange for a preferred interest in the Partnership. The terms of the preferred interest in the Partnership will be substantially equivalent to the terms of the Series C preferred stock.

The Partnership intends to use the amounts received from us, together with cash on hand, to redeem our preferred interest in the Partnership relating to the Series A preferred stock, and we intend to use the proceeds of such redemption to redeem all of our outstanding shares of Series A preferred stock and the depositary shares relating thereto.

Pending application of the net proceeds as described above, we may temporarily invest the net proceeds in short-term, income-producing investments, which are consistent with maintaining our qualification as a REIT.

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

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

	<b>For the Nine Months Ended September 30,</b>		<b>For the Years Ended December 31,</b>			
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Ratio of earnings to fixed charges	2.12 X	1.74 X	1.71 X	1.60 X	1.78 X	1.92 X
Ratio of earnings to combined fixed charges and preferred stock dividends	1.66 X	1.34 X	1.31 X	1.21 X	1.31 X	1.40 X

For purposes of computing the ratios of earnings to fixed charges, earnings consist of income from continuing operations plus fixed charges. Fixed charges consist of interest and amortization of debt expense, capitalized interest and interest portion of rental expense. The ratios of earnings to combined fixed charges and preferred stock dividends were computed by dividing our earnings by fixed charges and preferred stock dividends.

**DESCRIPTION OF SERIES C PREFERRED STOCK AND THE DEPOSITARY SHARES**

*The following is a summary of the material terms and provisions of the Series C preferred stock and the depositary shares. The statements below describing our Series C preferred stock are in all respects subject to and qualified in their entirety by reference to the applicable provisions of our articles of incorporation, as amended, including the articles supplementary establishing the Series C preferred stock, and our bylaws, each of which is available from us as described in the "Where You Can Find More Information" section beginning on page S-44 of this prospectus supplement and is incorporated by reference in this prospectus supplement. See also "Description of Depositary Shares" in the accompanying prospectus. This description of the particular terms of the Series C preferred stock and the depositary shares supplements the description of the general terms and provisions of our preferred stock set forth*

*in the accompanying prospectus beginning on page 3 under Description of Preferred Stock. For a description of the common stock into which the Series C preferred stock is convertible, see Description of Common Stock in the accompanying prospectus.*

## **General**

Under our articles of incorporation, we are authorized to issue up to 30,000,000 shares of common stock, par value \$0.01 per share, and 1,000,000 shares of preferred stock, par value \$0.01 per share. As of September 30, 2014, we had 20,870,003 shares of common stock, 16,000 shares of Series A preferred stock (interests in which were represented by 1,600,000 depository shares) and 56,000 shares of Series C preferred stock (interests in which were represented by 5,600,000 depository shares) outstanding.

Shares of preferred stock and related depository shares may be offered and sold from time to time, in one or more series, as authorized by our Board of Directors. Our Board of Directors is authorized under Maryland law and our articles of incorporation to set

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for each series of preferred stock and related depositary shares the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption. The Series C preferred stock is being issued pursuant to articles supplementary to our articles of incorporation that set forth the terms of a series of preferred stock consisting of up to 72,000 shares, designated 6.875% Series C Cumulative Redeemable Preferred Stock.

The registrar, transfer agent and distributions disbursing agent for the Series C preferred stock is Continental Stock Transfer & Trust Company.

Each depositary share represents a 1/100<sup>th</sup> fractional interest in a share of Series C preferred stock. The Series C preferred stock underlying the depositary shares offered by this prospectus supplement will be deposited with Continental Stock Transfer & Trust Company, as depositary, under a deposit agreement among us, the depositary and the holders from time to time of the depositary receipts issued by the depositary under the deposit agreement. The depositary shares will be evidenced by depositary receipts issued pursuant to the deposit agreement. Subject to the terms of the deposit agreement, each record holder of depositary receipts evidencing depositary shares will be entitled, proportionately, to all the rights and preferences of, and subject to all of the limitations of, the interest in the Series C preferred stock underlying the depositary shares (including dividend, voting, redemption and liquidation rights and preferences). See **Description of Depositary Shares** beginning on page 7 of the accompanying prospectus.

## **Ranking**

The Series C preferred stock represented by the depositary shares will, as to dividend rights and rights upon our liquidation, dissolution or winding-up, rank:

- (1) senior to all classes or series of our common stock and to all other equity securities issued by us other than equity securities referred to in clause (2) and (3) below;
- (2) on a parity with the Series A preferred stock and any equity securities authorized or designated by us in the future, the terms of which specifically provide that such equity securities rank on a parity with the Series C preferred stock with respect to dividend rights or rights upon our liquidation, dissolution or winding up;
- (3) junior to any class or series of equity securities authorized or designated by us in the future which specifically provides that such class or series ranks senior to the Series C preferred stock with respect to dividend rights or rights upon our liquidation, dissolution or winding up; and
- (4) effectively junior to all our existing and future indebtedness (including indebtedness convertible to our common stock or preferred stock) and to the indebtedness of our existing or future subsidiaries.

The term **equity securities** does not include convertible debt securities, which will rank senior to the Series C preferred stock prior to conversion.

## **Dividends**

Holders of depositary shares representing interests in the Series C preferred stock will be entitled to receive, when and as declared by our Board of Directors, out of funds legally available for the payment of dividends, cumulative cash dividends at the rate of 6.875% of the \$2,500.00 liquidation preference (\$25.00 per depositary share) per year (equivalent to \$171.875 per year or \$1.71875 per year per depositary share). Dividends on the depositary shares are payable quarterly in arrears on January 15, April 15, July 15 and October 15; provided that if any dividend payment date is not a business day, as defined in the articles supplementary, then the dividend which would otherwise have been payable on that dividend payment date may be paid on the next succeeding business day and no interest, additional dividends or other sums will accrue on the amounts so payable for the period from and after that dividend payment date to that next succeeding business day. Whenever we pay dividends on the Series C preferred stock held by the depositary, the depositary will pay dividends on the same date on the depositary shares. We refer to each such date as a Dividend Payment Date. The first dividend on the depositary shares offered by this prospectus supplement is scheduled to be paid on January 15, 2015 and will be in the amount of \$0.4296875 per depositary share.

Any dividend, including any dividend payable on the Series C preferred stock for any partial dividend period, will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends are payable to holders of record of depositary shares as they appear in the depositary's records at the close of business on the applicable record date, which will be the date that our Board of Directors designates for the payment of a dividend that is not more than 30 nor less than 10 days prior to the Dividend Payment Date, which we refer to as a Dividend Payment Record Date.



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Our Board of Directors will not authorize, pay or set apart for payment by us any dividend on the Series C preferred stock at any time that:

the terms and provisions of any of our agreements, including any agreement relating to our indebtedness, prohibits such authorization, payment or setting apart for payment;

the terms and provisions of any of our agreements, including any agreement relating to our indebtedness, provides that such authorization, payment or setting apart for payment thereof would constitute a breach of, or a default under, such agreement; or

the law restricts or prohibits the authorization or payment.

Notwithstanding the foregoing, dividends on the Series C preferred stock accumulate whether or not:

the terms and provisions of any of our agreements relating to our indebtedness prohibit such authorization, payment or setting apart for payment;

we have earnings;

there are funds legally available for the payment of the dividends; and

the dividends are authorized.

No interest, or sums in lieu of interest, will be payable in respect of any dividend payment or payments on the Series C preferred stock, which may be in arrears, and holders of the Series C preferred stock are not be entitled to any dividends in excess of the full cumulative dividends described above. Any dividend payment made on the Series C preferred stock shall first be credited against the earliest accumulated but unpaid dividends due with respect to those shares.

We intend to contribute or otherwise transfer the net proceeds of the sale of any depositary shares sold on or after the date of this prospectus supplement to the Partnership in exchange for 6.875% Series C preferred partnership interests in the Partnership, the economic terms of which will be substantially identical to those of the Series C preferred stock. As of the date of this prospectus supplement, there are 56,000 outstanding Series C preferred partnership interests. The Partnership will be required to make all required distributions on the Series C preferred partnership interests (which will mirror the payments of dividends, including accrued and unpaid dividends upon redemption, and of the liquidation preference amount on the Series C preferred stock) prior to any distribution of cash or assets to the holders of any other interests in the Partnership, except for any series of preferred partnership interests ranking on a parity with the Series C preferred partnership interests, such as the Series A preferred partnership interests, as to distributions or liquidation rights, and except for distributions required to enable us to maintain our qualification as a REIT.

If, for any taxable year, we elect to designate as capital gain dividends (as defined in Section 857 of the Internal Revenue Code of 1986, as amended, which we refer to as the Code) a portion, which we refer to as the Capital Gains Amount, of the dividends not in excess of our earning and profits that are paid or made available for the year to the holders of all classes of shares, or the Total Dividends, then the portion of the Capital Gains Amount that will be allocable to the holders of depositary shares will be the Capital Gains Amount multiplied by a fraction, the numerator of which will be the total dividends (within the meaning of the Code) paid or made available to the holders of depositary shares for the year and the denominator of which will be the Total Dividends.

### **Liquidation Preference**

In the event of any voluntary or involuntary liquidation, dissolution or winding up of our affairs, the holders of shares of Series C preferred stock are entitled to be paid out of our assets legally available for distribution to our shareholders a liquidation preference of \$2,500.00 per share (or \$25.00 per depositary share), plus an amount equal to any accumulated and unpaid dividends to the date of payment (whether or not declared), before any distribution or payment may be made to holders of shares of common stock or any other class or series of our equity stock ranking, as to liquidation rights, junior to the Series C preferred stock.

If, upon our voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the full amount of the liquidating distributions on all outstanding shares of Series C preferred stock and the corresponding amounts payable on

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all shares of each other class or series of capital stock ranking, as to liquidation rights, on a parity with the Series C preferred stock, such as our Series A preferred stock, then the holders of the Series C preferred stock and each such other class or series of capital stock ranking, as to liquidation rights, on a parity with the Series C preferred stock will share ratably in any distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled. Holders of Series C preferred stock will be entitled to written notice of any liquidation no fewer than 30 days and no more than 60 days prior to the payment date. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series C preferred stock and depositary shares will have no right or claim to any of our remaining assets.

Our consolidation or merger with or into any other entity or the sale, lease, transfer or conveyance of all or substantially all of our property or business will not be deemed to constitute our liquidation, dissolution or winding up. The Series C preferred stock ranks senior to the common stock as to priority for receiving liquidating distributions and on a parity with any existing and future equity securities which, by their terms, rank on a parity with the Series C preferred stock.

## **Optional Redemption**

The Series C preferred stock is not redeemable prior to February 12, 2018, except under the circumstances described below. On and after February 12, 2018, the Series C preferred stock may be redeemed at our option, in whole or in part, from time to time, at a redemption price of \$2,500.00 per share (\$25.00 per depositary share), plus all dividends accumulated and unpaid (whether or not declared) on the Series C preferred stock up to the date of such redemption, upon the giving of notice, as provided below. Whenever we redeem shares of our Series C preferred stock held by the depositary, the depositary will redeem as of the same redemption date a number of depositary shares representing the shares so redeemed and the depositary receipts evidencing such depositary shares.

If fewer than all of the outstanding shares of Series C preferred stock are to be redeemed, the shares to be redeemed will be determined pro rata, by lot or in such other manner as prescribed by our Board of Directors. In the event that the redemption is to be by lot, and if as a result of the redemption any holder of Series C preferred stock would own, or be deemed by virtue of certain attribution provisions of the Code to own, in excess of 2.5% in value of our issued and outstanding equity securities (which includes the depositary shares), with the exception of members of The Saul Organization, who are currently restricted to 39.9% in value of our issued and outstanding equity securities, then, except in certain instances, we will redeem the requisite number of shares of Series C preferred stock of that shareholder such that the shareholder will not own or be deemed by virtue of certain attribution provisions of the Code to own, subsequent to the redemption, in excess of 2.5% in value of our issued and outstanding equity securities (which includes the depositary shares), with the exception of members of The Saul Organization, who are currently restricted to 39.9% in value of our issued and outstanding equity securities.

We shall give the depositary not less than 30 nor more than 60 days prior written notice of redemption of the deposited Series C preferred stock. A similar notice of redemption will be mailed by the depositary not less than 30 nor more than 60 days prior to the date fixed for redemption to each holder of record of depositary shares that is to be redeemed. The notice will notify the holder of the election to redeem the shares and will state at least the following:

the date fixed for redemption thereof, which we refer to as the Redemption Date;

the redemption price;

the number of shares of Series C preferred stock and depositary shares to be redeemed (and, if fewer than all the shares are to be redeemed, the number of shares to be redeemed from such holder);

the place(s) where the depositary receipts evidencing the depositary shares are to be surrendered for payment; and

that dividends on the depositary shares will cease to accumulate on the Redemption Date.

On or after the Redemption Date, each holder of depositary shares to be redeemed must present and surrender the depositary receipts evidencing the depositary shares to the depositary at the place designated in the notice of redemption. The redemption price of the shares will then be paid to or on the order of the person whose name appears on such depositary receipts as the owner thereof. Each surrendered depositary receipt will be canceled. In the event that fewer than all the depositary receipts are to be redeemed, a new depositary receipt will be issued representing the unredeemed depositary shares.

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From and after the Redemption Date (unless we default in payment of the redemption price):

all dividends on the shares designated for redemption in the notice will cease to accumulate;

all rights of the holders of the shares, except the right to receive the redemption price thereof (including all accumulated and unpaid dividends up to the Redemption Date), will cease and terminate;

the shares will not thereafter be transferred (except with our consent) on the depositary's books; and

the shares will not be deemed to be outstanding for any purpose whatsoever.

Notwithstanding the foregoing, unless full cumulative dividends on all outstanding shares of Series C preferred stock have been paid or declared and a sum sufficient for the payment of the dividends has been set apart for payment for all past dividend periods, no Series C preferred stock will be redeemed unless all outstanding shares of Series C preferred stock are simultaneously redeemed. This requirement will not prevent the purchase or acquisition of Series C preferred stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series C preferred stock. Unless full cumulative dividends on all outstanding shares of Series C preferred stock have been paid or declared and a sum sufficient for the payment of the dividends has been set apart for payment for all past dividend periods, we will not purchase or otherwise acquire directly or indirectly any shares of Series C preferred stock (except by exchange for our equity securities ranking junior to the Series C preferred stock as to dividend rights and liquidation preference).

Notwithstanding any other provision relating to redemption of the Series C preferred stock, we may redeem any or all shares of Series C preferred stock at any time, whether or not prior to February 12, 2018, if our Board of Directors determines that the redemption is necessary or advisable to preserve our status as a REIT.

**Special Optional Redemption**

During any period of time (whether before or after February 12, 2018) that both (i) the Series C preferred stock (or the depositary shares) are no longer listed on the NYSE, the NYSE MKT or NASDAQ, or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE MKT or NASDAQ, and (ii) we are not subject to the reporting requirements of the Exchange Act, but any Series C preferred stock is still outstanding (which we refer to collectively as a "Delisting Event"), we may, at our option, redeem the Series C preferred stock, in whole or in part and within 90 days after the date of the Delisting Event, by paying \$2,500.00 per share (equivalent to \$25.00 per depositary share), plus any accumulated and unpaid dividends to, but not including, the date of redemption.

Upon the occurrence of a Change of Control (defined below), we may, at our option, redeem the Series C preferred stock, in whole or in part and within 120 days after the first date on which such Change of Control occurred, by paying \$2,500.00 per share (equivalent to \$25.00 per depositary share), plus any accumulated and unpaid dividends to, but not including, the date of redemption.

If, prior to the applicable conversion date, we have provided or provide notice of redemption with respect to the Series C preferred stock (whether pursuant to our optional redemption right described above or this special optional redemption right following a Change of Control or Delisting Event), the holders of depositary shares representing

interests in the Series C preferred stock will not be permitted to exercise the conversion right described below under Conversion in respect of their shares called for redemption.

The depositary will mail to you, if you are a record holder of the depositary shares representing interests in the Series C preferred stock, a notice of redemption, furnished by us, no fewer than 30 days nor more than 60 days before the redemption date. The depositary will send the notice to your address shown on the records of the depositary. No failure to give the notice or any defect in the notice or in the mailing of the notice will affect the validity of the proceedings for the redemption of any depositary shares or shares of our Series C preferred stock except as to a holder to whom notice was defective or not given. Each notice will state the following:

the redemption date;

the redemption price;

the number of depositary shares representing interests in the Series C preferred stock to be redeemed;

the place(s) where the depositary receipts (or Series C preferred stock certificates, if no longer held in depositary form) are to be surrendered for payment;

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that the Series C preferred stock is being redeemed pursuant to our special optional redemption right in connection with the occurrence of a Change of Control or Delisting Event and a brief description of the transaction or transactions or circumstances constituting such Change of Control or Delisting Event;

that the holders of depositary shares representing interests in the Series C preferred stock to which the notice relates will not be able to convert such shares of Series C preferred stock in connection with the Change of Control or Delisting Event and each share of Series C preferred stock tendered for conversion that is selected, prior to the applicable conversion date, for redemption will be redeemed on the related date of redemption instead of converted; and

that dividends on the Series C preferred stock to be redeemed will cease to accumulate on the redemption date.

If we redeem fewer than all of the outstanding shares of Series C preferred stock, the notice of redemption mailed to each record holder of depositary shares will also specify the number of shares of Series C preferred stock that we will redeem from such record holder. In this case, we will determine the number of shares of Series C preferred stock to be redeemed on a pro rata basis or by lot or by any other equitable method as the depositary may determine.

If we have given a notice of redemption and have set aside sufficient funds for the redemption in trust for the benefit of the holders of the depositary shares representing interests in the Series C preferred stock called for redemption, then from and after the redemption date, those depositary shares will be treated as no longer being outstanding, no further dividends will accumulate on the underlying Series C preferred stock and all other rights of the holders of those depositary shares will terminate. If any redemption date is not a business day, then the redemption price and accumulated and unpaid dividends, if any, payable upon redemption may be paid on the next business day and no interest, additional dividends or other sums will accrue on the amount payable for the period from and after that redemption date to that next business day. The holders of those depositary shares will retain their right to receive the redemption price for their underlying shares of Series C preferred stock (including any accumulated and unpaid dividends to but excluding the redemption date).

The holders of depositary shares representing interests in the Series C preferred stock at the close of business on a dividend record date will be entitled to receive the dividend payable with respect to the Series C preferred stock on the corresponding payment date notwithstanding the redemption of the Series C preferred stock between such record date and the corresponding payment date or our default in the payment of the dividend due. Except as provided above, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on Series C preferred stock to be redeemed.

Unless full cumulative dividends on all shares of Series C preferred stock shall have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof has been or contemporaneously is set apart for payment for all past dividend periods, no shares of Series C preferred stock shall be redeemed unless all outstanding shares of Series C preferred stock are simultaneously redeemed and we shall not purchase or otherwise acquire directly or indirectly any shares of Series C preferred stock (except by exchanging it for our capital stock ranking junior to the Series C preferred stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase or acquisition by us of shares of Series C preferred stock to preserve our REIT status for federal income tax purposes or pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series C preferred stock.

A Change of Control is when, after the original issuance of the Series C preferred stock, the following have occurred and are continuing:

the acquisition by any person, including any syndicate or group deemed to be a person under Section 13(d)(3) of the Exchange Act of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of shares of our company entitling that person to exercise more than 50% of the total voting power of all shares of our company entitled to vote generally in elections of directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and

following the closing of any transaction referred to in the bullet point above, neither we nor any acquiring or surviving entity has a class of common securities (or ADRs representing such securities) listed on the NYSE, the NYSE MKT or NASDAQ, or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE MKT or NASDAQ.

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Upon the occurrence of a Change of Control or Delisting Event, each holder of depositary shares representing interests in the Series C preferred stock will have the right (unless, prior to the applicable conversion date, we have provided or provide notice of our election to redeem the depositary shares or the Series C preferred stock as described above under Optional Redemption or Special Optional Redemption ) to direct the depositary, on such holder's behalf, to convert some or all of the Series C preferred stock underlying the depositary shares held by such holder (the Conversion Right ) on the applicable conversion date into a number of shares of our common stock (or equivalent value of alternative consideration) per depositary share equal to the lesser of:

the quotient obtained by dividing (1) the \$25.00 per depositary share liquidation preference plus the amount of any accumulated and unpaid dividends to, but not including, the applicable conversion date (unless the applicable conversion date is after a record date for a Series C preferred stock dividend payment and prior to the corresponding Series C preferred stock dividend payment date, in which case no additional amount for such accrued and then remaining unpaid dividend will be included in this sum) by (2) the Common Stock Price (such quotient, the Conversion Rate); and

1.1385 (i.e., the Share Cap), subject to certain adjustments described below.

The Share Cap is subject to pro rata adjustments for any share splits (including those effected pursuant to a distribution of shares of our common stock to existing holders of common stock), subdivisions or combinations (in each case, a Share Split ) with respect to our common stock as follows: the adjusted Share Cap as the result of a Share Split will be the number of shares of our common stock that is equivalent to the product obtained by multiplying (1) the Share Cap in effect immediately prior to such Share Split by (2) a fraction, the numerator of which is the number of shares of our common stock outstanding after giving effect to such Share Split and the denominator of which is the number of shares of our common stock outstanding immediately prior to such Share Split.

For the avoidance of doubt, subject to the immediately succeeding sentence, the aggregate number of shares of our common stock (or equivalent Alternative Conversion Consideration (as defined below), as applicable) issuable in connection with the exercise of the Conversion Right and in respect of the depositary shares initially issued on February 12, 2013 and the depositary shares offered by this prospectus supplement will not exceed shares of common stock (or equivalent Alternative Conversion Consideration, as applicable) (the Exchange Cap ). The Exchange Cap is subject to pro rata adjustments for any Share Splits on the same basis as the corresponding adjustment to the Share Cap and is subject to increase in the event that additional shares of Series C preferred stock or depositary shares are issued in the future.

In the case of a Change of Control or Delisting Event pursuant to, or in connection with, which our common stock will be converted into cash, securities or other property or assets (including any combination thereof) (the Alternative Conversion Consideration ), a holder of depositary shares representing interests in Series C preferred stock will receive upon conversion of such Series C preferred stock the kind and amount of Alternative Conversion Consideration which such holder would have owned or been entitled to receive upon the Change of Control or Delisting Event had such holder held a number of shares of our common stock equal to the Common Stock Conversion Consideration immediately prior to the effective time of the Change of Control or Delisting Event (the Alternative Conversion Consideration, and the Common Stock Conversion Consideration or the Alternative Conversion Consideration, as may be applicable to a Change of Control or Delisting Event, is referred to as the Conversion Consideration ).

If the holders of our common stock have the opportunity to elect the form of consideration to be received in, or in connection with, the Change of Control or Delisting Event, the consideration that the holders of the depositary shares representing interests in the Series C preferred stock will receive will be the form and proportion of the aggregate consideration elected by the holders of our common stock who participate in the determination (based on the weighted average of elections) and will be subject to any limitations to which all holders of our common stock are subject, including, without limitation, pro rata reductions applicable to any portion of the consideration payable in, or in connection with, the Change of Control or Delisting Event.

We will not issue fractional shares of common stock upon the conversion of the Series C preferred stock. Instead, we will pay the cash value of such fractional shares in lieu of such fractional shares. Because each depositary share represents a 1/100<sup>th</sup> interest in a share of the Series C preferred stock, the number of shares of common stock ultimately received for each depositary share will be equal to the number of shares of common stock received upon conversion of each share of Series C preferred stock divided by 100. In the event that the conversion would result in the issuance of fractional shares of common stock, we will pay the holder of depositary shares the cash value of such fractional shares in lieu of such fractional shares.

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Within 15 days following the occurrence of a Change of Control or Delisting Event, we will provide to holders of the depositary shares representing interests in the Series C preferred stock a notice of occurrence of the Change of Control or Delisting Event that describes the resulting Conversion Right. This notice will state the following:

the events constituting the Change of Control or Delisting Event;

the date of the Change of Control or Delisting Event;

the last date on which the holders of the depositary shares representing interests in the Series C preferred stock may exercise their Conversion Right;

the method and period for calculating the Common Stock Price;

the date fixed for conversion in connection with the Change of Control or Delisting Event, which we refer to as the conversion date, which will be a business day fixed by our Board of Directors that is not fewer than 20 and not more than 35 days following the date of the notice;

that if, prior to the applicable conversion date, we have provided or provide notice of our election to redeem all or any portion of the Series C preferred stock, holders will not be able to convert the Series C preferred stock and such shares will be redeemed on the related redemption date, even if such shares have already been tendered for conversion pursuant to the Conversion Right;

if applicable, the type and amount of Alternative Conversion Consideration entitled to be received per share of Series C preferred stock;

the name and address of the paying agent and the conversion agent;

the procedures that the holders of the depositary shares representing interests in the Series C preferred stock must follow to exercise the Conversion Right; and

the last date on which holders of the depositary shares representing interests in the Series C preferred stock may withdraw shares surrendered for conversion and the procedures that such holders must follow to effect such a withdrawal.

We will issue a press release for publication on the Dow Jones & Company, Inc., Business Wire, PR Newswire or Bloomberg Business News (or, if these organizations are not in existence at the time of issuance of the press release, such other news or press organization as is reasonably calculated to broadly disseminate the relevant information to the public), or post notice on our website, in any event prior to the opening of business on the first business day

following any date on which we provide the notice described above to the holders of the depositary shares representing interests in the Series C preferred stock.

To exercise the Conversion Right, each holder of depositary shares representing interests in the Series C preferred stock will be required to deliver, on or before the close of business on the applicable conversion date, the depositary receipts or certificates, if any, evidencing the interests in Series C preferred stock to be converted, duly endorsed for transfer, together with a written conversion notice completed, to the depositary. The conversion notice must state:

the relevant conversion date;

the number of depositary shares representing interests in the shares of Series C preferred stock to be converted; and

that the depositary shares are to be converted pursuant to the applicable provisions of the Series C preferred stock.

The Common Stock Price for any Change of Control will be: (1) if the consideration to be received in the Change of Control by the holders of our common stock is solely cash, the amount of cash consideration per share of common stock; and (2) if the consideration to be received in the Change of Control by holders of our common stock is other than solely cash (x) the average of the closing prices for our common stock on the principal U.S. securities exchange on which our common stock is then traded (or, if no closing sale price is reported, the average of the closing bid and ask prices per share or, if more than one in either case, the average of the average closing bid and the average closing ask prices per share) for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred as reported on the principal U.S. securities exchange on which our common stock is then traded, or (y) the average of the last quoted bid prices for our common stock in the over-the-counter market as reported by Pink OTC Markets Inc. or similar organization for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred, if our common stock is not then listed for trading on a U.S. securities exchange.

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The Common Stock Price for any Delisting Event will be the average of the closing prices for our common stock on the principal U.S. securities exchange on which our common stock is then traded (or, if no closing sale price is reported, the average of the closing bid and ask prices per share or, if more than one in either case, the average of the average closing bid and the average closing ask prices per share) for the ten consecutive trading days immediately preceding, but not including, the date on which such Delisting Event occurred.

Holders of the depositary shares representing interests in the Series C preferred stock may withdraw any notice of exercise of a Conversion Right (in whole or in part) by a written notice of withdrawal delivered to the depositary prior to the close of business on the business day prior to the applicable conversion date. The notice of withdrawal must state:

the number of withdrawn depositary shares;

if certificated depositary shares have been issued, the receipt or certificate numbers of the withdrawn depositary shares; and

the number of depositary shares, if any, which remain subject to the conversion notice.

Notwithstanding the foregoing, if the Series C preferred stock is held in global form, the conversion notice and/or the notice of withdrawal, as applicable, must comply with applicable procedures of The Depository Trust Company or a similar depositary, and the conversion notice and/or the notice of withdrawal, as applicable, must comply with applicable procedures, if any, of the applicable depositary.

Shares of Series C preferred stock as to which the Conversion Right has been properly exercised and for which the conversion notice has not been properly withdrawn will be converted into the applicable Conversion Consideration in accordance with the Conversion Right on the applicable conversion date, unless prior to the applicable conversion date we have provided or provide notice of our election to redeem such shares of Series C preferred stock, whether pursuant to our optional redemption right or our special optional redemption right. If we elect to redeem shares of Series C preferred stock that would otherwise be converted into the applicable Conversion Consideration on a conversion date, such shares of Series C preferred stock will not be so converted and the holders of such shares will be entitled to receive on the applicable redemption date \$2,500.00 per share (or \$25.00 per depositary share), plus any accumulated and unpaid dividends thereon to, but not including, the redemption date. See [Optional Redemption](#) and [Special Optional Redemption](#).

We will deliver all securities, cash and other property owing upon conversion no later than the third business day following the applicable conversion date. Notwithstanding the foregoing, the persons entitled to receive any shares of our common stock or other securities delivered on conversion will be deemed to have become the holders of record thereof as of the applicable conversion date.

In connection with the exercise of any Conversion Right, we will comply with all federal and state securities laws and stock exchange rules in connection with any conversion of Series C preferred stock into our common stock. Notwithstanding any other provision of the Series C preferred stock, no holder of Series C preferred stock or depositary shares will be entitled to convert such shares into our common stock to the extent that receipt of such common stock would cause such holder (or any other person) to exceed the share ownership limits contained in our articles of incorporation and the articles supplementary setting forth the terms of the Series C preferred stock, unless

we provide an exemption from this limitation for such holder. See Ownership Limits and Restrictions on Transfer below.

The Conversion Right may make it more difficult for a third party to acquire us or discourage a party from acquiring us. See Risk Factors The conversion feature may not adequately compensate you, and the conversion and redemption features of the Series C preferred stock and the depositary shares may make it more difficult for a party to take over our company and may discourage a party from taking over our company.

Neither the Series C preferred stock nor the depositary shares are convertible into or exchangeable for any other securities or property, except as provided above and except that the shares of Series C preferred stock and depositary shares may be exchanged for excess stock in order to ensure that we remain qualified as a REIT for federal income tax purposes. For further information regarding excess stock, see Certain Provisions of Maryland Law and Our Articles of Incorporation and Bylaws Automatic Transfer of Stock to Trust on page 12 in the accompanying prospectus.

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**Voting Rights**

Except as described below, holders of depositary shares will generally have no voting rights. In any matter in which the Series C preferred stock may vote (as expressly provided herein, or as may be required by law), each share of Series C preferred stock shall be entitled to one vote. As a result, each depositary share will be entitled to 1/100<sup>th</sup> of a vote.

If dividends on the Series C preferred stock are in arrears, whether or not declared, for six or more quarterly periods, whether or not these quarterly periods are consecutive, holders of Series C preferred stock (voting separately as a class with all other series of preferred stock upon which like voting rights have been conferred and are exercisable, including the Series A preferred stock) will be entitled to vote, at a special meeting called by the holders of record of at least 10% of any series of preferred stock as to which dividends are so in arrears or at the next annual meeting of shareholders, for the election of two additional directors to serve on our Board of Directors until all dividend arrearages have been paid or irrevocably set aside.

Any amendment, alteration, repeal or other change to any provision of our articles of incorporation, including the articles supplementary establishing the Series C preferred stock, whether by merger, consolidation or otherwise, in any manner that would materially and adversely affect the rights, preferences, powers or privileges of the Series C preferred stock cannot be made without the affirmative vote of holders of at least 66 2/3% of the outstanding shares of Series C preferred stock, voting separately as a class. In addition, the creation, issuance or increase in the authorized number of shares of any class or series of stock having a preference as to dividends or distributions, whether upon liquidation, dissolution, or otherwise, that is senior to the shares of Series C preferred stock requires the affirmative vote of holders of at least 66 2/3% of the outstanding shares of Series C preferred stock, voting separately as a class.

The following actions are not deemed to materially and adversely affect the rights, preferences, powers or privileges of the Series C preferred stock:

any increase in the amount of our authorized common stock or preferred stock or the creation or issuance of equity securities of any class or series ranking, as to dividends or liquidation preference, on a parity with, or junior to, the Series C preferred stock; or

the amendment, alteration or repeal or change of any provision of our articles of incorporation, including the articles supplementary establishing the Series C preferred stock, as a result of a merger, consolidation, reorganization or other business combination, if the Series C preferred stock (or shares into which the Series C preferred stock have been converted in any successor entity to us) remain outstanding with the terms thereof materially unchanged.

**Information Rights**

During any period in which we are not subject to Section 13 or 15(d) of the Exchange Act and any shares of Series C preferred stock are outstanding, we will use our best efforts to (i) transmit by mail (or other permissible means under the Exchange Act) to all holders of the depositary shares representing interests in the Series C preferred stock, as their names and addresses appear on our record books and without cost to such holders, copies of the annual reports on Form 10-K and quarterly reports on Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject thereto (other than any exhibits that would have been required) and (ii) promptly, upon request, supply copies of such reports to any holders of the depositary shares

representing interests in the Series C preferred stock or prospective holders of depositary shares representing interests in the Series C preferred stock, subject to certain exceptions described in this prospectus supplement. Under the circumstances described above, we will use our best effort to mail (or otherwise provide) the information to the holders of depositary shares representing interests in the Series C preferred stock within 15 days after the respective dates by which a periodic report on Form 10-K or Form 10-Q, as the case may be, in respect of such information would have been required to be filed with the SEC, if we were subject to Section 13 or 15(d) of the Exchange Act, in each case, based on the dates on which we would be required to file such periodic reports if we were a non-accelerated filer within the meaning of the Exchange Act.

### **Maturity**

The Series C preferred stock has no stated maturity date and will not be subject to any sinking fund or mandatory redemption provisions.

### **Ownership Limits and Restrictions on Transfer**

In order to maintain our qualification as a REIT for federal income tax purposes, ownership by any person of our outstanding equity securities (which includes the depositary shares) is restricted in our articles of incorporation. For further information regarding restrictions on ownership and transfer of the Series C preferred stock, see Certain Provisions of Maryland Law and Our Articles of Incorporation and Bylaws Restrictions on Ownership and Transfer beginning on page 10 in the accompanying prospectus.



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**Surrender of Depositary Shares for Shares of Series C Preferred Stock**

Under certain circumstances, holders may be required to surrender depositary receipts to the depositary or us. In the event of such a surrender of depositary shares, the holder will be entitled to receive the number of whole or fractional shares of Series C preferred stock represented by the depositary shares. See Description of Depositary Shares Withdrawal of Preferred Stock and Amendment and Termination of the Deposit Agreement on page 9 in the accompanying prospectus.

**Depositary Share Listing**

Our depositary shares initially issued on February 12, 2013 are listed on the NYSE under the symbol BFSPrC. We have applied to list the depositary shares offered by this prospectus supplement on the NYSE under the same symbol. The Series C preferred stock is not listed and we do not expect that there will be any trading market for the Series C preferred stock.

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**MATERIAL FEDERAL INCOME TAX CONSIDERATIONS**

The following section summarizes the material federal income tax issues that you may consider relevant relating to our taxation as a REIT under the Code, and the acquisition, ownership, and disposition of the depositary shares. Because this section is a summary, it does not address all of the tax issues that may be important to you. For example, the discussion of the tax treatment of our shareholders addresses only depositary shares held as capital assets (generally property held for investment) within the meaning of Section 1221 of the Code. This discussion is based on current law and does not purport to deal with all aspects of U.S. federal income taxation that may be relevant to a prospective shareholder in light of its particular circumstances. In addition, this section does not address the tax issues that may be important to certain types of shareholders that are subject to special treatment under the federal income tax laws, such as financial institutions, brokers, dealers in securities and commodities, insurance companies, former U.S. citizens or long-term residents, regulated investment companies, real estate investment trusts, tax-exempt organizations (except to the extent discussed in [Taxation of Tax-Exempt U.S. Shareholders](#) below), controlled foreign corporations, passive foreign investment companies, persons that acquire shares in connection with employment or other performance of personal services, persons subject to the alternative minimum tax, persons that are, or that hold their shares through, partnerships or other pass-through entities, U.S. shareholders whose functional currency is not the U.S. dollar, persons that hold shares as part of a straddle, hedge, conversion, synthetic security or constructive sale transaction for U.S. federal income tax purposes, persons that purchase or sell shares as part of a wash sale for tax purposes, or non-U.S. individuals and foreign corporations (except to the extent discussed in [Taxation of Non-U.S. Shareholders](#) below). In addition, this discussion is general in nature and is not exhaustive of all possible tax considerations, nor does it address any aspect of state, local or foreign taxation or any U.S. federal tax other than the income tax and, only to the extent specifically provided herein, certain excise taxes potentially applicable to REITs.

This summary is based on the Code, the regulations of the U.S. Department of Treasury ( [Treasury](#) ) promulgated thereunder and judicial and administrative rulings now in effect, all of which are subject to change or differing interpretations, possibly with retroactive effect.

If a partnership, including an entity or arrangement that is treated as a partnership for U.S. federal income tax purposes, is a beneficial owner of our depositary shares, the treatment of the partnership, and partners in the partnership, will generally depend on the status of the partner and the activities of the partnership. Partnerships holding depositary shares, and partners in such partnerships, should consult their tax advisors with regard to the U.S. federal income tax treatment of an investment in depositary shares.

**PROSPECTIVE INVESTORS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE SPECIFIC FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES TO THEM OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE DEPOSITARY SHARES, OUR ELECTION TO BE TAXED AS A REIT AND THE EFFECT OF POTENTIAL CHANGES IN APPLICABLE TAX LAWS.**

**Taxation of the Company**

The statements in this section are based on the current federal income tax laws governing our qualification as a REIT. We cannot assure you that new laws, interpretations of laws or court decisions, any of which may take effect retroactively, will not cause any statement in this section to be inaccurate.

We elected to be taxed as a REIT under the federal income tax laws when we filed our 1993 federal tax return. We have operated in a manner intended to qualify as a REIT and we intend to continue to operate in that manner. This section discusses the laws governing the federal income tax treatment of a REIT and its shareholders. These laws are highly technical and complex.

In the opinion of our tax counsel, Pillsbury Winthrop Shaw Pittman LLP, (i) we qualified as a REIT under Sections 856 through 859 of the Code with respect to each of our taxable years ended through December 31, 2013; and (ii) we are organized in conformity with the requirements for qualification as a REIT under the Code and our current method of operation and ownership will enable us to meet the requirements for qualification and taxation as a REIT for the current taxable year and for future taxable years, provided that we have operated and continue to operate in accordance with various assumptions and factual representations made by us concerning our diversity of stock ownership, business, properties and operations. We may not, however, have met or continue to meet such requirements. You should be aware that opinions of counsel are not binding on the Internal Revenue Service ( IRS ) or any court. Our qualification as a REIT depends on our ability to meet, on a continuing basis, certain qualification tests set forth in the federal tax laws. Those qualification tests involve the percentage of income that we earn from specified sources, the percentage of our assets that fall within certain categories, the diversity of the ownership of our shares, and the percentage of our earnings that we distribute. We describe the REIT qualification tests in more detail below. Pillsbury Winthrop Shaw Pittman LLP will not monitor our compliance with the requirements for REIT qualification on an ongoing basis. Accordingly, our actual operating results may not satisfy the

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qualification tests. Pillsbury Winthrop Shaw Pittman LLP's opinion does not foreclose the possibility that we may have to use one or more of the REIT savings provisions described below, which would require us to pay an excise or penalty tax (which could be material) in order for us to maintain our REIT qualification. For a discussion of the tax treatment of us and our shareholders if we fail to qualify as a REIT, see [Requirements for REIT Qualification Failure to Qualify](#).

As a REIT, we generally will not be subject to federal income tax on the taxable income that we distribute to our shareholders. The benefit of that tax treatment is that it avoids the double taxation (i.e., at both the corporate and shareholder levels) that generally results from owning shares in a subchapter C corporation. However, we will be subject to federal tax in the following circumstances:

we will pay federal income tax on taxable income (including net capital gain) that we do not distribute to our shareholders during, or within a specified time period after, the calendar year in which the income is earned;

we may be subject to the alternative minimum tax on any items of tax preference that we do not distribute or allocate to our shareholders;

we will pay income tax at the highest corporate rate on (i) net income from the sale or other disposition of property acquired through foreclosure or after a default on a loan secured by the property or a lease of the property ( foreclosure property ) that we hold primarily for sale to customers in the ordinary course of business and (ii) other non-qualifying income from foreclosure property;

we will pay a 100% tax on net income from certain sales or other dispositions of property (other than foreclosure property) that we hold primarily for sale to customers in the ordinary course of business ( prohibited transactions );

our subsidiaries that are C corporations, including our taxable REIT subsidiaries, generally will be required to pay federal corporate income tax on their earnings;

we will pay a 100% excise tax on transactions with a taxable REIT subsidiary that are not conducted on an arm's-length basis;

if we fail to satisfy the 75% gross income test or the 95% gross income test (as described below under [Requirements for REIT Qualification Income Tests](#) ), but nonetheless continue to qualify as a REIT because we meet certain other requirements, we will pay a 100% tax on (i) the gross income attributable to the greater of the amount by which we fail, respectively, the 75% or 95% gross income test, multiplied, in either case, by (ii) a fraction intended to reflect our profitability;

if we fail, in more than a *de minimis* fashion, to satisfy one or more of the asset tests for any quarter of a taxable year, but nonetheless continue to qualify as a REIT because we qualify under certain relief provisions, we may be required to pay a tax of the greater of \$50,000 or a tax computed at the highest corporate rate on the amount of net income generated by the assets causing the failure from the date of failure until the assets are disposed of or we otherwise return to compliance with the asset test;

if we fail to satisfy one or more of the requirements for REIT qualification (other than the income tests or the asset tests), we nevertheless may avoid termination of our REIT election in such year if the failure is due to reasonable cause and not due to willful neglect, but we would also be required to pay a penalty of \$50,000 for each failure to satisfy the REIT qualification requirements;

if we fail to distribute during a calendar year at least the sum of (i) 85% of our REIT ordinary income for such year, (ii) 95% of our REIT capital gain net income for such year, and (iii) any undistributed taxable income from prior periods, we will pay a nondeductible 4% excise tax on the excess of such required distribution over (A) the amount we actually distributed, plus (B) retained amounts on which corporate-level tax was paid by us;

we may be required to pay monetary penalties to the IRS in certain circumstances, including if we fail to meet record-keeping requirements intended to monitor our compliance with the rules relating to the composition of a REIT's shareholders;

we may elect to retain and pay income tax on our net long-term capital gain; or

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if we acquire any asset from a C corporation (i.e., a corporation generally subject to full corporate-level tax) in a merger or other transaction in which we acquire a carryover basis in the asset (i.e., basis determined by reference to the C corporation's basis in the asset (or another asset)) and no election is made for the transaction to be taxable on a current basis, then if we recognize gain on the sale or disposition of such asset during the 10-year period after we acquire such asset, we will pay tax at the highest regular corporate rate applicable on the lesser of (i) the amount of gain that we recognize at the time of the sale or disposition and (ii) the amount of gain that we would have recognized if we had sold the asset at the time we acquired the asset.

### **Requirements for REIT Qualification**

To qualify as a REIT, we must meet the following requirements:

1. we are managed by one or more trustees or directors;
2. our beneficial ownership is evidenced by transferable shares, or by transferable certificates of beneficial interest;
3. we would be taxable as a domestic corporation, but for Sections 856 through 860 of the Code;
4. we are neither a financial institution nor an insurance company subject to certain provisions of the Code;
5. at least 100 persons are beneficial owners of our shares or ownership certificates;
6. not more than 50% in value of our outstanding shares or ownership certificates is owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of any taxable year (the 5/50 Rule );
7. we elect to be a REIT (or have made such election for a previous taxable year) and satisfy all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT status;
8. we use a calendar year for federal income tax purposes and comply with the record keeping requirements of the Code and the related regulations of the Treasury; and
9. we meet certain other qualification tests, described below, regarding the nature of our income and assets and the amount of our distributions to shareholders.

We must meet requirements 1 through 4 during our entire taxable year and must meet requirement 5 during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. If we

comply with all the requirements for ascertaining the ownership of our outstanding shares in a taxable year and have no reason to know that we violated the 5/50 Rule, we will be deemed to have satisfied the 5/50 Rule for such taxable year. For purposes of determining share ownership under the 5/50 Rule, an individual generally includes a supplemental unemployment compensation benefits plan, a private foundation, or a portion of a trust permanently set aside or used exclusively for charitable purposes. An individual, however, generally does not include a trust that is a qualified employee pension or profit sharing trust under Code Section 401(a), and beneficiaries of such a trust will be treated as holding our shares in proportion to their actuarial interests in the trust for purposes of the 5/50 Rule.

We believe we have issued sufficient shares with sufficient diversity of ownership to satisfy requirements 5 and 6 set forth above. In addition, our articles of incorporation restrict the ownership and transfer of our shares so that we should continue to satisfy requirements 5 and 6. The provisions of our articles of incorporation restricting the ownership and transfer of our shares are described in Certain Provisions of Maryland Law and our Articles of Incorporation and Bylaws Restrictions on Ownership and Transfer beginning on page 11 in the accompanying prospectus.

We currently have one direct corporate subsidiary and may have additional corporate subsidiaries in the future. A corporation that is a qualified REIT subsidiary is not treated as a corporation separate from its parent REIT. All assets, liabilities, and items of income, deduction, and credit of a qualified REIT subsidiary are treated as assets, liabilities, and items of income, deduction, and credit of the REIT. A qualified REIT subsidiary is a corporation, all of the capital stock of which is owned by the parent REIT, unless we and the subsidiary have jointly elected to have it treated as a taxable REIT subsidiary, in which case it is treated separately from

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us and will be subject to federal corporate income taxation. Thus, in applying the requirements described herein, any qualified REIT subsidiary of ours will be ignored, and all assets, liabilities, and items of income, deduction, and credit of such subsidiary will be treated as our assets, liabilities, and items of income, deduction, and credit. We believe our direct corporate subsidiaries are qualified REIT subsidiaries. Accordingly, our qualified REIT subsidiaries are not subject to federal corporate income taxation, though they may be subject to state and local taxation. We do not currently have any taxable REIT subsidiaries.

An unincorporated domestic entity, such as a partnership or limited liability company, that has a single beneficial owner generally is not treated as an entity separate from its owner for federal income tax purposes. Similar to a qualified REIT subsidiary, all assets, liabilities, and items of income, deduction, and credit of such a disregarded entity are treated as assets, liabilities, and items of income, deduction, and credit of the owner. An unincorporated domestic entity, such as a partnership or a limited liability company, with two or more beneficial owners is generally treated as a partnership for federal income tax purposes. A REIT is treated as owning its proportionate share of the assets of any partnership (which includes any limited liability company treated as a partnership) in which it is a partner and as earning its allocable share of the gross income of the partnership for purposes of the applicable REIT qualification tests. Thus, our proportionate share of the assets and items of income of the Partnership and any other partnership (or limited liability company treated as a partnership) in which we have acquired or will acquire an interest, directly or indirectly (a *Subsidiary Partnership*), are treated as our assets and gross income for purposes of applying the various REIT qualification requirements. Our proportionate share is generally determined, for these purposes, based on our percentage interest in partnership equity capital, subject to special rules relating to the 10% asset test described below.

***Income Tests.*** We must satisfy two gross income tests annually to maintain our qualification as a REIT:

At least 75% of our gross income (excluding gross income from prohibited transactions, cancellation of indebtedness, certain real estate liability hedges, and certain foreign currency hedges entered into, and certain recognized real estate foreign exchange gains) for each taxable year must consist of defined types of income that we derive, directly or indirectly, from investments relating to real property or mortgages on real property or qualified temporary investment income (the *75% gross income test*). Qualifying income for purposes of the 75% gross income test includes rents from real property, interest on debt secured by mortgages on real property or on interests in real property, gain from the sale of real estate assets, and dividends or other distributions on and gain from the sale of shares in other REITs; and

At least 95% of our gross income (excluding gross income from prohibited transactions, cancellation of indebtedness, certain real estate liability hedges, and certain foreign currency hedges entered into, and certain recognized passive foreign exchange gains) for each taxable year must consist of income that is qualifying income for purposes of the 75% gross income test, dividends, other types of interest, gain from the sale or disposition of stock or securities, or any combination of the foregoing (the *95% gross income test*).

The following paragraphs discuss the specific application of these tests to us.

***Rental Income.*** The Partnership's primary source of income derives from leasing properties. There are various limitations on whether rent that the Partnership receives from real property that it owns and leases to tenants will qualify as rents from real property (which is qualifying income for purposes of the 75% and 95% gross income tests) under the REIT tax rules:



If the rent is based, in whole or in part, on the income or profits of any person although, generally, rent may be based on a fixed percentage or percentages of receipts or sales, the rent will not qualify as rents from real property. The Partnership has not entered into any lease based in whole or part on the net income of any person and on an ongoing basis will use its best efforts to avoid entering into such arrangements unless, in either instance, we have determined or we determine in our discretion that such arrangements will not jeopardize our status as a REIT;

Except in certain limited circumstances involving taxable REIT subsidiaries, if we or someone who owns 10% or more of our shares owns 10% or more of a tenant from whom the Partnership receives rent, the tenant is deemed a related party tenant, and the rent paid by the related party tenant will not qualify as rents from real property. Our ownership and the ownership of a tenant is determined based on direct, indirect and constructive ownership. The constructive ownership rules generally provide that if 10% or more in value of our shares are owned, directly or indirectly, by or for any person, we are considered as owning the shares owned, directly or indirectly, by or for such person. The applicable attribution rules, however, are highly complex and difficult to apply, and the Partnership may inadvertently enter into leases with tenants who, through application of such rules, will constitute related party tenants. In such event, rent paid by the related party tenant will not qualify as rents from real property, which may jeopardize our status as a REIT. We believe that the Partnership has not leased property to any related party tenant, except where we have determined in our discretion that the rent received

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from such related party tenant is not material and will not jeopardize our status as a REIT. On an ongoing basis, we will use our best efforts to ensure the Partnership does not rent any property to a related party tenant (taking into account the applicable constructive ownership rules), unless we determine in our discretion that the rent received from such related party tenant will not jeopardize our status as a REIT;

In the case of certain rent from a taxable REIT subsidiary which would, but for this exception, be considered rent from a related party tenant, the space leased to the taxable REIT subsidiary must be part of a property at least 90% of which is rented to persons other than taxable REIT subsidiaries and related party tenants, and the amounts of rent paid to us by the taxable REIT subsidiary must be substantially comparable to the rents paid by such other persons for comparable space. If in the future we have any taxable REIT subsidiaries and the Partnership rents space to such subsidiaries, we will use our best efforts to meet these conditions unless we determine in our discretion that the related party rent received from a taxable REIT subsidiary will not jeopardize our status as a REIT;

If the rent attributable to any personal property leased in connection with a lease of property is more than 15% of the total rent received under the lease, all of the rent attributable to the personal property will fail to qualify as rents from real property. In general, the Partnership has not leased a significant amount of personal property under its current leases. If any incidental personal property has been leased, we believe that rent under each lease from the personal property has been no more than 15% of total rent from that lease, and on an ongoing basis we will use our best efforts to avoid having the Partnership lease personal property in connection with a future lease except where rent from the personal property is no more than 15% of total rent from that lease, or unless, in either instance, we have determined or we determine in our discretion that the amount of disqualified rent attributable to the personal property will not jeopardize our status as a REIT; and

In general, if the Partnership furnishes or renders services to our tenants, other than through a taxable REIT subsidiary or an independent contractor who is adequately compensated and from whom it does not derive revenue, the income received from the tenants may not be deemed rents from real property. The Partnership may provide services directly, if the services are usually or customarily rendered in connection with the rental of space for occupancy only and are not otherwise considered to be provided for the tenants' convenience. In addition, the Partnership may render directly a *de minimis* amount of non-customary services to the tenants of a property without disqualifying the income as rents from real property, as long as income from the services does not exceed 1% of the income from the related property. We believe that the Partnership has not provided services to leased properties that have caused rents to be disqualified as rents from real property, and on an ongoing basis in the future, we will use our best efforts to determine in our discretion that any services provided by the Partnership will not cause rents to be disqualified as rents from real property, or unless, in either instance, we have determined or we determine in our discretion that the amount of disqualified rent resulting from such services will not jeopardize our status as a REIT.

Based on, and subject to, the foregoing, we believe that rent from our leases should generally qualify as rents from real property for purposes of the 75% and 95% gross income tests, except in amounts that should not jeopardize our status as a REIT. As described above, however, the IRS may assert successfully a contrary position and, therefore, prevent us from qualifying as a REIT.

**Interest.** For purposes of the gross income tests, the term interest generally does not include any amount received or accrued, directly or indirectly, if the determination of all or some of the amount depends in any way on the income or profits of any person. However, an amount received or accrued generally will not be excluded from the term interest

solely by reason of being based on a fixed percentage or percentages of receipts or sales. If a loan contains a provision that entitles us to a percentage of the borrower's gain upon the sale of the real property securing the loan or a percentage of the appreciation in the property's value as of a specific date, income attributable to that loan provision will be treated as gain from the sale of the property securing the loan, which generally is qualifying income for purposes of both gross income tests.

We may from time to time hold mortgage debt. Interest on debt secured by a mortgage on real property or on interests in real property, including, for this purpose, discount points, prepayment penalties, loan assumption fees, and late payment charges that are not compensation for services, generally is qualifying income for purposes of the 75% gross income test. However, in the case of acquisition of an existing loan, if the loan is secured by real property and other property and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of the date we agreed to acquire the loan, then a portion of the interest income from such loan will not be qualifying income for purposes of the 75% gross income test, but will be qualifying income for purposes of the 95% gross income test. The portion of the interest income that will not be qualifying income for purposes of the 75% gross income test will be equal to the portion of the principal amount of the loan that is not secured by real property—that is, the amount by which the loan principal exceeds the value of the real estate that is security for the loan as of the date we agreed to acquire the loan.

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**Dividends.** Our share of any dividends received from any corporation (including any taxable REIT subsidiary, but excluding any REIT) in which we own an equity interest will qualify for purposes of the 95% gross income test but not for purposes of the 75% gross income test. Our share of any dividends received from any other REIT in which we own an equity interest, if any, will be qualifying income for purposes of both gross income tests.

**Tax on Income From Property Acquired in Foreclosure.** We will be subject to tax at the maximum corporate rate on any income from foreclosure property (other than income that would be qualifying income for purposes of the 75% gross income test), less expenses directly connected to the production of such income. However, gross income from foreclosure property will qualify under the 75% and 95% gross income tests. Foreclosure property is any real property (including interests in real property) and any personal property incident to such real property:

that is acquired by a REIT at a foreclosure sale, or having otherwise become the owner or in possession of the property by agreement or process of law, after a default (or imminent default) on a lease of such property or on a debt owed to the REIT secured by the property;

for which the related loan was acquired by the REIT at a time when default was not imminent or anticipated; and

for which the REIT makes a proper election to treat the property as foreclosure property.

A REIT will not be considered to have foreclosed on a property where it takes control of the property as a mortgagee-in-possession and cannot receive any profit or sustain any loss except as a creditor of the mortgagor. Generally, property acquired as described above ceases to be foreclosure property on the earlier of:

the last day of the third taxable year following the taxable year in which the REIT acquired the property (or longer if an extension is granted by the Secretary of the Treasury);

the first day on which a lease is entered into with respect to such property that, by its terms, will give rise to income that does not qualify under the 75% gross income test or any amount is received or accrued, directly or indirectly, pursuant to a lease entered into on or after such day that will give rise to income that does not qualify under the 75% gross income test;

the first day on which any construction takes place on such property (other than completion of a building, or any other improvement, where more than 10% of the construction of such building or other improvement was completed before default became imminent); or

the first day that is more than 90 days after the day on which such property was acquired by the REIT and the property is used in a trade or business that is conducted by the REIT (other than through an independent contractor from whom the REIT itself does not derive or receive any income).

***Tax on Prohibited Transactions.*** A REIT will incur a 100% tax on net income (taking into account foreign currency gains and losses) derived from any prohibited transaction. A prohibited transaction generally is a sale or other disposition of property (other than foreclosure property) that the REIT holds primarily for sale to customers in the ordinary course of a trade or business. The prohibited transaction rules do not apply to property held by a taxable REIT subsidiary of a REIT. We believe that none of our assets (including those held by the Partnership and its subsidiaries) are held for sale to customers and that a sale of any such asset would not be in the ordinary course of its business. Whether a REIT holds an asset primarily for sale to customers in the ordinary course of a trade or business depends, however, on the facts and circumstances in effect from time to time, including those related to a particular asset.

The Code provides a safe harbor that, if met by us (including with respect to properties held by the Partnership), allows us to avoid being treated as engaged in a prohibited transaction. In order to meet the safe harbor, (i) we must have held the property for at least 2 years (and, in the case of property which consists of land or improvements not acquired through foreclosure, we must have held the property for 2 years for the production of rental income), (ii) we must not have made aggregate expenditures includible in the basis of the property during the 2-year period preceding the date of sale that exceed 30% of the net selling price of the property, and (iii) during the taxable year the property is disposed of, we must not have made more than 7 property sales or, alternatively, the aggregate adjusted basis or fair market value of all of the properties sold by us during the taxable year must not exceed 10% of the aggregate adjusted basis or 10% of the fair market value, respectively, of all of our assets as of the beginning of the taxable year. If the 7 sale limitation in (iii) above is not satisfied, substantially all of the marketing and development expenditures with respect to the

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property must be made through an independent contractor from whom we do not derive or receive any income. We believe we have complied with the terms of the safe-harbor provision and we will attempt to comply with the terms of the safe-harbor in the future, except where we determine in our discretion that a particular transaction will avoid prohibited transaction treatment regardless of the safe harbor. We may fail to comply with the safe-harbor provision and may sell or dispose of property that could be characterized as property held primarily for sale to customers in the ordinary course of a trade or business.

***Tax and Deduction Limits on Certain Transactions with Taxable REIT Subsidiaries.*** A REIT will incur a 100% tax on certain transactions between a REIT and a taxable REIT subsidiary to the extent the transactions are not on an arms-length basis. In addition, under certain circumstances the interest paid by a taxable REIT subsidiary to the REIT may not be deductible by the taxable REIT subsidiary.

***Hedging Transactions.*** Except to the extent provided by Treasury regulations, any income we derive from a hedging transaction (which may include entering into interest rate swaps, caps, and floors, options to purchase these items, and futures and forward contracts) which is clearly identified as such as specified in the Code and Treasury regulations, including gain from the sale or disposition of such a transaction, will not constitute gross income for purposes of either the 75% or 95% gross income test, and therefore will be exempt from these tests, but only to the extent that the transaction hedges indebtedness incurred or to be incurred by us to acquire or carry real estate assets or is entered into primarily to manage the risk of foreign currency fluctuations with respect to qualifying income under the 75% or 95% gross income test. Income from any hedging transaction not described above will likely be treated as nonqualifying for both the 75% and 95% gross income test.

***Like-Kind Exchanges.*** We may dispose of properties in transactions intended to qualify as like-kind exchanges under the Code. Such like-kind exchanges are intended to result in the deferral of gain for federal income tax purposes. The failure of any such transaction to qualify as a like-kind exchange could require us to pay federal income tax, possibly including the 100% prohibited transaction tax, depending on the facts and circumstances surrounding the particular transaction.

***Relief from Consequences of Failing to Meet Income Tests.*** If we fail to satisfy one or both of the 75% and 95% gross income tests for any taxable year, we nevertheless may qualify as a REIT for such year if we qualify for relief under certain provisions of the Code. Those relief provisions generally will be available if our failure to meet such tests is due to reasonable cause and not due to willful neglect, and we file a schedule of the sources of our income in accordance with regulations prescribed by the Treasury. We may not qualify for the relief provisions in all circumstances. In addition, as discussed above in Taxation of the Company, even if the relief provisions apply, we would incur a 100% tax on gross income to the extent we fail the 75% or 95% gross income test (whichever amount is greater), multiplied by a fraction intended to reflect our profitability.

***Asset Tests.*** To maintain our qualification as a REIT, we also must satisfy the following asset tests at the close of each quarter of each taxable year:

At least 75% of the value of our total assets must consist of cash or cash items (including certain receivables and money market funds), U.S. government securities, real estate assets, or qualifying temporary investments (the 75% asset test).

Real estate assets include interests in real property, interests in mortgages on real property and stock in other REITs.

Interests in real property include an interest in mortgage loans or land and improvements thereon, such as buildings or other inherently permanent structures (including items that are structural components of such buildings or structures), a leasehold of real property, and an option to acquire real property (or a leasehold of real property).

Qualifying temporary investments are investments in stock or debt instruments during the one-year period following our receipt of new capital that we raise through equity or long-term (at least five-year) debt offerings.

For investments not included in the 75% asset test, (A) the value of our interest in any one issuer's securities (which does not include our equity ownership of other REITs, the Partnership, any taxable REIT subsidiary, or any qualified REIT subsidiary) may not exceed 5% of the value of our total assets (the 5% asset test), (B) we may not own more than 10% of the voting power or value of any one issuer's outstanding securities (which does not include our equity ownership in other REITs, the Partnership, any taxable REIT subsidiary, or any qualified REIT subsidiary) (the 10% asset test), (C) the value of our securities in one or more taxable REIT subsidiaries may not exceed 25% of the value of our total assets, and (D) no more than 25% of the value of our total assets may consist of the securities of taxable REIT subsidiaries and our assets that are not qualifying assets for purposes of the 75% asset test. For purposes of the 10% asset test that relates to value, the following are not treated as securities: (i) loans to individuals and estates, (ii) securities issued by REITs, (iii) accrued

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obligations to pay rent; (iv) certain debt meeting the definition of straight debt if neither we nor a taxable REIT subsidiary that we control hold more than 1% of the issuer's securities that do not qualify as straight debt, and (v) debt issued by a partnership if the partnership meets the 75% gross income test with respect to its own gross income. In addition, solely for purposes of the 10% asset test that relates to value, the determination of our interest in the assets of the Partnership or any other partnership in which we own an interest will be based on our proportionate interest in any securities issued by the partnership, excluding for this purpose certain securities described in the Code.

We intend to select future investments so as to comply with the asset tests.

As described above, we may from time to time hold mortgage debt. Mortgage loans will generally qualify as real estate assets for purposes of the 75% asset test to the extent that they are secured by real property. However, if a loan is secured by real property and other property and the highest principal amount of a loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of the date we agreed to acquire the loan, then a portion of such loan likely will not be a qualifying real estate asset. Under current law, it is not clear how to determine what portion of such a loan will be treated as a real estate asset. Under recently issued guidance, the IRS has stated that it will not challenge a REIT's treatment of a loan as being, in part, a real estate asset for purposes of the 75% asset test if the REIT treats the loan as being a qualifying real estate asset in an amount equal to the lesser of (i) the greater of (a) the current fair market value of the real property securing the loan or (b) the fair market value of such real property on the date the REIT acquires the loan, or (ii) the fair market value of the loan.

If we fail to satisfy the asset tests at the end of a calendar quarter, we would not lose our REIT status if (i) we satisfied the asset tests at the close of the preceding calendar quarter and (ii) the discrepancy between the value of our assets and the asset test requirements arose from changes in the market values of our assets and was not wholly or partly caused by the acquisition of one or more non-qualifying assets. If we did not satisfy the condition described in clause (ii) of the preceding sentence, we still could avoid disqualification as a REIT by eliminating any discrepancy within 30 days after the close of the calendar quarter in which the discrepancy arose.

***Relief from Consequences of Failing to Meet Asset Tests.*** If we fail to satisfy one or more of the asset tests for any quarter of a taxable year, we nevertheless may qualify as a REIT for such year if we qualify for relief under certain provisions of the Code. Those relief provisions are available for failures of the 5% asset test and the 10% asset test if (i) the failure is due to the ownership of assets that do not exceed the lesser of 1% of our total assets or \$10 million, and (ii) the failure is corrected or we otherwise return to compliance with the applicable asset test within 6 months following the quarter in which it was discovered. In addition, should we fail to satisfy any of the asset tests other than failures addressed in the previous sentence, we may nevertheless qualify as a REIT for such year if (i) the failure is due to reasonable cause and not due to willful neglect, (ii) we file a schedule with a description of each asset causing the failure in accordance with regulations prescribed by the Treasury, (iii) the failure is corrected or we otherwise return to compliance with the asset tests within 6 months following the quarter in which the failure was discovered, and (iv) we pay a tax consisting of the greater of \$50,000 or a tax computed at the highest corporate rate on the amount of net income generated by the assets causing the failure from the date of failure until the assets are disposed of or we otherwise return to compliance with the asset tests. We may not qualify for the relief provisions in all circumstances.

***Distribution Requirements.*** Each taxable year, we must distribute dividends (other than capital gain dividends and deemed distributions of retained capital gain) to our shareholders in an aggregate amount at least equal to (1) the sum of 90% of (A) our REIT taxable income (computed without regard to the dividends paid deduction and our net capital gain) and (B) our net income (after tax), if any, from foreclosure property, minus (2) certain items of non-cash income.



We generally must pay such distributions in the taxable year to which they relate, or in the following taxable year if we (i) declare a dividend in one of the last three months of the calendar year to which the dividend relates which is payable to shareholders of record as determined in one of such months, and pay the distribution during January of the following taxable year, or (ii) declare the distribution before we timely file our federal income tax return for such year and pay the distribution on or before the first regular dividend payment date after such declaration.

We will pay federal income tax at regular corporate rates on taxable income (including net capital gain) that we do not distribute to shareholders. Furthermore, we will incur a 4% nondeductible excise tax if we fail to distribute during a calendar year (or, in the case of distributions with declaration and record dates falling in the last three months of the calendar year, by the end of January following such calendar year) at least the sum of (1) 85% of our REIT ordinary income for such year, (2) 95% of our REIT capital gain income for such year, and (3) any undistributed taxable income from prior periods. The excise tax is on the excess of such required distribution over the amounts we actually distributed. We may elect to retain and pay income tax on the net long-term capital gain we receive in a taxable year. See Taxation of Taxable U.S. Shareholders. For purposes of the 4% excise tax, we will be treated as having distributed any such retained amount. We have made, and we intend to continue to make, timely distributions sufficient to satisfy the annual distribution requirements.

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It is possible that, from time to time, we may experience timing differences between (1) the actual receipt of income and actual payment of deductible expenses and (2) the inclusion of that income and deduction of such expenses in arriving at our REIT taxable income. For example, we may not deduct recognized capital losses from our REIT taxable income. Further, it is possible that, from time to time, we may be allocated a share of partnership net capital gain attributable to the sale of depreciated property that exceeds our allocable share of cash attributable to that sale. As a result of the foregoing, we may have less cash than is necessary to distribute taxable income sufficient to avoid corporate income tax and the excise tax imposed on certain undistributed income or even to meet the 90% distribution requirement. In such a situation, we may need to borrow funds, issue preferred shares or additional common shares to raise the cash necessary to make required distributions or, if possible, pay taxable dividends of our stock or debt securities.

We may satisfy the 90% distribution requirement with taxable distributions of our stock or debt securities. The IRS has issued private letter rulings to other REITs treating certain distributions that are paid partly in cash and partly in stock as dividends that would satisfy the REIT annual distribution requirement and qualify for the dividends paid deduction for federal income tax purposes. Those rulings may be relied upon only by taxpayers whom they were issued, but we could request a similar ruling from the IRS. In addition, the IRS previously issued a revenue procedure authorizing publicly traded REITs to make elective cash/stock dividends, but that revenue procedure's effectiveness has expired and does not apply to our current and future taxable years. Accordingly, it is unclear whether and to what extent we will be able to make taxable dividends payable in cash and stock. We have no current intention to make a taxable dividend payable in our stock.

Under certain circumstances, we may be able to correct a failure to meet the distribution requirement for a year by paying deficiency dividends to our shareholders in a later year. We may include such deficiency dividends in our deduction for dividends paid for the earlier year. Although we may be able to avoid income tax on amounts distributed as deficiency dividends, we will be required to pay interest to the IRS based upon the amount of any deduction we take for deficiency dividends.

***Record Keeping Requirements.*** We must maintain certain records in order to qualify as a REIT. In addition, to avoid a monetary penalty, we must request on an annual basis certain information from our shareholders designed to disclose the actual ownership of our outstanding shares. We have complied, and intend to continue to comply, with such requirements.

***Relief from Other Failures of the REIT Qualification Provisions.*** If we fail to satisfy one or more of the requirements for REIT qualification (other than the income tests or the asset tests), we nevertheless may avoid termination of our REIT election in such year if the failure is due to reasonable cause and not due to willful neglect and we pay a penalty of \$50,000 for each failure to satisfy the REIT qualification requirements. We may not qualify for this relief provision in all circumstances.

***Failure to Qualify.*** If we fail to qualify as a REIT in any taxable year, and no relief provision applied, we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. In calculating our taxable income in a year in which we fail to qualify as a REIT, we would not be able to deduct amounts paid out to shareholders and we would not be required to distribute any amounts to shareholders in such year. In such event, to the extent of our current and accumulated earnings and profits, all distributions to shareholders would be taxable as ordinary income. Any such dividends should, however, be qualified dividend income, which is taxable at long-term capital gain rates for individual shareholders who satisfy certain holding period requirements. See Taxation of Taxable U.S. Shareholders Current Tax Rates. Furthermore, subject to certain limitations of the Code, corporate shareholders might be eligible for the dividends received deduction. Unless we qualified for relief under specific statutory provisions, we also would be disqualified from taxation as a REIT for

the four taxable years following the year during which we ceased to qualify as a REIT. We cannot predict whether in all circumstances we would qualify for such statutory relief.

**Taxation of Taxable U.S. Shareholders**

As used herein, the term **taxable U.S. shareholder** means a taxable beneficial owner of the depositary shares that for U.S. federal income tax purposes is:

a citizen or resident of the United States;

a corporation (including an entity treated as a corporation for federal income tax purposes) created or organized in or under the laws of the United States, any of its states or the District of Columbia;

an estate whose income is subject to U.S. federal income taxation regardless of its source; or

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a trust if (A) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (B) it has a valid election in effect to be treated as a U.S. person.

For U.S. federal income tax purposes, beneficial owners of depositary shares will be treated as if they own the equivalent fraction of the underlying Series C preferred shares. Accordingly, the discussion below with respect to the consequences of holding the depositary shares is based on the tax treatment of the Series C preferred stock underlying the depositary shares.

***Dividends and Other Taxable U.S. Shareholder Distributions.*** As long as we qualify as a REIT, a taxable U.S. shareholder must take into account distributions on the depositary shares out of our current or accumulated earnings and profits (and that we do not designate as capital gain dividends or retained long-term capital gain) as ordinary income. Such distributions will not qualify for the dividends received deduction generally available to corporations. In addition, dividends paid to taxable U.S. shareholders generally will not qualify for the maximum 20% tax rate for qualified dividend income.

In determining the extent to which a distribution constitutes a dividend for U.S. federal income tax purposes, our earnings and profits will be allocated first to distributions with respect to our preferred shares (including the depositary shares) and then to distributions with respect to our common shares. If, for any taxable year, we elect to designate as capital gain dividends any portion of the distributions paid for the year to our shareholders, the portion of the amount so designated (not in excess of our net capital gain for the year) that will be allocable to the holders of each class or series of preferred shares will be the amount so designated, multiplied by a fraction, the numerator of which will be the total dividends (within the meaning of the Code) paid to the holders of such class or series of preferred shares for the year and the denominator of which will be the total dividends paid to the holders of all classes of our shares for the year. The remainder of the designated capital gain dividends will be allocable to holders of our common shares.

A taxable U.S. shareholder will recognize distributions that we designate as capital gain dividends as long-term capital gain (to the extent they do not exceed our actual net capital gain for the taxable year) without regard to the period for which the taxable U.S. shareholder has held its shares. See **Capital Gains and Losses** below. Subject to certain limitations, we will designate whether our capital gain dividends are taxable at the usual capital gains rate or at the higher rate applicable to depreciation recapture. A corporate taxable U.S. shareholder, however, may be required to treat up to 20% of certain capital gain dividends as ordinary income.

We may elect to retain and pay income tax on the net long-term capital gain that we receive in a taxable year. In that case, a taxable U.S. shareholder would be taxed on its proportionate share of our undistributed long-term capital gain. The taxable U.S. shareholder would receive a credit or refund for its proportionate share of the tax we paid. The taxable U.S. shareholder would increase the basis in its shares by the amount of its proportionate share of our undistributed long-term capital gain, minus its share of the tax we paid.

A taxable U.S. shareholder will not incur tax on a distribution to the extent it exceeds our current and accumulated earnings and profits if such distribution does not exceed the adjusted basis of the taxable U.S. shareholder's depositary shares. Instead, such distribution in excess of earnings and profits will reduce the adjusted basis of such depositary shares. To the extent a distribution exceeds both our current and accumulated earnings and profits and the taxable U.S. shareholder's adjusted basis in its depositary shares, the taxable U.S. shareholder will recognize long-term capital gain (or short-term capital gain if the shares have been held for one year or less), assuming the shares are a capital asset in the hands of the taxable U.S. shareholder. In addition, if we declare a distribution in October, November, or December of any year that is payable to a taxable U.S. shareholder of record on a specified date in any such month, such distribution shall be treated as both paid by us and received by the taxable U.S. shareholder on December 31 of such

year, provided that we actually pay the distribution during January of the following calendar year. We will notify taxable U.S. shareholders after the close of our taxable year as to the portions of the distributions attributable to that year that constitute return of capital, ordinary income or capital gain dividends.

***Taxation of Taxable U.S. Shareholders on the Disposition of Our Shares.*** In general, a taxable U.S. shareholder must treat any gain or loss realized upon a taxable disposition of the depositary shares as long-term capital gain or loss if the taxable U.S. shareholder has held the shares for more than one year and otherwise as short-term capital gain or loss. A taxable U.S. shareholder will generally realize gain or loss in an amount equal to the difference between the sum of the fair market value of any property and the amount of cash received in such disposition and the taxable U.S. shareholder's adjusted tax basis. A taxable U.S. shareholder's adjusted tax basis generally will equal the taxable U.S. shareholder's acquisition cost, increased by the excess of net capital gains deemed distributed to the taxable U.S. shareholder (discussed above) less tax deemed paid on such gains and reduced by any returns of capital. However, a taxable U.S. shareholder must treat any loss upon a sale or exchange of depositary shares held by such shareholder for six months or less (after applying certain holding period rules) as a long-term capital loss to the extent of capital gain dividends and other distributions from us that such taxable U.S. shareholder treats as long-term capital gain.

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***Capital Gains and Losses.*** A taxpayer generally must hold a capital asset for more than one year for gain or loss derived from its sale or exchange to be treated as long-term capital gain or loss. The highest marginal individual income tax rate on ordinary income significantly exceeds the maximum tax rate on long-term capital gain applicable to non-corporate taxpayers. The maximum tax rate on long-term capital gain from the sale or exchange of Section 1250 property (i.e., depreciable real property) is, to the extent that such gain would have been treated as ordinary income if the property were Section 1245 property, higher than the maximum long-term capital gain rate otherwise applicable. With respect to distributions that we designate as capital gain dividends and any retained capital gain that is deemed to be distributed, we may designate (subject to certain limits) whether such a distribution is taxable to our non-corporate shareholders at the lower or higher rate. A taxable U.S. shareholder required to include retained long-term capital gains in income will be deemed to have paid, in the taxable year of the inclusion, its proportionate share of the tax paid by us in respect of such undistributed net capital gains. Taxable U.S. shareholders subject to these rules will be allowed a credit or a refund, as the case may be, for the tax deemed to have been paid by such shareholders. Taxable U.S. shareholders will increase their basis in their shares by the difference between the amount of such includible gains and the tax deemed paid by the taxable U.S. shareholder in respect of such gains. In addition, the characterization of income as capital gain or ordinary income may affect the deductibility of capital losses. A non-corporate taxpayer may generally deduct capital losses not offset by capital gains against its ordinary income only up to a maximum annual amount of \$3,000. A non-corporate taxpayer may carry forward unused capital losses indefinitely. A corporate taxpayer must pay tax on its net capital gain at ordinary corporate rates. A corporate taxpayer can deduct capital losses only to the extent of capital gains, with unused losses being carried back three years and forward five years.

***Redemption of Depositary Shares for Cash.*** The treatment accorded to any redemption by us for cash (as distinguished from a sale, exchange or other disposition) of depositary shares can only be determined on the basis of particular facts as to each holder at the time of redemption. As stated above, in general a taxable U.S. shareholder of depositary shares will recognize capital gain or loss measured by the difference between the amount received upon the redemption and such holder's adjusted tax basis in the depositary shares redeemed (provided the depositary shares are held as a capital asset) if such redemption (i) results in a complete termination of the holder's interest in all classes of our shares under Section 302(b)(3) of the Code, (ii) is substantially disproportionate with respect to the holder's interest in our shares under Section 302(b)(2) of the Code (which will not be the case if only depositary shares are redeemed, since they generally do not have voting rights), or (iii) is not essentially equivalent to a dividend with respect to the holder of depositary shares under Section 302(b)(1) of the Code. In applying these tests, there must be taken into account not only the depositary shares owned by the taxable U.S. shareholder, but also such holder's ownership of our common shares and any other options (including share purchase rights) to acquire any of the foregoing. The holder of depositary shares also must take into account any such securities (including options) which are considered to be owned by such holder by reason of the constructive ownership rules set forth in Sections 318 and 302(c) of the Code.

If a particular taxable U.S. shareholder of depositary shares owns (actually or constructively) none of our common shares or an insubstantial percentage of our outstanding common shares, then based upon current law, it is probable that the redemption of depositary shares from such a holder would be considered not essentially equivalent to a dividend. However, whether a dividend is not essentially equivalent to a dividend depends on all of the facts and circumstances, and a taxable U.S. shareholder of depositary shares intending to rely on any of these tests at the time of redemption should consult the holder's tax advisors to determine their application to the holder's particular situation. If the redemption does not meet any of the tests under Section 302 of the Code, then the redemption proceeds received from the depositary shares will be treated as a distribution on the depositary shares. If the redemption is taxed as a dividend, the taxable U.S. shareholder's adjusted tax basis in the depositary shares will be transferred to any other shares held by the holder. If the holder of depositary shares owns none of our other shares, under certain circumstances, such basis may be transferred to a related person, or it may be lost entirely.

Under proposed Treasury regulations, if any portion of the amount received by a taxable U.S. shareholder on a redemption of the depositary shares is treated as a distribution with respect to our shares but not as a taxable dividend, then such portion will be allocated to all shares held by the taxable U.S. shareholder just before the redemption on a pro rata, share-by-share, basis. The amount applied to each share will first reduce the taxable U.S. shareholder's basis in that share and any excess after the basis is reduced to zero will result in taxable gain. If the holder has different basis in its shares, then the amount allocated could reduce some of the basis in certain shares while reducing all the basis and giving rise to taxable gain in others. Thus the taxable U.S. shareholder could have gain even if the holder's basis in all its shares exceeded such portion. The proposed Treasury regulations permit the transfer of basis in the redeemed shares of the depositary shares to the taxable U.S. shareholder's remaining, unredeemed depositary shares (if any), but not to any other class of shares held (directly or indirectly) by the taxable U.S. shareholder. Instead, any unrecovered basis in the depositary shares would be treated as a deferred loss to be recognized when certain conditions are satisfied. The proposed Treasury regulations would be effective for transactions that occur after the date the regulations are published as final Treasury regulations.

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There can, however, be no assurance as to whether, when and in what particular form such proposed Treasury regulations will ultimately be finalized. We urge you to consult your tax advisor concerning the treatment of a cash redemption of the depositary shares.

***Redemption or Conversion of Depositary Shares to Common Shares.*** Assuming that depositary shares will not be redeemed or converted at a time when there are distributions in arrears, in general, no gain or loss will be recognized for federal income tax purposes upon the redemption or conversion of the depositary shares at the option of the holder solely into common shares. The basis that a taxable U.S. shareholder will have for U.S. federal income tax purposes in the common shares received will be equal to the adjusted basis the holder had in the depositary shares so redeemed or converted and, provided that the depositary shares were held as a capital asset, the holding period for the common shares received will include the holding period for the depositary shares redeemed or converted. A holder, however, will generally recognize gain or loss on the receipt of cash in lieu of a fractional common share in an amount equal to the difference between the amount of cash received and the holder's adjusted basis in such fractional share.

If a redemption or conversion occurs when there is a dividend arrearage on the depositary shares and the fair market value of the common shares exceeds the issue price of the depositary shares, a portion of the common shares received might be treated as a dividend distribution taxable as ordinary income.

If a taxable U.S. shareholder receives the Alternative Conversion Consideration (in lieu of shares of our common stock) in connection with the conversion of the taxable U.S. shareholder's depositary shares, the tax treatment of the receipt of any such other consideration will depend on the nature of the consideration and the structure of the transaction that gives rise to the Change of Control or Delisting Event, and it may be a taxable exchange. Taxable U.S. shareholders converting their depositary shares should consult their tax advisors regarding the U.S. federal income tax consequences of any such conversion and of the ownership and disposition of the consideration received upon any such conversion.

***Adjustments to Conversion Price.*** Under Section 305 of the Code, holders of depositary shares may be deemed to have received a constructive distribution of shares that is taxable as a dividend where the conversion ratio is adjusted to reflect a cash or property distribution with respect to the common shares into which it is convertible. An adjustment to the conversion price of the depositary shares made pursuant to a *bona fide*, reasonable adjustment formula that has the effect of preventing dilution of the interest of the holders, however, will generally not be considered to result in a constructive distribution of shares. In the event that any conversion rate adjustments of the depositary shares do not qualify as being pursuant to a *bona fide*, reasonable adjustment formula, the holders of depositary shares might be deemed to have received a taxable stock dividend.

***Passive Activity and Investment Income Limitations.*** Distributions from us and gain from the disposition of the depositary shares will not be treated as passive activity income and, therefore, taxable U.S. shareholders will not be able to apply any passive activity losses against such income. Dividends from us (to the extent they do not constitute a return of capital or capital gain dividends) and, on an elective basis, capital gain dividends and gain from the disposition of depositary shares generally will be treated as investment income for purposes of the investment income limitation.

***Medicare Tax on Unearned Income.*** Certain taxable U.S. shareholders who are individuals, estates or trusts are subject to a 3.8% Medicare tax on all or a portion of their net investment income, which may include all or a portion of their dividends on the depositary shares and net gains from the taxable disposition of their shares. Taxable U.S. shareholders that are individuals, estates or trusts should consult their tax advisors regarding the applicability of the Medicare tax to any of their income or gains in respect of the depositary shares.



**Current Tax Rates.** The maximum tax rate on the long-term capital gains of domestic non-corporate taxpayers is 20%. The maximum tax rate on qualified dividend income is the same as the capital gains rate, and is substantially lower than the maximum rate on ordinary income. Because, as a REIT, we are not generally subject to tax on the portion of our REIT taxable income or capital gains distributed to our shareholders, our distributions are not generally eligible for the tax rate on qualified dividend income. As a result, our ordinary REIT distributions are taxed at the higher tax rates applicable to ordinary income. However, with respect to non-corporate taxpayers, the maximum 20% rate does generally apply to:

a shareholder's long-term capital gain, if any, recognized on the disposition of our shares;

distributions we designate as long-term capital gain dividends (except to the extent attributable to real estate depreciation, in which case the 25% tax rate applies);

distributions attributable to dividends we receive from non-REIT corporations (including our taxable REIT subsidiaries); and

distributions to the extent attributable to income upon which we have paid corporate tax (for example, the tax we would pay if we distributed less than all of our taxable REIT income).

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In general, to qualify for the reduced tax rate on qualified dividend income, a shareholder must hold our shares for more than 60 days during the 121-day period beginning on the date that is 60 days before the date on which our shares become ex-dividend.

**Information Reporting and Backup Withholding.** Taxable U.S. shareholders that are exempt recipients (such as corporations) generally will not be subject to U.S. backup withholding and related information reporting on payments of dividends on, and the proceeds from the disposition of, the depository shares unless, when required, they fail to demonstrate their status as exempt recipients. In general, we will report to our other shareholders and to the IRS the amount of distributions we pay during each calendar year, and the amount of tax we withhold, if any. Under the backup withholding rules, a shareholder may be subject to backup withholding (currently at the rate of 28%) with respect to dividends unless such holder (1) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact, or (2) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with the applicable requirements of the backup withholding rules. A shareholder who does not provide us with its correct taxpayer identification number also may be subject to penalties imposed by the IRS. In addition, we may be required to withhold a portion of capital gain distributions to any shareholders who fail to certify their non-foreign status to us. Backup withholding is not an additional tax and may be credited against a shareholder's regular U.S. federal income tax liability or refunded by the IRS provided that the shareholder provides the required information to the IRS in a timely manner.

**Taxation of Tax-Exempt U.S. Shareholders**

Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts and annuities (exempt organizations), generally are exempt from federal income taxation. However, they are subject to taxation on their unrelated business taxable income (UBTI). While many investments in real estate generate UBTI, the IRS has issued a published ruling that dividend distributions from a REIT to an exempt employee pension trust do not constitute UBTI, provided that the exempt employee pension trust does not otherwise use the shares of the REIT in an unrelated trade or business of the pension trust. Based on that ruling, amounts that we distribute to exempt organizations generally should not constitute UBTI. However, if an exempt organization were to finance its acquisition of shares with debt, a portion of the income that they receive from us would constitute UBTI pursuant to the debt-financed property rules. Furthermore, social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans that are exempt from taxation under paragraphs (7), (9), (17), and (20), respectively, of Code Section 501(c) are subject to different UBTI rules, which generally will require them to characterize distributions that they receive from us as UBTI unless the organization is able to properly claim a deduction for amounts set aside or placed in reserve for specific purposes so as to offset the income generated by its investment in our shares. Finally, in certain circumstances, a qualified employee pension or profit sharing trust that owns more than 10% of our shares is required to treat a percentage of the dividends that it receives from us as UBTI (the UBTI Percentage). The UBTI Percentage is equal to the gross income we derive from an unrelated trade or business (determined as if we were a pension trust) divided by our total gross income for the year in which we pay the dividends. The UBTI rule applies to a pension trust holding more than 10% of our shares only if:

the UBTI Percentage is at least 5%;

we qualify as a REIT by reason of the modification of the 5/50 Rule that allows the beneficiaries of the pension trust to be treated as holding our shares in proportion to their actuarial interests in the pension trust; and

we are a pension-held REIT (i.e., either (1) one pension trust owns more than 25% of the value of our shares or (2) a group of pension trusts individually holding more than 10% of the value of our shares collectively owns more than 50% of the value of our shares).

Tax-exempt entities will be subject to the rules described above, under the heading Taxation of Taxable U.S. Shareholders concerning the inclusion of our designated undistributed net capital gains in the income of our shareholders. Thus, such entities will, after satisfying filing requirements, be allowed a credit or refund of the tax deemed paid by such entities in respect of such includible gains.

### **Taxation of Non-U.S. Shareholders**

The rules governing U.S. federal income taxation of non-U.S. shareholders (defined below) are complex. This section is only a summary of such rules. We urge non-U.S. shareholders to consult their tax advisors to determine the impact of the U.S. federal, state, and local income tax laws on ownership of depositary shares, including any reporting requirements. As used herein, the term non- U.S. shareholder means any taxable beneficial owner of our shares (other than a partnership or entity that is treated as a partnership for U.S. federal income tax purposes) that is not a taxable U.S. shareholder or exempt organization.

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**Ordinary Dividends.** A non-U.S. shareholder that receives a distribution that is not attributable to gain from our sale or exchange of U.S. real property interests (as defined below) and that we do not designate as a capital gain dividend or retained capital gain will recognize ordinary income to the extent that we pay such distribution out of our current or accumulated earnings and profits. A withholding tax equal to 30% of the gross amount of the distribution ordinarily will apply to such distribution unless an applicable tax treaty reduces or eliminates the tax. Under some treaties, however, rates below 30% that are applicable to ordinary income dividends from U.S. corporations may not apply to ordinary income dividends from a REIT or may apply only if the REIT meets certain additional conditions. However, if a distribution is treated as effectively connected with the non-U.S. shareholder's conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, attributable to a U.S. permanent establishment maintained by the non-U.S. shareholder), the non-U.S. shareholder generally will be subject to federal income tax on the distribution at graduated rates, in the same manner as taxable U.S. shareholders are taxed with respect to such distributions (and also may be subject to the 30% branch profits tax in the case of a non-U.S. shareholder that is a non-U.S. corporation unless the tax is reduced or eliminated by an applicable income tax treaty). We plan to withhold U.S. income tax at the rate of 30% on the gross amount of any such distribution paid to a non-U.S. shareholder unless (i) a lower treaty rate applies and the non-U.S. shareholder timely provides an IRS Form W-8BEN to us evidencing eligibility for that reduced rate, or (ii) the non-U.S. shareholder timely provides an IRS Form W-8ECI to us claiming that the distribution is effectively connected income.

**Return of Capital.** A non-U.S. shareholder will not incur tax on a distribution to the extent it exceeds our current and accumulated earnings and profits if such distribution does not exceed the adjusted basis of its depository shares. Instead, such distribution in excess of earnings and profits will reduce the adjusted basis of such shares. A non-U.S. shareholder will be subject to tax to the extent a distribution exceeds both our current and accumulated earnings and profits and the adjusted basis of its depository shares, if the non-U.S. shareholder otherwise would be subject to tax on gain from the sale or disposition of its shares, as described below. Because we generally cannot determine at the time we make a distribution whether or not the distribution will exceed our current and accumulated earnings and profits, we normally will withhold tax on the entire amount of any distribution just as we would withhold on a dividend. However, a non-U.S. shareholder may obtain a refund of amounts that we withhold if we later determine that a distribution in fact exceeded our current and accumulated earnings and profits.

If we are treated as a United States real property holding corporation, we will be required to withhold 10% of any distribution that exceeds our current and accumulated earnings and profits. Consequently, although we intend to withhold at a rate of 30% on the entire amount of any distribution, to the extent we do not do so, we may withhold at a rate of 10% on any portion of a distribution not subject to withholding at a rate of 30%.

**Capital Gain Dividends.** Provided that a particular class of our shares is regularly traded on an established securities market in the United States, and the non-U.S. shareholder does not own more than 5% of the shares of such class at any time during the one-year period preceding the distribution, then amounts distributed with respect to those shares that are designated as capital gains from our sale or exchange of U.S. real property interests (defined below) are treated as ordinary dividends taxable as described above under Ordinary Dividends.

If the foregoing exception does not apply, for example, because the non-U.S. shareholder owns more than 5% of the relevant class of our shares, or because our shares are not regularly traded on an established securities market, the non-U.S. shareholder will incur tax on distributions that are attributable to gain from our sale or exchange of U.S. real property interests under the provisions of the Foreign Investment in Real Property Tax Act of 1980 ( FIRPTA ). The term U.S. real property interests includes certain interests in real property and stock in corporations at least 50% of whose assets consists of interests in real property, but excludes mortgage loans and mortgage-backed securities. Under FIRPTA, a non-U.S. shareholder is taxed on distributions attributable to gain from sales of U.S. real property interests as if such gain were effectively connected with a U.S. business of the non-U.S. shareholder. A non-U.S. shareholder

thus would be taxed on such a distribution at the normal capital gain rates applicable to taxable U.S. shareholders (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of a nonresident alien individual). A corporate non-U.S. shareholder may also be subject to the 30% branch profits tax unless the tax is reduced or eliminated by an applicable income tax treaty. We must withhold 35% of any distribution that we could designate as a capital gain dividend. However, if we make a distribution and later designate it as a capital gain dividend, then (although such distribution may be taxable to a non-U.S. shareholder) it is not subject to withholding under FIRPTA. Instead, we must make-up the 35% FIRPTA withholding from distributions made after the designation, until the amount of distributions withheld at 35% equals the amount of the distribution designated as a capital gain dividend. A non-U.S. shareholder may receive a credit against its FIRPTA tax liability for the amount we withhold.

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Distributions to a non-U.S. shareholder that we designate at the time of distribution as capital gain dividends which are not attributable to or treated as attributable to our disposition of a U.S. real property interest generally will not be subject to U.S. federal income taxation, except as described below under **Sale of Shares**.

**Retention of Net Capital Gains.** Although the law is not clear on the matter, it appears that amounts we designate as retained capital gains in respect of our shares held by shareholders generally should be treated with respect to non-U.S. shareholders in the same manner as actual distributions by us of capital gain dividends. Under this approach, a non-U.S. shareholder would be able to offset as a credit against its U.S. federal income tax liability resulting from its proportionate share of the tax paid by us on such retained capital gains, and to receive from the IRS a refund to the extent of the non-U.S. shareholder's proportionate share of such tax paid by us exceeds its actual U.S. federal income tax liability, provided that the non-U.S. shareholder furnishes required information to the IRS on a timely basis. If we were to designate any portion of our net capital gain as retained net capital gain, a non-U.S. shareholder should consult its tax advisor regarding the taxation of such retained net capital gain.

**Sale of Shares.** A non-U.S. shareholder generally will not incur tax under FIRPTA on gain from the sale of its depositary shares as long as we are a domestically controlled REIT. A domestically controlled REIT is a REIT in which at all times during a specified testing period non-U.S. persons held, directly or indirectly, less than 50% in value of our shares. We anticipate that we will continue to be a domestically controlled REIT, but there is no assurance that we will continue to be so. However, even if we are not, or cease to be, a domestically controlled REIT, a non-U.S. shareholder that owns, actually or constructively, 5% or less of a class of our outstanding shares at all times during a specified testing period will not incur tax under FIRPTA on a sale of such shares if such class of shares are regularly traded on an established securities market. If neither of these exceptions were to apply, the gain on the sale of the depositary shares would be taxed under FIRPTA, in which case a non-U.S. shareholder would be required to file a U.S. federal income tax return and would be taxed in generally the same manner as taxable U.S. shareholders with respect to such gain (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals), and if the shares sold were not regularly traded on an established securities market or we were not a domestically-controlled REIT, the purchaser of the shares may be required to withhold and remit to the IRS 10% of the purchase price.

A non-U.S. shareholder will incur tax on gain not subject to FIRPTA if (1) the gain is effectively connected with the non-U.S. shareholder's U.S. trade or business (and, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment maintained by the non-U.S. shareholder), in which case the non-U.S. shareholder will be subject to the same treatment as taxable U.S. shareholders with respect to such gain, or (2) the non-U.S. shareholder is a nonresident alien individual who was present in the U.S. for 183 days or more during the taxable year, in which case the non-U.S. shareholder will incur a 30% tax on his capital gains. Capital gains dividends not subject to FIRPTA will be subject to similar rules. A non-U.S. shareholder that is treated as a corporation for U.S. federal income tax purposes and has effectively connected income (as described in the first point above) may also, under certain circumstances, be subject to an additional branch profits tax, which is generally imposed on a foreign corporation on the deemed repatriation from the United States of effectively connected earnings and profits, at a 30% rate, unless the rate is reduced or eliminated by an applicable income tax treaty.

**Wash Sales.** In general, special wash sale rules apply if a shareholder owning more than 5% of the depositary shares avoids a taxable distribution of gain recognized from the sale or exchange of U.S. real property interests by selling our shares before the ex-dividend date of the distribution and then, within a designated period, enters into an option or contract to acquire shares of the same or a substantially identical class of our shares. If a wash sale occurs, then the seller/repurchaser will be treated as having gain recognized from the sale or exchange of U.S. real property interests in the same amount as if the avoided distribution had actually been received. Non-U.S. shareholders should consult their own tax advisors on the special wash sale rules that apply to non-U.S. shareholders.

***Conversion of Depositary Shares to Common Shares.*** The conversion of depositary shares into our common shares may be a taxable exchange for a non-U.S. shareholder if our depositary shares constitute a U.S. real property interest under FIRPTA. Even if our depositary shares constitute a U.S. real property interest, provided our common shares also constitute a U.S. real property interest, a non-U.S. shareholder generally will not recognize gain or loss upon a conversion of depositary shares into our common shares so long as certain FIRPTA-related reporting requirements are satisfied. If our depositary shares constitute a U.S. real property interest and such requirements are not satisfied, however, a conversion will be treated as a taxable exchange of depositary shares for our common shares. Such a deemed taxable exchange will be subject to tax under FIRPTA at the rate of tax, including any applicable capital gains rates, that would apply to a taxable U.S. shareholder of the same type (e.g., a corporate or a non-corporate shareholder, as the case may be) on the excess, if any, of the fair market value of such non-U.S. shareholder's common shares received over such non-U.S. shareholder's adjusted basis in its depositary shares.

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Non-U.S. shareholders are urged to consult with their tax advisors regarding the federal income tax consequences of any transaction by which such non-U.S. shareholder exchanges our common shares received on a conversion of depositary shares for cash or other property.

***Information Reporting and Backup Withholding.*** We must report annually to the IRS and to each non-U.S. shareholder the amount of distributions paid to such holder and the tax withheld with respect to such distributions, regardless of whether withholding was required. Copies of the information returns reporting such distributions and withholding may also be made available to the tax authorities in the country in which the non-U.S. shareholder resides under the provisions of an applicable income tax treaty.

Backup withholding (currently at the rate of 28%) and additional information reporting will generally not apply to distributions to a non-U.S. shareholder provided that the non-U.S. shareholder certifies under penalty of perjury that the shareholder is a non-U.S. shareholder, or otherwise establishes an exemption. Notwithstanding the foregoing, backup withholding may apply if either we or our paying agent has actual knowledge, or reason to know, that the holder is a U.S. person that is not an exempt recipient. As a general matter, backup withholding and information reporting will not apply to a payment of the proceeds of a sale of depositary shares effected at a foreign office of a foreign broker. Information reporting (but not backup withholding) will apply, however, to a payment of the proceeds of a sale of depositary shares by a foreign office of a broker that:

is a U.S. person;

derives 50% or more of its gross income for a specified three-year period from the conduct of a trade or business in the U.S.;

is a controlled foreign corporation (generally, a foreign corporation controlled by shareholders that are United States persons) for U.S. tax purposes; or

that is a foreign partnership, if at any time during its tax year more than 50% of its income or capital interests are held by U.S. persons or if it is engaged in the conduct of a trade or business in the U.S., unless the broker has documentary evidence in its records that the holder or beneficial owner is a non-U.S. shareholder and certain other conditions are met, or the shareholder otherwise establishes an exemption. Payment of the proceeds of a sale of depositary shares effected at a U.S. office of a broker is subject to both backup withholding and information reporting unless the shareholder certifies under penalty of perjury that the shareholder is a non-U.S. shareholder, or otherwise establishes an exemption. Backup withholding is not an additional tax, and may be credited against a non-U.S. shareholder's U.S. federal income tax liability or refunded to the extent excess amounts are withheld, provided that the required information is timely supplied to the IRS.

***Reporting and Withholding on Foreign Financial Accounts.*** Certain foreign financial institutions and non-financial foreign entities are subject to a 30% U.S. federal withholding tax on dividends on the depositary shares unless (i) in the case of a foreign financial institution (including an investment fund), such institution enters into an agreement with the U.S. government (unless alternative procedures apply pursuant to an applicable intergovernmental agreement between the United States and the relevant foreign government) to withhold on certain payments and to collect and provide to the U.S. tax authorities substantial information regarding U.S. account holders of such institution (which



includes certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners) and to withhold on certain payments, and (ii) in the case of a non-financial foreign entity, such entity provides the withholding agent with a certification identifying any direct and indirect U.S. owners of the entity. In addition, if such disclosure requirements are not satisfied, withholding at a 30% rate on gross proceeds from the sale or other disposition of the depositary shares by such foreign financial institutions and non-financial foreign entities will generally begin after December 31, 2016 (or such other date as may be specified in guidance issued by the U.S. Treasury Department). Under certain circumstances, a non-U.S. shareholder might be eligible for refunds or credits of such taxes. Prospective investors should consult their tax advisors regarding the possible implications of these withholding provisions on the acquisition, ownership and disposition of the depositary shares. We will not pay any additional amounts in respect of any amounts withheld.

### **Tax Aspects of Our Investments in the Partnership and Subsidiary Partnerships**

The following discussion summarizes certain federal income tax considerations applicable to our direct or indirect investments in the Partnership and its subsidiaries. The discussion does not cover state or local tax laws or any federal tax laws other than income tax laws.

***Classification as Partnerships.*** We are entitled to include in our income our distributive share of the Partnership's income and to deduct our distributive share of the Partnership's losses only if the Partnership is classified for federal income tax purposes as a partnership rather than as a corporation or association taxable as a corporation. An organization will be classified as a partnership, rather than as a corporation, for federal income tax purposes if it (1) is treated as a partnership under Treasury regulations, effective January 1, 1997, relating to entity classification (the check-the-box regulations ) and (2) is not a publicly traded partnership.

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Under the check-the-box regulations, an unincorporated entity with at least two members may elect to be classified either as an association taxable as a corporation or as a partnership. If such an entity fails to make an election, it generally will be treated as a partnership for federal income tax purposes. We believe that the Partnership and its subsidiaries are classified as partnerships for federal income tax purposes.

A publicly traded partnership is a partnership whose interests are traded on an established securities market or are readily tradable on a secondary market (or the substantial equivalent thereof). While the units will not be traded on an established securities market, they could possibly be deemed to be traded on a secondary market or its equivalent due to the redemption rights enabling the limited partners to dispose of their units. A publicly traded partnership will not, however, be treated as a corporation for any taxable year if 90% or more of the partnership's gross income for such year consists of certain passive-type income, including (as may be relevant here) real property rents, gains from the sale or other disposition of real property, interest, and dividends (the 90% Passive Income Exception).

Treasury has issued regulations (the PTP Regulations) that provide limited safe harbors from the definition of a publicly traded partnership. Pursuant to one of those safe harbors (the Private Placement Exclusion), interests in a partnership will not be treated as readily tradable on a secondary market or the substantial equivalent thereof if (i) all interests in the partnership were issued in a transaction (or transactions) that was not required to be registered under the Securities Act, and (ii) the partnership does not have more than 100 partners at any time during the partnership's taxable year. In determining the number of partners in a partnership, a person owning an interest in a flow-through entity (i.e., a partnership, grantor trust, or S corporation) that owns an interest in the partnership is treated as a partner in such partnership only if (i) substantially all of the value of the owner's interest in the flow-through entity is attributable to the flow-through entity's interest (direct or indirect) in the partnership and (ii) a principal purpose of the use of the flow-through entity is to permit the partnership to satisfy the 100-partner limitation.

We believe that the Partnership qualified for the Private Placement Exclusion since inception and intends to continue to qualify for the Private Placement Exclusion unless it qualifies for another exception. It is possible that in the future the Partnership might not qualify for the Private Placement Exclusion.

If the Partnership is considered a publicly traded partnership under the PTP Regulations because it is deemed to have more than 100 partners, the Partnership would need to qualify under another safe harbor in the PTP Regulations or for the 90% Passive Income Exception. We believe that the Partnership will qualify for another safe harbor in the PTP Regulations or for the 90% Passive Income Exception. It is possible that in the future the Partnership might not qualify for one of these exceptions.

If, however, for any reason the Partnership were taxable as a corporation, rather than as a partnership, for federal income tax purposes, we would not be able to qualify as a REIT. See Requirements for REIT Qualification Income Tests and Requirements for REIT Qualification Asset Tests. In addition, any change in the Partnership's status for tax purposes might be treated as a taxable event, in which case we might incur tax liability without any related cash distribution. See Requirements for REIT Qualification Distribution Requirements. Further, items of income and deduction of the Partnership would not pass through to its partners, and its partners would be treated as shareholders for tax purposes. Consequently, the Partnership would be required to pay income tax at corporate tax rates on its net income, and distributions to its partners would constitute dividends that would not be deductible in computing such Partnership's taxable income.

**Partners, Not the Partnership, Subject to Tax.** The partners of the Partnership are subject to taxation. The Partnership itself is not a taxable entity for federal income tax purposes. Rather, we are required to take into account our allocable share of the Partnership's income, gains, losses, deductions and credits for any taxable year of the Partnership ending during our taxable year, without regard to whether we have received or will receive any distribution from the

Partnership.

***Partnership Allocations.*** Although a partnership agreement generally will determine the allocation of income and losses among partners, such allocations will be disregarded for tax purposes if they do not comply with the provisions of Section 704(b) of the Code and the Treasury regulations promulgated thereunder. If an allocation is not recognized for federal income tax purposes, the item subject to the allocation will be reallocated in accordance with the partners interests in the partnership, which will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to such item. The Partnership's allocations of taxable income, gain and loss are intended to comply with the requirements of Section 704(b) of the Code and the Treasury regulations promulgated thereunder.

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***Tax Allocations With Respect to Contributed Properties.*** Pursuant to Section 704(c) of the Code, income, gain, loss and deduction attributable to appreciated or depreciated property that is contributed to a partnership in exchange for an interest in the partnership must be allocated in a manner such that the contributing partner is charged with, or benefits from, respectively, the unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of such unrealized gain or unrealized loss is generally equal to the difference between the fair market value of contributed property at the time of contribution and the adjusted tax basis of such property at the time of contribution (a Book-Tax Difference). Such allocations are solely for federal income tax purposes and do not affect the book capital accounts or other economic or legal arrangements among the partners. The Partnership was formed by way of contributions of appreciated property and has received contributions of appreciated property since our formation. Consequently, the Partnership's partnership agreement requires such allocations to be made in a manner consistent with Section 704(c) of the Code.

In general, the partners who contribute property to the Partnership will be allocated depreciation deductions for tax purposes which are lower than such deductions would be if determined on a pro rata basis. In addition, in the event of the disposition of any of the contributed assets (including our properties) which have a Book-Tax Difference, all income attributable to such Book-Tax Difference (to the extent not previously taken into account) will generally be allocated to the contributing partners, including us, and other partners will generally be allocated only their share of capital gains attributable to appreciation, if any, occurring after such contribution. This will tend to eliminate the Book-Tax Difference over the life of the Partnership. However, the special allocation rules of Section 704(c) do not always entirely eliminate the Book-Tax Difference on an annual basis or with respect to a specific taxable transaction such as a sale. Thus, the carryover basis of the contributed assets in the hands of the Partnership will cause us to be allocated lower depreciation and other deductions, and possibly an amount of taxable income in the event of a sale of such contributed assets in excess of the economic or book income allocated to us as a result of such sale.

A Book-Tax Difference may also arise as a result of the revaluation of property owned by the Partnership in connection with certain types of transactions, including in connection with certain non-pro rata contributions or distributions of assets by the Partnership in exchange for interests in the Partnership. In the event of such a revaluation, the partners (including us) who were partners in the Partnership immediately prior to the revaluation will be required to take any Book-Tax Difference created as a result of such revaluation into account in substantially the same manner as under the Section 704(c) rules discussed above. This would result in us being allocated income, gain, loss and deduction for tax purposes in amounts different than the economic or book income allocated to us by the Partnership.

The application of Section 704(c) to the Partnership may cause us to recognize taxable income in excess of cash proceeds, which might adversely affect our ability to comply with the REIT distribution requirements. See **Requirements for REIT Qualification - Distribution Requirements.** The foregoing principles also apply in determining our earnings and profits for purposes of determining the portion of distributions taxable as dividend income. The application of these rules over time may result in a higher portion of distributions being taxed as dividends than would have occurred had we purchased the contributed or revalued assets at their agreed values.

Treasury has issued regulations requiring partnerships to use a reasonable method for allocating items affected by Section 704(c) of the Code and outlining several reasonable allocation methods. The general partner of the Partnership has the discretion to determine which of the methods of accounting for Book-Tax Differences (specifically approved in the Treasury regulations) will be elected with respect to any properties contributed to or revalued by the Partnership. The Partnership generally has elected to use the traditional method with ceiling rule for allocating Code Section 704(c) items with respect to the properties that it acquires in exchange for units. The use of this method may result in us being allocated less depreciation, and therefore more taxable income in a given year than would be the case if a different method for eliminating the Book-Tax Difference were chosen. If this occurred, a larger portion of

shareholder distributions would be taxable income as opposed to the return of capital that might arise if another method were used. We have not determined which method of accounting for Book-Tax Differences will be elected for properties contributed to or revalued by the Partnership in the future.

***Basis in Partnership Interest.*** Our adjusted tax basis in our partnership interest in the Partnership generally is equal to:

the amount of cash and the basis of any other property contributed by us to the Partnership;

increased by

our allocable share of the Partnership's income, and

our allocable share of debt of the Partnership; and

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reduced, but not below zero, by

our allocable share of the Partnership's loss,

the amount of cash and the basis of any property distributed to us, and

constructive distributions resulting from a reduction in our share of debt of the Partnership.

If the allocation of our distributive share of the Partnership's loss would reduce the adjusted tax basis of our partnership interest in the Partnership below zero, the recognition of such loss will be deferred until such time as the recognition of such loss would not reduce our adjusted tax basis below zero. To the extent that the Partnership's distributions, or any decrease in our share of the debt of the Partnership (such decrease being considered a constructive cash distribution to the partners), would reduce our adjusted tax basis below zero, such distributions (including such constructive distributions) would constitute taxable income to us. Such distributions and constructive distributions normally will be characterized as capital gain, and, if our interest in the Partnership has been held for longer than the long-term capital gain holding period (currently one year), the distributions and constructive distributions will constitute long-term capital gain.

***Sale of the Partnership's Property.*** Generally, any gain realized by the Partnership on the sale of property held by the Partnership for more than one year will be long-term capital gain, except for any portion of such gain that is treated as depreciation or cost recovery recapture. Any gain recognized by the Partnership on the disposition of contributed properties will be allocated first to the partners of the Partnership under Section 704(c) of the Code to the extent of their built-in gain on those properties for federal income tax purposes. The partners' built-in gain on the contributed properties sold will equal the excess of the partners' proportionate share of the book value of those properties over the partners' tax basis allocable to those properties at the time of the contribution. Any remaining gain recognized by the Partnership on the disposition of the contributed properties, and any gain recognized by the Partnership on the disposition of the other properties, will be allocated among the partners in accordance with their respective percentage interests in the Partnership.

Our share of any gain realized by the Partnership on the sale of any property held by the Partnership as inventory or other property held primarily for sale to customers in the ordinary course of the Partnership's trade or business will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. Such prohibited transaction income also may have an adverse effect upon our ability to satisfy the income tests for REIT status. See Requirements for REIT Qualification Income Tests. We, however, do not presently intend to allow the Partnership to acquire or hold any property that represents inventory or other property held primarily for sale to customers in the ordinary course of our or the Partnership's trade or business.

**Other Tax Considerations**

***State and Local Taxes.*** We and/or you may be subject to state and local tax in various states and localities, including those states and localities in which we or you transact business, own property or reside. The state and local tax treatment in such jurisdictions may differ from the federal income tax treatment described above. Consequently, you should consult your tax advisors regarding the effect of state and local tax laws upon an investment in our securities.



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Raymond James & Associates, Inc. ( Raymond James ) is acting as the sole book running manager of the offering. Subject to the terms and conditions stated in the underwriting agreement dated as of the date of this prospectus supplement, Raymond James has agreed to purchase, and we have agreed to sell to Raymond James, 1,600,000 depositary shares.

The underwriting agreement provides that the obligations of Raymond James to purchase the depositary shares included in this offering are subject to approval of legal matters by counsel, including the validity of the depositary shares, and other conditions contained in the underwriting agreement. Raymond James is obligated to purchase all the depositary shares if any of the depositary shares are purchased.

Raymond James proposes to offer part of the depositary shares to the public directly at the public offering price set forth on the cover page of this prospectus supplement and part to dealers at that price less a concession not in excess of \$            per share. Raymond James may allow, and the dealers may reallow, a concession not in excess of \$            per share to certain dealers. After the initial offering of depositary shares, the offering price and other selling terms may from time to time be varied by Raymond James.

The following table shows the per share and total public offering price, underwriting discounts and commissions that we will pay to Raymond James in connection with this offering and proceeds, before expenses, to us.

	<b>Per Depositary Share</b>	<b>Total</b>
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to us	\$	\$

In addition, we estimate that our share of the total expenses of this offering, excluding underwriting discounts and commissions, will be approximately \$225,000.

The depositary shares originally issued on February 12, 2013 are listed on the NYSE under the symbol **BFSPRC**. We have applied to list the depositary shares offered by this prospectus supplement on the NYSE under the same symbol. Raymond James has advised us that it intends to make a market in the depositary shares offered by this prospectus supplement prior to the commencement of trading on the NYSE. Raymond James will have no obligation to make a market in the depositary shares, however, and may cease market making activities, if commenced, at any time.

Until the distribution of depositary shares is complete, SEC rules may limit the ability of Raymond James to bid for and purchase depositary shares. As an exception to these rules, underwriters are permitted to engage in certain transactions which stabilize the price of the depositary shares, which may include short sales and stabilizing transactions. Short sales involve sales of depositary shares in excess of the number of shares to be purchased by Raymond James in the offering, which creates a short position. Raymond James may close out any short position by purchasing shares in the open market. Stabilizing transactions consist of various bids for or purchases of the depositary shares made by Raymond James in the open market prior to the completion of the offering.

Neither we nor Raymond James make any representation or prediction as to the direction or magnitude of any effect that the transactions described above might have on the depositary shares. Any of these activities may have the effect of preventing or retarding a decline in the market price of the depositary shares. They may also cause the price of the



depository shares to be higher than the price that would otherwise exist in the open market in the absence of these transactions. Raymond James may conduct these transactions on the NYSE or in the over-the-counter market, or otherwise. If Raymond James commences any of these transactions, it may discontinue them at any time without notice.

We have agreed that, for a period of 60 days from the date of this prospectus supplement, we will not, without the prior written consent of Raymond James, offer, sell, contract to sell, pledge, or otherwise dispose of any debt securities issued or guaranteed by us or shares of any class of our capital stock (other than the depository shares) ranking senior to the shares of Series C preferred stock with respect to dividend rights, or rights upon liquidation, dissolution or winding up.

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Raymond James is a full service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Raymond James and its affiliates have in the past performed commercial banking, investment banking and advisory services for us from time-to-time for which they have received customary fees and reimbursement of expenses and may, from time-to-time, engage in transactions with and perform services for us in the ordinary course of its business for which it may receive customary fees and reimbursement of expenses.

In the ordinary course of their various business activities, Raymond James and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. Raymond James and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

We have agreed to indemnify Raymond James against certain liabilities, including liabilities under the Securities Act, or to contribute to payments Raymond James may be required to make because of any of those liabilities.

A prospectus in electronic format may be made available on web sites maintained by Raymond James. Other than the prospectus in electronic format, the information on Raymond James web site and any information contained in any other web site maintained by Raymond James is not part of this prospectus supplement or the accompanying prospectus.

**LEGAL MATTERS**

Certain legal matters in connection with any offering of the depositary shares representing interests in our Series C preferred stock made by this prospectus supplement will be passed upon for us by Pillsbury Winthrop Shaw Pittman LLP. In addition, the descriptions of federal income tax considerations contained in this prospectus supplement under **Material Federal Income Tax Considerations** are, to the extent that they constitutes matters of law, summaries of legal matters or legal conclusions, the opinion of Pillsbury Winthrop Shaw Pittman LLP. Certain legal matters relating to the depositary shares representing interests in our Series C preferred stock will be passed upon for Raymond James by Hunton & Williams LLP.

**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, or SEC. Our SEC filing number is 1-12254. You may read and copy any document that we have filed at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our filings are available to the public at the SEC's Internet site at <http://www.sec.gov>. Our common stock is listed on the NYSE under the ticker symbol **BFS**. You may inspect our reports, proxy statements and other information at the NYSE, 20 Broad Street, New York, New York 10005.

We have filed with the SEC a registration statement (of which this prospectus supplement and the accompanying prospectus are parts) on Form S-3 under the Securities Act of 1933 with respect to our securities. This prospectus supplement does not contain all of the information set forth in the registration statement, including the exhibits and

schedules thereto, certain parts of which are omitted as permitted by the rules and regulations of the SEC.

We are incorporating by reference the information we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information we incorporate by reference is considered to be part of this prospectus supplement, except for any information superseded by information in this prospectus supplement. We incorporate by reference the documents listed below, which we have filed with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act:

our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC on March 10, 2014;

the information specifically incorporated by reference into our Annual Report on Form 10-K for the year ended December 31, 2013 from our Definitive Proxy Statement on Schedule 14A filed on March 24, 2014;

our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2014, June 30, 2014 and September 30, 2014, filed with the SEC on May 7, 2014, August 4, 2014 and November 3, 2014, respectively; and

our Current Reports on Form 8-K filed with the SEC on March 27, 2014, May 13, 2014, June 25, 2014 and November 6, 2014.

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In addition, all documents that we file under Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act after the date of this prospectus supplement but before the termination of the offering of our securities hereunder shall be deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus and will be part of this prospectus supplement and the accompanying prospectus from the date we file that document. Any information in that document that is meant to supersede or modify any existing statement in this prospectus supplement will so supersede or modify the statement as appropriate.

Copies of these filings are available at no cost on our website, [www.saulcenters.com](http://www.saulcenters.com). Amendments to these filings will be posted to our website as soon as reasonably practicable after filing with the SEC. In addition, you may request a copy of these filings and any amendments thereto at no cost, by writing or telephoning us. Those copies will not include exhibits to those documents unless the exhibits are specifically incorporated by reference in the documents or unless you specifically request them. You may also request copies of any exhibits to the registration statement. Please direct your request to:

Mr. Scott V. Schneider

Saul Centers, Inc.

7501 Wisconsin Avenue, Suite 1500

Bethesda, Maryland 20814

(301) 986-6200

Our prospectus does not contain all of the information included in the registration statement. We have omitted certain parts of the registration statement in accordance with the rules and regulations of the SEC. For further information, we refer you to the registration statement, including its exhibits and schedules. Statements contained in our prospectus and any accompanying prospectus supplement about the provisions or contents of any contract, agreement or any other document referred to are not necessarily complete. Please refer to the actual exhibit for a more complete description of the matters involved. You may get copies of the exhibits by contacting the person named above.

You should rely only on the information in our prospectus, any prospectus supplement and the documents that are incorporated by reference. We have not authorized anyone else to provide you with different information. We are not offering these securities in any state where the offer is prohibited by law. You should not assume that the information in this prospectus, any prospectus supplement or any incorporated document is accurate as of any date other than the date of the document.

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PROSPECTUS

**\$200,000,000**

**Common Stock, Preferred Stock and Depositary Shares**

We may from time to time offer, in one or more series, separately or together, the following:

shares of our common stock.

shares of our preferred stock; and

shares of our preferred stock represented by depositary shares.

The aggregate initial public offering price of the securities that we may offer through this prospectus will be up to \$200,000,000.

We will offer our securities in amounts, at prices and on terms to be determined at the time we offer such securities.

When we sell a particular series of securities, we will prepare a prospectus supplement describing the offering and the terms of that series of securities. Such terms may include limitations on direct or beneficial ownership and restrictions on transfer of our securities being offered that we believe are appropriate to preserve our status as a real estate investment trust for federal income tax purposes.

You should read this prospectus and the accompanying prospectus supplement carefully before you make your investment decision.

We may offer our securities directly, through agents we may designate from time to time, or to or through underwriters or dealers. If any agents or underwriters are involved in the sale of any of our securities, their names and any applicable purchase price, fee, commission or discount arrangement between or among them will be set forth or will be calculable from the information set forth in the applicable prospectus supplement. None of our securities may be sold without delivery of the applicable prospectus supplement describing the method and terms of the offering of such class or series of the securities.

**Investing in our preferred stock, our preferred stock represented by depositary shares and our common stock involves risks. See Risk Factors beginning on page 13 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which is incorporated herein by reference, for risks relating to an investment in our common stock, our preferred stock and our preferred stock represented by depositary shares.**

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

The date of this prospectus is January 3, 2013.

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission using a shelf registration process. Under this shelf process, we may sell any combination of the securities described in this prospectus in one or more offerings up to a total dollar amount of \$200,000,000. Our prospectus provides you with a general description of these securities. Each time we sell securities, we will provide a prospectus supplement and may also provide you with a free writing prospectus that will contain specific information about all of the terms of that offering. Our prospectus supplement and any free writing prospectus may also add, update or change information contained in this prospectus. To the extent there is any inconsistency between the information in the prospectus and the prospectus supplement and any free writing prospectus, you should rely solely on the information in the prospectus supplement and any free writing prospectus. You should read both this prospectus and the applicable prospectus supplement and any free writing prospectus together with additional information described under the heading Where You Can Find More Information.

References to we, us or our refer to Saul Centers, Inc., Saul Holdings Limited Partnership, which we refer to as the Partnership, and their respective directly or indirectly owned subsidiaries, unless the context otherwise requires. We conduct our business and operations through the Partnership and/or directly or indirectly owned subsidiaries. The term you refers to a prospective investor. Saul Centers, Inc. is the sole general partner of the Partnership and, as of September 30, 2012, owned an approximately 74.1% interest in the Partnership. In addition, B. Francis Saul II, our Chairman and Chief Executive Officer, family members of Mr. Saul, entities controlled by Mr. Saul and other affiliates of Mr. Saul, whom we collectively refer to as The Saul Organization, hold the remaining interests in the Partnership, all of which are limited partnership interests.

**SAUL CENTERS, INC.**

We are a self-administered and self-managed real estate company operating as a real estate investment trust, or a REIT, for federal income tax purposes. Our primary business strategy is the ownership, management and development of income-producing properties. Our long-term objectives are to increase cash flow from operations and to maximize capital appreciation of our real estate.



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As of September 30, 2012, our properties consisted of 50 operating shopping center properties, seven mixed-use properties which are comprised of office, retail and multi-family residential uses, and two (non-operating) development properties.

Our principal executive offices are located at 7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20814 and our telephone number is (301) 986-6200. Our website address is www.saulcenters.com. The information contained in our website is not a part of this prospectus.

**USE OF PROCEEDS**

Unless otherwise specified in the applicable prospectus supplement, we will contribute the net proceeds from a sale of securities to the Partnership in exchange for substantially identical securities of the Partnership. The Partnership will use the net proceeds from the sale of securities for one or more of the following:

redemption of any preferred stock or depository shares then outstanding;

repayment of debt;

acquisition of additional properties;

development of new properties;

redevelopment of existing properties; and

working capital and general corporate purposes.

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

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

	<b>For the Nine Months Ended September 30,</b>		<b>For the Years Ended December 31,</b>			
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Ratio of earnings to fixed charges	1.75 X	1.60 X	1.77 X	1.92 X	2.13 X	2.15 X
	1.34 X	1.21 X	1.30 X	1.40 X	1.58 X	1.77 X

Ratio of earnings to combined fixed charges and preferred stock dividends

For purposes of computing the ratios of earnings to fixed charges, earnings consist of income from continuing operations plus fixed charges. Fixed charges consist of interest and amortization of debt expense, capitalized interest and interest portion of rental expense. The ratios of earnings to combined fixed charges and preferred stock dividends were computed by dividing our earnings by fixed charges and preferred stock dividends.

### **DESCRIPTION OF COMMON STOCK**

The following description of our common stock sets forth certain general terms and provisions of the common stock to which any prospectus supplement may relate, including a prospectus supplement providing that common stock will be issuable upon conversion of our preferred stock. The statements below describing the common stock are in all respects subject to and qualified in their entirety by reference to the applicable provisions of our articles of incorporation and bylaws. You should read our articles of incorporation and our bylaws for more complete information.

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### **Authorized Stock**

Our articles of incorporation allow us to issue up to 30,000,000 shares of common stock, par value \$0.01 per share, and 1,000,000 shares of preferred stock, par value \$0.01 per share. As of September 30, 2012, we had 19,769,875 shares of common stock outstanding, 40,000 shares of 8% Series A Cumulative Redeemable Preferred Stock outstanding (which we refer to as our Series A preferred stock) and 31,731 shares of 9% Series B Cumulative Redeemable Preferred Stock outstanding (which we refer to as our Series B preferred stock).

### **Common Stock**

The holders of our common stock elect all directors and are entitled to one vote per share on all matters submitted to a vote of the stockholders. Stockholders are entitled to receive dividends when, as and if declared by our Board of Directors out of funds legally available for that purpose, subject to any preference in favor of outstanding shares of preferred stock. Upon our liquidation, dissolution or winding up, holders of common stock are entitled to share *pro rata* in any distribution to common stockholders after payment of our liabilities and payment of any liquidation preferences in favor of outstanding shares of preferred stock. Holders of common stock have no preemptive, subscription or conversion rights.

The rights of holders of common stock are subject to the rights of holders of any preferred stock that we have designated or may designate in the future. The rights of preferred stockholders may adversely affect the rights of the common stockholders.

## **DESCRIPTION OF PREFERRED STOCK**

The following is a general description of the preferred stock that we may offer from time to time. The particular terms of the preferred stock being offered and the extent to which such general provisions may apply will be set forth in the applicable prospectus supplement. The statements below describing our preferred stock are in all respects subject to and qualified in their entirety by reference to the applicable provisions of our articles of incorporation and our bylaws. You should read our articles of incorporation and our bylaws for more complete information.

### **Series A Preferred Stock**

Pursuant to articles supplementary to our articles of incorporation, we designated 40,000 shares of preferred stock as Series A preferred stock, all of which were outstanding as of September 30, 2012. The Series A preferred stock is represented by 4,000,000 depositary shares, each representing 1/100th of a share of Series A preferred stock. The depositary shares may be redeemed, in whole or in part, at the \$25.00 liquidation preference, at our option from time to time. The depositary shares pay an annual dividend of \$2.00 per depositary share, equivalent to 8% of the \$25.00 liquidation preference. The Series A preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any of our other securities. Investors in these depositary shares generally have no voting rights, but will have limited voting rights if we fail to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other circumstances.

### **Series B Preferred Stock**

Pursuant to articles supplementary to our articles of incorporation, we designated 34,500 shares of preferred stock as Series B preferred stock, and 31,731 such shares were outstanding as of September 30, 2012. The Series B preferred stock is represented by 3,173,115 depositary shares, each representing 1/100th of a share of Series B preferred stock. The depositary shares may be redeemed, in whole or in part, at the \$25.00 liquidation preference, at our option from

time to time. The depositary shares pay an annual dividend of \$2.25 per depositary share, equivalent to 9% of the \$25.00 liquidation preference. The Series B preferred stock has no stated maturity,

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is not subject to any sinking fund or mandatory redemption and is not convertible into any of our other securities. Investors in these depositary shares generally have no voting rights, but will have limited voting rights if we fail to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other circumstances.

### **Preferred Stock**

**General.** Shares of preferred stock may be offered and sold from time to time, in one or more series, as authorized by the Board of Directors. The Board of Directors is authorized by Maryland law and our articles of incorporation to set for each series the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption. The preferred stock will have no preemptive rights to subscribe for any additional securities which we may issue in the future. This means that the purchasers of shares of preferred stock will not receive any rights, as a holder of preferred stock, to buy any portion of the securities which we may issue in the future. The Board of Directors has the power to set preferences, powers and rights, voting or other terms preferred stock that are senior to, or better than, the rights of holders of common stock or other classes or series of preferred stock. The offer and sale of preferred stock could have the effect of delaying or preventing a change of our control that might involve a premium price for holders of our common stock or otherwise be favorable to them.

**Terms.** You should refer to the prospectus supplement relating to the offering of any preferred stock for specific terms, including the following terms:

the title and stated value of the preferred stock;

the number of shares of preferred stock offered and the offering price of those shares;

the dividend rate(s), period(s) and/or payment date(s) or method(s) of calculation of any of those terms that apply to those shares of preferred stock;

the date from which dividends on those shares of preferred stock will accumulate, if applicable;

the terms and amount of a sinking fund, if any, for the purchase or redemption of those shares of preferred stock;

the redemption rights, including conditions and the redemption price(s), if applicable, of those shares of preferred stock;

any listing of those shares of preferred stock on any securities exchange or automated quotation system;

the relative ranking and preference of those shares of preferred stock as to dividend rights and rights upon liquidation, dissolution or the winding up of our affairs;

any limitations on issuance of any series of preferred stock ranking senior to or on a parity with that series of preferred stock as to dividend rights and rights upon liquidation, dissolution or the winding up of our affairs;

the procedures for any auction and remarketing, if any, for those shares of preferred stock;

any other specific terms, preferences, rights, limitations or restrictions of those shares of preferred stock;

a discussion of federal income tax consequences applicable to those shares of preferred stock; and

any limitations on direct or beneficial ownership and restrictions on transfer in addition to those described below under the heading **Certain Provisions of Maryland Law and our Articles of Incorporation and Bylaws Restrictions on Ownership and Transfer**, in each case as may be appropriate to preserve our status as a real estate investment trust.

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The terms of any preferred stock we issue through this prospectus will be set forth in articles supplementary or an amendment to our articles of incorporation. We will file the articles supplementary or amendment as an exhibit to the registration statement that includes this prospectus, or as an exhibit to a filing with the Securities and Exchange Commission, or SEC, that is incorporated by reference into this prospectus. The description of preferred stock in any prospectus supplement will not describe all of the terms of the preferred stock in detail. You should read the applicable articles supplementary or amendment to our articles of incorporation for a complete description of all of the terms.

**Rank.** Unless we say otherwise in a prospectus supplement, the preferred stock offered through that supplement will, with respect to dividend rights and rights upon our liquidation, dissolution or winding up, rank:

senior to all classes or series of our common stock, and to all other equity securities ranking junior to those shares of preferred stock;

on a parity with our existing Series A preferred stock and Series B preferred stock and all equity securities we have issued, the terms of which specifically provide that such equity securities rank on a parity with the preferred stock; and

junior to all of our equity securities ranking senior to the shares of preferred stock.

The term equity securities does not include convertible debt securities.

**Dividends.** Holders of preferred stock of each series will be entitled to receive, when, as and if declared by our Board of Directors, out of our assets legally available for payment, cash dividends (or dividends in kind or in other property if expressly permitted and described in the applicable prospectus supplement) at such rates and on such dates as will be set forth in the applicable prospectus supplement. Each such dividend shall be payable to holders of record as they appear on our share transfer books on such record dates as shall be fixed by our Board of Directors. Dividends on any series of preferred stock may be cumulative or non-cumulative, as provided in the applicable prospectus supplement. Dividends, if cumulative, will be cumulative from and after the date set forth in the applicable prospectus supplement. If our Board of Directors fails to declare a dividend payable on a dividend payment date on any series of preferred stock for which dividends are noncumulative, then the holders of such series of preferred stock will have no right to receive a dividend in respect of the dividend period ending on such dividend payment date. We will have no obligation to pay the dividend accrued for such period, whether or not dividends on such series are declared payable on any future dividend payment date.

**Redemption.** If we provide for a redemption right in a prospectus supplement, the preferred stock offered through that supplement will be subject to mandatory redemption or redemption at our option, in whole or in part, in each case upon the terms, at the times and at the redemption prices set forth in that supplement.

The prospectus supplement relating to a series of our preferred stock that is subject to mandatory redemption will specify:

the number of shares of such preferred stock that we will redeem in each year;

the year the redemption will commence;

the redemption price per share, together with an amount equal to all accrued and unpaid dividends to the date of redemption; and

whether the redemption price may be payable in cash or other property.

If the redemption price for our preferred stock of any series is payable only from the net proceeds of the issuance of our capital stock, the terms of such preferred stock may provide that, if we have not issued capital stock or to the extent the net proceeds from any issuance are insufficient to pay in full the aggregate redemption price then due, such preferred stock shall automatically and mandatorily be converted into the applicable class or series of our capital stock pursuant to conversion provisions specified in the applicable prospectus supplement.



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We cannot redeem, purchase or otherwise acquire shares of a series of preferred stock unless:

for preferred stock with cumulative dividends, we have declared and paid, or declared and set apart a sum sufficient to pay, full cumulative dividends on the preferred stock through the then-current dividend period;  
or

for preferred stock lacking cumulative dividends, we have declared and paid, or declared and set apart a sum sufficient to pay, full dividends for the then-current dividend period.

The foregoing shall not prevent the purchase or acquisition of preferred stock of such series to preserve our REIT status or pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding preferred stock of such series.

If fewer than all outstanding shares of any series of our preferred stock are to be redeemed, we will determine the number of shares to be redeemed. We may redeem the shares on a *pro rata* basis from the holders of record of those shares in proportion to the number of those shares held or for which redemption is requested by the holder (with adjustments to avoid redemption of fractional shares) or by lot in a manner we determine.

Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of record of preferred stock of any series to be redeemed at the address shown on our share transfer books. Each notice shall state:

the redemption date;

the number of shares and the series of preferred stock to be redeemed;

the redemption price;

the place or places where certificates for such shares are to be surrendered for payment of the redemption price;

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

the date upon which the holder's conversion rights, if any, as to such shares shall terminate.

If fewer than all outstanding shares of any series of our preferred stock are to be redeemed, the notice mailed to each holder shall also specify the number of shares of preferred stock to be redeemed from each holder. If notice of redemption of any preferred stock has been given and if we have set aside the funds necessary for such redemption in trust for the benefit of the holders of any of our preferred stock so called for redemption, then from and after the redemption date dividends will cease to accrue on the preferred stock, and all rights of the holders of the redeemable

shares will terminate, except the right to receive the redemption price.

**Liquidation Preference.** As to any preferred stock offered through this prospectus, the applicable prospectus supplement shall provide that, upon the voluntary or involuntary liquidation, dissolution or winding up of our affairs, the holders of those shares of preferred stock shall receive, before any distribution or payment shall be made to the holders of any other class or series of stock ranking junior to those shares of preferred stock in our distribution of assets upon any liquidation, dissolution or winding up, and after payment or provision for payment of our debts and other liabilities, out of our assets legally available for distribution to stockholders, liquidating distributions in the amount of any liquidation preference per share (set forth in the applicable prospectus supplement), plus an amount, if applicable, equal to all distributions accrued and unpaid thereon (not including any accumulation in respect of unpaid distributions for prior distribution periods if those shares of preferred stock do not have a cumulative distribution). After payment of the full amount of the liquidating distributions to which they are entitled, the holders of those shares of preferred stock will have no right or claim to any of our remaining assets. In the event that, upon our voluntary or involuntary liquidation, dissolution or winding up, the legally available assets are insufficient to pay the amount of the liquidating distributions on all of those outstanding shares of preferred stock and the corresponding amounts payable on all of our shares of other classes or series of equity security ranking on a parity with those shares of preferred stock in the distribution of assets upon

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liquidation, dissolution or winding up, then the holders of those shares of preferred stock and all other such classes or series of equity security shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

If the liquidating distributions are made in full to all holders of preferred stock entitled to receive those distributions prior to any other classes or series of equity security ranking junior to the preferred stock upon our liquidation, dissolution or winding up, then our remaining assets shall be distributed among the holders of those junior classes or series of equity stock, in each case according to their respective rights and preferences and their respective number of shares of stock.

***Voting Rights.*** Unless otherwise indicated in the applicable prospectus supplement, holders of our preferred stock will not have any voting rights, except as may be required by applicable law or any applicable rules and regulations of any national securities exchange or automated quotation system where the preferred stock is listed or quoted.

***Conversion Rights.*** The terms and conditions, if any, upon which shares of any class or series of preferred stock will be convertible into shares of our common stock will be set forth in the applicable prospectus supplement. Such terms may include:

the number of shares of common stock into which the preferred stock is convertible;

the conversion price (or manner of calculating the conversion price);

the conversion period;

provisions as to whether conversion will be at the option of the holders of the preferred stock or at our option;

the events requiring an adjustment of the conversion price; and

provisions affecting conversion in the event of the redemption of such preferred stock.

***Restrictions on Ownership.*** As discussed below under the heading *Certain Provisions of Maryland Law and our Articles of Incorporation and Bylaws – Restrictions on Ownership and Transfer*, for us to qualify as a REIT under the U.S. Internal Revenue Code of 1986, as amended (the *Code*), not more than 50% in value of our outstanding equity securities may be owned, actually or constructively (based on attribution rules in the *Code*), by five or fewer individuals during the last half of a taxable year or a proportionate part of a shorter taxable year. To assist us in meeting this requirement, we may take certain actions to limit the beneficial ownership, directly or indirectly, by a single person of our outstanding equity securities, including any of our shares of preferred stock. Therefore, the designating amendment for each series of preferred stock may contain provisions restricting the ownership and transfer of preferred stock.

***Book-Entry Preferred Stock.*** The preferred stock of a series may be issued in whole or in part in the form of one or more global securities that will be deposited with, or on behalf of, a depositary identified in the applicable prospectus supplement relating to such series. Global securities may be issued in either registered or bearer form and in either temporary or permanent form. The specific terms of the depositary arrangement with respect to a series of preferred stock will be described in the applicable prospectus supplement relating to such series.

***Transfer Agent and Registrar.*** We will identify the transfer agent and registrar for any series of shares of preferred stock issued through this prospectus in a prospectus supplement. Continental Stock Transfer & Trust Company is the transfer agent of our outstanding Series A preferred stock and Series B preferred stock.

### **DESCRIPTION OF DEPOSITARY SHARES**

The following is a general description of the depositary shares that we may offer from time to time. The particular terms of the depositary shares being offered and the extent to which such general provisions may apply will be set forth in the applicable prospectus supplement.

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**General.** We may issue receipts for depositary shares, each of which will represent a fractional interest of a share of a particular series of a class of our preferred stock. We will deposit the shares of preferred stock of any series represented by depositary shares with a depositary under a deposit agreement. We will identify the depositary in a prospectus supplement. Subject to the terms of the deposit agreement, if you own a depositary share, you will be entitled, in proportion to the fraction of the share of preferred stock represented by your depositary share, to all of the rights and preferences to which you would be entitled if you owned the share of preferred stock represented by your depositary share directly (including dividend, voting, redemption, subscription and liquidation rights). As of September 30, 2012, we had (i) 4,000,000 depositary shares, each representing 1/100<sup>th</sup> of a share of our Series A preferred stock, issued and outstanding and (ii) 3,173,115 depositary shares, each representing 1/100<sup>th</sup> of a share of our Series B preferred stock, issued and outstanding.

The depositary shares will be represented by depositary receipts issued pursuant to the applicable deposit agreement. Immediately following the issuance and delivery of our preferred stock to the depositary, we will cause the depositary to issue, on our behalf, the depositary receipts. Upon request, we will provide you with copies of the applicable form of deposit agreement and depositary receipt.

**Dividends and Other Provisions.** If you are a record holder (as defined below) of depositary receipts and we pay a cash dividend or other cash distribution with respect to the preferred stock represented by your depositary share, the depositary will distribute all cash dividends or other cash distributions it receives in respect of the preferred stock represented by your depositary receipts in proportion to the numbers of depositary shares you owned on the record date for that dividend or distribution.

If we make a distribution in a form other than cash, the depositary will distribute the property it receives to you and all other record holders of depositary receipts in an equitable manner, unless the depositary determines that it is not feasible to do so. If the depositary decides it cannot feasibly distribute the property, it may sell the property and distribute the net proceeds from the sale to you and the other record holders. The amount the depositary distributes in any of the foregoing cases may be reduced by any amounts that we or the depositary is required to withhold on account of taxes.

A record holder is a person who holds depositary receipts on the record date for any dividend, distribution or other action. The record date for depositary shares will be the same as the record date for the preferred stock represented by those depositary receipts.

**Withdrawal of Preferred Stock.** If you surrender your depositary receipts, the depositary will be required to deliver certificates to you evidencing the number of shares of preferred stock represented by those receipts (but only in whole shares). If you deliver depositary receipts representing a number of depositary shares that is greater than the number of whole shares to be withdrawn, the depositary will deliver to you at the same time a new depositary receipt evidencing the fractional shares.

**Redemption of Depositary Shares.** If we redeem a series of shares of preferred stock represented by depositary receipts, the depositary will redeem depositary shares from the proceeds it receives after redemption of the preferred stock. The redemption price per depositary share will be equal to the applicable fraction of the redemption price per share payable with respect to that series of shares of preferred stock. If fewer than all the depositary shares are to be redeemed, the depositary will select shares to be redeemed by lot, pro rata or by any other equitable method it may determine. After the date fixed for redemption, the depositary shares called for redemption will no longer be outstanding. All rights of the holders of those depositary shares will cease, except the right to receive the redemption price that the holders of the depositary shares were entitled to receive upon redemption. Payments will be made when holders surrender their depositary receipts to the depositary.

***Voting the Preferred Stock.*** When the depositary receives notice of any meeting at which the holders of preferred stock are entitled to vote, the depositary will mail information contained in the notice to you as a record holder of the depositary shares relating to the preferred stock. As a record holder of the depositary shares on the record date (which will be the same date as the record date for the preferred stock), you will be entitled to instruct

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the depositary as to how you would like your votes to be exercised. The depositary will endeavor, insofar as practicable, to vote the number of shares of preferred stock represented by your depositary shares in accordance with your instructions. We will agree to take all reasonable action that the depositary may deem necessary to enable the depositary to do this. If you do not send specific instructions the depositary will not vote the preferred stock represented by your depositary shares.

***Liquidation Preference.*** In the event of our liquidation, dissolution or winding up, whether voluntary or involuntary, you will be entitled, as a record holder of depositary shares, to the fraction of the liquidation preference accorded each applicable share of preferred stock, as has been set forth in a prospectus supplement.

***Conversion of Preferred Stock.*** Our depositary shares, as such, are not convertible into shares of our common stock or any of our other securities or property. Nevertheless, if so specified in the applicable prospectus supplement, the depositary receipts may be surrendered by their holders to the depositary with written instructions to the depositary to instruct us to cause conversion of the shares of represented preferred stock into whole shares of common stock or preferred stock, as the case may be, and we will agree that upon receipt of such instructions and any amounts payable, to convert the depositary shares utilizing the same procedures as those provided for delivery of shares of preferred stock to effect such conversion. If the depositary shares are to be converted in part only, one or more new depositary receipts will be issued for any depositary shares not to be converted. No fractional shares of common stock will be issued upon conversion, and if such conversion will result in a fractional share being issued, we will pay an amount in cash equal to the value of the fractional interest based upon the closing price of the common stock on the last business day prior to the conversion.

***Amendment and Termination of the Deposit Agreement.*** We and the depositary may amend the form of depositary receipt and any provision of the deposit agreement at any time. However, any amendment which materially and adversely alters your rights as a holder of depositary shares will not be effective unless the holders of at least a majority of the depositary shares then outstanding approve the amendment. The deposit agreement will terminate only if:

we redeem all outstanding depositary shares; or

we make a final distribution in respect of the related preferred stock to which the depositary shares and agreement relate, including in connection with any liquidation, dissolution or winding up and the distribution has been distributed to the holders of depositary shares.

***Resignation and Removal of Depositary.*** The depositary may resign at any time by delivering notice to us of its election to do so. Additionally, we may remove the depositary at any time. Any resignation or removal will take effect when we appoint a successor depositary and the successor accepts the appointment. We must appoint a successor depositary within 60 days after delivery of the notice of resignation or removal. A successor depositary must be a bank or trust company having its principal office in the U.S. and having a combined capital and surplus of at least \$50 million.

***Charges of Depositary.*** We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We will pay charges of the depositary in connection with the initial deposit of the preferred stock and issuance of depositary receipts, all withdrawals of preferred stock by owners of the depositary shares and any redemption of the preferred stock. You will pay other transfer and other taxes, governmental charges and other charges expressly provided for in the deposit agreement.

***Miscellaneous.*** The depositary will forward to you all notices, reports and communications, including proxy soliciting material, from us that we are required, or otherwise determine, to furnish to the holders of the preferred stock.

Neither we nor the depositary will be liable under the deposit agreement to you other than for the depositary's gross negligence, willful misconduct or bad faith. Neither we nor the depositary will be obligated to prosecute or defend any legal proceeding in respect of any depositary shares or preferred stock unless satisfactory



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indemnity is furnished. We and the depository may rely upon written advice of counsel or accountants, or upon information provided by persons presenting preferred stock for deposit, holders of depository receipts or other persons believed to be competent and on documents believed to be genuine.

**CERTAIN PROVISIONS OF MARYLAND LAW AND  
OUR ARTICLES OF INCORPORATION AND BYLAWS**

The following summary of certain provisions of the Maryland General Corporation Law and our articles of incorporation and bylaws is not complete. You should read the Maryland General Corporation Law and our articles of incorporation and bylaws for more complete information. The business combination provisions and the control share acquisition provisions of Maryland law, both of which are discussed below, could have the effect of delaying or preventing a change in our control. Also, the removal of directors provisions and the advance notice provisions of the bylaws could have the effect of delaying or preventing a transaction or a change in our control. These provisions could have the effect of discouraging offers to acquire us and of increasing the difficulty of consummating any such offer, even if the offer contains a premium price for holders of our equity stock or otherwise benefits stockholders.

***Restrictions on Ownership and Transfer.*** Restrictions on ownership and transfer of shares are important to ensure that we meet certain conditions under the Code to qualify as a REIT. For example, the Code contains the following requirements.

No more than 50% in value of a REIT's stock may be owned, actually or constructively (based on attribution rules in the Code), by five or fewer individuals during the last half of a taxable year or a proportionate part of a shorter taxable year. Under the Code, individuals include certain tax-exempt entities, except that qualified domestic pension funds are not generally treated as individuals.

If a REIT, or an owner of 10% or more of a REIT, is treated as owning 10% or more of a tenant of the REIT's property, the rent received by the REIT from the tenant will not be qualifying income for purposes of the REIT gross income tests of the Code.

A REIT's stock or beneficial interests must be owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year.

In order to maintain our qualification as a REIT, our articles of incorporation, subject to certain exceptions described below, provides that no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 2.5% in value of our issued and outstanding equity securities with the exception of members of The Saul Organization, who are restricted to 39.9% in value of our issued and outstanding equity securities. In this prospectus, the term ownership limitation is used to describe this provision of our articles of incorporation.

As of September 30, 2012, Mr. Saul II and members of The Saul Organization had the potential to exercise control over 8,577,008 shares of our common stock representing 43.8% of our issued and outstanding shares of common stock. Mr. Saul II and members of The Saul Organization also beneficially owned, as of September 30, 2012, 6,914,229 units of the Partnership. In general, these units are convertible into shares of our common stock on a one-for-one basis. The ownership limitation set forth in our articles of incorporation is 39.9% in value of our issued and outstanding equity securities (which includes both common and preferred stock). As of September 30, 2012,

Mr. Saul II and members of The Saul Organization owned common stock representing approximately 36.1% in value of all our issued and outstanding equity securities. Members of the Saul Organization are permitted under our articles of incorporation to convert Partnership units into shares of common stock or acquire additional shares of common stock until The Saul Organization's actual ownership of common stock reaches 39.9% in value of our equity securities. As of September 30, 2012, 1,505,000 of the 6,914,229 units of the Partnership would have been permitted to convert into additional shares of common stock, and would have resulted in Mr. Saul II and members of The Saul Organization owning common stock representing approximately 39.9% in value of all our issued and outstanding equity securities.

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Any transfer of shares will be null and void, and the intended transferee will acquire no rights in such shares if the transfer:

results in any person owning, directly or indirectly, shares in excess of the ownership limitation;

results in the shares being owned by fewer than 100 persons (determined without reference to any rules of attribution);

results in our being closely held (within the meaning of Section 856(h) of the Code); or

otherwise results in our failure to qualify as a REIT.

If a stockholder owns more than 1.9% of the value of our outstanding equity stock, then the stockholder must notify us of its share ownership by January 31 of each year.

The ownership limitation generally does not apply to the acquisition of stock by an underwriter that participates in a public offering of such stock. In addition, the Board of Directors may waive these restrictions on a case-by-case basis. The Board has authorized the Company to grant waivers to look-through entities, such as mutual funds, in which shares of equity stock owned by the entity are treated as owned proportionally by individuals who are the beneficial owners of the entity. Even though these entities may own stock in excess of the 2.5% ownership limit, no individual beneficially or constructively would own more than 2.5%. The Board of Directors has agreed to waive the ownership limit with respect to certain mutual funds and similar investors. In addition, the Board of Directors has agreed to waive the ownership limit with respect to certain bank pledgees of shares of our common stock and units issued by the Operating Partnership and held by members of The Saul Organization.

The ownership limitation could have the effect of delaying, deferring or preventing a transaction or a change in our control that might involve a premium price for our stock or otherwise be in the best interest of our stockholders. All certificates representing shares of stock will bear a legend referring to the restrictions described above.

***Automatic Transfer of Stock to Trust.*** With certain exceptions described below, if any purported transfer of shares would violate any of the restrictions described in the immediately preceding paragraph, then the transfer will be null and void, and those shares will be designated as excess stock and transferred automatically to a trust. The transfer to the trust is effective as of the end of the business day next preceding the date of the purported transfer of such shares. The record holder of the shares that are designated as excess stock must deliver those shares to us for registration in the name of the trust. We will act as trustee of the trust. The beneficiary of the trust will be the persons to whom an interest in the excess stock is eventually transferred as provided below.

Any shares of excess stock remain issued and outstanding shares of stock. From and after the purported transfer resulting in excess stock, the record holder shall not be entitled to any dividends or distributions (except upon liquidation) or voting right, except as required by law, but shall be entitled to the right to payment of the purchase price of the shares. Any dividend or distribution paid to a record holder on excess stock shall be repaid to us upon demand. Subject to the ownership limitation, the excess stock may be retransferred by the record holder to any person if the excess stock will not be excess stock in the hands of the person at a price not to exceed:

the price paid by the record holder; or

if no consideration was paid, fair market value, at which point the excess stock will automatically be exchanged for the equity stock to which the excess stock was attributable.

In addition, the excess stock will be subject to repurchase by us at our election for a period of 90 days after the date of the purported transfer which resulted in such excess stock at a price per share equal to the lesser of (1) the price per share in the transaction that created the excess stock or (2) the fair market value of such shares on the date that we, or our designee, determine to exercise the repurchase right.

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Any person who acquires or attempts to acquire common stock or preferred stock which would be null and void under the restrictions described above, or any person who owned shares of common stock or preferred stock that were transferred to a trust, must (1) give us immediate written notice of such event and (2) provide us such other information as requested in order to determine the effect, if any, of such transfer on our status as a REIT.

***Business Combinations.*** The Maryland General Corporation Law prohibits us from entering into business combinations and other corporate transactions unless special actions are taken. The business combinations that require these special actions include a merger, consolidation, share exchange, or, in certain circumstances, an asset transfer or issuance of equity securities when the combination is between us and an interested stockholder (as defined below). An interested stockholder is:

any person who beneficially owns 10% or more of the voting power of our shares; or

any of our affiliates which beneficially owned 10% or more of the voting power of our shares within two years prior to the date in question.

We may not engage in a business combination with an interested stockholder or any of its affiliates for five years after the interested stockholder becomes an interested stockholder. We may engage in business combinations with an interested stockholder if at least five years have passed since the person became an interested stockholder, but only if the transaction is:

recommended by our Board of Directors; and

approved by at least

80% of our outstanding shares entitled to vote; and

two-thirds of our outstanding shares entitled to vote that are not held by the interested stockholder.

Stockholder approval will not be required if our stockholders receive a minimum price (as defined in the statute) for their shares and our stockholders receive cash or the same form of consideration as the interested stockholder paid for its shares.

This prohibition does not apply to business combinations involving us that are exempted by the Board of Directors before the interested stockholder becomes an interested stockholder. Our articles of incorporation have exempted from this provision any business combination with a member of The Saul Organization.

***Control Share Acquisitions.*** The Maryland General Corporation Law provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights unless two-thirds of the stockholders (excluding shares owned by the acquirer, and by the officers and directors who are employees of the Maryland corporation) approve their voting rights.

Control Shares are shares that, if added with all other shares previously acquired, would entitle that person to vote, in electing the directors

10% or more but less than one-third of such shares;

one-third or more but less than a majority of such shares; or

a majority of the outstanding shares.

Control shares do not include shares the acquiring person is entitled to vote with stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

If this provision becomes applicable to us, a person who has made or proposes to make a control share acquisition could, under certain circumstances, compel our Board of Directors to call a special meeting of stockholders to consider the voting rights of the control shares. We could also present the question at any stockholders meeting on our own.

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If this provision becomes applicable to us, subject to certain conditions and limitations, we would be able to redeem any or all control shares. If voting rights for control shares were approved at a stockholders meeting and the acquirer were entitled to vote a majority of the shares entitled to vote, all other stockholders could exercise appraisal rights and exchange their shares for a fair value as defined by statute.

Our articles of incorporation state that the Maryland control share acquisition law will not apply to any acquisition of our capital stock by the following persons:

members of The Saul Organization;

directors, officers and employees of us and the Partnership; and

any other persons authorized by the Board of Directors.

***Limitation of Liability of Directors and Officers.*** Our articles of incorporation provide that, to the fullest extent that limitations on the liability of directors and officers are permitted by the Maryland General Corporation Law, no director or officer shall be liable to us or our stockholders for money damages. The Maryland General Corporation Law provides that we may restrict or limit the liability of directors or officers for money damages except

to the extent anyone actually received an improper benefit or profit in money property or services; or

a judgment or other final adjudication adverse to the person is entered in a proceeding based on a finding that the person's action was material to the cause of action adjudicated and the action or failure to act was the result of bad faith or active and deliberate dishonesty.

***Indemnification of Directors and Officers.*** Our articles and bylaws require us to indemnify to the fullest extent permitted by and under the applicable provisions of Maryland General Corporation Law any person who is or was, or who agrees to become, one of our directors or officers or, while one of our directors, is or was serving or agrees to serve, as a director, officer, partner, joint venturer, employee or trustee of another entity, who, by reason of his or her status or service as such was, or is threatened to be made a party, or otherwise involved in any proceeding. The indemnification extends to all losses suffered and all expenses actually and reasonably incurred in connection with any proceeding. The Maryland General Corporation Law provides that we may indemnify directors and officers unless

the director actually received an improper benefit or profit in money, property or services;

the act or omission of the director was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty; or

in a criminal proceeding, the director had reasonable cause to believe that the act or omission was unlawful.

Our articles of incorporation and bylaws require, as a condition to advancing expenses, (1) a written affirmation by the director or officer of his good faith belief that he has met the standard of conduct necessary for indemnification by us and (2) a written affirmation to repay the amount paid by us if it is determined that the director or officer was not entitled to indemnification.

Our articles of incorporation and bylaws also provide that:

we may, but are not required to, provide indemnification, payment or reimbursement of expenses to any of our employees or agents in such capacity or any person who is or was serving at our request as a director, officer, partner, joint venturer, employee, trustee or agent of another corporation or entity;

the Board of Directors may authorize management to act on our behalf in matters relating to indemnification, subject to any limitations that may be imposed by the Board of Directors and to the requirements of applicable law;



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indemnification and payment or reimbursement of advances as may be permitted or required pursuant to our bylaws shall be furnished in accordance with the procedures set forth in the Maryland General Corporation Law; and

we may provide such other further indemnification or provision for the payment or advancement of expenses as may be permitted by the Maryland General Corporation Law for directors of Maryland corporations.

***Duties of Directors.*** Under Maryland law, there is a presumption that the act of a director satisfies the required standard of care. An act of a director relating to or affecting an acquisition or a potential acquisition of control is not subject under Maryland law to a higher duty or greater scrutiny than is applied to any other act of a director. This provision does not impose an enhanced level of scrutiny when a board implements anti-takeover measures in a change of control context, and shifts the burden of proof for demonstrating that the defensive mechanism adopted by a board is reasonable in relation to the threat posed to the board.

***Number of Directors; Classified Board.*** The number of directors may be increased or decreased pursuant to the bylaws, provided that the total number of directors may not be less than 3 or more than 15. Under Maryland law and our articles of incorporation, directors, subject to the rights of holders of any shares of preferred stock, are elected in three classes for staggered, three-year terms.

***Removal of Directors.*** Under the articles of incorporation, and subject to the rights of any holders of preferred stock, our stockholders may remove a director only with cause upon the affirmative vote of 75% of the Board of Directors or 75% of the number of shares outstanding and entitled to vote on that matter.

***Vacancies on the Board of Directors.*** The bylaws provide that, subject to the rights of any holders of preferred stock, any vacancy on the Board of Directors, including a vacancy created by an increase in the number of directors, may be filled by vote of a majority of the remaining directors. Each director so elected shall serve for the unexpired term of the director he is replacing.

***Meetings of Stockholders.*** Our bylaws provide for an annual meeting of stockholders, to be held in April, to elect individuals to the Board of Directors for that class of directors then standing for election and transact such other business as may properly be brought before the meeting. Special meetings of stockholders may be called by our Chairman of the Board, President or by a majority of the Board of Directors, and shall be called at the request in writing of the holders of 25% of all votes entitled to be cast at the meeting.

Our bylaws provide that any action required or permitted to be taken at a meeting of stockholders may be taken without a meeting, if all of the shares entitled to vote on the matter consent to the action in writing, the written consents are filed with the records of the meetings of stockholders and each stockholder executed a written waiver of any right to dissent.

***Advance Notice for Stockholder Nominations and Stockholder New Business Proposals.*** Our bylaws require advance written notice for stockholders to nominate a director or bring other business before a meeting of stockholders. For an annual meeting, to nominate a director or bring other business before a meeting of stockholders, a stockholder must deliver notice to our Secretary not later than the close of business on the 60th day nor earlier than the close of business on the 90th day prior to the first anniversary of the preceding year's annual meeting. If the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from the anniversary date, however, notice must be timely delivered not earlier than the close of business on the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to the annual meeting or the 10th day following the date on which public announcement is first made of the annual meeting.

For a special meeting, to nominate a director, a stockholder must deliver notice to our Secretary not earlier than the close of business on the 90<sup>th</sup> day prior to the special meeting and not later than the close of business on

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the later of the 70th day prior to the special meeting or the 10<sup>th</sup> day following the date on which public announcement is first made of the special meeting. Nominations for elections to the Board of Directors at a special meeting may be made by stockholders only if the Board of Directors has determined that directors shall be elected at the special meeting.

The postponement or adjournment of an annual or special meeting to a later date or time shall not commence any new time periods for the giving of notice as described above. Our bylaws contain detailed requirements for the contents of stockholder notices of director nominations and new business proposals.

## **PLAN OF DISTRIBUTION**

We may sell the securities being offered by this prospectus in one or more of the following ways from time to time: (1) through underwriters or dealers; (2) through agents; (3) in at the market offerings to or through a market maker, or into an existing trading market or securities exchange or otherwise; (4) directly to purchasers; or (5) through a combination of any of these methods of sale. Any such underwriter or agent involved in the offer and sale of the offered securities will be named in the applicable prospectus supplement.

If we use underwriters in an offering, we will execute an underwriting agreement with such underwriters and will specify the name of each underwriter and the terms of the transaction (including any underwriting discounts and other terms constituting compensation of the underwriters and any dealers) in a prospectus supplement. If we use an underwriting syndicate, the managing underwriter(s) will be specified on the cover of the prospectus supplement. If we use underwriters for a sale of securities, the underwriters will acquire the securities for their own accounts. Unless otherwise set forth in the prospectus supplement, the obligations of the underwriters to purchase the offered securities will be subject to conditions precedent and the underwriters will be obligated to purchase all of the offered securities if any are purchased.

Underwriters may offer and sell our securities at a fixed price or prices, which may be changed, related to the prevailing market prices at the time of sale, or at negotiated prices. We also may, from time to time, authorize underwriters acting as our agents to offer and sell our securities upon the terms and conditions set forth in an applicable prospectus supplement. In connection with the sale of our securities, underwriters may be deemed to have received compensation from us in the form of underwriting discounts or commissions and may also receive commissions from purchasers of our securities for whom they may act as agent. Underwriters may sell our securities to or through dealers, and such dealers may receive compensation in the form of discounts, concessions from the underwriters or commissions from the purchasers for whom they may act as agent.

Any underwriting compensation we pay to underwriters or agents in connection with the offering of our securities and any discounts, concessions or commissions allowed by underwriters to participating dealers will be set forth in the applicable prospectus supplement. Underwriters, dealers and agents participating in the distribution of the offered securities may be deemed to be underwriters, and any discounts and commissions received by them and any profit realized by them on resale of the our securities may be deemed to be underwriting discounts and commissions under the Securities Act of 1933. Underwriters, dealers and agents may be entitled, under agreements entered into with us, to indemnification against and contribution toward certain civil liabilities, including liabilities under the Securities Act of 1933. The terms of any indemnification provisions will be set forth in the applicable prospectus supplement.

If so indicated in the applicable prospectus supplement, we will authorize dealers acting as our agents to solicit offers by certain institutions to purchase our securities from us at the public offering price set forth in such prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on the date or dates stated in such prospectus supplement. Each contract will be for an amount not less than, and the aggregate principal amount of

securities sold pursuant to contracts shall be not less or more than, the respective amounts stated in the applicable prospectus supplement. Institutions with whom contracts, when authorized, may be made

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include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions, and other institutions, but will in all cases be subject to our approval. Contracts will not be subject to any conditions except (i) the purchase by an institution of the offered securities covered by its contracts shall not at the time of delivery be prohibited under the laws of any jurisdiction in the United States to which such institution is subject and (ii) if the offered securities are being sold to underwriters, we shall have sold to such underwriters the total principal amount of our securities less the principal amount thereof covered by contracts.

Certain of the underwriters and their affiliates may be customers of, engage in transactions with and perform services for us and our subsidiaries in the ordinary course of business.

The securities may or may not be listed on a national securities exchange or traded in the over-the-counter market. No assurance can be given as to the liquidity of the trading market for any such securities.

If underwriters or dealers are used in the sale, until the distribution of the securities is completed, SEC rules may limit the ability of any such underwriters and selling group members to bid for and purchase the securities. As an exception to these rules, representatives of any underwriters are permitted to engage in certain transactions that stabilize the price of the securities. Such transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the securities. If the underwriters create a short position in the securities in connection with the offerings (in other words, if they sell more securities than are set forth on the cover page of the prospectus supplement) the representatives of the underwriters may reduce that short position by purchasing securities in the open market. The representatives of the underwriters may also elect to reduce any short position by exercising all or part of any over-allotment option described in the prospectus supplement. The representatives of the underwriters may also impose a penalty bid on certain underwriters and selling group members. This means that if the representatives purchase securities in the open market to reduce the underwriters' short position or to stabilize the price of the securities, they may reclaim the amount of the selling concession from the underwriters and selling group members who sold those shares as part of the offering. In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. The imposition of a penalty bid might also have an effect on the price of the securities to the extent that it discourages resales of the securities. We make no representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the securities. In addition, the representatives of any underwriters may determine not to engage in such transactions or that such transactions, once commenced, may be discontinued without notice.

## **LEGAL MATTERS**

The validity of our securities will be passed upon for us by Pillsbury Winthrop Shaw Pittman LLP, a limited liability partnership.

## **EXPERTS**

The consolidated financial statements of Saul Centers, Inc., appearing in Saul Centers, Inc.'s Annual Report (Form 10-K) for the year ended December 31, 2011 (including the schedule appearing therein), and the effectiveness of Saul Centers, Inc.'s internal control over financial reporting as of December 31, 2011, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.



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**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document that we have filed at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our filings are available to the public at the SEC's Internet site at <http://www.sec.gov>. Our common stock is listed on the New York Stock Exchange under the ticker symbol BFS. You may inspect our reports, proxy statements and other information at the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

We have filed with the SEC a registration statement (of which this prospectus is a part) on Form S-3 under the Securities Act of 1933 with respect to our securities. This prospectus does not contain all of the information set forth in the registration statement, including the exhibits and schedules thereto, certain parts of which are omitted as permitted by the rules and regulations of the SEC.

We are incorporating by reference the information we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information we incorporate by reference is considered to be part of this prospectus, except for any information superseded by information in this prospectus. We hereby incorporate by reference:

our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the SEC on March 12, 2012;

our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2012, June 30, 2012 and September 30, 2012, filed with the SEC on May 3, 2012, August 6, 2012 and November 2, 2012, respectively;

our Current Reports on Form 8-K filed with the SEC on March 8, 2012, May 14, 2012, May 24, 2012, September 4, 2012, September 25, 2012, and December 11, 2012; and

any future filings made with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934 (Exchange Act File No. 001-12254), from the date of the initial registration statement and prior to the effectiveness of this registration statement, and any filings made from the date of this prospectus until we sell all of the securities under this prospectus as supplemented.

We are not, however, incorporating by reference any documents or portions thereof, whether specifically listed above or filed in the future, that are not deemed filed with the SEC, including any information furnished pursuant to Items 2.02 or 7.01 of Form 8-K or certain exhibits furnished pursuant to Item 9.01 of Form 8-K.

Copies of these filings are available at no cost on our website, [www.saulcenters.com](http://www.saulcenters.com). Amendments to these filings will be posted to our website as soon as reasonably practical after filing with the SEC. In addition, you may request a copy of these filings and any amendments thereto at no cost, by writing or telephoning us. Those copies will not include exhibits to those documents unless the exhibits are specifically incorporated by reference in the documents or unless

you specifically request them. You may also request copies of any exhibits to the registration statement. Please direct your request to:

Mr. Scott V Schneider

Saul Centers, Inc.

7501 Wisconsin Avenue, Suite 1500

Bethesda, Maryland 20814

(301) 986-6200

Our prospectus does not contain all of the information included in the registration statement. We have omitted certain parts of the registration statement in accordance with the rules and regulations of the SEC. For



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further information, we refer you to the registration statement, including its exhibits and schedules. Statements contained in our prospectus and any accompanying prospectus supplement about the provisions or contents of any contract, agreement or any other document referred to are not necessarily complete. Please refer to the actual exhibit for a more complete description of the matters involved. You may get copies of the exhibits by contacting the person named above.

You should rely only on the information in our prospectus, any prospectus supplement and the documents that are incorporated by reference. We have not authorized anyone else to provide you with different information. We are not offering these securities in any state where the offer is prohibited by law. You should not assume that the information in this prospectus, any prospectus supplement or any incorporated document is accurate as of any date other than the date of the document.

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**1,600,000 Depositary Shares**

**Each Representing 1/100<sup>th</sup> of a Share of**

**6.875% Series C Cumulative Redeemable Preferred Stock**

**(Liquidation Preference Equivalent to \$25.00 Per Depositary Share)**

**PROSPECTUS SUPPLEMENT**

**RAYMOND JAMES**

**November , 2014**