

ISTAR FINANCIAL INC  
Form 10-Q  
May 07, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2010**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 1-15371**

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**iSTAR FINANCIAL INC.**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of  
incorporation or organization)

**95-6881527**  
(I.R.S. Employer Identification Number)

**1114 Avenue of the Americas, 39<sup>th</sup> Floor**  
**New York, NY**

(Address of principal executive offices)

**10036**  
(Zip code)

Registrant's telephone number, including area code: **(212) 930-9400**

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Indicate by check mark whether the registrant: (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports); and (ii) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period

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that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

|  |  |   |  |
|--|--|---|--|
| Large accelerated<br>filer <input type="radio"/> | Accelerated<br>filer <input type="radio"/> | Non-accelerated filer <input type="radio"/><br>(Do not check if a smaller<br>reporting company) | Smaller reporting<br>company <input type="radio"/> |
|--|--|---|--|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of April 30, 2010, there were 93,381,912 shares of common stock, \$0.001 par value per share of iStar Financial Inc., ("Common Stock") outstanding.

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**iStar Financial Inc.**

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Table of Contents**PART 1. CONSOLIDATED FINANCIAL INFORMATION****Item I. Financial Statements****iStar Financial Inc.****Consolidated Balance Sheets****(In thousands, except per share data)****(unaudited)**

|   | As of<br>March 31,<br>2010 | As of<br>December 31,<br>2009 |
|---|----------------------------|-------------------------------|
| <b>ASSETS</b>   |                            |                               |
| Loans and other lending investments, net  | \$ 6,731,546               | \$ 7,661,562                  |
| Corporate tenant lease assets, net  | 1,823,854                  | 2,885,896                     |
| Other investments   | 411,003                    | 433,130                       |
| Real estate held for investment, net  | 538,786                    | 422,664                       |
| Other real estate owned   | 829,851                    | 839,141                       |
| Assets held for sale  | 1,158,595                  | 17,282                        |
| Cash and cash equivalents   | 640,858                    | 224,632                       |
| Restricted cash   | 20,518                     | 39,654                        |
| Accrued interest and operating lease income receivable,<br>net  | 51,571                     | 54,780                        |
| Deferred operating lease income receivable  | 60,808                     | 122,628                       |
| Deferred expenses and other assets, net   | 88,165                     | 109,206                       |
| <b>Total assets</b>   | <b>\$ 12,355,555</b>       | <b>\$ 12,810,575</b>          |
| <b>LIABILITIES AND EQUITY</b>   |                            |                               |
| <b>Liabilities:</b>   |                            |                               |
| Accounts payable, accrued expenses and other liabilities  | \$ 254,747                 | \$ 252,110                    |
| Debt obligations, net   | 10,469,573                 | 10,894,903                    |
| <b>Total liabilities</b>  | <b>10,724,320</b>          | <b>11,147,013</b>             |
| <b>Commitments and contingencies</b>  |                            |                               |
| Redeemable noncontrolling interests   | 7,442                      | 7,444                         |
| <b>Equity:</b>  |                            |                               |
| iStar Financial Inc. shareholders' equity:  |                            |                               |
| Preferred Stock Series D, E, F, G and I, liquidation<br>preference \$25.00 per share (see Note 11)  | 22                         | 22                            |
| High Performance Units  | 9,800                      | 9,800                         |
| Common Stock, \$0.001 par value, 200,000 shares<br>authorized, 138,123 issued and 93,382 outstanding at<br>March 31, 2010 and 137,868 issued and 94,216<br>outstanding at December 31, 2009 | 138                        | 138                           |
| Additional paid-in capital  | 3,795,797                  | 3,791,972                     |
| Retained earnings (deficit)   | (2,077,552)                | (2,051,376)                   |
| Accumulated other comprehensive income (see<br>Note 14)   | 1,130                      | 6,145                         |
| Treasury stock, at cost, \$0.001 par value, 44,741 shares<br>at March 31, 2010 and 43,652 shares at December 31,<br>2009  | (154,932)                  | (151,016)                     |

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|   |               |               |
|---|---------------|---------------|
| Total iStar Financial Inc. shareholders' equity | 1,574,403     | 1,605,685     |
| Noncontrolling interests                        | 49,390        | 50,433        |
| Total equity                                    | 1,623,793     | 1,656,118     |
| Total liabilities and equity                    | \$ 12,355,555 | \$ 12,810,575 |

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**iStar Financial Inc.****Consolidated Statements of Operations****(In thousands, except per share data)****(unaudited)**

|  | <b>For the<br/>Three Months Ended<br/>March 31,</b> |                    |
|--|---|--------------------|
|  | <b>2010</b>   | <b>2009</b>        |
| <b>Revenue:</b>  |   |                    |
| Interest income  | \$ 116,616  | \$ 177,227         |
| Operating lease income   | 43,735  | 45,943             |
| Other income   | 13,198  | 2,506              |
| <b>Total revenue</b>   | <b>173,549</b>                                      | <b>225,676</b>     |
| <b>Costs and expenses:</b>   |   |                    |
| Interest expense   | 87,216  | 114,630            |
| Operating costs - corporate tenant<br>lease assets   | 4,070   | 4,490              |
| Depreciation and amortization  | 15,826  | 14,392             |
| General and administrative   | 27,216  | 35,590             |
| Provision for loan losses  | 89,469  | 258,096            |
| Impairment of other assets   | 5,921   | 25,331             |
| Other expense  | 17,683  | 10,357             |
| <b>Total costs and expenses</b>  | <b>247,401</b>                                      | <b>462,886</b>     |
| Income (loss) before earnings (loss)<br>from equity method investments and<br>gain on early extinguishment of debt                                     | (73,852)  | (237,210)          |
| Gain on early extinguishment of<br>debt  | 38,728  | 154,377            |
| Earnings (loss) from equity method<br>investments  | 11,430  | (20,500)           |
| Income (loss) from continuing<br>operations  | (23,694)  | (103,333)          |
| Income from discontinued<br>operations   | 7,552   | 4,644              |
| Gain from discontinued operations  |   | 11,617             |
| <b>Net income (loss)</b>   | <b>(16,142)</b>                                     | <b>(87,072)</b>    |
| Net loss attributable to<br>noncontrolling interests   | 546   | 1,243              |
| <b>Net income (loss) attributable to iStar<br/>Financial Inc.</b>  | <b>(15,596)</b>                                     | <b>(85,829)</b>    |
| Preferred dividends  | (10,580)  | (10,580)           |
| <b>Net income (loss) attributable to iStar<br/>Financial Inc. and allocable to<br/>common shareholders, HPU holders<br/>and Participating Security</b> | <b>\$ (26,176)</b>                                  | <b>\$ (96,409)</b> |

holders(1)(2)(3)

**Per common share data(3):**

|  |           |           |
|--|-----------|-----------|
| Income (loss) attributable to iStar Financial Inc. from continuing operations: |           |           |
| Basic and diluted  | \$ (0.35) | \$ (1.04) |
| Net income (loss) attributable to iStar Financial Inc.:                        |           |           |
| Basic and diluted  | \$ (0.27) | \$ (0.89) |
| Weighted average number of common shares basic and diluted                     |           |           |
|  | 93,923    | 105,606   |

**Per HPU share data(1)(3):**

|  |            |             |
|--|------------|-------------|
| Income (loss) attributable to iStar Financial Inc. from continuing operations: |            |             |
| Basic and diluted  | \$ (66.00) | \$ (196.60) |
| Net income (loss) attributable to iStar Financial Inc.:                        |            |             |
| Basic and diluted  | \$ (51.20) | \$ (168.20) |
| Weighted average number of HPU shares basic and diluted                        |            |             |
|  | 15         | 15          |

**Explanatory Notes:**

- (1) HPU holders are current and former Company employees who purchased high performance common stock units under the Company's High Performance Unit Program.
- (2) Participating Security holders are Company employees and directors who hold unvested restricted stock units and common stock equivalents granted under the Company's Long Term Incentive Plans.
- (3) See Note 13 for amounts attributable to iStar Financial Inc. for income (loss) from continuing operations and further details on the calculation of earnings per share.

The accompanying notes are an integral part of the consolidated financial statements.

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**iStar Financial Inc.**  
**Consolidated Statement of Changes in Equity**  
**For the Three Months Ended March 31, 2010**  
(In thousands)  
(unaudited)

|  | iStar Financial Inc. Shareholders' Equity |          |                              |                                  |                                   |   |                              |                             |                 |
|--|---|----------|------------------------------|----------------------------------|-----------------------------------|---|------------------------------|-----------------------------|-----------------|
|  | Preferred<br>Stock(1)                     | HPU's    | Common<br>Stock<br>at<br>Par | Additional<br>Paid-In<br>Capital | Retained<br>Earnings<br>(Deficit) | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury<br>Stock at<br>cost | Noncontrolling<br>Interests | Total<br>Equity |
| Balance at December 31, 2009                     | \$ 22                                     | \$ 9,800 | \$ 138                       | \$ 3,791,972                     | \$ (2,051,376)                    | \$ 6,145  | \$ (151,016)                 | \$ 50,433                   | \$ 1,656,118    |
| Dividends declared preferred                     |   |          |                              |                                  | (10,580)                          |   |                              |                             | (10,580)        |
| Repurchase of stock                              |   |          |                              |                                  |                                   |   | (3,916)                      |                             | (3,916)         |
| Restricted stock unit amortization, net          |   |          |                              | 3,825                            |                                   |   |                              |                             | 3,825           |
| Net loss for the period(2)                       |   |          |                              |                                  | (15,596)                          |   |                              | (545)                       | (16,141)        |
| Contributions from noncontrolling interests      |   |          |                              |                                  |                                   |   |                              | 10                          | 10              |
| Distributions to noncontrolling interests        |   |          |                              |                                  |                                   |   |                              | (508)                       | (508)           |
| Change in accumulated other comprehensive income |   |          |                              |                                  |                                   | (5,015)   |                              |                             | (5,015)         |
| Balance at March 31, 2010                        | \$ 22                                     | \$ 9,800 | \$ 138                       | \$ 3,795,797                     | \$ (2,077,552)                    | \$ 1,130  | \$ (154,932)                 | \$ 49,390                   | \$ 1,623,793    |

**Explanatory Notes:**

- (1) See Note 11 for details on the Company's Cumulative Redeemable Preferred Stock.
- (2) For the three months ended March 31, 2010, net loss for the period included \$1 of net loss attributable to redeemable noncontrolling interests.

The accompanying notes are an integral part of the consolidated financial statements.



Table of Contents**iStar Financial Inc.****Consolidated Statements of Cash Flows****(In thousands)****(unaudited)**

|  | <b>For the<br/>Three Months Ended<br/>March 31,</b> |               |
|--|---|---------------|
|  | <b>2010</b>   | <b>2009</b>   |
| <b>Cash flows from operating activities:</b>   |   |               |
| Net income (loss)  | \$ (16,142)   | \$ (87,072)   |
| Adjustments to reconcile net income (loss) to cash flows from operating activities:    |   |               |
| Provision for loan losses  | 89,469  | 258,096       |
| Non-cash expense for stock-based compensation  | 4,730   | 5,551         |
| Impairment of other assets   | 5,921   | 25,331        |
| Depreciation and amortization  | 21,987  | 23,759        |
| Amortization of discounts/premiums and deferred financing costs on debt                | (7,803)   | 4,237         |
| Amortization of discounts/premiums, deferred interest and costs on lending investments | (32,000)  | (44,374)      |
| Discounts, loan fees and deferred interest received                                    | 2,826   | 3,260         |
| (Earnings)/losses from equity method investments                                       | (11,430)  | 20,500        |
| Distributions from operations of equity method investments                             | 13,523  | 10,546        |
| Deferred operating lease income receivable   | (3,389)   | (4,261)       |
| Gain from discontinued operations  |   | (11,617)      |
| Gain on early extinguishment of debt   | (38,728)  | (154,377)     |
| Other non-cash adjustments   | (1,733)   | 5,765         |
| Changes in assets and liabilities:   |   |               |
| Changes in accrued interest and operating lease income receivable, net                 | 1,365   | 18,827        |
| Changes in deferred expenses and other assets, net                                     | 1,547   | 7,391         |
| Changes in accounts payable, accrued expenses and other liabilities                    | (2,382)   | (25,565)      |
| <b>Cash flows from operating activities</b>  | <b>27,761</b>                                       | <b>55,997</b> |
| <b>Cash flows from investing activities:</b>   |   |               |
| Add-on fundings under existing loan commitments  | (130,263)   | (375,860)     |
| Repayments of and principal collections on loans                                       | 376,538   | 160,950       |
| Net proceeds from sales of loans   | 118,793   | 212,129       |
| Net proceeds from sales of CTL assets  | 17,225  | 32,350        |
| Net proceeds from sales of other real estate owned                                     | 165,806   | 73,324        |
| Net proceeds from repayments and sales of securities                                   | 212,610   | 8,492         |
| Contributions to unconsolidated entities   | (3,792)   | (10,149)      |
| Distributions from unconsolidated entities   | 1,709   | 2,979         |
| Capital improvements for build-to-suit facilities                                      |   | (6,887)       |
| Capital expenditures on corporate tenant lease assets                                  | (5,209)   | (1,096)       |
| Capital expenditures on real estate held for investment                                | (1,977)   |               |
| Other investing activities, net  | (528)   | (3,271)       |
| <b>Cash flows from investing activities</b>  | <b>750,912</b>                                      | <b>92,961</b> |
| <b>Cash flows from financing activities:</b>   |   |               |
| Borrowings under revolving credit facilities   | 51  | 92,509        |
| Repayments under revolving credit facilities   |   | (113,030)     |
| Borrowings under secured term loans  |   | 500,000       |

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|   |            |            |
|---|------------|------------|
| Repayments under secured term loans                                 | (16,077)   | (109,338)  |
| Repayments under unsecured notes                                    | (134,970)  | (383,399)  |
| Repurchases of secured and unsecured notes                          | (198,651)  | (132,317)  |
| Net distributions to noncontrolling interests                       | (447)      | (574)      |
| Changes in restricted cash held in connection with debt obligations | 2,143      | 100,603    |
| Payments for deferred financing costs                               |            | (39,355)   |
| Preferred dividends paid  | (10,580)   | (10,580)   |
| Purchase of treasury stock  | (3,916)    | (8,725)    |
| <br>  |            |            |
| Cash flows from financing activities                                | (362,447)  | (104,206)  |
| <br>  |            |            |
| Changes in cash and cash equivalents                                | 416,226    | 44,752     |
| Cash and cash equivalents at beginning of period                    | 224,632    | 496,537    |
| <br>  |            |            |
| Cash and cash equivalents at end of period                          | \$ 640,858 | \$ 541,289 |

The accompanying notes are an integral part of the consolidated financial statements.

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**iStar Financial Inc.**

**Notes to Consolidated Financial Statements**

**(unaudited)**

**Note 1 Business and Organization**

**Business** iStar Financial Inc., or the "Company," is a publicly-traded finance company focused on the commercial real estate industry. The Company primarily provides custom-tailored financing to high-end private and corporate owners of real estate, including senior and mezzanine real estate debt, senior and mezzanine corporate capital, as well as corporate net lease financing and equity. The Company, which is taxed as a real estate investment trust, or "REIT," provides innovative and value-added financing solutions to its customers. The Company delivers customized financing products to sophisticated real estate borrowers and corporate customers who require a high level of flexibility and service. The Company's two primary lines of business are lending and corporate tenant leasing.

**Organization** The Company began its business in 1993 through private investment funds and became publicly traded in 1998. Since that time, the Company has grown through the origination of new lending and leasing transactions, as well as through corporate acquisitions, including the acquisition of TriNet Corporate Realty Trust, Inc. in 1999, the acquisitions of Falcon Financial Investment Trust and of a significant non-controlling interest in Oak Hill Advisors, L.P. and affiliates in 2005, and the acquisition of the commercial real estate lending business and loan portfolio which the Company refers to as "Fremont CRE," of Fremont Investment and Loan, or "Fremont," a division of Fremont General Corporation, in 2007.

**Note 2 Basis of Presentation and Principles of Consolidation**

**Basis of Presentation** The accompanying unaudited Consolidated Financial Statements have been prepared in conformity with the instructions to Form 10-Q and Article 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles in the United States of America ("GAAP") for complete financial statements. These unaudited Consolidated Financial Statements and related Notes should be read in conjunction with the Consolidated Financial Statements and related Notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

In the opinion of management, the accompanying Consolidated Financial Statements contain all adjustments, consisting of normal recurring adjustments necessary for a fair statement of the results for the interim periods presented. Such operating results may not be indicative of the expected results for any other interim periods or the entire year.

Certain prior year amounts have been reclassified in the Consolidated Financial Statements and the related Notes to conform to the 2010 presentation.

**Principles of Consolidation** The Consolidated Financial Statements include the financial statements of the Company, its wholly owned subsidiaries, controlled partnerships and variable interest entities ("VIEs") for which the Company is the primary beneficiary (see Note 3). All significant intercompany balances and transactions have been eliminated in consolidation.

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**iStar Financial Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**(unaudited)**

**Note 3 Summary of Significant Accounting Policies**

As of March 31, 2010, the Company's significant accounting policies, which are detailed in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, have not changed, except for the following:

**Consolidation Variable interest entities** The Company adopted Accounting Standards Update ("ASU") 2009-17 on January 1, 2010. In accordance with the standard, the Company evaluated its investments and other contractual arrangements to determine if they constitute variable interests in a VIE. A VIE is an entity where a controlling financial interest is achieved through means other than voting rights. A VIE is consolidated by the primary beneficiary, which is the party that has the power to direct matters that most significantly impact the activities of the VIE and has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. This overall consolidation assessment includes a review of, among other factors, which interests create or absorb variability, contractual terms, the key decision making powers, their impact on the VIE's economic performance, and related party relationships. Where qualitative assessment is not conclusive, the Company performs a quantitative analysis. The Company reassesses its evaluation of the primary beneficiary of a VIE on an ongoing basis and assesses its evaluation of an entity as a VIE upon certain reconsideration events.

The Company has investments in certain funds that meet the deferral criteria in ASU 2010-10 and will continue to assess consolidation of these entities under the overall guidance on the consolidation of VIEs in Accounting Standards Codification ("ASC") 810-10. The consolidation evaluation is similar to the process noted above, except that the primary beneficiary is the party that will receive a majority of the VIE's anticipated losses, a majority of the VIE's expected residual returns, or both. In addition, for entities that meet the deferral criteria, the Company reassesses its initial evaluation of the primary beneficiary and whether an entity is a VIE upon the occurrence of certain reconsideration events.

**Consolidated VIEs** The Company did not consolidate any new entities resulting from the adoption of ASU 2009-17. The Company continues to consolidate OHA Strategic Credit Fund Parallel I, L.P. ("OHA SCF"), which was created to invest in distressed and undervalued loans, bonds, equities and other investments. As of March 31, 2010, OHA SCF had \$39.8 million of total assets, no debt and \$0.1 million of noncontrolling interest. The investments held by this entity are presented in "Other investments" on the Company's Consolidated Balance Sheets. As of March 31, 2010, the Company had a total unfunded commitment of \$26.8 million to this entity.

The Company also continues to consolidate Madison Deutsche Andau Holdings, LP ("Madison DA") which was created to invest in mortgage loans secured by real estate in Europe. As of March 31, 2010, Madison DA had \$59.2 million of total assets, no debt and \$8.9 million of noncontrolling interest. The investments held by this entity are presented in "Loans and other lending investments, net" on the Company's Consolidated Balance Sheets.

**Unconsolidated VIEs** On January 1, 2010, the Company deconsolidated Moor Park Real Estate Partners II, L.P. Incorporated ("Moor Park") as a result of the adoption of ASU 2009-17. Moor Park is a third-party managed fund that was created to make investments in European real estate as a 33% investor along-side a sister fund. The Company determined it did not have the power to direct matters that most significantly impact the activities of the VIE due to its interest as a limited partner. There was no cumulative effect adjustment resulting from the deconsolidation and the investment continues to be classified in "Other investments" on the Company's Consolidated Balance Sheets. As of March 31, 2010,

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**iStar Financial Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**(unaudited)**

**Note 3 Summary of Significant Accounting Policies (Continued)**

the Company's carrying value in Moor Park was \$12.0 million. The Company's maximum exposure to loss from this investment would not exceed the carrying value of its investment.

In addition, the Company determined 26 of its other investments were VIEs where it is not the primary beneficiary and accordingly the VIEs have not been consolidated in the Company's Consolidated Financial Statements. As of March 31, 2010, the Company's maximum exposure to loss from these investments would not exceed the sum of the \$142.0 million carrying value of the investments and \$42.4 million of related unfunded commitments.

**New accounting standards**

In February 2010, the Financial Accounting Standards Board ("FASB") issued ASU 2010-10, "Consolidation (Topic 810): Amendments for Certain Investments Funds" ("ASU 2010-10"), which amended certain provisions of ASC 810-10. ASU 2010-10 defers the effective date of ASU 2009-17 for reporting enterprises' interest in certain entities and for certain money market mutual funds. An entity that qualifies for the deferral will continue to be assessed under the overall guidance on the consolidation of variable interest entities in ASC 810-10 (before the Statement of Financial Accounting Standards ("SFAS") No. 167 amendments) or other applicable consolidation guidance. In addition, ASU 2010-10 amended certain provisions to change how a decision maker or service provider determines whether its contract represents a variable interest. The Company adopted ASU 2010-10 on January 1, 2010, as required, and as a result, deferred the effective date of ASC 810-10 for certain entities that met the criteria.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("ASU 2009-17"), which eliminates the exemption for qualifying special purpose entities, creates a new approach for determining who should consolidate a VIE and requires an ongoing reassessment to determine if a Company should consolidate a VIE. The standard is effective for interim and annual periods beginning after November 15, 2009. The Company adopted ASU 2009-17 on January 1, 2010, as required. See above and Note 7 for further details on the adoption of this guidance.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140" ("ASU 2009-16"), which eliminates the qualifying special-purpose entity concept, creates a new unit of account definition that must be met for transfers of portions of financial assets to be eligible for sale accounting, clarifies and changes the de-recognition criteria for a transfer to be accounted for as a sale, changes the amount of recognized gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor and requires new disclosures. The Company adopted ASU 2009-16 on January 1, 2010, as required, and it did not have a significant impact on the Company's Consolidated Financial Statements.

Table of Contents**iStar Financial Inc.****Notes to Consolidated Financial Statements (Continued)****(unaudited)****Note 4 Loans and Other Lending Investments, net**

The following is a summary of the Company's loans and other lending investments (\$ in thousands):

| Type of Investment(1)                                | As of March 31, 2010 |                     |               |                                |              | As of December 31, 2009 |                     |               |                                |              |
|--|----------------------|---------------------|---------------|--------------------------------|--------------|-------------------------|---------------------|---------------|--------------------------------|--------------|
|  | Loan<br>Count        | Performing<br>Loans | Loan<br>Count | Non-<br>performing<br>Loans(2) | Total        | Loan<br>Count           | Performing<br>Loans | Loan<br>Count | Non-<br>performing<br>Loans(2) | Total        |
| Senior Mortgages                                     | 105                  | \$ 3,514,608        | 63            | \$ 3,343,183                   | \$ 6,857,791 | 108                     | \$ 3,791,633        | 73            | \$ 4,049,300                   | \$ 7,840,933 |
| Subordinate Mortgages                                | 16                   | 370,441             | 5             | 108,052                        | 478,493      | 17                      | 401,532             | 4             | 89,881                         | 491,413      |
| Corporate/Partnership<br>Loans                       | 19                   | 889,146             | 4             | 46,915                         | 936,061      | 19                      | 887,555             | 6             | 70,074                         | 957,629      |
| Managed Loan<br>Value(3)                             | 140                  | 4,774,195           | 72            | 3,498,150                      | 8,272,345    | 144                     | 5,080,720           | 83            | 4,209,255                      | 9,289,975    |
| Participated portion of<br>loans(3)                  |                      | (107,199)           |               | (144,308)                      | (251,507)    |                         | (174,936)           |               | (298,333)                      | (473,269)    |
| Total Loans  |                      | \$ 4,666,996        |               | \$ 3,353,842                   | 8,020,838    |                         | \$ 4,905,784        |               | \$ 3,910,922                   | 8,816,706    |
| Reserves for loan losses                             |                      |                     |               |                                | (1,306,250)  |                         |                     |               |                                | (1,417,949)  |
| Total Loans, net                                     |                      |                     |               |                                | 6,714,588    |                         |                     |               |                                | 7,398,757    |
| Other lending<br>investments securities              |                      |                     |               |                                | 16,958       |                         |                     |               |                                | 262,805      |
| Total Loans and other<br>lending investments,<br>net |                      |                     |               |                                | \$ 6,731,546 |                         |                     |               |                                | \$ 7,661,562 |

**Explanatory Notes:**

- (1) Loans and other lending investments are presented net of unearned income, unamortized discounts and premiums and net unamortized deferred fees and costs. In total, these amounts represented a net discount of \$98.5 million and \$97.0 million as of March 31, 2010 and December 31, 2009, respectively.
- (2) Non-performing loans have been determined to be impaired in accordance with the Company's policy and are on non-accrual status. As of March 31, 2010 and December 31, 2009, the Company had non-accrual loans with a total carrying value of \$3.55 billion and \$4.13 billion, respectively, which included non-performing loans and certain loans that were restructured in troubled debt restructurings.
- (3) Managed Loan Value represents the Company's carrying value of a loan and the outstanding participation interest on loans in the Fremont CRE portfolio. The structure of the participation puts the Company in the first loss position on these participated loans and Managed Loan Value is the most relevant measure of the Company's exposure to risk of loss on loans in the Fremont CRE portfolio.

Table of Contents**iStar Financial Inc.****Notes to Consolidated Financial Statements (Continued)****(unaudited)****Note 4 Loans and Other Lending Investments, net (Continued)**

Changes in the Company's reserve for loan losses were as follows (in thousands):

|  |              |
|--|--------------|
| <b>Reserve for loan losses, December 31, 2008</b>    | \$ 976,788   |
| Provision for loan losses                            | 1,255,357    |
| Charge-offs  | (814,196)    |
| <b>Reserve for loan losses, December 31, 2009(1)</b> | 1,417,949    |
| Provision for loan losses                            | 89,469       |
| Charge-offs  | (201,168)    |
| <b>Reserve for loan losses, March 31, 2010(1)</b>    | \$ 1,306,250 |

**Explanatory Note:**

- (1) Total reserve for loan losses at March 31, 2010 and December 31, 2009, included asset specific reserves of \$1.12 billion and \$1.24 billion, respectively, and general reserves of \$190.5 million and \$174.9 million, respectively.

During the three months ended March 31, 2010, the Company funded \$130.3 million under existing loan commitments and received gross principal repayments of \$585.0 million, a portion of which was allocable to the Fremont Participation (as defined below). During the same period, the Company sold loans with a total carrying value of \$168.2 million, for which it recognized charge-offs of \$49.4 million. In addition, during the three months ended March 31, 2010, the Company received title to properties in full or partial satisfaction of non-performing mortgage loans with a carrying value of \$397.9 million for which the properties had served as collateral, and recorded charge-offs totaling \$122.1 million, related to these loans. These properties were recorded as Other real estate owned ("OREO") and Real estate held for investment ("REHI") on the Company's Consolidated Balance Sheets (see Note 5).

The carrying value of impaired loans was \$3.61 billion and \$4.20 billion as of March 31, 2010 and December 31, 2009, respectively. As of March 31, 2010, the Company assessed each of the impaired loans for specific impairment and determined that non-performing loans with a carrying value of \$2.74 billion required specific reserves totaling \$1.12 billion and that the remaining impaired loans did not require any specific reserves. The average carrying value of total impaired loans was approximately \$3.90 billion and \$3.49 billion during the three months ended March 31, 2010 and 2009, respectively. The Company recorded interest income on cash payments from impaired loans of \$19.6 million and \$0.5 million for the three months ended March 31, 2010 and 2009, respectively.

**Fremont Participation** On July 2, 2007, the Company sold a \$4.20 billion participation interest ("Fremont Participation") in the \$6.27 billion Fremont CRE portfolio. Under the terms of the participation, the Company pays 70% of all principal collected from the Fremont CRE portfolio, including principal collected from amounts funded on the loans subsequent to the acquisition of the portfolio and proceeds received from asset sales, until the participation is fully repaid. The Fremont Participation receives floating interest at LIBOR + 1.50%.

Table of Contents**iStar Financial Inc.****Notes to Consolidated Financial Statements (Continued)****(unaudited)****Note 4 Loans and Other Lending Investments, net (Continued)**

Changes in the outstanding Fremont Participation balance were as follows (in thousands):

|  |                   |
|--|-------------------|
| <b>Loan participation, December 31, 2009</b> | \$ 473,269        |
| Principal repayments(1)                      | (221,762)         |
| <b>Loan participation, March 31, 2010</b>    | <b>\$ 251,507</b> |

**Explanatory Note:**

- (1) Includes \$80.2 million of principal repayments received by the Company as of March 31, 2010 that had not yet been remitted to the Fremont Participation holder and are reflected as a payable in "Accounts payable, accrued expenses and other liabilities" on the Company's Consolidated Balance Sheets.

**Loans acquired with deteriorated credit quality** The Company holds certain loans initially acquired at a discount, for which it was probable, at acquisition, that all contractually required payments would not be received. As of March 31, 2010 and December 31, 2009, these loans had cumulative principal balances of \$174.6 million and \$168.6 million, respectively, and cumulative carrying values of \$154.5 million and \$148.3 million, respectively. The Company does not have a reasonable expectation about the timing and amount of cash flows expected to be collected on these loans and is recognizing income when cash is received or applying cash to reduce the carrying value of the loans. The majority of these loans were acquired in the acquisition of Fremont CRE.

**Securities** During the three months ended March 31, 2010, the Company received a prepayment of \$205.0 million for its held-to-maturity debt securities and sold its remaining available-for-sale debt securities and recognized \$9.0 million in "Other income" on the Company's Consolidated Statements of Operations related to these transactions.

During the three months ended March 31, 2009, the Company determined that unrealized credit related losses on certain held-to-maturity and available-for-sale debt securities were other-than-temporary and recorded impairment charges totaling \$9.5 million in "Impairment of other assets" on the Company's Consolidated Statements of Operations.

**Encumbered loans** As of March 31, 2010 and December 31, 2009, loans and other lending investments with a carrying value of \$3.91 billion and \$4.39 billion, respectively, were pledged as collateral under the Company's secured indebtedness.

**Note 5 Real estate held for investment, net and Other real estate owned**

During the three months ended March 31, 2010, the Company received title to properties in full or partial satisfaction of non-performing mortgage loans with an aggregate estimated fair value of \$275.8 million, for which those properties had served as collateral. Of that amount, properties with a value of \$115.2 million were classified as REHI and \$160.6 million as OREO, based on management's strategy to either hold the properties over a longer period or to market them for sale.



Table of Contents**iStar Financial Inc.****Notes to Consolidated Financial Statements (Continued)****(unaudited)****Note 5 Real estate held for investment, net and Other real estate owned (Continued)****Real estate held for investment, net** REHI consisted of the following (in thousands):

|   | As of<br>March 31,<br>2010 | As of<br>December 31,<br>2009 |
|---|----------------------------|-------------------------------|
| Land held for investment and development        | \$ 376,308                 | \$ 290,283                    |
| Other operating properties                      | 166,433                    | 135,281                       |
| Less: accumulated depreciation and amortization | (3,955)                    | (2,900)                       |
| Real estate held for investment, net            | \$ 538,786                 | \$ 422,664                    |

For the three months ended March 31, 2010, the Company recorded REHI operating income of \$4.1 million in "Other income" and REHI operating expenses of \$6.2 million in "Other expense," on the Company's Consolidated Statements of Operations.

**Other real estate owned** During the three months ended March 31, 2010, the Company sold OREO assets with a carrying value of \$164.0 million. For the three months ended March 31, 2010 and 2009, the Company recorded impairment charges to OREO properties totaling \$4.9 million and \$6.6 million, respectively, and recorded expenses related to holding costs for OREO properties of \$6.6 million and \$6.4 million, respectively.

**Encumbered OREO and REHI assets** As of March 31, 2010 and December 31, 2009, OREO assets with a carrying value of \$351.6 million and \$232.7 million, respectively, and REHI assets with a carrying value of \$26.7 million and \$27.1 million, respectively were pledged as collateral under the Company's secured indebtedness.

**Note 6 Corporate Tenant Lease Assets, net and Assets Held for Sale**

The Company's investments in CTL assets, at cost, were as follows (in thousands):

|                                    | As of<br>March 31,<br>2010 | As of<br>December 31,<br>2009 |
|------------------------------------|----------------------------|-------------------------------|
| Facilities and improvements        | \$ 1,647,163               | \$ 2,761,083                  |
| Land and land improvements         | 460,638                    | 639,581                       |
| Less: accumulated depreciation     | (283,947)                  | (514,768)                     |
| Corporate tenant lease assets, net | \$ 1,823,854               | \$ 2,885,896                  |
| Assets held for sale               | \$ 1,158,595               | \$ 17,282                     |

As of March 31, 2010, the Company had classified 35 CTL assets and other related assets as held for sale. Of these, 34 assets collateralize non-recourse term debt with an aggregate principal balance of \$947.9 million maturing in April 2011 and one asset collateralizes non-recourse term debt with an aggregate principal balance of \$15.3 million maturing in August 2011. For the periods ended March 31, 2010 and 2009, the results of operations from these assets were reclassified to "Income from discontinued operations" on the Company's Consolidated Statements of Operations, including revenues of \$31.7 million and \$33.2 million, respectively. See Note 17 for additional details.

Table of Contents**iStar Financial Inc.****Notes to Consolidated Financial Statements (Continued)****(unaudited)****Note 6 Corporate Tenant Lease Assets, net and Assets Held for Sale (Continued)**

During the three months ended March 31, 2010 and 2009, the Company disposed of CTL assets with carrying values of \$17.2 million and \$20.8 million, respectively, which resulted in no gain for the three months ended March 31, 2010 and a gain of \$11.6 million for the three months ended March 31, 2009.

The Company receives reimbursements from customers for certain facility operating expenses including common area costs, insurance and real estate taxes. Customer expense reimbursements for the three months ended March 31, 2010 and 2009 were \$8.7 million and \$8.5 million, respectively. Of these amounts, \$4.7 million and \$4.2 million, respectively, were included as a reduction of "Operating costs corporate tenant lease assets," and the remainder was included in "Income from discontinued operations" on the Company's Consolidated Statements of Operations.

**Allowance for doubtful accounts** As of March 31, 2010 and December 31, 2009, the total allowance for doubtful accounts was \$2.8 million and \$2.8 million, respectively.

**Encumbered CTL assets and assets held for sale** As of March 31, 2010 and December 31, 2009, CTL assets, including assets held for sale, with a carrying value of \$2.66 billion and \$2.59 billion, respectively, were encumbered with mortgages or pledged as collateral under the Company's secured indebtedness.

**Note 7 Other Investments**

Other investments consist of the following items (in thousands):

|  | As of<br>March 31,<br>2010 | As of<br>December 31,<br>2009 |
|--|----------------------------|-------------------------------|
| Equity method investments              | \$ 373,749                 | \$ 339,002                    |
| CTL in-place lease intangibles, net(1) | 29,583                     | 48,751                        |
| Cost method investments                | 7,322                      | 6,923                         |
| Marketable securities                  | 349                        | 38,454                        |
| Other investments                      | \$ 411,003                 | \$ 433,130                    |

**Explanatory Note:**

- (1) Accumulated amortization on these assets was \$21.5 million and \$33.1 million as of March 31, 2010 and December 31, 2009, respectively. Amortization expense related to these assets was \$2.0 million and \$2.1 million for the three months ended March 31, 2010 and 2009, respectively.

Table of Contents**iStar Financial Inc.****Notes to Consolidated Financial Statements (Continued)****(unaudited)****Note 7 Other Investments (Continued)****Equity method investments**

The Company's equity method investments and its proportionate share of their results were as follows (in thousands):

|                  | Carrying value             |                               | Equity in earnings                  |             |
|------------------|----------------------------|-------------------------------|-------------------------------------|-------------|
|                  | As of<br>March 31,<br>2010 | As of<br>December 31,<br>2009 | For three months<br>ended March 31, |             |
|                  |                            |                               | 2010                                | 2009        |
| Oak Hill         | \$ 171,786                 | \$ 180,372                    | \$ 4,076                            | \$ 2,258    |
| Madison<br>Funds | 76,774                     | 75,096                        | 1,678                               | (8,521)     |
| Other            | 125,189                    | 83,534                        | 5,676                               | (14,237)    |
| Total            | \$ 373,749                 | \$ 339,002                    | \$ 11,430                           | \$ (20,500) |

**Other equity method investments** During the three months ended March 31, 2009, the Company recorded a non-cash out-of-period charge of \$9.4 million to recognize additional losses from an equity method investment as a result of additional depreciation expense that should have been recorded at the equity method entity. This adjustment was recorded as a reduction to "Other investments" on the Company's Consolidated Balance Sheets and a decrease to "Earnings (losses) from equity method investments," on the Company's Consolidated Statements of Operations. The Company concluded that the amount of losses that should have been recorded in periods beginning in July 2007 were not material to any of its previously issued financial statements. The Company also concluded that the cumulative out-of-period charge was not material to the fiscal year in which it has been recorded. As such, the charge was recorded in the Company's Consolidated Statements of Operations for the three months ended March 31, 2009, rather than restating prior periods.

**Note 8 Other Assets and Other Liabilities**

Deferred expenses and other assets, net, consist of the following items (in thousands):

|   | As of<br>March 31,<br>2010 | As of<br>December 31,<br>2009 |
|---|----------------------------|-------------------------------|
| Deferred financing fees, net(1)                     | \$ 37,030                  | \$ 41,959                     |
| Other receivables                                   | 15,235                     | 15,235                        |
| Corporate furniture, fixtures and equipment, net(2) | 13,880                     | 14,550                        |
| Leasing costs, net(3)                               | 5,677                      | 14,830                        |
| Other assets  | 16,343                     | 22,632                        |
| Deferred expenses and other assets, net             | \$ 88,165                  | \$ 109,206                    |

**Explanatory Notes:**

(1) Accumulated amortization on deferred financing fees was \$35.2 million and \$30.3 million as of March 31, 2010 and December 31, 2009, respectively.

(2)

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Accumulated depreciation on corporate furniture, fixture and equipment was \$6.3 million and \$5.6 million as of March 31, 2010 and December 31, 2009, respectively.

Table of Contents**iStar Financial Inc.****Notes to Consolidated Financial Statements (Continued)****(unaudited)****Note 8 Other Assets and Other Liabilities (Continued)**

- (3) Accumulated amortization on leasing costs was \$4.3 million and \$11.2 million as of March 31, 2010 and December 31, 2009, respectively.

Accounts payable, accrued expenses and other liabilities consist of the following items (in thousands):

|  | As of<br>March 31,<br>2010 | As of<br>December 31,<br>2009 |
|--|----------------------------|-------------------------------|
| Fremont Participation payable (see Note 4)               | \$ 80,758                  | \$ 67,711                     |
| Accrued interest payable                                 | 72,761                     | 49,697                        |
| Security deposits from customers                         | 22,915                     | 24,763                        |
| Unearned operating lease income                          | 17,088                     | 17,153                        |
| Accrued expenses   | 16,929                     | 37,388                        |
| Deferred tax liabilities                                 | 9,566                      | 9,336                         |
| Property taxes payable                                   | 3,984                      | 5,211                         |
| Other liabilities  | 30,746                     | 40,851                        |
| Accounts payable, accrued expenses and other liabilities | \$ 254,747                 | \$ 252,110                    |

Table of Contents**iStar Financial Inc.****Notes to Consolidated Financial Statements (Continued)****(unaudited)****Note 9 Debt Obligations, net**

As of March 31, 2010 and December 31, 2009, the Company's debt obligations were as follows (in thousands):

|   | Carrying Value as of |                   | Stated Interest Rates             | Scheduled Maturity Date |
|---|----------------------|-------------------|-----------------------------------|-------------------------|
|   | March 31, 2010       | December 31, 2009 |                                   |                         |
| <b>Secured revolving credit facilities:</b>     |                      |                   |                                   |                         |
| Line of credit(1)                               | \$ 618,208           | \$ 625,247        | LIBOR + 1.50%                     | June 2011               |
| Line of credit(1)                               | 334,180              | 334,180           | LIBOR + 1.50%                     | June 2012               |
| <b>Unsecured revolving credit facilities:</b>   |                      |                   |                                   |                         |
| Line of credit                                  | 500,638              | 504,305           | LIBOR + 0.85%                     | June 2011               |
| Line of credit                                  | 243,291              | 244,295           | LIBOR + 0.85%                     | June 2012               |
| Total revolving credit facilities               | 1,696,317            | 1,708,027         |                                   |                         |
| <b>Secured term loans:</b>                      |                      |                   |                                   |                         |
| Collateralized by CTLs(2)                       | 947,862              | 947,862           | Greater of 6.25% or LIBOR + 3.40% | April 2011              |
| Collateralized by loans, CTLs, REHI and OREO(1) | 1,055,000            | 1,055,000         | LIBOR + 1.50%                     | June 2011               |
| Collateralized by loans, CTLs, REHI and OREO(1) | 608,574              | 621,221           | LIBOR + 1.50%                     | June 2012               |
| Collateralized by loans, CTLs, REHI and OREO(3) | 1,000,000            | 1,000,000         | LIBOR + 2.50%                     | June 2012               |
| Collateralized by CTLs                          | 113,920              | 114,279           | 11.438%                           | December 2020           |
| Collateralized by CTLs and OREO(2)              | 245,262              | 260,980           | LIBOR + 1.65%<br>6.4% 8.4%        | Various through 2029    |
| Total secured term loans                        | 3,970,618            | 3,999,342         |                                   |                         |
| <b>Secured notes:</b>                           |                      |                   |                                   |                         |
| 8.0% senior notes(4)(5)                         | 147,253              | 155,253           | 8.0%                              | March 2011              |
| 10.0% senior notes(4)(5)                        | 447,329              | 479,548           | 10.0%                             | June 2014               |
| Total secured notes                             | 594,582              | 634,801           |                                   |                         |
| <b>Unsecured notes:</b>                         |                      |                   |                                   |                         |
| LIBOR + 0.35% senior notes                      |                      | 158,699           |                                   | March 2010              |
| 5.375% senior notes                             | 129,418              | 143,509           | 5.375%                            | April 2010              |
| 6.0% senior notes                               | 180,631              | 251,086           | 6.0%                              | December 2010           |
| 5.80% senior notes                              | 184,390              | 192,890           | 5.80%                             | March 2011              |
| 5.125% senior notes                             | 170,168              | 175,168           | 5.125%                            | April 2011              |
| 5.65% senior notes                              | 284,787              | 286,787           | 5.65%                             | September 2011          |
| 5.15% senior notes                              | 393,496              | 406,996           | 5.15%                             | March 2012              |
| 5.50% senior notes                              | 133,970              | 146,470           | 5.50%                             | June 2012               |
| LIBOR + 0.50% senior convertible notes(6)       | 787,750              | 787,750           | LIBOR + 0.50%                     | October 2012            |
| 8.625% senior notes                             | 501,701              | 508,701           | 8.625%                            | June 2013               |
| 5.95% senior notes                              | 448,453              | 459,453           | 5.95%                             | October 2013            |
| 6.5% senior notes                               | 67,055               | 75,635            | 6.5%                              | December 2013           |
| 5.70% senior notes                              | 200,601              | 206,601           | 5.70%                             | March 2014              |
| 6.05% senior notes                              | 105,765              | 105,765           | 6.05%                             | April 2015              |
| 5.875% senior notes                             | 261,403              | 261,403           | 5.875%                            | March 2016              |
| 5.85% senior notes                              | 99,722               | 99,722            | 5.85%                             | March 2017              |
| Total unsecured notes                           | 3,949,310            | 4,266,635         |                                   |                         |
| Other debt obligations                          | 100,000              | 100,000           | LIBOR + 1.5%                      | October 2035            |

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|                                      |                      |                      |
|--------------------------------------|----------------------|----------------------|
| <b>Total debt obligations</b>        | 10,310,827           | 10,708,805           |
| Debt premiums/(discounts), net(5)(6) | 158,746              | 186,098              |
| <b>Total debt obligations, net</b>   | <b>\$ 10,469,573</b> | <b>\$ 10,894,903</b> |

Table of Contents**iStar Financial Inc.****Notes to Consolidated Financial Statements (Continued)****(unaudited)****Note 9 Debt Obligations, net (Continued)****Explanatory Notes:**  

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- (1) Represents outstanding borrowings under the Company's Second Priority Credit Agreements. Under these agreements, the participating lenders have a second priority lien on the same collateral pool securing the First Priority Credit Agreement (see below). As of March 31, 2010, there was approximately \$15.8 million that was immediately available to draw under the Second Priority Credit Agreements. These revolving and term loan commitments have an annual commitment fee of 0.20%.
- (2) As of March 31, 2010, the Company had classified as held for sale 34 assets which collateralize non-recourse term debt with an aggregate principal balance of \$947.9 million maturing in April 2011 and one asset which collateralizes non-recourse term debt with an aggregate principal balance of \$15.3 million maturing in August 2011.
- (3) Represents outstanding secured term loans under the Company's First Priority Credit Agreement. Borrowings under this agreement are collateralized by a first-priority lien on a pool of collateral consisting of loans, debt securities, corporate tenant lease assets and other assets pledged under the First and Second Priority Credit Agreements and the Second Priority Secured Exchange Notes (see below).
- (4) Represents the Company's Second Priority Secured Exchange Notes which are collateralized by a second priority lien on the same pool of collateral pledged under the First and Second Priority Credit Agreements.
- (5) As of March 31, 2010, debt premiums/(discounts), net includes unamortized debt premiums of \$194.2 million associated with the Second Priority Secured Exchange Notes which resulted from the unsecured/secured note exchange transactions completed in May 2009.
- (6) As of March 31, 2010, the principal outstanding balance of the Company's senior convertible notes was \$787.8 million, the unamortized discount was \$30.1 million and the net carrying amount of the liability was \$757.7 million. As of March 31, 2010, none of the conversion triggers have been met and the carrying value of the additional paid-in-capital, or equity component of the convertible notes, was \$37.4 million. For the three months ended March 31, 2010 and 2009, the Company recognized interest expense on the convertible notes of \$4.1 million and \$6.2 million, respectively, in "Interest expense" on its Consolidated Statements of Operations, of which \$2.6 million and \$2.4 million, respectively, related to the amortization of the debt discount.

**Future Scheduled Maturities** As of March 31, 2010, future scheduled maturities of outstanding long-term debt obligations, net are as follows (in thousands):

|  |           |                   |
|--|-----------|-------------------|
| 2010 (remaining nine months)(1)              | \$        | 330,177           |
| 2011(1)                                      |           | 3,987,485         |
| 2012(1)                                      |           | 3,501,261         |
| 2013   |           | 1,072,889         |
| 2014   |           | 647,930           |
| Thereafter                                   |           | 771,085           |
| <b>Total principal maturities</b>            |           | <b>10,310,827</b> |
| <b>Unamortized debt premiums, net</b>        |           | <b>158,746</b>    |
| <b>Total long-term debt obligations, net</b> | <b>\$</b> | <b>10,469,573</b> |

**Explanatory Note:**  

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- (1) As further discussed in Debt Covenants below, although due in 2012, as presented above, if the Company does not pay down the outstanding balance of its \$1.00 billion First Priority Credit Agreement by \$500 million by September 30, 2010 and an additional \$500 million by March 31, 2011, payments of principal and net sale proceeds received by the Company in respect of assets constituting collateral for its obligation under this agreement must be applied towards the mandatory prepayment of the loan and commitment reductions under the agreement.

**Repayments and Note Repurchases** During the three months ended March 31, 2010, the Company repaid \$135.0 million of unsecured notes at maturity and repurchased, through open market transactions, \$222.6 million par value of its senior secured and unsecured notes with various maturities ranging from

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**iStar Financial Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**(unaudited)**

**Note 9 Debt Obligations, net (Continued)**

March 2010 to June 2014. In connection with these repurchases, the Company recorded an aggregate net gain on early extinguishment of debt of \$38.7 million for the three months ended March 31, 2010.

**Debt Covenants**

The Company's ability to borrow under its secured credit facilities depends on maintaining compliance with various covenants, including a minimum tangible net worth covenant and specified financial ratios, such as fixed charge coverage, unencumbered assets to unsecured indebtedness, eligible collateral coverage and leverage ratios. All of these covenants in the Company's facilities are maintenance covenants and, if breached could result in an acceleration of the Company's facilities if a waiver or modification is not agreed upon with the required lenders (see Business Risks and Uncertainties in Note 10). The Company's secured credit facilities also impose limitations on repayments, repurchases, refinancings and optional redemptions of its existing unsecured notes or secured exchange notes issued pursuant to the Company's exchange offer, as well as limitations on repurchases of its Common Stock. For so long as the Company maintains its qualification as a REIT, the secured credit facilities permit the Company to distribute 100% of its REIT taxable income on an annual basis. The Company may not pay common dividends if it ceases to qualify as a REIT.

The Company's outstanding debt securities also contain covenants that include fixed charge coverage and unencumbered assets to unsecured indebtedness ratios and its secured debt securities have an eligible collateral coverage requirement. The fixed charge coverage ratio in the Company's debt securities is an incurrence test. If the Company does not meet the fixed charge coverage ratio, its ability to incur additional indebtedness will be restricted. The unencumbered assets to unsecured indebtedness covenant and the eligible collateral coverage covenant are maintenance covenants and, if breached and not cured within applicable cure periods, could result in acceleration of the Company's debt securities unless a waiver or modification is agreed upon with the requisite percentage of the bondholders. Based on the Company's unsecured credit ratings at March 31, 2010, the financial covenants in its debt securities, including the fixed charge coverage ratio and maintenance of unencumbered assets to unsecured indebtedness ratio, are operative.

The Company's secured credit facilities and its debt securities contain cross default provisions that would allow the lenders and the bondholders to declare an event of default and accelerate the Company's indebtedness to them if the Company fails to pay amounts due in respect of its other recourse indebtedness in excess of specified thresholds. In addition, the Company's secured credit facilities, unsecured credit facilities and the indentures governing its debt securities provide that the lenders and bondholders may declare an event of default and accelerate its indebtedness to them if there is a non payment default under the Company's other recourse indebtedness in excess of specified thresholds and, if the holders of the other indebtedness are permitted to accelerate, in the case of the secured credit facilities, or accelerate, in the case of its unsecured credit facilities and the bond indentures, the other recourse indebtedness.

Under certain circumstances, the First and Second Priority Credit Agreements require that payments of principal and net sale proceeds received by the Company in respect of assets constituting collateral for the Company's obligations under these agreements be applied toward the mandatory prepayment of loans and commitment reductions under them. The Company would be required to make such prepayments (i) during any time that the fixed charge coverage ratio, as defined under the agreements, is less than 1.25 to 1.00, (ii) if, after receiving a payment of principal or net sale proceeds in respect of collateral, the Company has insufficient eligible assets available to pledge as replacement collateral or (iii) if, and for so

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**iStar Financial Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**(unaudited)**

**Note 9 Debt Obligations, net (Continued)**

long as, the aggregate principal amount of loans outstanding under the First Priority Credit Agreement exceeds \$500 million at any time on or after September 30, 2010, or zero at any time on or after March 31, 2011. The First and Second Priority Credit Agreements and indentures governing the Second Priority Secured Exchange Notes contain a number of covenants, including that the Company maintain collateral coverage of at least 1.3x the aggregate borrowings and letters of credit outstanding under the First Priority Credit Agreement, the Second Priority Credit Agreements and the Second Priority Secured Exchange Notes.

The Company believes it is in full compliance with all the covenants in its debt obligations as of March 31, 2010.

**Ratings Triggers**

The Company's First and Second Priority Secured Credit Agreements and unsecured credit agreements bear interest at LIBOR based rates plus an applicable margin which varies between the Credit Agreements and is determined based on the Company's corporate credit ratings. The Company's ability to borrow under its credit facilities is not dependent on the level of its credit ratings. Based on the Company's current credit ratings, further downgrades in the Company's credit ratings will have no effect on its borrowing rates under these facilities.

**Note 10 Commitments and Contingencies**

**Business Risks and Uncertainties** The financial market conditions that began in late 2007, including the economic recession and tightening of credit markets, have continued to significantly impact the commercial real estate market and financial services industry. The severe economic downturn led to a decline in commercial real estate values which, combined with a lack of available debt financing for commercial and residential real estate assets, limited borrowers' ability to repay or refinance their loans. Further, the ability of many of the Company's borrowers to sell units in residential projects has been adversely impacted by current economic conditions and the lack of end loan financing available to residential unit purchasers. The combination of these factors have adversely affected the Company's business, financial condition and operating performance, resulting in significant levels of non-performing assets and provisions for loan losses and a reduction in the level of liquidity available to finance the Company's operations. These economic factors and their effect on the Company's operations have resulted in increases in the Company's financing costs, a continuing inability to access the unsecured debt markets, depressed prices for the Company's Common Stock, the continued suspension of quarterly Common Stock dividends and has narrowed the Company's margin of compliance with debt covenants.

The Company's primary recourse debt instruments include its secured and unsecured bank credit facilities and its secured and unsecured debt securities. The Company believes it is in full compliance with all the covenants in those debt instruments as of March 31, 2010, however, the Company's financial results have continued to put pressure on the Company's ability to maintain compliance with certain of the debt covenants in its secured bank credit facilities. In particular, the Company's tangible net worth at March 31, 2010 was approximately \$1.6 billion, which is not significantly above the financial covenant minimum requirement in the Company's secured credit facilities of \$1.5 billion. The Company intends to operate its business in order to remain in compliance with the covenants in its debt instruments; however, it is possible that the Company will not be able to do so. A failure by the Company to satisfy a financial covenant in a debt instrument could trigger a default under that debt instrument and could give the lenders the ability to

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**iStar Financial Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**(unaudited)**

**Note 10 Commitments and Contingencies (Continued)**

accelerate the debt if the default is not waived or cured. Most of the Company's recourse debt instruments contain cross default and/or cross-acceleration provisions which may be triggered by defaults or accelerations of the Company's recourse debt above specified thresholds.

From a liquidity perspective, the Company expects to continue to experience significant uncertainty with respect to its sources of funds. The Company's cash flow may be affected by a variety of factors, many of which are outside of its control, including volatility in the financial markets, the Company's borrowers' ability to repay their obligations and other general business conditions. As of March 31, 2010, the Company had \$640.9 million of unrestricted cash. The Company expects to need additional liquidity over the coming year to supplement expected loan repayments and cash generated from operations in order to meet its debt maturities and funding obligations. Previously, the Company utilized its unencumbered assets to generate additional liquidity through secured financing transactions and a secured note exchange transaction, and also sold various assets. In addition, the Company has significantly curtailed its asset origination activities, reduced operating expenses and focused on asset management in order to maximize recoveries from existing asset resolutions. The Company intends to utilize all available sources of funds in today's financing environment, which could include additional financings secured by its assets, increased levels of asset sales, joint ventures and other third party capital to meet its liquidity requirements. There can be no assurance that the company will possess sufficient liquidity to meet all of its debt service requirements in 2010. In addition, the Company is exploring various alternatives to enable it to meet its significant 2011 debt maturities and has engaged a third party advisor to assist management with the long-term structure of its assets and liabilities. The failure to execute such alternatives successfully prior to debt maturity would have material adverse consequences on the Company.

The Company has reacted to the adverse market conditions and liquidity and debt covenant pressures by implementing various initiatives, including the sale of assets and repurchases of its debt at a discount to par, which it believes will guide it through the difficult business conditions the Company expects to persist through 2010. The Company has been able to partially mitigate the impact of the decline in operating results through the recognition of gains associated with the repurchase and retirement of debt at a discount, which has enabled it to maintain compliance with its debt covenants and to reduce outstanding indebtedness at discounts to par. The Company expects to continue to use available funds and other strategies to seek to retire its debt at a discount; however, there can be no assurance that the Company's efforts in this regard will be successful.

The Company's plans are dynamic and it expects to adjust its plans as market conditions change. If the Company is unable to successfully implement its plans, this would have material adverse consequences on the Company.

**Unfunded Commitments** The Company has certain off-balance sheet unfunded commitments. The Company generally funds construction and development loans and build outs of CTL space over a period of time if and when the borrowers and tenants meet established milestones and other performance criteria. The Company refers to these arrangements as Performance-Based Commitments. In addition, the Company will sometimes establish a maximum amount of additional fundings which it will make available to a borrower or tenant for an expansion or addition to a project if it approves of the expansion or addition at its sole discretion. The Company refers to these arrangements as Discretionary Fundings. Finally, the Company has committed to invest capital in several real estate funds and other ventures. These arrangements are referred to as Strategic Investments. As of March 31, 2010, the maximum amounts of the fundings the Company may make under each category, assuming all performance hurdles and milestones

Table of Contents**iStar Financial Inc.****Notes to Consolidated Financial Statements (Continued)****(unaudited)****Note 10 Commitments and Contingencies (Continued)**

are met under Performance-Based Commitments, that it will approve all Discretionary Fundings and that 100% of its capital committed to Strategic Investments is drawn down are as follows (in thousands):

|                               | Loans      | CTL      | Total      |
|-------------------------------|------------|----------|------------|
| Performance-Based Commitments | \$ 466,196 | \$ 5,753 | \$ 471,949 |
| Discretionary Fundings        | 125,692    |          | 125,692    |
| Strategic Investments         | N/A        | N/A      | 70,060     |
| Total                         | \$ 591,888 | \$ 5,753 | \$ 667,701 |

**Note 11 Equity**

**Preferred Stock** The Company had the following series of Cumulative Redeemable Preferred Stock outstanding as of March 31, 2010 and December 31, 2009:

| Series | Shares Authorized,<br>Issued and<br>Outstanding<br>(in thousands) | Par<br>Value | Cumulative Preferential Cash<br>Dividends(1)(2)               |   |
|--------|---|--------------|---|---|
|        |   |              | Rate per Annum<br>of the \$25.00<br>Liquidation<br>Preference | Equivalent to<br>Fixed Annual<br>Rate (per share) |
| D      | 4,000   | \$ 0.001     | 8.00%   | \$ 2.00   |
| E      | 5,600   | \$ 0.001     | 7.875%  | \$ 1.97   |
| F      | 4,000   | \$ 0.001     | 7.8%  | \$ 1.95   |
| G      | 3,200   | \$ 0.001     | 7.65%   | \$ 1.91   |
| I      | 5,000   | \$ 0.001     | 7.50%   | \$ 1.88   |

21,800

**Explanatory Notes:**

- (1) Holders of shares of the Series D, E, F, G and I preferred stock are entitled to receive dividends, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends. Dividends are cumulative from the date of original issue and are payable quarterly in arrears on or before the 15th day of each March, June, September and December or, if not a business day, the next succeeding business day. Any dividend payable on the preferred stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as of the close of business on the first day of the calendar month in which the applicable dividend payment date falls or on another date designated by the Board of Directors of the Company for the payment of dividends that is not more than 30 nor less than ten days prior to the dividend payment date.
- (2) The Company declared and paid dividends aggregating \$2.0 million, \$2.8 million, \$2.0 million, \$1.5 million and \$2.3 million on its Series D, E, F, G, and I preferred stock, respectively, during the three months ended March 31, 2010. There are no dividend arrearages on any of the preferred shares currently outstanding.

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**Dividends** In order to maintain its election to qualify as a REIT, the Company must currently distribute, at a minimum, an amount equal to 90% of its taxable income and must distribute 100% of its taxable income to avoid paying corporate federal income taxes. The Company has recorded net operating losses and may record net operating losses in the future, which may reduce its taxable income in future periods and lower or eliminate entirely the Company's obligation to pay dividends for such periods in order to maintain its REIT qualification. Because taxable income differs from cash flow from operations due to non-cash revenues and expenses (such as depreciation and certain asset impairments), in certain circumstances, the Company may generate operating cash flow in excess of its dividends or, alternatively,

Table of Contents**iStar Financial Inc.****Notes to Consolidated Financial Statements (Continued)****(unaudited)****Note 11 Equity (Continued)**

may be required to borrow to make sufficient dividend payments. The Company's secured credit facilities permit the Company to distribute 100% of its REIT taxable income on an annual basis, for so long as the Company maintains its qualification as a REIT. The secured credit facilities restrict the Company from paying any common dividends if it ceases to qualify as a REIT. The Company did not declare or pay any Common Stock dividends for the quarter ended March 31, 2010.

**Stock Repurchase Program** During the three months ended March 31, 2010, the Company repurchased 1.1 million shares of its outstanding Common Stock for approximately \$3.9 million, at an average cost of \$3.57 per share, and the repurchases were recorded at cost. As of March 31, 2010, the Company had \$17.7 million of Common Stock available to repurchase under authorized stock repurchase programs.

**Noncontrolling Interest** The following table presents amounts attributable to iStar Financial Inc. and allocable to common shareholders, HPU holders and Participating Security holders and excludes amounts attributable to noncontrolling interests (in thousands):

|  | <b>For the<br/>Three Months Ended<br/>March 31,</b> |                    |
|--|---|--------------------|
|  | <b>2010</b>   | <b>2009</b>        |
| <b>Amounts attributable to iStar Financial Inc. and allocable to common shareholders, HPU holders and Participating Security holders</b> |   |                    |
| Income (loss) from continuing operations   | \$ (23,148)   | \$ (102,090)       |
| Income from discontinued operations  | 7,552   | 4,644              |
| Gain from discontinued operations  |   | 11,617             |
| <b>Net income (loss)</b>   | <b>(15,596)</b>                                     | <b>(85,829)</b>    |
| Preferred dividends  | (10,580)  | (10,580)           |
| <b>Net income (loss) allocable to common shareholders, HPU holders and Participating Security holders</b>                                | <b>\$ (26,176)</b>                                  | <b>\$ (96,409)</b> |

**Note 12 Stock-Based Compensation Plans and Employee Benefits**

**Stock-based Compensation** The Company recorded \$4.7 million and \$5.6 million of stock-based compensation expense in "General and administrative" on the Company's Consolidated Statements of Operations for the three months ended March 31, 2010 and 2009, respectively. As of March 31, 2010, there was \$30.1 million of total unrecognized compensation cost related to all non-vested restricted stock units. That cost is expected to be recognized over the remaining vesting/service period for the respective grants. As of March 31, 2010, an aggregate of 2.8 million shares remain available for issuance pursuant to future awards under the Company's 2006 and 2009 Long-Term Incentive Plans.

**Restricted Stock Units**

**2010 Awards** On February 17, 2010, the Company granted 1,516,074 service-based restricted stock units to employees that represent the right to receive an equivalent number of shares of the Company's Common Stock (after deducting shares for minimum required statutory

withholdings) if and when the units vest. These units will cliff vest on February 17, 2012 if the employee is employed by the Company on



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**iStar Financial Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**(unaudited)**

**Note 12 Stock-Based Compensation Plans and Employee Benefits (Continued)**

that date and will carry dividend equivalent rights that entitle the holder to receive dividend payments prior to vesting, if and when dividends are paid on shares of the Company's Common Stock. The grant date fair value of these awards was \$4.7 million. As of March 31, 2010, 1,511,614 of these awards remained outstanding.

On March 2, 2010, the Company granted 806,518 performance-based restricted stock units to its Chairman and Chief Executive Officer. These units represent the right to receive an equivalent number of shares of the Company's Common Stock (after deducting shares for minimum required statutory withholdings) if and when the units vest. The performance-based units will cliff vest on March 2, 2012 if certain performance and service conditions have been achieved, relating to reduction in the Company's general and administrative expenses, retirement of debt and continued employment. Upon achievement of the performance conditions prior to the cliff vesting date, these performance-based units thereafter carry dividend equivalent rights that entitle the holder to receive dividend payments, if and when dividends are paid on shares of the Company's Common Stock. The grant date fair value of the performance based units was \$3.2 million. As of March 31, 2010, all of these awards remained outstanding.

**Other Outstanding Awards** In addition to the awards granted in 2010, noted above, the following awards remained outstanding as of March 31, 2010:

2,104,548 service-based restricted stock units with original vesting terms ranging from two to five years that are entitled to be paid dividends if and when dividends are paid on shares of the Company's Common Stock.

8,710,000 market-condition based restricted stock units granted to executives and other officers of the Company on December 19, 2008. These units will vest only if specified price targets for the Company's Common Stock are achieved and if the employee is thereafter employed on the vesting date, as follows: (a) if the Common Stock achieves an average price of \$7.00 or more (average NYSE closing price over 20 consecutive trading days) prior to December 19, 2010, the units will vest in two equal installments on January 1, 2011 and January 1, 2012; and (b) if the units do not achieve the \$7.00 average price target, but the Common Stock achieves an average price of \$10.00 or more (average NYSE closing price over 20 consecutive trading days) prior to December 19, 2011, the units will vest in one installment on January 1, 2012. The award established a \$4.00 average price target for the initial period ended December 19, 2009, which was not achieved, therefore, only the \$7.00 and \$10.00 average price targets remain applicable. If an applicable price target has been achieved, the units will thereafter be entitled to dividend equivalent payments as dividends are paid on the Company's Common Stock.

2,000,000 market-condition based restricted stock units contingently awarded to the Company's Chairman and Chief Executive Officer on October 9, 2008 and approved by shareholders on May 27, 2009. These units will cliff vest in one installment on October 9, 2011 only if the total shareholder return on the Company's Common Stock is at least 25% per year (compounded at the end of the three year vesting period, including dividends). Total shareholder return will be based on the average NYSE closing prices for the Company's Common Stock for the 20 days prior to: (a) the date of the award on October 9, 2008 (which was \$3.38); and (b) the vesting date (which must be at least \$6.58 if no dividends are paid). No dividends will be paid on these units prior to vesting.

343,512 market-condition based restricted stock units outstanding that were granted to employees on January 18, 2008 and cliff vest on December 31, 2010, only if the total shareholder return on the

Table of Contents**iStar Financial Inc.****Notes to Consolidated Financial Statements (Continued)****(unaudited)****Note 12 Stock-Based Compensation Plans and Employee Benefits (Continued)**

Company's Common Stock is at least 20% (compounded annually, including dividends) from the date of the award through the end of the vesting period. Total shareholder return will be based on the average NYSE closing prices for the Company's Common Stock for the 20 days prior to (a) the date of the award on January 18, 2008 (which was \$25.04) and (b) the vesting date. No dividends will be paid on these units unless and until they are vested.

**Stock Options** As of March 31, 2010, the Company had 143,000 stock options outstanding and exercisable with a weighted average strike price of \$24.87 and a weighted average remaining contractual life of 1.33 years.

**Common Stock Equivalents ("CSEs")** At March 31, 2010, 197,385 CSEs granted to members of the Company's Board of Directors remained outstanding and had an aggregate intrinsic value of \$0.9 million.

**401(k) Plan** The Company made gross contributions to its 401(k) Plan of approximately \$0.6 million and \$0.7 million for the three months ended March 31, 2010 and 2009, respectively.

**Note 13 Earnings Per Share**

The following table presents a reconciliation of income (loss) from continuing operations used in the basic and diluted EPS calculations (in thousands, except for per share data):

|  | <b>For the<br/>Three Months Ended<br/>March 31,</b> |              |
|--|---|--------------|
|  | <b>2010</b>   | <b>2009</b>  |
| Income (loss) from continuing operations   | \$ (23,694)   | \$ (103,333) |
| Net loss attributable to noncontrolling interests  | 546   | 1,243        |
| Preferred dividends  | (10,580)  | (10,580)     |
| Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to common shareholders and HPU holders | \$ (33,728)   | \$ (112,670) |

Table of Contents**iStar Financial Inc.****Notes to Consolidated Financial Statements (Continued)****(unaudited)****Note 13 Earnings Per Share (Continued)**

|   | <b>For the<br/>Three Months Ended<br/>March 31,</b> |              |
|---|---|--------------|
|   | <b>2010</b>   | <b>2009</b>  |
| <b>Earnings allocable to common shares:</b>   |   |              |
| <i>Numerator for basic and diluted earnings per share:</i>  |   |              |
| Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to common shareholders(1) | \$ (32,738)   | \$ (109,721) |
| Income from discontinued operations   | 7,330   | 4,522        |
| Gain from discontinued operations   |   | 11,313       |
| Net income (loss) attributable to iStar Financial Inc. and allocable to common shareholders                           | \$ (25,408)   | \$ (93,886)  |
| <i>Denominator (basic and diluted):</i>   |   |              |
| Weighted average common shares outstanding for basic and diluted earnings per common share                            | 93,923  | 105,606      |
| <b>Basic and diluted earnings per common share:</b>   |   |              |
| Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to common shareholders(1) | \$ (0.35)   | \$ (1.04)    |
| Income from discontinued operations   | 0.08  | 0.04         |
| Gain from discontinued operations   |   | 0.11         |
| Net income (loss) attributable to iStar Financial Inc. and allocable to common shareholders                           | \$ (0.27)   | \$ (0.89)    |
| <b>Earnings allocable to High Performance Units:</b>  |   |              |
| <i>Numerator for basic and diluted earnings per HPU share:</i>  |   |              |
| Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to HPU holders(1)         | \$ (990)  | \$ (2,949)   |
| Income from discontinued operations   | 222   | 122          |
| Gain from discontinued operations   |   | 304          |
| Net income (loss) attributable to iStar Financial Inc. and allocable to HPU holders                                   | \$ (768)  | \$ (2,523)   |
| <i>Denominator (basic and diluted):</i>   |   |              |
| Weighted average High Performance Units outstanding for basic and diluted earnings per share                          | 15  | 15           |
| <b>Basic and diluted earnings per HPU share:</b>  |   |              |
| Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to HPU holders(1)         | \$ (66.00)  | \$ (196.60)  |
| Income from discontinued operations   | 14.80   | 8.13         |
| Gain from discontinued operations   |   | 20.27        |
| Net income (loss) attributable to iStar Financial Inc. and allocable to HPU holders                                   | \$ (51.20)  | \$ (168.20)  |

**Explanatory Note:**

(1)

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Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to common shareholders and High Performance Units has been adjusted for net loss attributable to noncontrolling interests and preferred dividends (see preceding table).

Table of Contents**iStar Financial Inc.****Notes to Consolidated Financial Statements (Continued)****(unaudited)****Note 13 Earnings Per Share (Continued)**

For the three months ended March 31, 2010 and 2009, the following shares were anti-dilutive (in thousands):

|                           | <b>For the<br/>Three Months Ended<br/>March 31,</b> |             |
|---------------------------|---|-------------|
|                           | <b>2010</b>   | <b>2009</b> |
| Joint venture shares      | 298   | 298         |
| Stock options             | 143   | 529         |
| Restricted stock units(1) | 11,860  | 10,598      |

**Explanatory Note:**

- (1) Anti-dilutive restricted stock units exclude unvested restricted stock units that have dividend equivalent rights as they are considered Participating Securities.

**Note 14 Comprehensive Income (Loss)**

The statement of comprehensive income (loss) attributable to iStar Financial, Inc. is as follows (in thousands):

|  | <b>For the<br/>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2010</b>   | <b>2009</b> |
| Net income (loss)  | \$ (16,142)   | \$ (87,072) |
| Other comprehensive income:  |   |             |
| Reclassification of (gains)/losses on available-for-sale securities into earnings upon realization | (4,206)   | 4,058       |
| Reclassification of (gains)/losses on cash flow hedges into earnings upon realization              | (221)   | (1,481)     |
| Unrealized gains/(losses) on available-for-sale securities   | 96  |             |
| Unrealized gains/(losses) on cash flow hedges  |   | (30)        |
| Unrealized gains/(losses) on cumulative translation adjustment                                     | (684)   | (1,882)     |
| Comprehensive income (loss)  | (21,157)  | (86,407)    |
| Net loss attributable to noncontrolling interests  | 546   | 1,243       |
| Comprehensive income (loss) attributable to iStar Financial Inc.                                   | \$ (20,611)   | \$ (85,164) |

Table of Contents**iStar Financial Inc.****Notes to Consolidated Financial Statements (Continued)****(unaudited)****Note 14 Comprehensive Income (Loss) (Continued)**

Accumulated other comprehensive income reflected in the Company's shareholders' equity is comprised of the following (in thousands):

|  | As of<br>March 31,<br>2010 | As of<br>December 31,<br>2009 |
|--|----------------------------|-------------------------------|
| Unrealized gains/(losses) on available-for-sale securities | \$ (151)                   | \$ 3,959                      |
| Unrealized gains on cash flow hedges                       | 3,935                      | 4,156                         |
| Unrealized losses on cumulative translation adjustment     | (2,654)                    | (1,970)                       |
| Accumulated other comprehensive income                     | \$ 1,130                   | \$ 6,145                      |

**Note 15 Fair Values**

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy prioritizes the inputs used in valuation techniques to measure fair value:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Certain of the Company's assets and liabilities are recorded at fair value on a recurring or non-recurring basis as of March 31, 2010 and December 31, 2009. Assets required to be marked-to-market and reported at fair value every reporting period are classified as being valued on a recurring basis. Other assets not required to be recorded at fair value every period may be recorded at fair value if a specific provision or other impairment is recorded within the period to mark the carrying value of the asset to market as of the reporting date. Such assets are classified as being valued on a non-recurring basis.

Table of Contents**iStar Financial Inc.****Notes to Consolidated Financial Statements (Continued)****(unaudited)****Note 15 Fair Values (Continued)**

The following table summarizes the Company's assets and liabilities recorded at fair value on a recurring and non-recurring basis by the above categories (in thousands):

|  | Total        | Quoted<br>market<br>prices in<br>active markets<br>(Level 1) | Fair Value Using<br>Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
|--|--------------|--|---|--|
| <b>As of March 31, 2010:</b>                                 |              |  |   |  |
| <b>Recurring basis:</b>                                      |              |  |   |  |
| Financial Assets:  |              |  |   |  |
| Derivative assets  | \$ 436       | \$   | \$ 436  | \$   |
| Marketable securities equity securities                      | \$ 349       | \$ 349   | \$  | \$   |
| Financial Liabilities:                                       |              |  |   |  |
| Derivative liabilities                                       | \$ 11        | \$   | \$ 11   | \$   |
| <b>Non-recurring basis:</b>                                  |              |  |   |  |
| Financial Assets:  |              |  |   |  |
| Impaired loans   | \$ 687,264   | \$   | \$  | \$ 687,264   |
| Non-financial Assets:  |              |  |   |  |
| Impaired OREO  | \$ 119,117   | \$   | \$  | \$ 119,117   |
| <b>As of December 31, 2009:</b>                              |              |  |   |  |
| <b>Recurring basis:</b>                                      |              |  |   |  |
| Financial Assets:  |              |  |   |  |
| Derivative assets  | \$ 800       | \$   | \$ 800  | \$   |
| Other lending investments available-for-sale debt securities | \$ 6,800     | \$ 6,800   | \$  | \$   |
| Marketable securities trading debt and equity securities     | \$ 38,454    | \$ 254   | \$ 38,200   | \$   |
| Financial Liabilities:                                       |              |  |   |  |
| Derivative liabilities                                       | \$ 254       | \$   | \$ 254  | \$   |
| <b>Non-recurring basis:</b>                                  |              |  |   |  |
| Financial Assets:  |              |  |   |  |
| Impaired loans   | \$ 1,167,498 | \$   | \$  | \$ 1,167,498                                       |
| Non-financial Assets:  |              |  |   |  |
| Impaired OREO  | \$ 181,540   | \$   | \$  | \$ 181,540   |
| Impaired assets held for sale                                | \$ 17,282    | \$   | \$  | \$ 17,282  |
| Impaired CTL assets  | \$ 48,000    | \$   | \$  | \$ 48,000  |

Table of Contents**iStar Financial Inc.****Notes to Consolidated Financial Statements (Continued)****(unaudited)****Note 15 Fair Values (Continued)**

In addition to the Company's disclosures regarding assets and liabilities recorded at fair value in the financial statements, it is also required to disclose the estimated fair values of all financial instruments, regardless of whether they are recorded at fair value in the financial statements.

The book and estimated fair values of financial instruments were as follows (in thousands)(1):

|  | As of March 31, 2010 |              | As of December 31, 2009 |              |
|--|----------------------|--------------|-------------------------|--------------|
|  | Book Value           | Fair Value   | Book Value              | Fair Value   |
| <b>Financial assets:</b>                 |                      |              |                         |              |
| Loans and other lending investments, net | \$ 6,731,546         | \$ 5,793,512 | \$ 7,661,562            | \$ 6,638,840 |
| <b>Financial liabilities:</b>            |                      |              |                         |              |
| Debt obligations, net                    | \$ 10,469,573        | \$ 8,904,053 | \$ 10,894,903           | \$ 8,115,023 |

**Explanatory Note:**

(1)

The carrying values of other financial instruments including cash and cash equivalents, restricted cash, accrued interest receivable, accounts payable, accrued expenses and other liabilities approximate the fair values of the instruments. The fair value of other financial instruments, including derivative assets and liabilities and marketable securities are included in the previous table.

Given the nature of certain assets and liabilities, clearly determinable market based valuation inputs are often not available, therefore, these assets and liabilities are valued using internal valuation techniques. Subjectivity exists with respect to these internal valuation techniques, therefore, the fair values disclosed may not ultimately be realized by the Company if the assets were sold or the liabilities were settled with third parties. The methods the Company used to estimate the fair values presented in the two tables are described more fully below for each type of asset and liability.

**Derivatives** The Company uses interest rate swaps, interest rate caps and foreign currency derivatives to manage its interest rate and foreign currency risk. The valuation of these instruments is determined using discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates, and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the respective counterparty's non-performance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of non-performance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. The Company has determined that the significant inputs used to value its derivatives fall within Level 2 of the fair value hierarchy.

**Securities** All of the Company's available-for-sale and impaired held-to-maturity debt and equity securities are actively traded and have been valued using quoted market prices. The Company's traded marketable securities are valued using market quotes, to the extent they are available, or broker quotes that fall within Level 2 of the fair value hierarchy.

**Impaired loans** The Company's loans identified as being impaired are collateral dependent loans and are evaluated for impairment by comparing the estimated fair value of the underlying collateral, less costs to sell, to the carrying value of each loan. Due to the nature of the individual properties collateralizing the



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**iStar Financial Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**(unaudited)**

**Note 15 Fair Values (Continued)**

Company's loans, the Company generally uses a discounted cash flow approach through internally developed valuation models to estimate the fair value of the collateral. This approach requires the Company to make significant judgments in respect to discount rates, capitalization rates and the timing and amounts of estimated future cash flows that are all considered Level 3 inputs. These cash flows include costs of completion, operating costs, and lot and unit sale prices.

**Impaired OREO** The Company periodically evaluates its OREO assets to determine if events or changes in circumstances have occurred during the reporting period that may have a significant adverse effect on their fair value. Due to the nature of the individual properties in the OREO portfolio, the Company uses a discounted cash flow approach through internally developed valuation models to estimate the fair value of the assets. This approach requires the Company to make significant judgments with respect to discount rates, capitalization rates and the timing and amounts of estimated future cash flows that are all considered Level 3 inputs. These cash flows include costs of completion, operating costs, and lot and unit sale prices.

**Impaired assets held for sale** The estimated fair value of impaired assets held for sale is determined using observable market information, typically including bids from prospective purchasers.

**Impaired CTL assets** If the Company determines a CTL asset is impaired it records an impairment charge to mark the asset to its estimated fair market value. Due to the nature of the individual properties in the CTL portfolio, the Company uses the income approach through internally developed valuation models to estimate the fair value of the assets. This approach requires the Company to make significant judgments with respect to discount rates, capitalization rates and the timing and amounts of estimated future cash flows that are all considered Level 3 inputs. These cash flows are primarily based on expected future leasing rates and operating costs.

**Loans and other lending investments** For the Company's interest in performing loans and other lending investments, the fair values were determined using a discounted cash flow methodology. This method discounts future estimated cash flows using rates management determined best reflect current market interest rates that would be offered for loans with similar characteristics and credit quality.

**Debt obligations, net** For debt obligations traded in secondary markets, the Company uses market quotes, to the extent they are available to determine fair value. For debt obligations not traded in secondary markets, the Company determines fair value using the discounted cash flow methodology, whereby contractual cash flows are discounted at rates that the Company determined best reflect current market interest rates that would be charged for debt with similar characteristics and credit quality.

**Note 16 Segment Reporting**

The Company has determined that it has two reportable operating segments: Real Estate Lending and Corporate Tenant Leasing. The reportable segments were determined based on the management approach, which looks to the Company's internal organizational structure. These two lines of business require different support infrastructures. The Real Estate Lending segment includes all of the Company's activities related to senior and mezzanine real estate debt and corporate capital investments, OREO and REHI. The Corporate Tenant Leasing segment includes all of the Company's activities related to the ownership and leasing of corporate facilities.

Table of Contents**iStar Financial Inc.****Notes to Consolidated Financial Statements (Continued)****(unaudited)****Note 16 Segment Reporting (Continued)**

The Company evaluates performance based on the following financial measures for each segment (in thousands):

|   | Real Estate<br>Lending(1) | Corporate<br>Tenant<br>Leasing(2) | Corporate/<br>Other(3) | Company<br>Total |
|---|---------------------------|-----------------------------------|------------------------|------------------|
| <b><u>Three months ended March 31, 2010</u></b> |                           |                                   |                        |                  |
| Total revenues(4)                               | \$ 129,392                | \$ 43,732                         | \$ 425                 | \$ 173,549       |
| Earnings from equity method investments         |                           | 630                               | 10,800                 | 11,430           |
| Total operating and interest expense(5)         | 112,859                   | 23,923                            | 110,619                | 247,401          |
| Net operating income (loss)(6)                  | 16,533                    | 20,439                            | (99,394)               | (62,422)         |
| <b><u>Three months ended March 31, 2009</u></b> |                           |                                   |                        |                  |
| Total revenues(4)                               | \$ 176,868                | \$ 46,297                         | \$ 2,511               | \$ 225,676       |
| Earnings (loss) from equity method investments  |                           | 662                               | (21,162)               | (20,500)         |
| Total operating and interest expense(5)         | 286,626                   | 27,428                            | 148,832                | 462,886          |
| Net operating income (loss)(6)                  | (109,758)                 | 19,531                            | (167,483)              | (257,710)        |
| <b><u>As of March 31, 2010</u></b>              |                           |                                   |                        |                  |
| Total long-lived assets(7)                      | \$ 8,100,183              | \$ 2,982,449                      | \$                     | \$ 11,082,632    |
| Total assets                                    | 8,169,414                 | 3,124,114                         | 1,062,027              | 12,355,555       |
| <b><u>As of December 31, 2009</u></b>           |                           |                                   |                        |                  |
| Total long-lived assets(7)                      | \$ 8,923,367              | \$ 2,903,178                      | \$                     | \$ 11,826,545    |
| Total assets                                    | 8,999,558                 | 3,149,783                         | 661,234                | 12,810,575       |

**Explanatory Notes:**

- (1) Real Estate Lending includes the Company's OREO and REHI assets and related operating revenue and expenses.
- (2) Net operating income (loss) excludes amounts related to assets held for sale as these amounts have been reclassified to "Income from discontinued operations" on the Company's Consolidated Statements of Operations (see Note 6).
- (3) Corporate/Other represents all corporate level items, including general and administrative expenses and any intercompany eliminations necessary to reconcile to the consolidated Company totals. This caption also includes the Company's non-CTL related joint venture investments and strategic investments.
- (4) Total revenue represents all revenue earned during the period from the assets in each segment. Revenue from the Real Estate Lending segment primarily represents interest income and revenue from the Corporate Tenant Leasing segment primarily represents operating lease income.
- (5) Total operating and interest expense primarily includes provision for loan losses for the Real Estate Lending business and operating costs on CTL assets for the Corporate Tenant Leasing business, as well as interest expense specifically related to each segment. Interest expense on secured and unsecured notes, secured and unsecured revolving credit facilities and general and administrative expense are included in Corporate/Other for all periods. Depreciation and amortization of \$15.8 million and \$14.4 million for the three months ended March 31, 2010 and 2009, respectively, are included in the amounts presented above.
- (6) Net operating income (loss) represents income attributable to iStar Financial Inc. before gain on early extinguishment of debt, income from discontinued operations and gain from discontinued operations.

- (7) Total long-lived assets are comprised of Loans and other lending investments, net, REHI and OREO for the Real Estate Lending segment, and Corporate tenant lease assets, net and Assets held for sale are included for the Corporate Tenant Leasing segment.

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**iStar Financial Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**(unaudited)**

**Note 17 Subsequent Events**

On May 3, 2010, the Company entered into purchase and sale agreements to sell a portfolio of 33 CTL assets for an aggregate purchase price of \$1.40 billion in cash, adjusted for prorations and customary closing costs. The purchaser has made an initial earnest money deposit in respect of the transactions, but the purchaser's obligations to complete the transaction will remain subject to the completion of due diligence and obtaining sufficient financing. As part of the purchase and sale agreements, if requested by the purchaser, the Company will provide the purchaser with up to \$125.0 million in mezzanine financing after the purchaser has obtained a commitment for senior financing.

The Company currently expects that the closing of the transactions will occur in the second quarter of 2010; however, closing is subject to a number of conditions and there can be no assurance that the transactions will be consummated on the terms described above or at all.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are included with respect to, among other things, iStar Financial Inc.'s (the "Company's") current business plan, business strategy, portfolio management and liquidity. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results or outcomes to differ materially from those contained in the forward-looking statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In assessing all forward-looking statements, readers are urged to read carefully all cautionary statements contained in this Form 10-Q and the uncertainties and risks described in Item 1a "Risk Factors" in our 2009 Annual Report (as defined below), all of which could affect our future results of operations, financial condition and liquidity. For purposes of Management's Discussion and Analysis of Financial Condition and Results of Operations, the terms "we," "our" and "us" refer to iStar Financial Inc. and its consolidated subsidiaries, unless the context indicates otherwise.

The discussion below should be read in conjunction with our consolidated financial statements and related notes in this quarterly report on form 10-Q and our annual report on Form 10-K for the year ended December 31, 2009 (the "2009 Annual Report"). These historical financial statements may not be indicative of our future performance. We have reclassified certain items in our consolidated financial statements of prior periods to conform to our current financial statements presentation.

***Introduction***

iStar Financial Inc. is a publicly traded finance company focused on the commercial real estate industry. We primarily provide custom tailored financing to high-end private and corporate owners of real estate, including senior and mezzanine real estate debt, senior and mezzanine corporate capital, as well as corporate net lease financing and equity. We are taxed as a real estate investment trust, or "REIT" and provide innovative and value added financing solutions to our customers. We deliver customized financial products to sophisticated real estate borrowers and corporate customers who require a high level of flexibility and service. Our two primary lines of business are lending and corporate tenant leasing.

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

Our corporate tenant leasing business provides capital to corporations and other owners who control facilities leased to single creditworthy customers. Our net leased assets are generally mission critical headquarters or distribution facilities that are subject to long-term leases with public companies, many of which are rated corporate credits. Most of the leases provide for expenses at the facility to be paid by the

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corporate customer on a triple net lease basis. Corporate tenant lease, or "CTL," transactions have initial terms generally ranging from 15 to 20 years and typically range in size from \$20 million to \$150 million.

Our primary sources of revenues are interest income, which is the interest that borrowers pay on loans, and operating lease income, which is the rent that corporate customers pay to lease our CTL properties. We primarily generate income through the "spread" or "margin," which is the difference between the revenues generated from loans and leases and interest expense and the cost of CTL operations.

We began our business in 1993 through private investment funds and became publicly traded in 1998. Since that time, we have grown through the origination of new lending and leasing transactions, as well as through corporate acquisitions, including the acquisition of TriNet Corporate Realty Trust, Inc. in 1999, the acquisitions of Falcon Financial Investment Trust and of a significant non-controlling interest in Oak Hill Advisors, L.P. and affiliates in 2005, and the acquisition of the commercial real estate lending business and loan portfolio which we refer to as "Fremont CRE," of Fremont Investment and Loan, or "Fremont," a division of Fremont General Corporation, in 2007.

*Executive Overview*

The financial market conditions that began in late 2007, including the economic recession and tightening of credit markets, have continued to significantly impact the commercial real estate market and financial services industry. The severe economic downturn led to a decline in commercial real estate values which, combined with a lack of available debt financing for commercial and residential real estate assets, limited our borrowers' ability to repay or refinance their loans. Further, the ability of many of our borrowers to sell units in residential projects has been adversely impacted by current economic conditions and the lack of end loan financing available to residential unit purchasers. The combination of these factors have adversely affected our business, financial condition and operating performance, resulting in significant levels of non-performing assets and provisions for loan losses and a reduction in the level of liquidity available to finance our operations. These economic factors and their effect on our operations have resulted in increases in our financing costs, a continuing inability to access the unsecured debt markets, depressed prices for our Common Stock, the continued suspension of quarterly Common Stock dividends and have narrowed our margin of compliance with debt covenants.

During the quarter ended March 31, 2010, we incurred a net loss of \$15.6 million on \$173.5 million of revenue. This quarterly loss primarily resulted from a provision for loan losses of \$89.5 million which was recognized during the quarter. The provision for loan losses was driven by the significant level of non-performing loans, \$3.50 billion or 42.3% of Managed Loan Value (as defined below in "Risk Management") as of March 31, 2010, compared to \$4.21 billion or 45.3% of Managed Loan Value at December 31, 2009. The level of non-performing loans resulted from the continued distress in the commercial and residential real estate markets and weakened economic conditions impacting our borrowers, who continue to have difficulty servicing their debt and refinancing or selling their projects in order to repay their loans in a timely manner. The balance of our real estate held for investment ("REHI") and other real estate owned ("OREO") assets have increased from \$1.26 billion as of December 31, 2009 to \$1.37 billion as of March 31, 2010, as we have obtained title to properties through foreclosure or through deed-in-lieu of foreclosure as part of our effort to resolve non-performing loans. The losses were partially offset by the repurchase of \$222.6 million par value of senior secured and unsecured notes resulting in the recognition of \$38.7 million in gains on the early extinguishment of debt.

Our primary recourse debt instruments include our secured and unsecured bank credit facilities and our secured and unsecured public debt securities. We believe we are in full compliance with all the covenants in those debt instruments as of March 31, 2010, however, our recent financial results have put pressure on our ability to maintain compliance with certain of the debt covenants in our secured bank credit facilities. In particular, our tangible net worth at March 31, 2010 is not significantly above the

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financial covenant minimum requirement. We intend to operate our business in order to remain in compliance with the covenants in our debt instruments; however, there can be no assurance that we will be able to do so. A failure by us to satisfy a financial covenant in a debt instrument could trigger a default under that debt instrument and could give the lenders the ability to accelerate the debt if the default is not waived or cured. Most of our recourse debt instruments contain cross default and/or cross-acceleration provisions that may be triggered by defaults or accelerations of our recourse debt above specified thresholds.

From a liquidity perspective, we expect to continue to experience significant uncertainty with respect to our sources of funds. Our cash flow is affected by a variety of factors, many of which are outside our control, including volatility in the financial markets, our borrowers' ability to repay their obligations and other general business conditions. As of March 31, 2010, we had \$640.9 million of unrestricted cash. For the remainder of 2010, we will require additional liquidity to repay \$330.2 million of debt maturities and approximately \$329.3 million in other net uses of cash for loan commitments, investment activities and operating expenses. In addition, under the terms of our First Priority Credit Agreement, if we do not pay down the outstanding balance of that loan by \$500 million by September 30, 2010 and an additional \$500 million by March 31, 2011, payments of principal and net sale proceeds received by us in respect of assets constituting collateral for our obligations under this agreement must be applied toward the mandatory prepayment of the loan and commitment reductions under the agreement.

We expect to need additional liquidity over the coming year to supplement expected loan repayments and cash generated from operations in order to meet our debt maturities and funding obligations. Previously, we utilized our unencumbered assets to generate additional liquidity through secured financing transactions and a secured note exchange transaction, and also sold various assets. In addition, we have significantly curtailed our asset origination activities, reduced operating expenses and focused on asset management in order to maximize recoveries from existing asset resolutions. We intend to utilize all available sources of funds in today's financing environment, which could include additional financings secured by our assets, increased levels of asset sales, joint ventures and other third party capital to meet our liquidity requirements. There can be no assurance that we will possess sufficient liquidity to meet all of our debt service requirements in 2010. In addition, we are exploring various alternatives to enable us to meet our significant 2011 debt maturities and have engaged a third party advisor to assist management with the long-term structure of our assets and liabilities. The failure to execute such alternatives successfully prior to debt maturities would have material adverse consequences on us.

We have reacted to market conditions and liquidity and debt covenant pressures by implementing various initiatives, including the sale of assets and repurchases of debt at a discount to par, that we believe will guide us through these difficult business conditions. We have been able to partially mitigate the impact of the decline in operating results through the recognition of gains associated with the repurchase and retirement of debt at a discount, which has contributed to our ability to maintain compliance with our debt covenants and has enabled us to reduce outstanding indebtedness at discounts to par. We expect to continue to use available funds and other strategies to seek to retire our debt at a discount; however, there can be no assurance that our efforts in this regard will be successful.

Our plan is dynamic and we expect to adjust our plan as market conditions change. If we are unable to successfully implement our plan, our cash flows, debt covenant compliance, financial position and results of operations would be materially adversely affected.

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### **Results of Operations for the Three Months Ended March 31, 2010 compared to the Three Months Ended March 31, 2009**

|   | For the<br>Three Months Ended<br>March 31, |                 | \$ Change     | % Change  |
|---|--|-----------------|---------------|-----------|
|   | 2010                                       | 2009            |               |           |
| (in thousands)                                    |  |                 |               |           |
| Interest income                                   | \$ 116,616                                 | \$ 177,227      | \$ (60,611)   | (34)%     |
| Operating lease income                            | 43,735                                     | 45,943          | (2,208)       | (5)%      |
| Other income                                      | 13,198                                     | 2,506           | 10,692        | >100%     |
| <br>Total revenue                                 | <br>173,549                                | <br>225,676     | <br>(52,127)  | <br>(23)% |
| Interest expense                                  | 87,216                                     | 114,630         | (27,414)      | (24)%     |
| Operating costs corporate tenant<br>lease assets  | 4,070                                      | 4,490           | (420)         | (9)%      |
| Depreciation and amortization                     | 15,826                                     | 14,392          | 1,434         | 10%       |
| General and administrative                        | 27,216                                     | 35,590          | (8,374)       | (24)%     |
| Provision for loan losses                         | 89,469                                     | 258,096         | (168,627)     | (65)%     |
| Impairment of other assets                        | 5,921                                      | 25,331          | (19,410)      | (77)%     |
| Other expense                                     | 17,683                                     | 10,357          | 7,326         | 71%       |
| <br>Total costs and expenses                      | <br>247,401                                | <br>462,886     | <br>(215,485) | <br>(47)% |
| Gain on early extinguishment of<br>debt           | 38,728                                     | 154,377         | (115,649)     | (75)%     |
| Earnings (loss) from equity<br>method investments | 11,430                                     | (20,500)        | 31,930        | >100%     |
| Income from discontinued<br>operations            | 7,552                                      | 4,644           | 2,908         | 63%       |
| Gain from discontinued<br>operations              |  | 11,617          | (11,617)      | (100)%    |
| <br>Net loss                                      | <br>\$ (16,142)                            | <br>\$ (87,072) | <br>\$ 70,930 | <br>81%   |

*Revenue* The significant decline in interest income is primarily a result of a decrease in the carrying value of performing loans to \$4.67 billion at the end of the first quarter of 2010 from \$7.52 billion at the end of the first quarter of 2009. In addition to having assets move from performing to non-performing status (see "Risk Management" for additional discussion of non-performing loans), there were also loan repayments and sales that contributed to the decline in income generating loans. The decrease was partially offset by \$15.1 million of interest income recorded during the quarter ended March 31, 2010, related to a non-performing loan that was repaid in full, including interest not previously recorded due to the loan being on non-accrual status.

Operating lease income from our CTL assets decreased due to an increase in tenant vacancies and lower rent on lease restructurings.

The change in other income was primarily driven by an increase in prepayment penalties received and operating income from real estate held for investment.

*Costs and expenses* The decrease in our provision for loan losses was primarily due to fewer loans moving to non-performing status during the first quarter of 2010 as compared to the first quarter of 2009, resulting in lower specific reserve provisions. Additionally, the decline in the performing loan asset base, resulting from loan repayments and sales, resulted in a lower general reserve provision year over year. See "Risk Management."

Interest expense decreased primarily due to the repayment and retirement of debt during the last twelve months as well as the exchange of senior unsecured notes for new second-lien senior secured notes completed in the second quarter of 2009. Lower balances were slightly offset by higher average rates which increased to 4.13% for the first quarter of 2010 from 4.02% during the same period in 2009.





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Impairments of other assets declined primarily because we recognized \$14.5 million of impairment charges in the first quarter of 2009 for certain of our securities and equity investments which did not recur in 2010. We also recorded an impairment of goodwill of \$4.2 million in the first quarter of 2009 to eliminate the remaining goodwill that we had related to our corporate tenant leasing reporting unit. The remaining decrease is due to lower impairment charges on our OREO assets.

General and administrative expenses decreased primarily due to \$3.8 million of rent expense incurred during the first quarter of 2009 relating to a lease for new headquarters space which was terminated in May 2009. The remaining decrease was primarily due to lower payroll and employee related costs resulting from reduced headcount.

Other expense was higher primarily due to \$6.2 million of additional operating expenses and holding costs associated with the increasing number of OREO and REHI properties.

*Gain on early extinguishment of debt* During the first quarter of 2010, we retired \$222.6 million par value of our senior secured and unsecured notes through open market repurchases and recognized \$38.7 million in gain on early extinguishment of debt. During the same period in 2009, we retired \$286.4 million par value of our senior unsecured notes through open market repurchases which resulted in gain on early extinguishment of debt of \$154.4 million.

*Earnings (loss) from equity method investments* The increase in earnings from equity method investments was primarily attributable to better market performance that affected our strategic investments during the first quarter of 2010 as compared to the same period in 2009. In addition, during the first quarter of 2009, the Company recorded a \$9.4 million non-cash out of period charge to recognize losses from an equity method investment as a result of additional depreciation expense that should have been recorded at the equity method entity in prior periods.

*Income from discontinued operations* The increase in income from discontinued operations was primarily due to lower depreciation expense on the CTL assets that were classified as held for sale during the first quarter of 2010. This was partially offset by the inclusion in the first quarter of 2009 of income from properties sold subsequent to March 31, 2009.

*Gain from discontinued operations* During the first quarter of 2009, we sold two CTL assets and recognized gains of \$11.6 million.

**Adjusted Earnings**

We measure our performance using adjusted earnings in addition to net income. Adjusted earnings represent net income attributable to iStar Financial Inc. and allocable to common shareholders, HPU holders and Participating Security holders computed in accordance with GAAP, before depreciation, amortization, gain from discontinued operations, impairments of goodwill and intangible assets and extraordinary items. Adjustments for joint ventures reflect our share of adjusted earnings calculated on the same basis.

We believe that adjusted earnings is a helpful measure to consider, in addition to net income (loss), because this measure helps us to evaluate how our commercial real estate finance business is performing compared to other commercial finance companies, without the effects of certain GAAP adjustments that are not necessarily indicative of current operating performance.

The most significant GAAP adjustments that we exclude in determining adjusted earnings are depreciation and amortization which are typically non-cash charges. As a commercial finance company that focuses on real estate lending and corporate tenant leasing, we record significant depreciation on our real estate assets, and deferred financing amortization associated with our borrowings. Depreciation and amortization do not affect our daily operations, but they do impact financial results under GAAP. Adjusted earnings is not an alternative or substitute for net income (loss) in accordance with GAAP as a measure of

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our performance. Rather, we believe that adjusted earnings is an additional measure that helps us analyze how our business is performing. Adjusted earnings should not be viewed as an alternative measure of either our operating liquidity or funds available for our cash needs or for distribution to our shareholders. In addition, we may not calculate adjusted earnings in the same manner as other companies that use a similarly titled measure.

|  | <b>For the<br/>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2010</b>   | <b>2009</b> |
|  | <b>(In thousands)</b>                               |             |
| <b>Adjusted earnings:</b>  |   |             |
| Net income (loss)  | \$ (16,142)   | \$ (87,072) |
| Add: Depreciation and amortization   | 21,753  | 23,499      |
| Add: Deferred financing amortization   | (22,387)  | 5,160       |
| Add: Joint venture depreciation and amortization   | 1,883   | 10,688      |
| Add: Impairment of goodwill and intangible assets  |   | 4,186       |
| Add: Net loss attributable to noncontrolling interests   | 546   | 1,243       |
| Less: Gain from discontinued operations  |   | (11,617)    |
| Less: Preferred dividends  | (10,580)  | (10,580)    |
| <br>   |   |             |
| Adjusted diluted earnings (loss) attributable to iStar Financial, Inc. and allocable to common shareholders and HPU holders(1) | \$ (24,927)   | \$ (64,493) |
| <br>   |   |             |
| Weighted average diluted common shares outstanding   | 93,923  | 105,606     |

**Explanatory Note:**

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- (1) HPU holders are current or former Company employees who purchased high performance common stock units under our High Performance Unit Program. Participating Security holders are Company employees and directors who hold unvested restricted stock units and common stock equivalents granted under our Long Term Incentive Plans. For the three months ended March 31, 2010 and 2009, adjusted diluted earnings (loss) attributable to iStar Financial Inc. and allocable to common shareholders, HPU holders and Participating Security holders includes \$(731) and \$(1,688), respectively, of adjusted earnings (loss) allocable to HPU holders.

Table of Contents**Risk Management**

**Loan Credit Statistics** The table below summarizes our non-performing loans and details the reserve for loan losses associated with our loans:

|   | As of<br>March 31,<br>2010 | As of<br>December 31,<br>2009 |
|---|----------------------------|-------------------------------|
| <b>Non-performing loans</b>                                   |                            |                               |
| Carrying value  | \$ 3,353,842               | \$ 3,910,922                  |
| Participated portion  | 144,308                    | 298,333                       |
| Managed Loan Value(1)   | \$ 3,498,150               | \$ 4,209,255                  |
| As a percentage of Managed Loan Value of total loans(2)       | 42.3%                      | 45.3%                         |
| <b>Watch list loans</b>                                       |                            |                               |
| Carrying value  | \$ 652,953                 | \$ 697,138                    |
| Participated portion  | 20,984                     | 20,561                        |
| Managed Loan Value(1)   | \$ 673,937                 | \$ 717,699                    |
| As a percentage of Managed Loan Value of total loans(2)       | 8.1%                       | 7.7%                          |
| <b>Reserve for loan losses</b>                                |                            |                               |
|   | \$ 1,306,250               | \$ 1,417,949                  |
| As a percentage of Managed Loan Value of total loans(2)       | 15.8%                      | 15.3%                         |
| As a percentage of Managed Loan Value of non-performing loans | 37.3%                      | 33.7%                         |
| <b>Other real estate owned</b>                                |                            |                               |
| Carrying value  | \$ 829,851                 | \$ 839,141                    |
| <b>Real estate held for investment, net</b>                   |                            |                               |
| Carrying value  | \$ 538,786                 | \$ 422,664                    |

**Explanatory Notes:**

- 
- (1) Managed Loan Value of a loan is computed by adding our carrying value of the loan and the participation interest sold on the Fremont CRE portfolio. The participation receives 70% of all loan principal payments including principal that we have funded. Therefore we are in the first loss position and we believe that presentation of the Managed Loan Value is more relevant than a presentation of our carrying value when discussing our risk of loss on the loans in the Fremont CRE Portfolio.
- (2) Managed Loan Value of total loans was \$8,272,345 and \$9,289,975 as of March 31, 2010 and December 31, 2009, respectively.

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As of March 31, 2010, non-performing loans and OREO and REHI assets had the following collateral and property type characteristics (\$ in thousands):

| Collateral/Property Type   | Non-performing<br>Loans | OREO       | REHI       | Total        | % of<br>Total |
|----------------------------|-------------------------|------------|------------|--------------|---------------|
| Land                       | \$ 904,484              | \$ 111,790 | \$ 376,307 | \$ 1,392,581 | 29.5%         |
| Condo:                     |                         |            |            |              |               |
| Construction Completed     | 723,808                 | 370,794    |            | 1,094,602    | 23.2%         |
| Construction In Progress   | 247,976                 | 20,200     |            | 268,176      | 5.7%          |
| Conversion                 | 44,457                  | 115,256    |            | 159,713      | 3.4%          |
| Mixed Use/Mixed Collateral | 352,715                 | 69,100     | 19,381     | 441,196      | 9.3%          |
| Retail                     | 278,082                 | 39,144     |            | 317,226      | 6.7%          |
| Entertainment/Leisure      | 268,303                 |            |            | 268,303      | 5.7%          |
| Multifamily                | 183,397                 | 39,667     | 18,371     | 241,435      | 5.1%          |
| Hotel                      | 148,516                 | 63,900     | 67,960     | 280,376      | 5.9%          |
| Office                     | 109,042                 |            | 7,369      | 116,411      | 2.5%          |
| Corporate Real Estate      | 61,754                  |            |            | 61,754       | 1.3%          |
| Industrial/R&D             | 25,341                  |            |            | 25,341       | 0.5%          |
| Other                      | 5,967                   |            | 49,398     | 55,365       | 1.2%          |
| Gross carrying value       | \$ 3,353,842            | \$ 829,851 | \$ 538,786 | \$ 4,722,479 | 100.0%        |

**Non-Performing Loans** We designate loans as non-performing at such time as: (1) the loan becomes 90 days delinquent; (2) the loan has a maturity default; or (3) management determines it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan. All non-performing loans are placed on non-accrual status and income is only recognized in certain cases upon actual cash receipt. As of March 31, 2010, we had non-performing loans with an aggregate carrying value of \$3.35 billion and an aggregate Managed Loan Value of \$3.50 billion, or 42.3% of the Managed Loan Value of total loans. Our non-performing loans decreased during the first quarter of 2010, primarily due to sales and repayments as well as transfers of non-performing loans to OREO and REHI. Due to the continued volatility of the commercial real estate market, the process of estimating collateral values and reserves continues to require significant judgment on the part of management. Management currently believes there is adequate collateral and reserves to support the carrying values of the loans.

**Watch List Assets** We conduct a quarterly credit review, resulting in an individual risk rating being assigned to each asset in our portfolio. This review is designed to enable management to evaluate and manage asset-specific credit issues and identify credit trends on a portfolio-wide basis. As of March 31, 2010, we had assets on the watch list, (excluding non-performing loans), with an aggregate carrying value of \$653.0 million and an aggregate Managed Loan Value of \$673.9 million, or 8.1% of total Managed Loan Value.

**Reserve for Loan Losses** As of March 31, 2010, the reserve for loan losses represented 15.8% of Managed Loan Value compared to 15.3% at December 31, 2009. This was the result of \$89.5 million of provisioning for loan losses, reduced by \$201.2 million of charge-offs during the quarter and combined with a lower loan portfolio balance. The reserve is increased through the provision for loan losses, which reduces income in the period recorded and the reserve is reduced through charge-offs.

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The reserve for loan losses includes an asset-specific component and a formula-based component. An asset-specific reserve is established for an impaired loan when the estimated fair value of the loan's collateral less costs to sell is lower than the carrying value of the loan. As of March 31, 2010, we had asset-specific reserves of \$1.12 billion or 31.9% of non-performing loans compared to asset-specific reserves of \$1.24 billion or 29.5% of non-performing loans at December 31, 2009. The decrease in asset-specific reserves during the three months ended March 31, 2010 was primarily due to chargeoffs recorded upon sale, repayment or transfers of loans to OREO and REHI.

The formula-based general reserve is derived from estimated probabilities of principal loss and loss given default severities assigned to the portfolio during our quarterly internal risk rating assessment. Probabilities of principal loss and severity factors are based on industry and/or internal experience and may be adjusted for significant factors that, based on our judgment, impact the collectability of the loans as of the balance sheet date. The general reserve was \$190.5 million or 4.0% of performing loans as of March 31, 2010 compared to \$174.9 million or 3.4% of performing loans at December 31, 2009.

**Real Estate Held for Investment, net and Other Real Estate Owned** During the three months ended March 31, 2010, we received title to properties in full or partial satisfaction of non-performing mortgage loans with a carrying value of \$397.9 million, for which the properties had served as collateral, and recorded charge-offs totaling \$122.1 million related to these loans. Of this total, we recorded properties with a carrying value of \$115.2 million to REHI and \$160.6 million to OREO based on our strategy to either hold the properties over a longer period or to market them for sale. During the three months ended March 31, 2010, we sold OREO assets for net proceeds of \$165.8 million and recorded impairment charges totaling \$4.9 million due to changing market conditions, which were included in "Impairment of other assets" on our Consolidated Statements of Operations.

**Tenant Credit Characteristics** As of March 31, 2010, our CTL assets, including those classified as "Assets held for sale" in the Consolidated Balance Sheets, had 93 different tenants, of which 66% were public companies and 34% were private companies. In addition, 35% of the tenants were rated investment grade by one or more national rating agencies, 35% were rated non-investment grade and the remaining tenants were not rated.

**Liquidity and Capital Resources**

For the remainder of 2010, we will require additional liquidity to repay \$330.2 million of debt maturities and approximately \$329.3 million in other net uses of cash for loan commitments, investment activities and operating expenses. However, the timing of funding these commitments and the amounts of the individual fundings are largely dependent on construction projects meeting certain milestones, and therefore they are difficult to predict with certainty. In addition, under the terms of our First Priority Credit Agreement, (as discussed below), if we do not pay down the outstanding balance of that loan by \$500 million by September 30, 2010 and an additional \$500 million by March 31, 2011, payments of principal and net sale proceeds received by us in respect of assets constituting collateral for our obligations under this agreement must be applied toward the mandatory prepayment of the loan and commitment reductions under the agreement.

Our capital sources in today's financing environment include repayments from our loan assets, asset sales, financings secured by our assets, cash flow from operations and potential joint ventures. From a liquidity perspective, we expect to continue to experience significant uncertainty with respect to our sources of funds. Historically we have also issued unsecured corporate debt, convertible debt and preferred and common equity; however, current market conditions have effectively eliminated our access to these sources of capital in the near term.

During the quarter ended March 31, 2010, we received gross principal repayments from borrowers of \$790.1 million and \$309.3 million in proceeds from strategic asset sales. We funded \$142.2 million of pre-existing commitments during the quarter and repaid outstanding debt of \$151.0 million. We also

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repurchased \$222.6 million par value of senior secured and unsecured notes resulting in the recognition of \$38.7 million in net gains on the early extinguishment of debt during the year. To date, we have been able to partially mitigate the impact of increased expenses associated with our loan loss reserves on some of our financial covenants through the recognition of gains associated with the discounted extinguishment of debt. We may from time to time seek to retire or repurchase additional outstanding debt through cash purchases and/or exchanges, which may take the form of open market purchases, privately negotiated transactions or otherwise, however, there can be no assurance that our efforts in this regard will be successful.

As of March 31, 2010, we had \$640.9 million of unrestricted cash. We expect to need additional liquidity to supplement loan repayments and cash generated from operations in order to meet our debt maturities and funding obligations during the remainder of 2010. We actively manage our liquidity and continually work on initiatives to address both our debt covenants compliance and our liquidity needs. We expect proceeds from asset sales to supplement loan repayments and intend to continue to analyze additional asset sales, secured financing alternatives and other strategic transactions in order to maintain adequate liquidity. Subsequent to March 31, 2010, we entered into purchase and sale agreements to sell a portfolio of 33 CTL assets for an aggregate purchase price of \$1.40 billion in cash, adjusted for prorations and customary closing costs. The purchaser has made an initial earnest money deposit in respect of the transactions, but the purchaser's obligations to complete the transaction will remain subject to the completion of due diligence and obtaining sufficient financing. As part of the purchase and sale agreements, if requested by the purchaser, we will provide the purchaser with up to \$125.0 million in mezzanine financing after the purchaser has obtained a commitment for senior financing. We currently expect that the closing of the transactions will occur in the second quarter of 2010; however, closing is subject to a number of conditions and there can be no assurance that the transactions will be consummated on the terms described above or at all.

In addition, under the terms of our credit agreements, we can issue a total of up to \$1.00 billion of second priority secured notes in exchange or refinancing transactions involving our unsecured notes. After giving effect to the private exchange offers in May 2009, we can issue up to \$365.2 million of new notes in exchange or refinancing transactions. Our liquidity plan is dynamic and we expect to monitor the markets and adjust our plan as market conditions change. There is a risk that we will not be able to meet all of our funding and debt service obligations or maintain compliance with our debt covenants. Management's failure to successfully implement our liquidity plan could have a material adverse effect on our financial position and covenant compliance, results of operations and cash flows.

Compliance with our debt covenants will also impact our ability to obtain additional debt and equity financing. In addition, any decision by our lenders and investors to provide us with additional financing may depend upon a number of other factors, such as our compliance with the terms of existing credit arrangements, our financial performance, our credit ratings, industry or market trends, the general availability of and rates applicable to financing transactions, such lenders' and investors' resources and policies concerning the terms under which they make capital commitments and the relative attractiveness of alternative investment or lending opportunities.

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The following table outlines the contractual obligations related to our long-term debt agreements and operating lease obligations as of March 31, 2010.

|                                       | Total                | Principal And Interest Payments Due By Period |                     |                      |                   |                   |
|---------------------------------------|----------------------|---|---------------------|----------------------|-------------------|-------------------|
|                                       |                      | Less Than<br>1 Year                           | 2<br>Years(1)       | 3<br>4<br>5<br>Years | 6<br>10<br>Years  | After<br>10 Years |
| (In thousands)                        |                      |   |                     |                      |                   |                   |
| <b>Long-Term Debt Obligations:</b>    |                      |   |                     |                      |                   |                   |
| Unsecured notes                       | \$ 3,161,560         | \$ 494,439                                    | \$ 982,421          | \$ 1,217,810         | \$ 466,890        | \$                |
| Secured notes                         | 594,582              | 147,253                                       |                     | 447,329              |                   |                   |
| Convertible notes                     | 787,750              |   | 787,750             |                      |                   |                   |
| Unsecured revolving credit facilities | 743,929              |   | 743,929             |                      |                   |                   |
| Secured term loans(2)                 | 3,970,618            | 84,113  | 3,682,310           |                      | 21,249            | 182,946           |
| Secured revolving credit facility     | 952,388              |   | 952,388             |                      |                   |                   |
| Trust preferred                       | 100,000              |   |                     |                      |                   | 100,000           |
| <b>Total principal maturities</b>     | <b>10,310,827</b>    | <b>725,805</b>                                | <b>7,148,798</b>    | <b>1,665,139</b>     | <b>488,139</b>    | <b>282,946</b>    |
| <b>Interest Payable(3)</b>            | <b>1,292,500</b>     | <b>449,926</b>                                | <b>482,779</b>      | <b>211,283</b>       | <b>111,463</b>    | <b>37,049</b>     |
| <b>Operating Lease Obligations</b>    | <b>45,743</b>        | <b>4,559</b>                                  | <b>11,097</b>       | <b>8,744</b>         | <b>17,987</b>     | <b>3,356</b>      |
| <b>Total(4)</b>                       | <b>\$ 11,649,070</b> | <b>\$ 1,180,290</b>                           | <b>\$ 7,642,674</b> | <b>\$ 1,885,166</b>  | <b>\$ 617,589</b> | <b>\$ 323,351</b> |

### Explanatory Notes:

- (1) Future long-term debt obligations due during the years ended December 31, 2011 and 2012 are \$4.00 billion and \$3.50 billion, respectively.
- (2) As further discussed in Debt Covenants below, if we do not pay down the outstanding balance of our \$1.00 billion First Priority Credit Agreement by \$500 million by September 30, 2010 and an additional \$500 million by March 31, 2011, payments of principal and net sale proceeds received by us in respect of assets constituting collateral for our obligation under this agreement must be applied towards the mandatory prepayment of the loan and commitment reductions under the agreement. These amounts have been included in years 2-3 based on its contractual maturity.
- (3) All variable-rate debt assumes a 30-day LIBOR rate of 0.25% (the 30-day LIBOR rate at March 31, 2010).
- (4) See "Off-Balance Sheet Transactions" below, for a discussion of certain unfunded commitments related to our lending and CTL business.

**Repayments and Note Repurchases** During the three months ended March 31, 2010, we repaid \$135.0 million of unsecured notes at maturity and repurchased, through open market transactions, \$222.6 million par value of our senior secured and unsecured notes with various maturities ranging from March 2010 to June 2014. In connection with these repurchases, we recorded an aggregate gain on early extinguishment of debt of \$38.7 million for the three months ended March 31, 2010.

**Debt Covenants** Our ability to borrow under our secured credit facilities depends on maintaining compliance with various covenants, including a minimum tangible net worth covenant and specified financial ratios, such as fixed charge coverage, unencumbered assets to unsecured indebtedness, eligible collateral coverage and leverage. Our recent financial results have put pressure on our ability to maintain compliance with certain of the debt covenants in our secured bank credit facilities. In particular, our tangible net worth at March 31, 2010 was approximately \$1.6 billion, which is not significantly above the financial covenant minimum requirement in our secured credit facilities of \$1.5 billion. We intend to operate our business in order to remain in compliance with the covenants in our debt instruments;





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however, there can be no assurance that we will be able to do so. All of these covenants in our facilities are maintenance covenants and, if breached could result in an acceleration of our facilities if a waiver or modification is not agreed upon with the required lenders. Our secured credit facilities also impose limitations on repayments, repurchases, refinancings and optional redemptions of our existing unsecured notes or secured exchange notes issued pursuant to our exchange offer, as well as limitations on repurchases of our Common Stock. For so long as we maintain our qualification as a REIT, the secured credit facilities permit us to distribute 100% of our REIT taxable income on an annual basis. We may not pay common dividends if we cease to qualify as a REIT.

Our outstanding debt securities also contain covenants that include fixed charge coverage and unencumbered assets to unsecured indebtedness ratios and our secured debt securities have an eligible collateral coverage requirement. The fixed charge coverage ratio in our debt securities is an incurrence test. If we do not meet the fixed charge coverage ratio, our ability to incur additional indebtedness will be restricted. The unencumbered assets to unsecured indebtedness covenant and the eligible collateral coverage covenant are maintenance covenants and, if breached and not cured within applicable cure periods, could result in acceleration of our debt securities unless a waiver or modification is agreed upon with the requisite percentage of the bondholders. Based on our unsecured credit ratings at March 31, 2010, the financial covenants in our debt securities, including the fixed charge coverage ratio and maintenance of unencumbered assets to unsecured indebtedness ratio, are operative.

Our secured credit facilities and our debt securities contain cross default provisions that would allow the lenders and the bondholders to declare an event of default and accelerate our indebtedness to them if we fail to pay amounts due in respect of our other recourse indebtedness in excess of specified thresholds. In addition, our secured credit facilities, unsecured credit facilities and the indentures governing our debt securities provide that the lenders and bondholders may declare an event of default and accelerate our indebtedness to them if there is a non payment default under our other recourse indebtedness in excess of specified thresholds and, if the holders of the other indebtedness are permitted to accelerate, in the case of the secured credit facilities, or accelerate, in the case of our unsecured credit facilities and the bond indentures, the other recourse indebtedness.

The First and Second Priority Credit Agreements and the indentures governing the Second Priority Secured Exchange Notes contain a number of covenants, including that we maintain collateral coverage of at least 1.3x the aggregate borrowings and letters of credit outstanding under the First Priority Credit Agreement, the Second Priority Credit Agreements and the Second Priority Secured Exchange Notes. Under certain circumstances, the First and Second Priority Credit Agreements require that payments of principal and net sale proceeds received by us in respect of assets constituting collateral for our obligations under these agreements be applied toward the mandatory prepayment of loans and commitment reductions under them. We would be required to make such prepayments (i) during any time that the fixed charge coverage ratio, as defined under the agreements, is less than 1.25 to 1.00, (ii) if, after receiving a payment of principal or net sale proceeds in respect of collateral, the Company has insufficient eligible assets available to pledge as replacement collateral or (iii) if, and for so long as, the aggregate principal amount of loans outstanding under the First Priority Credit Agreement exceeds \$500 million at any time on or after September 30, 2010, or zero at any time on or after March 31, 2011.

We believe we are in full compliance with all the covenants in our debt instruments as of March 31, 2010.

**Ratings Triggers** Our First and Second Priority Secured Credit Agreements and unsecured credit agreements bear interest at LIBOR based rates plus an applicable margin which varies between the Credit Agreements and is determined based on our corporate credit ratings. Our ability to borrow under our credit facilities is not dependent on the level of our credit ratings. Based on our current credit ratings, further downgrades in our credit ratings will have no effect on our borrowing rates under these facilities.

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**Off-Balance Sheet Transactions** We are not dependent on the use of any off-balance sheet financing arrangements for liquidity.

**Unfunded commitments** We generally fund construction and development loans and build outs of CTL space over a period of time if and when the borrowers and tenants meet established milestones and other performance criteria. We refer to these arrangements as Performance-Based Commitments. In addition, we sometimes establish a maximum amount of additional funding which we will make available to a borrower or tenant for an expansion or addition to a project if we approve of the expansion or addition in our sole discretion. We refer to these arrangements as Discretionary Fundings. Finally, we have committed to invest capital in several real estate funds and other ventures. These arrangements are referred to as Strategic Investments. As of March 31, 2010, the maximum amounts of the fundings we may make under each category, assuming all performance hurdles and milestones are met under Performance-Based Commitments, that we approve all Discretionary Fundings and that 100% of our capital committed to Strategic Investments is drawn down are as follows (in thousands):

|                               | Loans      | CTL      | Total      |
|-------------------------------|------------|----------|------------|
| Performance-Based Commitments | \$ 466,196 | \$ 5,753 | \$ 471,949 |
| Discretionary Fundings        | 125,692    |          | 125,692    |
| Strategic Investments         | N/A        | N/A      | 70,060     |
| Total                         | \$ 591,888 | \$ 5,753 | \$ 667,701 |

**Transactions with Related Parties** We have substantial investments in non-controlling interests of Oak Hill Advisors, L.P. and 12 related entities (see Note 7 of the Notes to our Consolidated Financial Statements) and a controlling interest in OHA Strategic Credit Fund Parallel I, L.P. In relation to our investment in these entities, we appointed to our Board of Directors a member that holds a substantial investment in these same entities. As of March 31, 2010, our carrying value in these entities was \$212.3 million. We recorded equity in earnings from these investments of \$8.1 million for the three months ended March 31, 2010. We have also invested directly in six funds managed by Oak Hill Advisors, L.P., which have a cumulative carrying value of \$0.9 million as of March 31, 2010 and for which we recorded income of \$0.1 million for the three months ended March 31, 2010. In addition, we have paid \$0.1 million to certain of these entities representing management fees as well as advisory service related fees in conjunction with our debt repurchase transactions.

**Stock Repurchase Program** During the three months ended March 31, 2010, we repurchased 1.1 million shares of our outstanding Common Stock for approximately \$3.9 million, at an average cost of \$3.57 per share, and the repurchases were recorded at cost. As of March 31, 2010, we had \$17.7 million of Common Stock available to repurchase under the authorized stock repurchase programs.

### Critical Accounting Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and judgments in certain circumstances that affect amounts reported as assets, liabilities, revenues and expenses. We have established detailed policies and control procedures intended to ensure that valuation methods, including any judgments made as part of such methods, are well controlled, reviewed and applied consistently from period to period. We base our estimates on historical corporate and industry experience and various other assumptions that we believe to be appropriate under the circumstances. For all of these estimates, we caution that future events rarely develop exactly as forecasted, and, therefore, routinely require adjustment.

A summary of our critical accounting estimates is included in our Annual Report on Form 10-K for the year ended December 31, 2009 in Management's Discussion and Analysis of Financial Condition. There have been no significant changes to our critical accounting estimates as of March 31, 2010.

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**Recently Issued Accounting Pronouncements** For a discussion of the impact of new accounting pronouncements on our financial condition or results of operations, see Note 3 of the Notes to the Consolidated Financial Statements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

There have been no material changes in Quantitative and Qualitative Disclosures About Market Risk for the first three months of 2010 as compared to the disclosures included in our Annual Report on Form 10-K for the year ended December 31, 2009. See discussion of quantitative and qualitative disclosures about market risk under Item 7a "Quantitative and Qualitative Disclosures about Market Risk," included in our Annual Report on Form 10-K for the year ended December 31, 2009.

**ITEM 4. CONTROLS AND PROCEDURES**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Accounting Officer (who is our Principal Financial Officer), as appropriate, to allow timely decisions regarding required disclosure. The Company has formed a disclosure committee that is responsible for considering the materiality of information and determining the disclosure obligations of the Company on a timely basis. The disclosure committee reports directly to the Company's Chief Executive Officer. The Chief Accounting Officer is currently a member of the disclosure committee.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the disclosure committee and other members of management, including its Chief Executive Officer and Chief Accounting Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) or Rule 15d-15. Based upon that evaluation, the Chief Executive Officer and Chief Accounting Officer concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and communicated to management, including the Chief Executive Officer and Chief Accounting Officer, as appropriate, to allow timely decisions regarding disclosure.

There have been no changes during the last fiscal quarter in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

**Legal Proceedings**

**Citiline Holdings, Inc., et al. v. iStar Financial, Inc., et al.**

In April 2008, two putative class action complaints were filed in the United States District Court for the Southern District of New York naming the Company and certain of its current and former executive officers as defendants and alleging violations of the Securities Act of 1933, as amended. Both suits were purportedly filed on behalf of the same putative class of investors who purchased common stock in the Company's December 13, 2007 public offering (the "Company's Offering"). The two complaints were consolidated in a single proceeding (the "Citiline Action") on April 30, 2008.

On November 17, 2008, Plumbers Union Local No. 12 Pension Fund and Citiline Holdings, Inc. were appointed Lead Plaintiffs to pursue the Citiline Action. Plaintiffs filed a Consolidated Amended Complaint on February 2, 2009, purportedly on behalf of a putative class of investors who purchased iStar common stock between December 6, 2007 and March 6, 2008 (the "Complaint"). The Complaint named as defendants the Company, certain of its current and former executive officers, and certain investment banks who served as underwriters in the Company's Offering. The Complaint reasserted claims for alleged violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, as amended, and added claims for alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended. Plaintiffs allege the defendants made certain material misstatements and omissions relating to the Company's continuing operations, including the value of the Company's loan portfolio and certain debt securities held by the Company. The Complaint seeks certification as a class action, unspecified compensatory damages plus interest and attorneys fees, and rescission of the public offering. No class has been certified. The Company and its current and former officers filed a motion to dismiss the Complaint on April 27, 2009, which was fully briefed as of August 20, 2009. On March 23, 2010, the Court heard oral argument on that motion and, on March 26, 2010, the Court issued its Order granting, in part, the dismissal of certain Securities Act claims against certain of the Company's current and former officers, but denying the motion as to all claims asserted against the Company. Accordingly, the discovery process has commenced. The Company believes the Citiline Action has no merit and intends to continue defending itself vigorously against it.

**Shareholder Derivative Actions**

In April 2010, two separate shareholder derivative complaints were filed against the Company, as nominal defendant, members of the Board of Directors and current and former executive officers alleging breach of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement and waste of corporate assets. One complaint was filed in the United States District Court for the Southern District of New York and the other complaint was filed in New York state court. In each action, plaintiff seeks monetary damages, reimbursement for professional fees, improvements in governance and controls and disgorgement of profits. The Company and the individual defendants believe these claims have no merit and intend to defend themselves vigorously against these actions.

**Shareholder Letters**

On two occasions in 2009, the Company received letters from persons claiming to own iStar shares and demanding that iStar address certain compensation, disclosure and other issues. In response to these demands, iStar appointed a special committee of independent directors. The committee, with the assistance of independent counsel, investigated the claims and concluded that the claimants either had not sustained damages or had not demonstrated they had standing to raise claims. The Company recently received a letter from another person claiming to own iStar shares and demanding that iStar take action

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against current and former officers and directors named in the letter to recover damages arising from alleged breaches of fiduciary duties. The special committee of independent directors will review the claims made in the letter. To date, none of the persons who made demand has filed suit.

**ITEM 1A. RISK FACTORS**

See the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table sets forth the information with respect to purchases made by or on behalf of the Company of its common stock during the three months ended March 31, 2010:

|                 |                   | Total Number of<br>Shares<br>Purchased | Average Price<br>Paid per Share | Total Number of<br>Shares Purchased<br>as Part of<br>Publicly Announced<br>Plans | Maximum Dollar<br>Value of Shares<br>that May Yet be<br>Purchased Under<br>the Plans(1) |
|-----------------|-------------------|--|---------------------------------|--|---|
| January 1       | January 31, 2010  | 201,000                                | \$ 2.53                         | 201,000  | \$ 21,031,978   |
| February 1      | February 28, 2010 | 222,000                                | \$ 3.87                         | 222,000  | \$ 20,179,520   |
| March 1         | March 31, 2010    | 666,000                                | \$ 3.83                         | 666,000  | \$ 17,650,874   |
| Total Purchases |                   | 1,089,000                              |                                 | 1,089,000  |   |

**Explanatory Note:**

- (1) On March 13, 2009, the Company authorized the repurchase, from time to time, on the open market or otherwise, of up to an additional \$50 million of its Common Stock at prevailing market prices or at negotiated prices, including pursuant to one or more trading plans. There is no fixed expiration date to this stock repurchase program.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. (REMOVED AND RESERVED)**

None

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

- a. Exhibits

| Exhibit<br>Number | Document Description  |
|-------------------|---|
| 31.0              | Certifications pursuant to Section 302 of the Sarbanes-Oxley Act. |

32.0 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISTAR FINANCIAL INC.

*Registrant*

Date: May 7, 2010

/s/ JAY SUGARMAN

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Jay Sugarman

*Chairman of the Board of Directors and Chief  
Executive Officer (principal executive officer)*

ISTAR FINANCIAL INC.

*Registrant*

Date: May 7, 2010

/s/ DAVID DISTASO

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David DiStaso

*Chief Accounting Officer (principal financial officer)*