

TANGER FACTORY OUTLET CENTERS INC  
Form 424B5  
February 09, 2006

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Registration No. 333-128160

**PROSPECTUS SUPPLEMENT**  
(To Prospectus Dated September 7, 2005)

**800,000 Shares**

**Tanger Factory Outlet Centers, Inc.**

**7.5% Class C Preferred Shares**  
**(Liquidation Preference \$25.00 Per Share)**

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We are offering to certain investment advisory clients of Cohen & Steers Capital Management, Inc., Neuberger Berman, LLC and ING Clarion Real Estate Securities L.P. 800,000 of our 7.5% Class C Preferred Shares, par value \$0.01 per share, which we refer to in this prospectus supplement as our Class C Preferred Shares on the terms summarized below. The offering is scheduled to close on February 16, 2006.

We will pay cumulative dividends on our Class C Preferred Shares from (and including) the date of original issuance at the rate of 7.5% per annum of the \$25.00 liquidation preference, which is equivalent to a fixed annual amount of \$1.875 per share. However, during any period of time that both (i) the Class C Preferred Shares are not listed on the New York Stock Exchange, or NYSE, or the American Stock Exchange, or AMEX, or quoted on NASDAQ, and (ii) we are not subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or Exchange Act, but Class C Preferred Shares are outstanding, we will increase the cumulative cash distributions payable on the Class C Preferred Shares to a rate of 8.5% per year of the \$25.00 liquidation preference (equivalent to \$2.125 per year per share).

Dividends on our Class C Preferred Shares will be paid quarterly in arrears on or before the 15th day of February, May, August and November of each year, commencing on February 15, 2006. Purchasers in this offering will not receive the dividends paid on February 15, 2006.

The Class C Preferred Shares will have no stated maturity, will not be subject to any sinking fund or mandatory redemption and will not be convertible into or exchangeable for any of our other securities.

The Class C Preferred Shares will rank senior to our common shares as to rights to dividends and upon liquidation.

We may not redeem our Class C Preferred Shares before November 14, 2010, except in limited circumstances to preserve our status as a real estate investment trust or as described below. On or after November 14, 2010, we may, at our option, redeem our Class C Preferred Shares, in whole or from time to time in part, for cash at a redemption price of \$25.00 per share, plus any accrued and unpaid dividends on such Class C Preferred Shares up to and including the redemption date.

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If at any time both (i) the Class C Preferred Shares cease to be listed on the NYSE or the AMEX, or quoted on NASDAQ, and (ii) we cease to be subject to the reporting requirements of the Exchange Act, but Class C Preferred Shares are outstanding, we will have the option to redeem the Class C Preferred Shares, in whole but not in part, within 90 days of the date upon which the Class C Preferred Shares cease to be listed and we cease to be subject to such reporting requirements, for cash at \$25.00 per share, plus accrued and unpaid distributions, if any, to the redemption date.

Holders of Class C Preferred Shares will generally have no voting rights, but will have limited voting rights if we fail to pay dividends for six or more quarterly periods, whether or not consecutive, and in certain other events. We have previously issued shares of Class C Preferred Shares.

We are organized and conduct our operations to maintain our qualification as a real estate investment trust for U.S. federal income tax purposes. To assist us in complying with certain federal income tax requirements applicable to real estate investment trusts, our charter contains certain restrictions relating to the ownership and transfer of our stock, including an ownership limit of 9.8% on our Class C Preferred Shares.

Our Class C Preferred Shares currently trade on the NYSE under the symbol "SKT-PC". The price of the Class C Preferred Shares as of the date of this prospectus supplement is \$24.98.

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**Investing in our Class C Preferred Shares involves risks. See "Risk Factors" on page S-3 of this prospectus supplement and page 2 in the accompanying prospectus.**

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

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	<b>Per Share</b>	<b>Total</b>
Offering Price <sup>(1)</sup>	\$25.0000	\$20,000,000
Proceeds to us (before expenses)	\$24.51	\$19,608,000

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(1) Plus accrued dividends, if any, from (and including) the date of the original issuance.

The date of this prospectus supplement is February 9, 2006.

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You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We 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 are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

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**FORWARD-LOOKING STATEMENTS**

This prospectus supplement and the accompanying prospectus include forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties, and assumptions about the company and the operating partnership, including, among other things:

national and local general economic and market conditions;

demographic changes; our ability to sustain, manage or forecast our growth; existing governmental regulations and changes in or the failure to comply with, government regulations;

adverse publicity; liability and other claims asserted against us;

competition;

the risk that we may not be able to finance our planned development activities;

risks related to the retail real estate industry in which we compete, including the potential adverse impact of external factors such as inflation, tenant demand for space, consumer confidence, unemployment rates and consumer tastes and preferences;

the risk that historically high fuel prices may impact consumer travel and spending habits;

risks associated with our development activities, such as the potential for cost overruns, delays and lack of predictability with respect to the financial returns associated with these development activities;

risks associated with real estate ownership, such as the potential adverse impact of changes in the local economic climate on the revenues and the value of our properties;

risks that we incur a material, uninsurable loss of our capital investment and anticipated profits from one of our properties, such as those that result from wars, earthquakes or hurricanes;

risks that a significant number of tenants may become unable to meet their lease obligations, including as a result of tenant bankruptcies, or that we may be unable to renew or re-lease a significant amount of available space on economically favorable terms;

fluctuations and difficulty in forecasting operating results; changes in business strategy or development plans;

business disruptions;

the ability to attract and retain qualified personnel;

the ability to realize planned costs savings in acquisitions; and

retention of earnings.

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Additional factors that may cause risks, uncertainties and assumptions include those discussed in the section entitled "Business" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 or annual report, including the subheadings entitled "Recent Developments," "The Factory Outlet Concept," "Our Factory Outlet Centers," "Business, Growth and Operating Strategy," "Capital Strategy," "Competition," and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the annual report.

We disclaim any obligation to publicly update or revise any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

**PROSPECTUS SUPPLEMENT SUMMARY**

*This summary highlights the information contained in this prospectus supplement and the accompanying prospectus. This summary is not complete and does not contain all of the information that you should consider before investing in the shares. You should read the prospectus supplement and the prospectus, as well as the documents incorporated herein and therein by reference. Unless the context indicates otherwise, the term the "company" refers to Tanger Factory Outlet Centers, Inc. and its consolidated subsidiaries and the term "operating partnership" refers to Tanger Properties Limited Partnership and its consolidated subsidiaries. The terms "we," "our" and "us" refer to the company or the company and the operating partnership together, as the context requires. Unless otherwise indicated, (i) property and financial information in this prospectus supplement is presented as of, or for the period ended, September 30, 2005 and (ii) the pro forma financial information in this prospectus supplement is provided assuming this offering, the previous offering of 7.5% Class C Preferred Shares, offering of unsecured debt, the early repayment of certain mortgages and the Charter Oak portfolio acquisition had occurred as of the beginning of each respective period for which such financial information is provided.*

**Tanger Factory Outlet Centers, Inc.**

**The Company**

We are one of the largest owners and operators of factory outlets in the United States. We are a fully-integrated, self-administered and self-managed real estate investment trust, or REIT, that focuses exclusively on developing, acquiring, owning, leasing and managing factory outlet centers. As of September 30, 2005, we owned interests in or managed 33 factory outlet centers in 22 states with a total gross leasable area, or GLA, of approximately 8.7 million square feet. These factory outlet centers were 97% occupied and contained over 2,000 stores, representing over 400 store brands.

Tanger GP Trust, our wholly owned subsidiary, serves as the general partner of our operating partnership. The factory outlet centers and other assets of our business are owned by, and all of our operations are conducted through, our operating partnership. Accordingly, the descriptions of the business, employees and properties of the company are also descriptions of the business, employees and properties of our operating partnership.

**Recent Developments**

*Acquisition of Joint Venture Partner Interest in COROC Holdings, LLC*

On November 22, 2005, we closed on a \$282.5 million acquisition of the remaining two-thirds interest in the Charter Oak portfolio owned by an affiliate of Blackstone Real Estate Advisors. The Charter Oak portfolio, comprised of nine factory outlet centers (including approximately 3.3 million square feet), was acquired in December 2003 by a joint venture company, in which we owned a one-third interest and Blackstone owned a two-thirds interest. We have provided management, leasing and marketing services for these factory outlet centers since December 2003. As a result of this acquisition, the total amount of wholly-owned square feet in our real estate portfolio will increase by 66.0%, from approximately 5.0 million square feet to 8.2 million square feet. Funding sources for the acquisition included proceeds from the September 2, 2005 sale of 3.0 million common shares at \$27.09 per share, the November 4, 2005 sale of \$250 million of 6.15% senior unsecured notes due November 15, 2015, the November 14, 2005 issuance of 2,200,000 7.5% Class C preferred shares at a price of \$25.00 per share and amounts drawn down on our unsecured lines of credit. Excess proceeds from the offerings were used to prepay a \$77.4 million mortgage with John Hancock and an associated prepayment premium of \$9.4 million on October 3, 2005.

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### *Mortgage Repayments*

On October 3, 2005, we completed the prepayment of John Hancock mortgages totaling \$77.4 million, which were secured by four properties in our portfolio. Interest rates on these mortgages ranged from 7.875% to 7.98%. In addition to the \$77.4 million of principal and interest, we also paid a prepayment premium of \$9.4 million. We funded the transaction using a portion of the proceeds from our September common share offering, as described above, as well as amounts available under our unsecured lines of credit. The repayment of the mortgages unencumbered the following factory outlet centers: Kittery, Maine; San Marcos, Texas; West Branch, Michigan and Williamsburg, Iowa.

### *Debt Rating Upgrade*

In October 2005, Standard and Poor's, a division of The McGraw-Hill Companies, or Standard & Poor's, announced an upgrade in our senior unsecured debt rating to BBB-, citing the recent paydown of \$77.4 million of mortgage debt along with expectations of lower encumbrance levels going forward. The Standard and Poor's announcement also stated that the financial outlook of our company was stable as a result of our "well-leased and profitable portfolio."

During the second quarter of 2005, Moody's Investors Service, Inc. announced an upgrade of our senior unsecured debt rating to an investment grade rating of Baa3, citing our success in integrating the Charter Oak portfolio, improved performance of our portfolio of properties and progress in unencumbering a number of our properties. The rating also takes into account our staggered debt maturity schedule and our sufficient liquidity.

### *Locust Grove, Georgia Center Expansion*

Construction of a 46,400 square foot expansion was completed at our center in Locust Grove, Georgia. The majority of stores opened during the third quarter with the remaining stores commencing operations during the fourth quarter of 2005. Tenants in the expansion include Polo/Ralph Lauren, Skechers, Children's Place and others. Including the expansion, our Locust Grove center now totals approximately 294,000 square feet.

### *Foley, Alabama Center Expansion*

The company has also completed a 21,300 square foot expansion at our center located in Foley, Alabama. The majority of stores commenced operations during the fourth quarter of 2005. Tenants in the expansion include Ann Taylor, Skechers, Tommy Hilfiger and others. Including the expansion, our Foley center totals approximately 557,000 square feet.

### *Development Projects: Wisconsin Dells, Wisconsin; Charleston, South Carolina; Deer Park (Long Island), New York and Pittsburgh, Pennsylvania*

Our minimum internal 50% pre-leasing requirement has been met on our Charleston, South Carolina project and our Wisconsin Dells, Wisconsin project. Both projects are under construction and are expected to open in the fourth quarter of 2006. We are continuing the pre-development and leasing of two additional previously announced sites located in Pittsburgh, Pennsylvania and Deer Park, New York. Both of these projects are expected to be delivered in the fourth quarter of 2007.

## RISK FACTORS

*An investment in our Class C Preferred Shares involves risks. In addition to the matters discussed under the heading "Risk Factors" on page 2 of the accompanying prospectus and other information in this prospectus supplement, the accompanying prospectus and other documents that are incorporated by reference into this prospectus supplement and the accompanying prospectus, you should consider carefully the following risk factors before deciding to invest in our Class C Preferred Shares.*

### **The trading price of our Class C Preferred Shares could be substantially affected by various factors.**

As with other publicly traded securities, the trading price of our Class C Preferred Shares will depend on many factors, which may change from time to time, including:

prevailing market interest rates;

the market for similar securities;

general economic and financial market conditions;

our issuance of debt or preferred equity securities; and

our financial condition, performance and prospects.

For example, an increase in market interest rates may have a negative effect on the trading price of our Class C Preferred Shares.

### **Our Class C Preferred Shares are subordinated to our existing and future indebtedness.**

Payment of amounts due on our Class C Preferred Shares will be subordinated to all of our existing and future indebtedness. As of September 30, 2005, our total indebtedness was approximately \$434.6 million. In addition, between September 30, 2005 and February 8, 2006, we borrowed an additional \$49.5 million under our unsecured lines of credit. On October 3, 2005, we completed the prepayment of certain mortgage indebtedness totaling \$77.4 million. In addition to the \$77.4 million of principal and interest, we also paid a prepayment premium of \$9.4 million. We may incur additional indebtedness in the future to finance potential acquisitions or the development of new properties.

### **Our future offerings of preferred equity securities may adversely affect the value of our Class C Preferred Shares.**

We may issue additional Class C Preferred Shares and/or other classes or series of preferred shares. The issuance of additional preferred shares on parity with or senior to our Class C Preferred Shares with respect to the payment of dividends and the distribution of assets upon liquidation, dissolution or winding up could reduce the amounts we may have available for distribution to holders of our Class C Preferred Shares. None of the provisions relating to our Class C Preferred Shares contain any provisions affording the holders of our Class C Preferred Shares protection in the event of a highly leveraged or other transaction, including a merger or the sale, lease or conveyance of all or substantially all of our assets or businesses, that might adversely affect the value of our Class C Preferred Shares.

### **As a result of our obligations to creditors and holders of any securities ranking senior to our Class C Preferred Shares that may be outstanding in the future, we may not be able to make dividend or liquidation payments to you.**

Our Class C Preferred Shares will rank senior to our common shares; on parity with all equity securities issued by us, the terms of which specifically provide that such equity securities rank on parity with our Class C Preferred Shares; junior to all equity securities issued by us, the terms of which



specifically provide that such equity securities rank senior to our Class C Preferred Shares; and junior to all of our indebtedness.

As of September 30, 2005, our total indebtedness was approximately \$434.6 million, and we expect to incur additional indebtedness in the future to finance the acquisition or development of new properties. The terms of our Class C Preferred Shares do not limit our ability to incur indebtedness. If we incur significant indebtedness, we may not have sufficient funds to make dividend or liquidation payments on our Class C Preferred Shares. In addition, in connection with our existing and future indebtedness, we may be subject to restrictive covenants or other provisions that may prevent our subsidiaries from distributing to us cash needed for payments on our Class C Preferred Shares or may otherwise limit our ability to make dividend or liquidation payments on our Class C Preferred Shares. Upon our liquidation, our obligations to our creditors would rank senior to our Class C Preferred Shares and would be required to be paid before any payments could be made to holders of our Class C Preferred Shares.

**We face competition for the acquisition of factory outlet centers, and we may not be able to complete acquisitions that we have identified.**

One component of our business strategy is expansion through acquisitions, and we may not be successful in completing acquisitions that are consistent with our strategy. We compete with institutional pension funds, private equity investors, other REITs, small owners of factory outlet centers, specialty stores and others who are engaged in the acquisition, development or ownership of factory outlet centers and stores. These competitors may affect the supply/demand dynamics and, accordingly, increase the price we must pay for factory outlet centers we seek to acquire, and these competitors may succeed in acquiring those factory outlet centers themselves. Also, our potential acquisition targets may find our competitors to be more attractive acquirors because they may have greater marketing and financial resources, may be willing to pay more, or may have a more compatible operating philosophy. In addition, the number of entities competing for these factory outlet centers may increase in the future, which would increase demand for factory outlet centers and the prices we must pay to acquire them. If we pay higher prices for factory outlet centers, our profitability may be reduced. Also, once we have identified potential acquisitions, such acquisitions are subject to the successful completion of due diligence, the negotiation of definitive agreements and the satisfaction of customary closing conditions, and we cannot assure you that we will be able to reach acceptable terms with the sellers or that these conditions will be satisfied.

**The economic performance and the market value of our factory outlet centers are dependent on risks associated with real property investments.**

Real property investments are subject to varying degrees of risk. The economic performance and values of real estate may be affected by many factors, including changes in the national, regional and local economic climate, inflation, unemployment rates, consumer confidence, local conditions such as an oversupply of space or a reduction in demand for real estate in the area, the attractiveness of the properties to tenants, competition from other available space, our ability to provide adequate maintenance and insurance and increased operating costs.

**We may be unable to successfully bid for and develop economically attractive factory outlet centers.**

We intend to actively pursue factory outlet center development projects, including the expansion of existing centers. These projects generally require expenditure of capital on projects that may not be completed as well as various forms of government and other approvals. We cannot be assured that we will be able to get financing on acceptable terms or be able to get the necessary approvals.

**Our earnings and therefore our profitability is entirely dependent on rental income from real property.**

Substantially all of our income is derived from rental income from real property. Our income and funds for distribution would be adversely affected if a significant number of our tenants were unable to meet their obligations to us or if we were unable to lease a significant amount of space in our centers on economically favorable lease terms. In addition, the terms of factory outlet store tenant leases traditionally have been significantly shorter than in other retail segments. There can be no assurance that any tenant whose lease expires in the future will renew such lease or that we will be able to re-lease space on economically favorable terms.

**We are substantially dependent on the results of operations of our retailers.**

Our operations are necessarily subject to the results of operations of our retail tenants. A portion of our rental revenues are derived from percentage rents that directly depend on the sales volume of certain tenants. Accordingly, declines in these tenants' results of operations would reduce the income produced by our properties. If the sales of our retail tenants decline sufficiently, such tenants may be unable to pay their existing rents as such rents would represent a higher percentage of their sales. Any resulting leasing delays, failures to make payments or tenant bankruptcies could result in the termination of such tenants' leases.

A number of companies in the retail industry, including some of our tenants, have declared bankruptcy or have voluntarily closed certain of their stores in recent years. The bankruptcy of a major tenant or number of tenants may result in the closing of certain affected stores, and we may not be able to re-lease the resulting vacant space for some time or for equal or greater rent. Such bankruptcy could have a material adverse effect on our results of operations and could result in a lower level of funds for distribution.

**We may be subject to environmental regulation.**

Under various federal, state and local laws, ordinances and regulations, we may be considered an owner or operator of real property and may be responsible for paying for the disposal or treatment of hazardous or toxic substances released on or in our property or disposed of by us, as well as certain other potential costs which could relate to hazardous or toxic substances (including governmental fines and injuries to persons and property). This liability may be imposed whether or not we knew about, or were responsible for, the presence of hazardous or toxic substances.

**We are required by law to make distributions to our shareholders.**

To obtain the favorable tax treatment associated with our qualification as a REIT, generally, we are required to distribute to our common and preferred shareholders at least 90.0% of our net taxable income (excluding capital gains) each year. We depend upon distributions or other payments from our operating partnership to make distributions to our common and preferred shareholders.

**Our failure to qualify as a REIT could subject our earnings to corporate level taxation.**

We believe that we have operated and intend to operate in a manner that permits us to qualify as a REIT under the Internal Revenue Code of 1986, as amended. However, we cannot assure you that we have qualified or will remain qualified as a REIT. If in any taxable year we were to fail to qualify as a REIT and certain statutory relief provisions were not applicable, we would not be allowed a deduction for distributions to shareholders in computing taxable income and would be subject to U.S. federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Our failure to qualify for taxation as a REIT would have an adverse effect on the market price and marketability of our securities.

**We depend on distributions from our operating partnership to meet our financial obligations, including dividends and liquidation payments on the Class C Preferred Shares.**

Our operations are conducted by our operating partnership, and our only significant asset is our interest in our operating partnership. As a result, we depend upon distributions or other payments from our operating partnership in order to meet our financial obligations, including our obligations under any guarantees or to pay dividends or liquidation payments to our common and preferred shareholders. As a result, these obligations are effectively subordinated to existing and future liabilities of the operating partnership. As of September 30, 2005, our operating partnership had \$434.6 million of indebtedness outstanding, of which \$281.1 million was secured indebtedness. Our operating partnership is a party to loan agreements with various bank lenders that require our operating partnership to comply with various financial and other covenants before it may make distributions to us. Although our operating partnership presently is in compliance with these covenants, we cannot assure you that it will continue to be in compliance and that it will be able to continue to make distributions to us.

**We may be unable to develop new factory outlet centers or expand existing factory outlet centers successfully.**

We continue to develop new factory outlet centers and expand factory outlet centers as opportunities arise. However, there are significant risks associated with our development activities in addition to those generally associated with the ownership and operation of established retail properties. While we have policies in place designed to limit the risks associated with development, these policies do not mitigate all development risks associated with a project. These risks include the following:

significant expenditure of money and time on projects that may be delayed or never be completed;

higher than projected construction costs;

shortage of construction materials and supplies;

failure to obtain zoning, occupancy or other governmental approvals or to the extent required, tenant approvals; and

late completion because of construction delays, delays in the receipt of zoning, occupancy and other approvals or other factors outside of our control.

Any or all of these factors may impede our development strategy and adversely affect our overall business.

**An uninsured loss or a loss that exceeds the insurance policies on our factory outlet centers could subject us to lost capital or revenue on those centers.**

Some of the risks to which our factory outlet centers are subject, including risks of war and earthquakes, hurricanes and other natural disasters, are not insurable or may not be insurable in the future. Should a loss occur that is uninsured or in an amount exceeding the combined aggregate limits for the insurance policies noted above or in the event of a loss that is subject to a substantial deductible under an insurance policy, we could lose all or part of our capital invested in and anticipated revenue from one or more of our factory outlet centers, which could adversely affect our results of operations and financial condition, as well as our ability to make distributions to our stockholders.

Under the terms and conditions of our leases, tenants generally are required to indemnify and hold us harmless from liabilities resulting from injury to persons and contamination of air, water, land or property, on or off the premises, due to activities conducted in the leased space, except for claims arising from negligence or intentional misconduct by us or our agents. Additionally, tenants generally

are required, at the tenant's expense, to obtain and keep in full force during the term of the lease, liability and property damage insurance policies issued by companies acceptable to us. These policies include liability coverage for bodily injury and property damage arising out of the ownership, use, occupancy or maintenance of the leased space. All of these policies may involve substantial deductibles and certain exclusions.

**Historically high fuel prices may impact consumer travel and spending habits.**

Our markets are currently experiencing record high fuel prices. Most shoppers use private automobile transportation to travel to our factory outlet centers and many of our centers are not easily accessible by public transportation. Increasing fuel costs may reduce the number of trips to our centers thus reducing the amount spent at our centers. Many of our factory outlet center locations near tourist destinations may experience an even more acute reduction of shoppers if there were a reduction of people opting to drive to vacation destinations. Such reductions in traffic could adversely impact our percentage rents and ability to renew and release space at current rental rates.

Increasing fuel costs may also reduce disposable income and decrease demand for retail products. Such a decrease could adversely affect the results of operations of our retail tenants and adversely impact our percentage rents and ability to renew and release space at current rental rates.

**USE OF PROCEEDS**

We estimate the net proceeds of this offering to be approximately \$19.5 million, after our offering expenses. We intend to contribute all of the proceeds from the sale of the Class C Preferred Shares to our operating partnership in exchange for additional units of partnership interest. We intend to use such proceeds to repay amounts outstanding under our unsecured lines of credit that mature on June 30, 2008 and bear interest at a rate of 30 day Libor plus 0.85%.

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

The following table sets forth our ratios of earnings to fixed charges and earnings to combined fixed charges and preferred share dividends for the periods shown.

	Nine Months Ended September 30,			Year Ended December 31,					
	Pro Forma	Actual		Pro Forma	Actual				
	2005	2005	2004	2004	2004	2003	2002	2001	2000
Ratio of Earnings to Fixed Charges	1.7x	2.2x	1.9x	1.5x	2.0x	1.6x	1.3x	1.1x	1.2x
Ratio of Earnings to Combined Fixed Charges and Preferred Share Dividends	1.5x	2.2x	1.9x	1.3x	2.0x	1.5x	1.2x	1.1x	1.1x

The ratios of earnings to fixed charges were computed by dividing earnings by fixed charges. For this purpose, earnings has been calculated by adding fixed charges (excluding capitalized interest), amortization of capitalized interest and distributed income of unconsolidated joint ventures to income from continuing operations before adjustment for equity in earnings of unconsolidated joint ventures and minority interests. Fixed charges consist of interest costs, whether expensed or capitalized, the amortization of debt issue costs, whether expensed or capitalized and the interest factor of rental expense. The ratios of earnings to combined fixed charges and preferred share dividends were computed by dividing earnings by the combined fixed charges and preferred share dividends.

The pro forma ratio of earnings to fixed charges includes adjustments to increase interest expense by \$6.9 million for the nine months ended September 30, 2005 and \$10.3 million for the year ended December 31, 2004. These adjustments give effect to the sale by our operating partnership of \$250.0 million in unsecured debt (with an assumed coupon rate of 6.00%) and the draw down of \$28.1 million under our unsecured lines of credit (with an interest rate of 4.79%) to fund in part the acquisition of the Charter Oak portfolio. The increased interest expense is partially offset by the early prepayment of \$77.4 million of mortgage debt with interest rates ranging from 7.875% to 7.98% on October 3, 2005. The pro forma ratio of earnings to combined fixed charges and preferred dividends includes, in addition to the adjustments described above, preferred share dividends of \$4.2 million for the nine months ended September 30, 2005 and \$5.6 million for the year ended December 31, 2004 to give effect to the sale of 3,000,000 Class C Preferred Shares with a liquidation preference value of \$25.00 per share of which 800,000 Class C Preferred Shares are pursuant to this prospectus supplement.

## CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2005 on a historical basis and on an as adjusted basis giving effect to:

the sale by the company of the 800,000 Class C Preferred Shares with a liquidation preference value of \$25.00 per share offered pursuant to this prospectus supplement and \$19.5 million in net proceeds to be applied to repayments under our unsecured lines of credit after deducting estimated offering expenses;

the sale by the company of the 2,200,000 Class C Preferred Shares with a liquidation preference value of \$25.00 per share and \$53.0 million in proceeds contributed to our operating partnership;

the sale by our operating partnership of \$250.0 million in unsecured debt and the net proceeds from the unsecured debt offering of \$247.2 million, after deducting underwriting discounts and estimated offering expenses; and

the expected use of proceeds from the 800,000 Class C Preferred Share offering, the 2,200,000 Class C Preferred Share offering, the unsecured debt offering, an available \$24.75 million of cash equivalents and short-term investments as of September 30, 2005, and a draw down of \$51.6 million on our unsecured lines of credit to acquire the remaining two-thirds interest in the Charter Oak portfolio and to prepay the John Hancock mortgages totaling \$77.4 million and related prepayment premium of \$9.4 million.

	September 30, 2005	
	Actual	As Adjusted
	(in thousands)	
<b>Debt:</b>		
Senior, unsecured notes	\$ 100,000	\$ 350,000
Mortgages payable	281,069	202,482
Unsecured note	53,500	53,500
Unsecured lines of credit		28,143
	<u>434,569</u>	<u>634,125</u>
<b>Total debt</b>	<b>434,569</b>	<b>634,125</b>
<b>Minority interest:</b>		
Minority interest in operating partnership	42,220	42,220
Minority interest in consolidated joint venture	227,234	
	<u>269,454</u>	<u>42,220</u>
<b>Total minority interest</b>	<b>269,454</b>	<b>42,220</b>
<b>Shareholders' equity:</b>		
Class C Preferred Shares, \$0.01 par value, 8,000,000 shares authorized, no shares issued and outstanding, historical, 3,000,000 shares issued and outstanding, as adjusted		75,000
Common shares, \$0.01 par value, 50,000,000 shares authorized, 30,725,216 shares issued and outstanding <sup>(1)</sup>	307	307
Paid in capital	349,287	346,787
Distributions in excess of net income	(130,955)	(140,783)
Deferred compensation	(5,930)	(5,930)
Accumulated other comprehensive income	1,119	1,119
	<u>213,828</u>	<u>276,500</u>
<b>Total shareholders' equity</b>	<b>213,828</b>	<b>276,500</b>

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September 30, 2005

	<u>September 30, 2005</u>	
	<u>                    </u>	<u>                    </u>
Total capitalization	\$ 917,851	\$ 952,845

- (1) Does not include 6,066,610 common shares reserved for issuance upon exchange of issued and outstanding operating partnership units, 576,220 common shares issuable upon exchange of general partnership units issuable upon the exercise of outstanding unit options and 80,000 common shares issuable upon the exercise of outstanding share options.

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## DESCRIPTION OF PREFERRED SHARES

This description of our Class C Preferred Shares supplements the description of the general terms and provisions of our shares of capital stock, including preferred shares, in the accompanying prospectus under the heading "Description of Class C Preferred Shares." You should consult that general description for further information. This summary of the terms and provisions of our Class C Preferred Shares is not complete and is qualified in its entirety by reference to our articles of incorporation and the articles of amendment setting forth the terms of our series A preferred shares. You may obtain a complete copy of the articles of amendment describing our Class C Preferred Shares by contacting us.

### General

We are currently authorized to issue up to 1,000,000 Class A Preferred Shares, 8,000,000 Class B Preferred Shares, 8,000,000 Class C Preferred Shares and 8,000,000 Class D Preferred Shares. Each class will have the preferences, limitations and relative rights as North Carolina law may permit and as set forth in the Articles of Amendment.

There are currently 2,200,000 Class C Preferred Shares outstanding. Our board of directors may authorize issuance of additional Class C Preferred Shares from time to time.

The Class C Preferred Shares are listed on the NYSE under the symbol "SKT-PC." The price of the Preferred Shares as of the date of this prospectus supplement is \$24.98.

The Class C Preferred Shares initially will be issued and maintained in book-entry form registered in the name of the nominee of The Depository Trust Company, except under limited circumstances.

The transfer agent, registrar and dividends disbursement agent for our Class C Preferred Shares is Computershare Investor Services.

### Ranking

With respect to the payment of dividends and amounts upon voluntary or involuntary liquidation, dissolution or winding up, our Class C Preferred Shares will rank:

senior to our common shares and to any other class or series of our equity securities that by their terms rank junior to our Class C Preferred Shares, as to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up;

on a parity with any other class or series of our equity securities that we may later authorize or issue and that by their terms rank on a parity with our Class C Preferred Shares, as to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up;

junior to any class or series of our equity securities that we may later authorize or issue and that by their terms rank senior to our Class C Preferred Shares, as to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up. Any such authorization or issuance would require the affirmative vote of the holders of at least two-thirds of the outstanding Class C Preferred Shares; and

junior to all of our indebtedness.

Any convertible debt securities that we may issue are not considered to be equity securities for these purposes.

## Dividends

Subject to the preferential rights of holders or any class or series of our equity securities ranking senior to the Class C Preferred Shares as to the payment of dividends, holders of Class C Preferred Shares will be entitled to receive, when, if and as authorized by our board of directors, out of funds legally available for the payment of dividends, cumulative quarterly cash dividends at the rate of 7.50% per annum of the \$25.00 per share liquidation preference, equivalent to \$1.875 per annum per share. However, during any period of time that both (i) the Class C Preferred Shares are not listed on the NYSE or the AMEX, or quoted on NASDAQ, and (ii) we are not subject to the reporting requirements of the Exchange Act, but Class C Preferred Shares are outstanding, we will increase the cumulative cash distributions payable on the Class C Preferred Shares to a rate of 8.5% per year of the \$25.00 liquidation preference (equivalent to \$2.125 per year per share).

Dividends on our Class C Preferred Shares will accrue and be cumulative from (and including) the date of original issue and will be payable quarterly when, if and as authorized by our board of directors in equal amounts in arrears on the 15th day of each of February, May, August and November or, if not a business day, then the next succeeding business day, and no interest or additional dividends or other sums will accrue on the amount so payable from the dividend payment date to such next succeeding business day. The first dividend on our Class C Preferred Shares will be paid on February 15, 2006. The first dividend payable on that date will be in the amount of \$0.47396 per share, reflecting a partial dividend period. Dividends payable on our Class C Preferred Shares for any partial period will be pro-rated, computed on the basis of a 360-day year consisting of twelve 30-day months. We will pay dividends to holders of record as they appear in our stock records at the close of business on the applicable record date, which will be the first day of the calendar month in which the applicable dividend falls, or such other date as designated by our board of directors for the payment of dividends that is not more than 30 days nor less than 10 days prior to the dividend payment date. Notwithstanding any provision to the contrary contained in this prospectus supplement or the accompanying prospectus, each outstanding Class C Preferred Share will be entitled to receive a dividend with respect to any dividend record date equal to the dividend paid with respect to each other Class C Preferred Share that is outstanding on such date.

Our board of directors will not authorize, and we will not pay, any dividends on our Class C Preferred Shares or set aside funds for the payment of dividends if the terms of any of our agreements, including agreements relating to our indebtedness, prohibit that authorization, payment or setting aside of funds or provide that the authorization, payment or setting aside of funds is a breach of or a default under that agreement, or if the authorization, payment or setting aside of funds is restricted or prohibited by law. We are and may in the future become a party to agreements that restrict or prevent the payment of dividends on, or the purchase or redemption of, shares. These restrictions may be direct or indirect, for example covenants requiring us to maintain specified levels of net worth or assets. We do not believe that these restrictions currently have any adverse impact on our ability to pay dividends on Class C Preferred Shares.

Notwithstanding the foregoing, dividends on our Class C Preferred Shares will continue to accrue even if any of our agreements prohibit the current payment of dividends, we do not have earnings or funds legally available for the payment of dividends, or we do not declare the payment of dividends. Accrued but unpaid dividends on our Class C Preferred Shares will not bear interest, and holders of Class C Preferred Shares will not be entitled to any dividends in excess of full cumulative dividends as described above. All of our dividends on Class C Preferred Shares, including any capital gain dividends, will be credited to the previously accrued dividends on our Class C Preferred Shares. We will credit any dividend paid on Class C Preferred Shares first to the earliest accrued and unpaid dividend due.

We will not authorize, declare or pay any dividends, or set aside any funds for the payment of dividends and no other distribution of cash or other property will be authorized, declared or made, on

common stock or other stock that ranks junior to our Class C Preferred Shares as to the payment of dividends or the distribution of assets upon our liquidation, dissolution or winding up, or redeem or otherwise acquire shares of common stock or other junior or parity stock, unless we also have declared and either paid or set aside for payment the full cumulative dividends on our Class C Preferred Shares for the current and all past dividend periods. This restriction will not limit our redemption or other acquisition of shares under incentive, benefit or stock purchase plans for officers, directors or employees or others performing or providing similar services or for the purposes of enforcing restrictions upon ownership and transfer of our equity securities contained in our Articles of Amendment in order to preserve our status as a REIT for U.S. federal income tax purposes.

If we do not declare and either pay or set aside for payment the full cumulative dividends on our Class C Preferred Shares and all shares of any other class or series of our equity securities that rank on a parity with our Class C Preferred Shares as to the payment of dividends, the amount which we have declared will be allocated pro rata to our Class C Preferred Shares and to each parity class or series of capital stock so that the amount declared for each share of Class C Preferred Shares and for each share of each parity class or series is proportionate to the accrued and unpaid dividends on those shares (which shall not include any accumulation in respect of unpaid dividends for prior dividend periods if such class or series of equity securities does not have a cumulative dividend).

Dividends paid by regular C corporations to persons or entities that are taxed as individuals are (through 2008) generally taxed at the rate applicable to long-term capital gains, which is a maximum of 15%, subject to certain limitations. Because we are a REIT, however, our dividends, including dividends paid on our Class C Preferred Shares, generally will continue to be taxed at regular ordinary income tax rates, except in limited circumstances that we do not contemplate. See "Material Federal Income Tax Consequences."

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, or any successor revenue code or section) any portion, which we refer to as the capital gains amount, of the total dividends (as determined for federal income tax purposes) paid or made available for such taxable year to holders of all classes and series of capital stock, then the portion of the capital gains amount that will be allocable to holders of Class C Preferred Shares shall be in the same proportion that the total of the dividends (as determined for federal income tax purposes) paid or made available to the holders of Class C Preferred Shares for the year bears to the total of all such dividends for the year paid with respect to all classes and series of our outstanding capital stock.

#### **Liquidation Rights**

In the event of our voluntary or involuntary liquidation, dissolution or winding up, the holders of Class C Preferred Shares will be entitled to receive out of our assets legally available for distribution to our shareholders remaining after payment or liquidating distributions in cash or property at fair market value as determined by our board of directors equal to a liquidation preference of \$25.00 per share, plus any accrued and unpaid dividends (whether or not declared) through and including the date of the payment. The holders of Class C Preferred Shares will be entitled to receive this liquidating dividend before we distribute any assets to holders of our common shares or any other shares that rank junior to our Class C Preferred Shares as to the distribution of assets upon liquidation, dissolution or winding up. The rights of holders of Class C Preferred Shares to receive their liquidation preference would be subject to preferential rights of the holders of any class or series of our stock that is senior to our Class C Preferred Shares as to the distribution of assets upon liquidation, dissolution or winding up. Written notice will be given to each holder of Class C Preferred Shares of any such liquidation not less 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 Class C Preferred Shares will have no right or claim to any of our remaining assets. If we consolidate or merge with any other entity, sell,

lease, transfer or convey all or substantially all of our property or business, or engage in a statutory share exchange, we will not be deemed to have liquidated. In the event our assets are insufficient to pay the full liquidating distributions to the holders of Class C Preferred Shares and all other classes or series of our equity securities ranking on a parity with our Class C Preferred Shares as to the distribution of assets upon liquidation, dissolution or winding up, then we will distribute our assets to the holders Class C Preferred Shares and all other classes or series of parity securities ratably in proportion to the full liquidating distributions they would otherwise have received (including, if applicable, accrued and unpaid dividends).

### **Special Optional Redemption**

If at any time both (i) the Class C Preferred Shares cease to be listed on the NYSE or the AMEX, or quoted on NASDAQ, and (ii) we cease to be subject to the reporting requirements of the Exchange Act, but Class C Preferred Shares are outstanding, we will have the option to redeem the Class C Preferred Shares, in whole but not in part, within 90 days of the date upon which the Class C Preferred Shares cease to be listed and we cease to be subject to such reporting requirements, for cash at \$25.00 per share plus accrued and unpaid distributions, if any, to the redemption date, whether or not authorized.

Immediately prior to such redemption of shares of Class C Preferred Shares, we will pay, in cash, any accrued and unpaid distributions to the redemption date, whether or not authorized, unless a redemption date falls after a distribution record date and prior to the corresponding distribution payment date, in which case each holder of Class C Preferred Shares at the close of business on such distribution record date will be entitled to the distribution payable on such shares on the corresponding distribution payment date notwithstanding the redemption of such shares before the distribution payment date. Except as provided in the previous sentence, we will make no payment or allowance for unpaid distributions, whether or not in arrears, on the Class C Preferred Shares.

We will mail to you, if you are a record holder of Class C Preferred Shares, a notice of redemption no less than 30 days nor more than 60 days before the redemption date. We will send the notice to your address, as shown on our share transfer books. Each notice will state, in addition to any information required by law or by the applicable rules of any exchange upon which the Class C Preferred Shares may be listed or admitted to trading, the following:

the redemption date;

the redemption price;

the number of Class C Preferred Shares to be redeemed;

the place or places where the certificates for the Class C Preferred Shares are to be surrendered for payment;

that dividends on the Class C Preferred Shares to be redeemed will cease to accrue on the redemption date; and

any other information required by law or by the applicable rules of any exchange upon which the Class C Preferred Shares may be listed or admitted for trading.

On or after the date fixed for redemption, each holder of shares of Class C Preferred Shares must present and surrender each certificate representing his Class C Preferred Shares to us at the place designated in the applicable notice and thereupon the redemption price of such shares will be paid to or on the order of the person whose name appears on such certificate representing the Class C Preferred Shares as the owner thereof and each surrendered certificate will be canceled.

At our election, on or prior to the redemption date, we may irrevocably deposit the redemption price (including accrued and unpaid distributions) of the Class C Preferred Shares in trust for the holders thereof with a bank or trust company, in which case the notice to holders of the Class C Preferred Shares will (i) state the date of such deposit, (ii) specify the office of such bank or trust company as the place of payment of the redemption price and (iii) require such holders to surrender the certificates representing such shares at such place on or about the date fixed in such redemption notice (which may not be later than such redemption date) against payment of the redemption price (including all accrued and unpaid distributions to the redemption date). Any interest or other earnings earned on the redemption price (including all accrued and unpaid distributions) deposited with a bank or trust company will be paid to us. Any monies so deposited that remain unclaimed by the holders of the Class C Preferred Shares at the end of two years after the redemption date will be returned to us by such bank or trust company.

From and after the redemption date (unless we default in payment of the redemption price), all distributions will cease to cumulate on the Class C Preferred Shares and all of your rights as a holder of Class C Preferred Shares will terminate with respect to such shares, except the right to receive the redemption price and all accrued and unpaid distributions up to the redemption date.

### **Redemption**

We may not redeem the Class C Preferred Shares prior to November 14, 2010, with respect to our special option to redeem the Class C Preferred Shares if at any time both (i) the Class C Preferred Shares cease to be listed on the NYSE or the AMEX, or quoted on NASDAQ, and (ii) we cease to be subject to the reporting requirements of the Exchange Act, as described under "Special Optional Redemption," and except as described below under "Restrictions on Ownership." On and after November 14, 2010, at our option upon not less than 30 days' nor more than 60 days' written notice, we may redeem the Class C Preferred Shares, in whole or from time to time in part, at a redemption price of \$25.00 per share, plus any accrued and unpaid dividends (whether or not earned or authorized) through and including the date fixed for redemption. The Class C Preferred Shares are not redeemable at any time at the option of the holders thereof. If we reasonably conclude, based upon the advice of independent tax counsel experienced in such matters, that a redemption on a date that is earlier than 30 days after the date of written notice is necessary in order to preserve our qualification as a REIT for federal income tax purposes or to comply with federal tax laws relating to our qualification as a REIT, then we may redeem the Class C Preferred Shares on such an earlier date.

We will give notice of redemption by publication in The Wall Street Journal, or a newspaper of general circulation in the City of New York, and by mail to each holder of record of Class C Preferred Shares at the address shown on our stock transfer books. A failure to give notice of redemption or any defect in the notice or in its mailing will not affect the validity of the redemption of any Class C Preferred Shares except as to the holder to whom notice was defective. Each notice will state the following:

the redemption date;

the redemption price;

the number of Class C Preferred Shares to be redeemed;

the place or places where the certificates for the Class C Preferred Shares are to be surrendered for payment;

that dividends on our Class C Preferred Shares to be redeemed will cease to accrue on the redemption date; and

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any other information required by law or by the applicable rules of any exchange upon which the Class C Preferred Shares may be listed or admitted for trading.

If we redeem fewer than all of the Class C Preferred Shares, the notice of redemption mailed to each shareholder will also specify the number of Class C Preferred Shares that we will redeem from each shareholder. In this case, we will determine the number of Class C Preferred Shares to be redeemed on a pro rata basis, by lot or by any other equitable method we may choose.

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 Class C Preferred Shares called for redemption, then from and after the redemption date, those Class C Preferred Shares will be treated as no longer being outstanding, no further dividends will accrue and all other rights of the holders of those Class C Preferred Shares will terminate. The holders of those Class C Preferred Shares will retain their right to receive the redemption price for their shares and any accrued and unpaid dividends through the redemption date.

The holders of Class C Preferred Shares at the close of business on a dividend record date will be entitled to receive the dividend payable with respect to the Class C Preferred Shares on the corresponding dividend payment date notwithstanding the redemption of Class C Preferred Shares between such record date and the corresponding dividend 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 the Class C Preferred Shares to be redeemed.

On or after the redemption date, each holder of Class C Preferred Shares to be redeemed must present and surrender the certificates representing his Class C Preferred Shares to us at the place designated in the applicable notice of redemption and thereupon the cash redemption price of such shares will be paid to or on the order of the person whose name appears on such certificate representing Class C Preferred Shares as the owner thereof and each surrendered certificate will be canceled. If fewer than all the shares represented by any such certificate representing Class C Preferred Shares are to be redeemed, a new certificate will be issued representing the unredeemed shares. If notice of redemption has been mailed or published in accordance with notice provisions described above and if the funds necessary for such redemption have been set aside by us in trust for the benefit of the holders of the Class C Preferred Shares so called for redemption, then from and after the redemption date (unless we default in payment of the redemption price), all dividends on the Class C Preferred Shares called for redemption will cease to accrue and all rights of the holders thereof, except the right to receive the redemption price thereof (including all accrued and unpaid dividends to the redemption date), will cease and terminate and such shares will not thereafter be transferred (except with our consent) on our books, and such shares shall not be deemed to be outstanding for any purpose whatsoever. At our election, prior to a redemption date, we may irrevocably deposit the redemption price (including accrued and unpaid dividends) of the Class C Preferred Shares so called for redemption in trust for the holders thereof with a bank or trust company, in which case the notice to holders of the Class C Preferred Shares to be redeemed will (i) state the date of such deposit, (ii) specify the office of such bank or trust company as the place of payment of the redemption price and (iii) require such holders to surrender the certificates representing such shares at such place on or about the date fixed in such redemption notice (which may not be later than such redemption date) against payment of the redemption price (including all accrued and unpaid dividends to such redemption date). Any interest or other earnings earned on the redemption price (including all accrued and unpaid dividends) deposited with a bank or trust company will be paid to us. Any moneys so deposited which remain unclaimed by the holders of the Class C Preferred Shares at the end of two years after the redemption date will be returned to us by such bank or trust company.

Notwithstanding the foregoing, unless full cumulative dividends on all Class C Preferred Shares have been or contemporaneously are authorized, declared and paid or authorized, declared and a sum

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sufficient for the payment thereof set apart for payment for all past dividend periods and the current dividend period, no Class C Preferred Shares will be redeemed unless all outstanding Class C Preferred Shares are simultaneously redeemed or exchanged; provided, however, that the foregoing will not prevent the purchase or acquisition of Class C Preferred Shares pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding Class C Preferred Shares. In addition, unless full cumulative dividends on all outstanding Class C Preferred Shares have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, we will not purchase or otherwise acquire directly or indirectly any Class C Preferred Shares or any shares of any other class or series of our capital stock ranking junior to or on a parity with the Class C Preferred Shares as to the payment of dividends or the distribution of our assets upon our liquidation, dissolution or winding up (except by conversion into or exchange for shares of any class or series of our capital stock ranking junior to the Class C Preferred Shares as to the payment of dividends or the distribution of our assets upon our liquidation, dissolution or winding up or by redemptions for the purposes of maintaining our qualification as a REIT).

Our Class C Preferred Shares have no stated maturity and will not be subject to any sinking fund or mandatory redemption provisions, except as provided under "Restrictions on Ownership" below.

Subject to applicable law, we may purchase Class C Preferred Shares in the open market, by tender or by private agreement. We are permitted to return any Class C Preferred Shares that we reacquire to the status of authorized but unissued shares.

### **Voting Rights**

Holders of Class C Preferred Shares will have no voting rights, except as from time to time required by law and as follows.

If dividends on our Class C Preferred Shares are due but unpaid for six or more quarters, whether or not consecutive, holders of Class C Preferred Shares, voting separately as a class with all other series of preferred shares upon which like voting rights have been conferred and are exercisable, will be entitled to vote for the election of two additional directors to serve on our board of directors until all dividend arrearages have been paid or authorized and set aside for payment in full. Such election shall be held at a special meeting of the shareholders and at each subsequent annual meeting until all arrearages and the dividends on the Class C Preferred Shares and such other series of preferred shares upon which like voting rights have been conferred and are exercisable for the then current dividend period have been fully paid or declared or authorized or a sum sufficient for the full payment thereof has been set aside. Vacancies for directors elected by holders of Class C Preferred Shares and any other such series of preferred shares shall be filled by the remaining director so elected then in office or, if there is no such remaining director, by vote of holders of a majority of the outstanding Class C Preferred Shares and any other such series of preferred shares voting as a single class. A director elected by the holders of Class C Preferred Shares and any other such series of preferred shares may be removed with or without cause and only by vote of holders of a majority of the outstanding Class C Preferred Shares and any other such series of preferred shares voting as a single class.

In addition, the affirmative vote of the holders of at least  $66\frac{2}{3}\%$  of the outstanding Class C Preferred Shares is required for us to (i) authorize, create or issue or increase the authorized or issued amount any class or series of our capital stock ranking senior to our Class C Preferred Shares as to the payment of dividends or as to the distribution of assets upon liquidation, dissolution or winding up, or reclassify any authorized shares of our capital stock into any such class or series of our capital stock, or create, authorize or issue any obligation or security

convertible into or exchangeable for or evidencing the right to purchase any such class or series of our capital stock; or (ii) to amend, alter or repeal the provisions of our Articles of Incorporation or the articles of amendment that relate to the Class C Preferred Shares, whether by merger, consolidation or otherwise, in a manner that materially and adversely affects the rights, preferences, privileges or voting power of the holders of Class C Preferred Shares; provided, however, with respect to the occurrence of any of the Events set forth in (ii) above, so long as Class C Preferred Shares remain outstanding or are converted into like securities of the surviving or resulting entity, in each case with like preference, privilege or voting power and terms thereof materially unchanged, taking into account that upon the occurrence of any such event, we may not be the surviving entity and such surviving entity may be a non-corporate entity, the occurrence of any such event will not be deemed to materially adversely affect such rights, preferences, privileges or voting powers of holders of Class C Preferred Shares; and provided further that (x) any increase in the amount of the authorized preferred shares or the creation or issuance of any other series of preferred shares, or (y) the creation, issuance or increase in the amount of authorized shares of any other class or series of our capital stock, or (z) any increase in the amount of authorized Class C Preferred Shares, in each case ranking on a parity with or junior to the Class C Preferred Shares with respect to payment of dividends and the distribution of assets upon our voluntary or involuntary liquidation, dissolution or winding up, will not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers. We may issue additional Class C Preferred Shares, or other parity stock, without any vote of the holders of Class C Preferred Shares.

In any matter in which our Class C Preferred Shares is entitled to vote, each Class C Preferred Share will be entitled to one vote. If the holders of Class C Preferred Shares and another series of preferred stock are entitled to vote together as a single class on any matter, the Class C Preferred Shares and the shares of the other series will have one vote for each \$25.00 of liquidation preference.

In addition, the holders of such Class C Preferred Shares will not have any voting rights with respect to, and the consent of the holders of Class C Preferred Shares is not required for, the taking of any corporate action, including any merger or consolidation involving us or a sale of all or substantially all of our assets, regardless of the effect that such merger, consolidation or sale may have upon the powers, preferences, voting power or other rights or privileges of the Class C Preferred Shares, except as set forth in part (ii) of the paragraph that is two paragraphs above. Except as expressly set forth in the articles of amendment that relate to the Class C Preferred Shares, the Class C Preferred Shares will not have any relative, participatory, optional or other special voting rights and powers.

#### **Conversion Rights**

Our Class C Preferred Shares are not convertible into or exchangeable for any of our other securities or property.

#### **Information Rights**

During any period in which we are not subject to Section 13 or 15(d) of the Exchange Act and any Class C Preferred Shares are outstanding, we will (i) transmit by mail to all holders of Class C Preferred Shares, as their names and addresses appear in our record books and without cost to such holders, copies of the annual reports and quarterly reports that we would have been required to file with the Securities and Exchange Commission, or the Commission, pursuant to rules 13 or 15(d) of the Exchange Act if we were subject to such rules (other than any exhibits that would have been required), and (ii) promptly upon written request, supply copies of such reports to any prospective holder of Class C Preferred Shares. We will mail the reports to the holders of Class C Preferred Shares within 15 days after the respective dates by which we would have been required to file the reports with the Commission if we were subject to Section 13 or 15(d) of the Exchange Act.



## Restrictions on Ownership

For information regarding restrictions on ownership of Class C Preferred Shares, see "Description of Common Shares-Restrictions on Ownership and Transfer" and "Description of Preferred Shares-Restrictions on Ownership and Transfer" in the accompanying prospectus. Our Articles of Amendment provide that, unless excepted by our board of directors, no person or group of affiliated persons may own directly, or beneficially or constructively through the application of the attribution provisions of the Internal Revenue Code of 1986, as amended (the "Code"), our Class C Preferred Shares in excess of 9.8% (by value or number of shares, whichever is more restrictive) of the company's outstanding Class C Preferred Shares. We have the right to purchase or refuse to transfer any Class C Preferred Shares that exceed the preferred share ownership limitation, as provided in our charter. If we elect to purchase such shares, the purchase price will be equal to \$25.00 per share, plus any accrued and unpaid dividends through and including the date of purchase.

Pursuant to our Articles of Amendment, if any purported transfer of our Class C Preferred Shares or any other event would otherwise result in any person violating the ownership limit or such other limit as established by our board of directors or would result in our being "closely held" under Section 856(h) of the Code or otherwise failing to qualify as a REIT, then that number of Class C Preferred Shares in excess of the ownership limit or causing us to be "closely held" or otherwise to fail to qualify as a REIT (rounded up to the nearest whole share) will be automatically transferred to, and held by, a trust for the exclusive benefit of one or more charitable organizations selected by us. The automatic transfer will be effective as of the close of business on the business day prior to the date of the violative transfer or other event that results in a transfer to the trust. Any dividend or other distribution paid to the purported record transferee, prior to our discovery that the shares had been automatically transferred to a trust as described above, must be repaid to the trustee upon demand for distribution to the beneficiary of the trust. If the transfer to the trust as described above is not automatically effective, for any reason, to prevent a violation of the preferred share ownership limit or our being "closely held" or otherwise failing to qualify as a REIT, then our charter provides that the transfer of the Class C Preferred Shares in excess of the ownership limit will be void. If any transfer of the Class C Preferred Shares would result in shares of our stock being beneficially owned by fewer than 100 persons, then any such purported transfer will be void and of no force or effect.

Our Class C Preferred Shares transferred to the trustee are deemed offered for sale to us, or our designee, at a price per share equal to the lesser of (1) the price paid by the purported record transferee for the Class C Preferred Shares (or, if the event which resulted in the transfer to the trust did not involve a purchase of such shares of our stock at market price, the last reported sales price reported on the NYSE on the trading day immediately preceding the day of the event which resulted in the transfer of such shares of our stock to the trust) and (2) the market price on the date we, or our designee, accept such offer. We have the right to accept such offer until the trustee has sold the Class C Preferred Shares held in the trust pursuant to the clauses discussed below. Upon a sale to us, the interest of the charitable beneficiary in the Class C Preferred Shares sold terminates and the trustee must distribute the net proceeds of the sale to the purported record transferee and any dividends or other distributions held by the trustee with respect to such stock will be paid to the charitable beneficiary.

If we do not buy the Class C Preferred Shares, the trustee must, within 20 days of receiving notice from us of the transfer of shares to the trust, sell the shares to a person or entity designated by the trustee who could own the shares without violating the preferred share ownership limit or such other limit as established by our board of directors. After that, the trustee must distribute to the purported record transferee an amount equal to the lesser of (1) the price paid by the purported record transferee or owner for the shares (or, if the event which resulted in the transfer to the trust did not involve a purchase of such shares at market price, the last reported sales price reported on the NYSE on the trading day immediately preceding the day of the event which resulted in the transfer of such

shares of our stock to the trust) and (2) the sales proceeds (net of commissions and other expenses of sale) received by the trustee for the shares. Any net sales proceeds in excess of the amount payable to the purported record transferee will be immediately paid to the charitable beneficiary, together with any dividends or other distributions thereon. In addition, if prior to discovery by us that our Class C Preferred Shares have been transferred to a trust, such shares of stock are sold by a purported record transferee, then such shares shall be deemed to have been sold on behalf of the trust and to the extent that the purported record transferee received an amount for or in respect of such shares that exceeds the amount that such purported record transferee was entitled to receive, such excess amount shall be paid to the trustee upon demand. The purported beneficial transferee or purported record transferee has no rights in the Class C Preferred Shares held by the trustee.

The trustee shall be designated by us and shall be unaffiliated with us and with any purported record transferee or purported beneficial transferee. Prior to the sale of any Class C Preferred Shares in excess of the preferred stock ownership limit by the trust, the trustee will receive, in trust for the beneficiary, all dividends and other distributions paid by us with respect to the Class C Preferred Shares in excess of the preferred share ownership limit, and may also exercise all voting rights with respect to such shares.

Subject to North Carolina law, effective as of the date that the Class C Preferred Shares have been transferred to the trust, the trustee shall have the authority, at the trustee's sole discretion:

to rescind as void any vote cast by a purported record transferee prior to our discovery that the shares have been transferred to the trust; and

to recast the vote in accordance with the desires of the trustee acting for the benefit of the beneficiary of the trust.

However, if we have already taken irreversible corporate action, then the trustee may not rescind and recast the vote.

These ownership limits could delay, defer or prevent a transaction or a change of control of our company that might otherwise result in a premium price for our Class C Preferred Shares or otherwise be in the best interest of our stockholders.

**CERTAIN FEDERAL INCOME TAX CONSIDERATIONS FOR HOLDERS  
OF OUR CLASS C PREFERRED SHARES**

The following summary describes the principal United States federal income tax consequences to you of purchasing, owning and disposing of our Class C Preferred Shares. The following summary supplements the discussion under "Material Federal Income Tax Considerations" in the accompanying prospectus and is subject to the limitations and exceptions presented therein. This summary deals only with Class C Preferred Shares held as a "capital asset" (generally, property held for investment within the meaning of Section 1221 of the Code). It does not address all the tax consequences that may be relevant to you in light of your particular circumstances. In addition, this discussion does not address the tax consequences relevant to persons wh