CAPITAL TRUST INC
Form 10-Q
May 06, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2008

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to _____________

Commission File Number 1-14788

Capital Trust, Inc.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	94-6181186 (I.R.S. Employer Identification No.)
410 Park Avenue, 14th Floor, New York, NY (Address of principal executive offices)	10022 (Zip Code)

Registrant's telephone number, including area code: (212) 655-0220

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer ý	Non-accelerated filer o

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of outstanding shares of the registrant's class A common stock, par value $0.01 per share, as of May 5, 2008 was 21,705,355.

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Capital Trust, Inc. and Subsidiaries
Consolidated Balance Sheets
March 31, 2008 and December 31, 2007
(in thousands, except per share data)

Assets		March 31, 2008 (unaudited)		December 31, 2007 (audited)
Cash and cash equivalents	$	122,528	$	25,829
Restricted cash		15,756		5,696
Commercial mortgage backed securities		873,493		876,864
Loans receivable		2,251,614		2,257,563
Equity investment in unconsolidated subsidiaries		905		977
Deposits and other receivables		3,541		3,927
Accrued interest receivable		14,281		15,091
Deferred income taxes		4,258		3,659
Prepaid and other assets		20,156		21,876
Total assets	$	3,306,532	$	3,211,482
Liabilities & Shareholders' Equity				
Liabilities:				
Accounts payable and accrued expenses	$	29,623	$	65,682
Repurchase obligations		910,049		911,857
Collateralized debt obligations		1,187,904		1,192,299
Senior unsecured credit facility		100,000		75,000
Junior subordinated debentures		128,875		128,875
Participations sold		409,324		408,351
Interest rate hedge liabilities		35,647		18,686
Deferred origination fees and other revenue		1,718		2,495
Total liabilities		2,803,140		2,803,245
Shareholders' equity:				
Class A common stock $0.01 par value 100,000 shares authorized, 21,284 and 17,166 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively ("class A common stock")		213		172
Restricted class A common stock $0.01 par value, 410 and 424 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively ("restricted class A common stock" and together with class A common stock, "common stock")		4		4
Additional paid-in capital		541,405		426,113

Accumulated other comprehensive loss		(26,279)		(8,684)
Accumulated deficit		(11,951)		(9,368)
Total shareholders' equity		503,392		408,237
Total liabilities and shareholders' equity	$	3,306,532	$	3,211,482

See accompanying notes to consolidated financial statements.

Capital Trust, Inc. and Subsidiaries
Consolidated Statements of Income
Three Months Ended March 31, 2008 and 2007
(in thousands, except share and per share data)
(unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Income from loans and other investments:		
Interest and related income	$ 56,554	$ 57,449
Less: Interest and related expenses	37,944	36,100
Income from loans and other investments, net	18,610	21,349
Other revenues:		
Management fees	2,197	749
Incentive management fees	—	962
Servicing fees	178	67
Other interest income	188	311
Total other revenues	2,563	2,089
Other expenses:		
General and administrative	6,901	6,812
Depreciation and amortization	105	1,328
Total other expenses	7,006	8,140
Income/(loss) from equity investments	7	(703)
Income before income taxes	14,174	14,595
Income tax benefit	(599)	(254)
Net income	$ 14,773	$ 14,849
Per share information:		
Net earnings per share of common stock:		
Basic	$ 0.82	$ 0.85
Diluted	$ 0.82	$ 0.84
Weighted average shares of common stock outstanding:		
Basic	17,942,649	17,513,742
Diluted	18,017,413	17,724,495
Dividends declared per share of common stock	$ 0.80	$ 0.80

See accompanying notes to consolidated financial statements.

Capital Trust, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Three Months Ended March 31, 2008 and 2007
(in thousands)
(unaudited)

	Comprehensive Income	Class A Common Stock	Restricted Class A Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income/(Loss)	Accumulated Deficit	Total
Balance at January 1, 2007		$ 169	$ 5	$ 417,641	$ 12,717	$ (4,260)	$ 426,272
Net income	$ 14,849	—	—	—	—	14,849	14,849
Unrealized loss on derivative financial instruments	(1,862)	—	—	—	(1,862)	—	(1,862)
Unrealized loss on securities	(24)	—	—	—	(24)	—	(24)
Amortization of unrealized gain on securities	(417)	—	—	—	(417)	—	(417)
Currency translation adjustments	(228)	—	—	—	(228)	—	(228)
Deferred loss on settlement of swap	(19)	—	—	—	(19)	—	(19)
Amortization of deferred gains and losses on settlement of swaps	(73)	—	—	—	(73)	—	(73)
Sale of shares of class A common stock under stock option agreement	—	—	—	352	—	—	352
Restricted class A common stock earned	—	1	—	1,275	—	—	1,276
Dividends declared on common stock	—	—	—	—	—	(13,968)	(13,968)
Balance at March 31, 2007	$ 12,226	$ 170	$ 5	$ 419,268	$ 10,094	$ (3,379)	$ 426,158
Balance at January 1, 2008		$ 172	$ 4	$ 426,113	$ (8,684)	$ (9,368)	$ 408,237
Net income	$ 14,773					14,773	14,773
Unrealized loss on derivative financial instruments	(16,961)	—	—	—	(16,961)	—	(16,961)
Unrealized gain on available for sale security	277	—	—	—	277	—	277
Amortization of unrealized gain on securities	(437)	—	—	—	(437)	—	(437)
Deferred loss on settlement of swap	(419)	—	—	—	(419)	—	(419)
Amortization of deferred gains and losses on settlement of swaps	(55)	—	—	—	(55)	—	(55)
Shares of class A common stock issued in public offering	—	40	—	112,567	—	—	112,607
Shares of class A common stock issued under dividend reinvestment plan	—	—	—	1,541	—	—	1,541
Sale of shares of class A common stock under stock option agreement	—	—	—	180	—	—	180
Restricted class A common stock earned	—	1	—	1,004	—	—	1,005
Dividends declared on common stock	—	—	—	—	—	(17,356)	(17,356)
Balance at March 31, 2008	$ (2,822)	$ 213	$ 4	$ 541,405	$ (26,279)	$ (11,951)	$ 503,392

See accompanying notes to consolidated financial statements.

Capital Trust, Inc. and Subsidiaries
Consolidated Statement of Cash Flows
For the Three Months Ended March 31, 2008 and 2007
(in thousands)
(unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Cash flows from operating activities:		
Net income	$ 14,773	$ 14,849
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	105	1,328
(Income)/loss from equity investments	(7)	703
Distributions of income from equity investments in unconsolidated subsidiaries	—	126
Restricted class A common stock earned	1,004	1,276
Amortization of premiums and discounts on loans, CMBS, and debt, net	(1,698)	(1,037)
Amortization of deferred gains and losses on settlement of swaps	(55)	(73)
Amortization of finance costs	1,370	788
Changes in assets and liabilities, net:		
Deposits and other receivables	2,250	502
Accrued interest receivable	810	(211)
Deferred income taxes	(599)	—
Prepaid and other assets	428	283
Deferred origination fees and other revenue	(650)	517
Accounts payable and accrued expenses	(5,931)	(2,671)
Net cash provided by operating activities	11,800	16,380
Cash flows from investing activities:		
Purchases of CMBS	—	(35,729)
Principal collections on and proceeds from CMBS	3,568	7,025
Origination, purchase and fundings of loans receivable	(28,639)	(367,508)
Principal collections on loans receivable	34,842	93,532
Equity investments in unconsolidated subsidiaries	—	(1,251)
Return of capital from equity investments in unconsolidated subsidiaries	—	517
Proceeds from total return swaps	—	1,815
Purchase of equipment and leasehold improvements	(10)	(11)
(Increase) decrease in restricted cash	(10,060)	794
Net cash used in investing activities	(299)	(300,816)

Cash flows from financing activities:				
Proceeds from repurchase obligations		101,393		457,293
Repayment of repurchase obligations		(103,202)		(280,631)
Proceeds from credit facilities		25,000		25,000
Issuance of junior subordinated debentures		—		77,325
Purchase of common equity in CT Preferred Trust I & CT Preferred Trust II		—		(2,325)
Repayment of collateralized debt obligations		(4,317)		(6,042)
Proceeds from participations sold		—		35,782
Settlement of interest rate hedges		(419)		(19)
Payment of financing costs		(94)		(1,875)
Sale of class A common stock upon stock option exercise		180		352
Dividends paid on common stock		(47,492)		(24,379)
Proceeds from sale of shares of class A common stock		112,608		—
Proceeds from dividend reinvestment plan		1,541		—
Net cash provided by financing activities		85,198		280,481
Net increase (decrease) in cash and cash equivalents		96,699		(3,955)
Cash and cash equivalents at beginning of year		25,829		26,142
Cash and cash equivalents at end of period	$	122,528	$	22,187

See accompanying notes to consolidated financial statements.

Capital Trust, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

1. Organization

References herein to “we,” “us” or “our” refer to Capital Trust, Inc. and its subsidiaries unless the context specifically requires otherwise.

We are a fully integrated, self-managed finance and investment management company that specializes in credit-sensitive structured financial products. To date, our investment programs have focused on loans and securities backed by commercial real estate assets. We invest for our own account directly on our balance sheet and for third parties through a series of investment management vehicles. From the commencement of our finance business in 1997 through March 31, 2008, we have completed over $10.5 billion of investments in the commercial real estate debt arena. We conduct our operations as a real estate investment trust, or REIT, for federal income tax purposes and we are headquartered in New York City.

2. Summary of Significant Accounting Policies

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the financial statements and the related management's discussion and analysis of financial condition and results of operations filed with our Annual Report on Form 10-K for the fiscal year ended December 31, 2007. In our opinion, all material adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of results that may be expected for the entire year ending December 31, 2008. Our accounting and reporting policies conform in all material respects to generally accepted accounting principles, or GAAP, in the United States.

Principles of Consolidation
The accompanying unaudited consolidated interim financial statements include, on a consolidated basis, our accounts, the accounts of our wholly-owned subsidiaries and our interests in variable interest entities in which we are the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation. Our interests in CT Preferred Trust I and CT Preferred Trust II, the issuers of trust securities backed by our junior subordinated debentures, are accounted for using the equity method and their assets and liabilities are not consolidated into our financial statements due to our determination that CT Preferred Trust I and CT Preferred Trust II are variable interest entities in which we are not the primary beneficiary under Financial Accounting Standards Board, or FASB, Interpretation No. 46(R) "Consolidation of Variable Interest Entities", or FIN 46R. We account for our co-investment interest in the private equity funds we co-sponsored and continue to manage, CT Mezzanine Partners III, Inc., or Fund III, and CT Opportunity Partners I, LP, or CTOPI, under the equity method of accounting. We also accounted for our investment in Bracor Investimentos Imobiliarios Ltda., or Bracor, under the equity method of accounting until we sold our investment in December 2007. As such, we report a percentage of the earnings of the companies in which we have such investments equal to our ownership percentage on a single line item in the consolidated statement of income as Income from equity investments. CTOPI is an investment company (under the AICPA Investment Company Guide) and therefore it maintains its financial records on a fair value basis. We have retained such accounting relative to our investment in CTOPI pursuant to the Emerging Issues Task Force, or EITF, issue No. 85-12 “Retention of Specialized Accounting for Investments in Consolidation.”

Revenue Recognition

Interest income from our loans receivable is recognized over the life of the investment using the effective interest method and is recorded on the accrual basis. Fees, premiums, discounts and direct costs in connection with these investments are deferred until the loan is advanced and are then recognized over the term of the loan as an adjustment to yield. Fees on commitments that expire unused are recognized at expiration. For loans where we have unfunded commitments, we amortize the appropriate items on a straight line basis. Income recognition is generally suspended for loans at the earlier of the date at which payments become 90 days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. Income recognition is resumed when the loan becomes contractually current and performance is demonstrated to be resumed.

Fees from special servicing and asset management services are recognized as services are rendered. We account for incentive fees we earn from our investment management business in accordance with Method 1 of EITF D-96, "Accounting for Management Fees Based on a Formula". Under Method 1, no incentive income is recorded until all contingencies have been eliminated.

Capital Trust, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(unaudited)

Cash and Cash Equivalents
We classify highly liquid investments with original maturities of three months or less from the date of purchase as cash equivalents. At March 31, 2008 and December 31, 2007, a majority of the cash and cash equivalents consisted of overnight deposits in demand deposit accounts. As of, and for the periods ended, March 31, 2008 and December 31, 2007, we had bank balances in excess of federally insured amounts. We have not experienced any losses on our demand deposits, commercial paper or money market investments.

Restricted Cash
Restricted cash at March 31, 2008 was comprised of $15.8 million that is on deposit with the trustee for our collateralized debt obligations, or CDOs, and is expected to be used to pay contractual interest and principal and to purchase replacement collateral for our reinvesting CDOs during their respective reinvestment periods. Restricted cash at December 31, 2007 was $5.7 million.

Commercial Mortgage Backed Securities
We classify our commercial mortgage backed securities, or CMBS, pursuant to FASB Statement of Financial Accounting Standards No. 115, “Accounting for Certain Investments in Debt and Equity Securities”, or FAS 115, on the date of acquisition of the investment. On August 4, 2005, we made a decision to change the accounting classification of our CMBS investments from available-for-sale to held-to-maturity. Held-to-maturity investments are stated at cost adjusted for the amortization of any premiums or discounts and any premiums or discounts are amortized through the consolidated statements of income using the effective interest method. Other than in the instance of impairment, these held-to-maturity investments are shown in our financial statements at their adjusted values pursuant to the methodology described above.

We may also invest in CMBS and certain other securities which may be classified as available-for-sale. Available-for-sale securities are carried at estimated fair value with the net unrealized gains or losses reported as a component of accumulated other comprehensive income/(loss) in shareholders’ equity. Many of these investments are relatively illiquid and management must estimate their values. In making these estimates, management utilizes market prices provided by dealers who make markets in these securities, but may, under certain circumstances, adjust these valuations based on management’s judgment. Changes in the valuations do not affect our reported income or cash flows, but impact shareholders’ equity and, accordingly, book value per share.

Income on these securities is recognized based upon a number of assumptions that are subject to uncertainties and contingencies. Examples include, among other things, the rate and timing of principal payments, including prepayments, repurchases, defaults and liquidations, the pass-through or coupon rate and interest rates. Additional factors that may affect our reported interest income on our mortgage backed securities include interest payment shortfalls due to delinquencies on the underlying mortgage loans and the timing and magnitude of credit losses on the mortgage loans underlying the securities that are impacted by, among other things, the general condition of the real estate market, including competition for tenants and their related credit quality, and changes in market rental rates. These uncertainties and contingencies are difficult to predict and are subject to future events that may alter the assumptions.

We account for CMBS under EITF 99-20, “Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets”, or EITF 99-20. Under EITF 99-20, when significant changes in estimated cash flows from the cash flows previously estimated occur due to actual prepayment and credit loss experience and the present value of the revised cash flows using the current expected yield is less than the present value of the previously estimated remaining cash flows, adjusted for cash receipts during the intervening period, an other than temporary impairment is deemed to have occurred. Accordingly, the security is written down to fair value with the resulting charge being included in income and a new cost basis established with the original discount or premium written off when the new cost basis is established. In accordance with this guidance, on a quarterly basis, when significant changes in estimated cash flows from the cash flows previously estimated occur due to actual prepayment and credit loss experience, we calculate a revised yield based upon the current amortized cost of the investment, including any other than temporary impairments recognized to date, and the revised cash flows. The revised yield is then applied prospectively to recognize interest income. Management must also assess whether unrealized losses on securities reflect a decline in value that is other than temporary, and, accordingly, write down the impaired security to its fair value, through a charge to income. Significant judgment of management is required in this analysis that includes, but is not limited to, making assumptions regarding the collectability of the principal and interest, net of related expenses, on the underlying loans.

Capital Trust, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(unaudited)

During the fourth quarter of 2004, we concluded that two of our CMBS investments had incurred other-than-temporary impairment and we incurred a charge of $5.9 million through the income statement. At March 31, 2008, we believe there has not been any adverse change in cash flows relating to existing CMBS investments; therefore we did not recognize any additional other than temporary impairment on any CMBS investments. Significant judgment of management is required in this analysis that includes, but is not limited to, making assumptions regarding the collectability of the principal and interest, net of related expenses, on the underlying loans.

From time to time we purchase CMBS and other investments in which we have a level of control over the issuing entity; we refer to these investments as controlling class investments. The presentation of controlling class investments in our financial statements is governed in part by FIN 46R. FIN 46R could require that certain controlling class investments be presented on a consolidated basis. Based upon the specific circumstances of certain of our CMBS investments that are controlling class investments and our interpretation of FIN 46R, specifically the exemption for qualifying special purpose entities as defined under FASB Statements of Financial Accounting Standard No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", or FAS 140, we have concluded that the entities that have issued the controlling class investments should not be presented on a consolidated basis. We are aware that FAS 140 is currently under review by standard setters and that, as a result of this review, our current interpretation of FIN 46R and FAS 140 may change.

Loans Receivable and Reserve for Possible Credit Losses

We purchase and originate commercial real estate debt and related instruments, or Loans, to be held as long term investments at amortized cost. Management must periodically evaluate each of these Loans for possible impairment. Impairment is indicated when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the Loan. If a Loan were determined to be permanently impaired, we would write down the Loan through a charge to the reserve for possible credit losses. Given the nature of our Loan portfolio and the underlying commercial real estate collateral, significant judgment on the part of management is required in determining permanent impairment and the resulting charge to the reserve, which includes but is not limited to making assumptions regarding the value of the real estate that secures the loan. Each Loan in our portfolio is evaluated at least quarterly using our loan risk rating system which considers loan-to-value, debt yield, cash flow stability, exit plan, loan sponsorship, loan structure and other factors deemed necessary by management to assess the likelihood of delinquency or default. If we believe that there is a potential for delinquency or default, a downside analysis is prepared to estimate the value of the collateral underlying our Loan, and this potential loss is multiplied by the default likelihood to determine the size of the reserve. Actual losses, if any, could ultimately differ from these estimates.

Deferred Financing Costs

The deferred financing costs which are included in prepaid and other assets on our consolidated balance sheets include issuance costs related to our debt and are amortized using the effective interest method or a method that approximates the effective interest method.

Repurchase Obligations

In certain circumstances, we have financed the purchase of investments from a counterparty through a repurchase agreement with that same counterparty. We currently record these investments in the same manner as other investments financed with repurchase agreements, with the investment recorded as an asset and the related borrowing under any repurchase agreement as a liability on our consolidated balance sheets. Interest income earned on the investments and interest expense incurred on the repurchase obligations are reported separately on the consolidated statements of income. There is a position under consideration by standard setters, based upon a technical interpretation of FAS 140, that starting in fiscal 2009 these transactions will not qualify as a purchase by us. We believe, consistent with industry practice, that we are accounting for these transactions in an appropriate manner; however, if these investments do not qualify as a purchase under FAS 140, we would be required to present the net investment (asset balance less the repurchase obligation balance) on our consolidated balance sheets together with an embedded derivative with the corresponding change in fair value of the derivative being recorded in the consolidated statements of income. The value of the derivative would reflect not only changes in the value of the underlying investment, but also changes in the value of the underlying credit provided by the counterparty. Income from these arrangements would be presented on a net basis. Furthermore, hedge instruments related to these assets and liabilities, currently deemed effective, may no longer be effective and may have to be accounted for as non-hedge derivatives. As of March 31, 2008, we had entered into 26 such transactions, with a book value of the associated assets of $657.1 million financed with repurchase obligations of $445.7 million.

Capital Trust, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(unaudited)

Interest Rate Derivative Financial Instruments
In the normal course of business, we use interest rate derivative financial instruments to manage, or hedge, cash flow variability caused by interest rate fluctuations. Specifically, we currently use interest rate swaps to effectively convert variable rate liabilities, that are financing fixed rate assets, to fixed rate liabilities. The differential to be paid or received on these agreements is recognized on the accrual basis as an adjustment to the interest expense related to the attendant liability. The swap agreements are generally accounted for on a held-to-maturity basis, and, in cases where they are terminated early, any gain or loss is generally amortized over the remaining life of the hedged item. These swap agreements must be effective in reducing the variability of cash flows of the hedged items in order to qualify for the aforementioned hedge accounting treatment. Changes in value of effective cash flow hedges are reflected in our financial statements through accumulated other comprehensive income/(loss) and do not affect our net income. To the extent a derivative does not qualify for hedge accounting, and is deemed a non-hedge derivative, the changes in its value are included in net income.

To determine the fair value of derivative instruments, we use third parties to periodically value our interests.

Income Taxes
Our financial results generally do not reflect provisions for current or deferred income taxes on our REIT taxable income. Management believes that we operate in a manner that will continue to allow us to be taxed as a REIT and, as a result, do not expect to pay substantial corporate level taxes (other than taxes payable by our taxable REIT subsidiaries which are accounted for in accordance with FASB Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes”, or FAS 109). Many of these requirements, however, are highly technical and complex. If we were to fail to meet these requirements, we may be subject to federal, state and local income tax on current and past income, and we may also be subject to penalties.

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109”, or FIN 48. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FAS 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation was effective January 1, 2007 for us. The adoption of FIN 48 did not have a material impact on our financial results.

Accounting for Stock-Based Compensation
We account for stock based compensation in accordance with FASB Statement of Financial Accounting Standards No. 123(R) “Share Based Payment,” or FAS 123(R). Upon adoption of FAS 123(R), as of January 1, 2006, we have elected to utilize the modified prospective method, and there was no impact from this adoption. Compensation expense for the time vesting of stock based compensation grants is recognized on the accelerated attribution method and compensation expense for performance vesting of stock based compensation grants is recognized on a straight line basis. Compensation expense relating to stock-based compensation is recognized in net income using a fair value measurement method.

Comprehensive Income
We comply with the provisions of the FASB Statement of Financial Accounting Standards No. 130, “Reporting Comprehensive Income”, or FAS 130, in reporting comprehensive income and its components in the full set of general purpose financial statements. Total comprehensive (loss)/income was ($2.8) million and $12.2 million, for the periods

ended March 31, 2008 and 2007, respectively. The primary components of comprehensive income other than net income were the unrealized gain/(loss) on derivative financial instruments and CMBS. At March 31, 2008, accumulated other comprehensive (loss)/income was ($26.3) million, comprised of unrealized gains on CMBS of $8.3 million, unrealized losses on cash flow swaps of $35.6 million, and $1.0 million of deferred realized gains on the settlement of cash flow swaps.

Earnings per Share of Common Stock

Earnings per share of common stock are presented based on the requirements of the FASB Statement of Accounting Standards No. 128, "Earnings per Share", or FAS 128. Basic EPS is computed based on the net earnings applicable to common stock and stock units divided by weighted average number of shares of common stock and stock units outstanding during the period. Diluted EPS is based on the net earnings allocable to common stock and stock units, divided by weighted average number of shares of common stock and stock units and potentially dilutive common stock options.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may ultimately differ from those estimates.

Capital Trust, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(unaudited)

Reclassifications

Certain reclassifications have been made in the presentation of the prior periods consolidated financial statements to conform to the March 31, 2008 presentation.

Segment Reporting

We operate in two reportable segments. We have an internal information system that produces performance and asset data for the two segments along service lines.

The "Balance Sheet Investment" segment includes our portfolio of interest earning assets (including our co-investments in investment management vehicles) and the financing thereof.

The "Investment Management" segment includes the activities of our wholly-owned investment management subsidiary, CT Investment Management Co. LLC, or CTIMCO and its subsidiaries. CTIMCO is a taxable REIT subsidiary and serves as the investment manager of Capital Trust, Inc., all of our investment management vehicles and all of our CDOs and serves as senior servicer and special servicer on certain of our investments and for third parties. In addition, CTIMCO owns certain of our assets.

Business Combination

On June 15, 2007, we purchased a healthcare loan origination platform, located in Birmingham, Alabama. We paid a $2.6 million initial purchase price ($1.9 million in cash and $707,000 in common stock), and we have a contingent obligation to pay up to an additional $1.8 million ($1.1 million in cash and $700,000 in common stock) on March 15, 2009, if the acquired business meets certain performance criteria. We have recorded $2.1 million of goodwill associated with the initial purchase price.

Goodwill

Goodwill represents the excess of acquisition costs over the fair value of net assets of businesses acquired. Goodwill is reviewed annually in the fourth quarter to determine if there is impairment at a reporting unit level or more frequently if an indication of impairment exists. No impairment charges for goodwill were recorded in the first quarter of 2008.

New Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" or FAS 157. FAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. FAS 157 applies to reporting periods beginning after November 15, 2007. As discussed above, we report the changes in the value of effective cash flow hedges and our available for sale securities through accumulated other comprehensive income/(loss). We adopted FAS 157 as of January 1, 2008. As a result of the adoption of FAS 157, the fair value of our interest rate hedge liabilities decreased by $1.5 million due to the valuation adjustment related to our credit.

Capital Trust, Inc. and Subsidiaries
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The table below details the fair value measurements at March 31, 2008 (in millions):

Description (in millions)		Fair Value at March 31, 2008	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
Available-for-sale securities	$	8.3	$	—	$	8.3	$ —
Interest rate hedge liabilities		(35.6)		—		(35.6)	—
Total	$	(27.3)	$	—	$	(27.3)	$ —

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities”, or FAS 159. FAS 159 permits entities to choose to measure many financial instruments, and certain other items, at fair value. FAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. FAS 159 applies to reporting periods beginning after November 15, 2007. We adopted FAS 159 as of January 1, 2008.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, “Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133”, or FAS 161. The use and complexity of derivative instruments and hedging activities have increased significantly over the past several years. Constituents have expressed concerns that the existing disclosure requirements in FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities”, do not provide adequate information about how derivative and hedging activities affect an entity’s financial position, financial performance, and cash flows. Accordingly, FAS 161 requires enhanced disclosures about an entity’s derivative and hedging activities and thereby improves the transparency of financial reporting. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. FAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We are currently evaluating the potential effect of the adoption of FAS 161 on our consolidated financial statements.

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3. Commercial Mortgage Backed Securities

Activity relating to our CMBS investments for the three months ended March 31, 2008 was as follows ($ values in thousands):

						Weighted Average		
Asset Type	Face Value	Book Value	Number of Securities	Number of Issues	Rating (1)	Coupon(2)	Yield(2)	Maturity (Years)(3)
December 31, 2007								
Floating Rate	$ 171,620	$ 170,543	14	11	BB	8.16%	8.19%	2.6
Fixed Rate	744,790	706,321	65	47	BB+	6.69%	7.14%	7.5
Total/Average	916,410	876,864	79	58	BB+	6.97%	7.35%	6.5
Originations								
Floating Rate	—	—	—	—	—	—	—	—
Fixed Rate	—	—	—	—	—	—	—	—
Total/Average	—	—	—	—	—	—	—	—
Repayments & Other (4)								
Floating Rate	26	(103)	—	—	N/A	N/A	N/A	N/A
Fixed Rate	4,045	3,474	—	—	N/A	N/A	N/A	N/A
Total/Average	4,071	3,371	—	—	N/A	N/A	N/A	N/A
March 31, 2008								
Floating Rate	171,594	170,646	14	11	BB	6.26%	6.28%	2.5
Fixed Rate	740,745	702,847	65	47	BB	6.68%	7.13%	7.3
Total/Average	$ 912,339	$ 873,493	79	58	BB	6.60%	6.96%	6.3

(1) Weighted average ratings are based on the lowest rating published by Fitch Ratings, Standard & Poor's or Moody's Investors Service for each security and exclude $37.9 million face value ($37.2 million book value) of unrated equity investments in collateralized debt obligations.
(2) Calculations based on LIBOR of 2.70% as of March 31, 2008 and LIBOR of 4.60% as of December 31, 2007.
(3) Represents the maturity of the investment assuming all extension options are executed.
(4) Includes full repayments, sales, partial repayments, mark-to-market adjustments on available for sale securities, and the impact of premium and discount amortization and losses, if any. The figures shown in "Number of Securities" and "Number of Issues" represent only the full repayments/sales, if any.

Capital Trust, Inc. and Subsidiaries
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The tables below detail the ratings, vintage, property type and geographic distribution of the collateral securing our CMBS at March 31, 2008 (in thousands):

Ratings	Book Value		Percentage
AAA	$	126,729	15%
AA		27,769	3%
A		187,245	21%
BBB		265,268	30%
BB		114,744	13%
B		57,979	7%
CCC		4,991	1%
CC		4,334	1%
D		47,237	5%
NR		37,197	4%
Total	$	873,493	100%
Vintage	Book Value		Percentage
2007	$	109,619	13%
2006		48,815	6%
2005		61,662	7%
2004		94,753	11%
2003		29,386	3%
2002		19,608	2%
2001		18,980	2%
2000		41,475	5%
1999		30,216	3%
1998		311,623	36%
1997		73,650	8%
1996		33,706	4%
Total	$	873,493	100%
Property Type	Book Value		Percentage
Retail	$	234,218	27%
Office		194,296	22%
Hotel		167,527	19%
Multi-Family		144,005	16%
Other		69,497	8%
Industrial		32,402	4%
Healthcare		31,548	4%
Total	$	873,493	100%
Geographic Location	Book Value		Percentage
Northeast	$	217,495	25%
Southeast		214,427	25%
Midwest		148,171	17%
West		144,465	16%
Southwest		113,569	13%
Northwest		24,040	3%

Other		11,326	1%
Total	$	873,493	100%

As detailed in Note 2, on August 4, 2005, pursuant to the provisions of FAS 115, we made a decision to change the accounting classification of our then portfolio of CMBS investments from available-for-sale to held-to-maturity.

While we typically account for our CMBS investments on a held-to-maturity basis, under certain circumstances we will account for CMBS on an available-for-sale basis. At March 31, 2008 and December 31, 2007, we had one CMBS investment that we designated and account for on an available-for-sale basis with a face value of $7.4 million and $7.7 million, respectively. The security earned interest at a weighted average coupon of 8.34% at March 31, 2008 and December 31, 2007. At March 31, 2008 and December 31, 2007, the security was carried at its fair market value of $8.3 million. The investment matures in February 2010.

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Quarterly, we reevaluate our CMBS portfolio to determine if there has been an other-than-temporary impairment based upon our assessment of future cash flow receipts. For the three months ended March 31, 2008, we believe that there has not been any adverse change in cash flows in our CMBS portfolio and, therefore, did not recognize any other-than-temporary impairments. Significant judgment of management is required in this analysis that includes, but is not limited to, making assumptions regarding the collectability of principal and interest, net of related expenses, on the underlying loans.

Certain of our CMBS investments are carried at values in excess of their market values. This difference can be caused by, among other things, changes in interest rates, changes in credit spreads, realized/unrealized losses in the underlying securities and general market conditions. At March 31, 2008, 66 CMBS investments with an aggregate carrying value of $690.4 million were carried at values in excess of their market values. Market value for these CMBS investments was $577.6 million at March 31, 2008. In total, we had 79 CMBS investments with an aggregate carrying value of $873.5 million that have an estimated market value of $772.0 million (this valuation does not include the value of interest rate swaps entered into in conjunction with the purchase/financing of these investments). We regularly examine the CMBS portfolio and have determined that there have been no change in our expectations of cash flows from our CMBS portfolio since our last financial report. Our assessment of cash flows, combined with our ability and intent to hold our CMBS investments to maturity (at which point we expect to recover book value plus amortized discounts/premiums, which may be at maturity), is the basis for our conclusion that these investments are not impaired despite the differences between estimated fair value and book value. We attribute the difference between book value and estimated fair value to the current market dislocation and a general negative bias for structured products such as CMBS.

The following table shows the gross unrealized losses and fair value of our CMBS with unrealized losses as of March 31, 2008 that are not deemed to be other-than-temporarily impaired (in millions):

	Less Than 12 Months			Greater Than 12 Months			Total		
	Book Value	Estimated Fair Value	Gross Unrealized Loss	Book Value	Estimated Fair Value	Gross Unrealized Loss	Book Value	Estimated Fair Value	Gross Unrealized Loss
Floating Rate	$ 125.5	$ 91.3	$ (34.2)	$ 45.2	$ 37.3	$ (7.9)	$ 170.7	$ 128.6	$ (42.1)
Fixed Rate	232.1	199.6	(32.5)	287.6	249.4	(38.2)	519.7	449.0	(70.7)
Total	$ 357.6	$ 290.9	$ (66.7)	$ 332.8	$ 286.7	$ (46.1)	$ 690.4	$ 577.6	$ (112.8)

Capital Trust, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
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4. Loans Receivable

Activity relating to our loans receivable for the three months ended March 31, 2008 was as follows (in thousands):

				Weighted Average		
Asset Type	Face Value	Book Value	Number of Investments	Coupon(1)	Yield(1)	Maturity (Years)(2)
December 31, 2007						
Floating rate(3)						
Mortgage loans	$ 620,586	$ 620,586	17	6.93%	7.23%	3.6
Subordinate mortgage interests	515,797	508,900	28	7.31%	7.37%	3.7
Mezzanine loans	939,038	937,209	26	8.19%	8.22%	3.5
Total/Average	2,075,421	2,066,695	71	7.59%	7.71%	3.6
Fixed rate						
Mortgage loans	—	—	—	—	—	—
Subordinate mortgage interests	29,779	29,094	2	7.92%	8.09%	24.2
Mezzanine loans	160,984	161,774	8	8.85%	8.84%	4.2
Total/Average	190,763	190,868	10	8.70%	8.73%	7.3
Total/Average - December 31, 2007	2,266,184	2,257,563	81	7.69%	7.80%	3.9
Originations(4)						
Floating rate						
Mortgage loans	19,239	19,239	—	5.23%	5.83%	2.9
Subordinate mortgage interests	8,353	8,353	—	7.78%	8.52%	2.1
Mezzanine loans	1,815	1,815	—	6.20%	6.20%	4.7
Total/Average	29,407	29,407	—	6.02%	6.62%	2.8
Fixed rate						
Mortgage loans	—	—	—	—	—	—
Subordinate mortgage interests	—	—	—	—	—	—
Mezzanine loans	—	—	—	—	—	—
Total/Average	—	—	—	—	—	—
Total/Average	29,407	29,407	—	6.02%	6.62%	2.8
Repayments & Other(5)						
Floating rate						
Mortgage loans	2,686	2,686	—	N/A	N/A	N/A
	2,059	1,549	—	N/A	N/A	N/A

Subordinate mortgage interests						
Mezzanine loans	31,075	30,796	1	N/A	N/A	N/A
Total/Average	35,820	35,031	1	N/A	N/A	N/A
Fixed rate						
Mortgage loans	—	—	—	N/A	N/A	N/A
Subordinate mortgage interests	20	(3)	—	N/A	N/A	N/A
Mezzanine loans	286	328	—	N/A	N/A	N/A
Total/Average	306	325	—	N/A	N/A	N/A
Total/Average	36,126	35,356	1	N/A	N/A	N/A
March 31, 2008						
Floating rate						
Mortgage loans	637,139	637,139	17	5.05%	5.36%	3.4
Subordinate mortgage interests	522,091	515,704	28	5.54%	5.60%	3.4
Mezzanine loans	909,778	908,228	25	6.25%	6.27%	3.4
Total/Average	2,069,008	2,061,071	70	5.70%	5.82%	3.4
Fixed rate						
Mortgage loans	—	—	—	—	—	—
Subordinate mortgage interests	29,759	29,097	2	7.91%	8.08%	24.1
Mezzanine loans	160,698	161,446	8	8.85%	8.85%	4.0
Total/Average	190,457	190,543	10	8.70%	8.73%	7.1
Total/Average - March 31, 2008	$ 2,259,465	$ 2,251,614	80	5.96%	6.06%	3.7

(1) Calculations based on LIBOR of 2.70% as of March 31, 2008 and LIBOR of 4.60% as of December 31, 2007.

(2) Represents the maturity of the investment assuming all extension options are executed.

(3) During the first quarter of 2008, one subordinate mortgage interest with a book value of $12.4 million switched from a fixed rate loan to a floating rate.

(4) Includes additional fundings on prior period originations. The figures shown in “Number of Investments” represent the actual number of originations during the period.

(5) Includes full repayments, sales, partial repayments and the impact of premium and discount amortization and losses, if any. The figures shown in “Number of Investments” represent only the full repayments/sales, if any.

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The tables below detail the property type and geographic distribution of the properties securing our loans receivable at March 31, 2008 (in thousands).

Property Type	Book Value	Percentage
Office	$ 969,612	43%
Hotel	690,106	31%
Multi-Family	162,950	7%
Healthcare	147,883	7%
Retail	71,095	3%
Industrial	10,856	0%
Other	199,112	9%
Total	$ 2,251,614	100%

Geographic Location	Book Value	Percentage
North East	$ 888,156	39%
Various	586,056	26%
South West	459,659	20%
South East	193,377	9%
North West	118,263	5%
Mid West	6,103	1%
Total	$ 2,251,614	100%

Quarterly, management reevaluates the reserve for possible credit losses based upon our current portfolio of loans. Each loan in our portfolio is evaluated using our loan risk rating system which considers loan-to-value, debt yield, cash flow stability, exit plan, loan sponsorship, loan structure and other factors necessary to assess the likelihood of delinquency or default. If we believe that there is a potential for delinquency or default, a downside analysis is prepared to estimate the value of the collateral underlying our loan, and this potential loss is multiplied by the default likelihood. Based upon our review of the portfolio, in the fourth quarter of 2007 we recorded a $4.0 million reserve for possible credit losses related to one second mortgage loan with an unpaid principal balance of $10.0 million. As of March 31, 2008, we believe that no additional reserves for possible credit losses were warranted on any of our loans.

During the first quarter of 2008, three of our loans had performance issues. At March 31, 2008, the loan against which we had previously recorded a $4.0 million reserve was classified as non performing due to its failure to pay interest. A second loan matured during the first quarter of 2008 and was not repaid; prior to quarter end, we agreed to the terms of an extension of the loan through February 2009 subject to certain events occurring in April 2008. The contemplated events occurred and the extension was put into effect in April 2008. A third loan did not make its contractual interest payment in March 2008 and we have entered into discussions with the borrower to take title to the collateral property. We did not accrue interest on the loan against which we have taken a reserve, but we continued to accrue interest on the other two loans through quarter end based upon our assessment that principal and interest due as of quarter end will be collected.

In some instances, we have a further obligation to fund additional amounts under our loan arrangements; we refer to these funding commitments as Unfunded Loan Commitments. At March 31, 2008, we had 10 such Unfunded Loan Commitments for a total future funding obligation of $146.7 million.

In connection with the loan portfolio, at March 31, 2008, we have deferred origination fees, net of direct costs of $1.4 million which are being amortized into income over the life of the loans.

At March 31, 2008, we had $1.4 million included in deposits and other receivables which represented a partial repayment that was paid prior to March 31, the proceeds of which had not been remitted to us by our servicers at quarter end.

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5. Total Return Swaps

Total return swaps are derivative contracts in which one party agrees to make payments that replicate the total return of a defined underlying asset, typically in return for another party agreeing to bear the risk of performance of the defined underlying asset. Under our current total return swaps, we bear the risk of performance of the underlying asset and receive payments from our counterparty as compensation. In effect, these total return swaps allow us to receive the leveraged economic benefits of asset ownership without our acquiring, or our counterparty selling, the actual underlying asset. Our total return swaps reference commercial real estate loans and contain a put provision whereby our counterparty has the right to require us to buy the entire reference loan at its par value under certain reference loan performance scenarios. The put obligation imbedded in these arrangements constitutes a recourse obligation for us to perform under the terms of the contract.

Activity relating to our total return swaps for the three months ended March 31, 2008 was as follows (in thousands):

	Fair Market Value (Book Value)	Cash Collateral	Reference/Loan Participation	Number of Investments	Weighted Average Yield	Weighted Average Maturity (Years)
December 31, 2007	—	—	$20,000	1	—	—
Originations- Three Months	—	—	—	—	—	—
Repayments- Three Months	—	—	20,000	1	—	—
March 31, 2008	$ —	$ —	$ —	—	—	—

The total return swaps are treated as non-hedge derivatives for accounting purposes and, as such, changes in their market value are recorded through the consolidated statements of income. As of March 31, 2008, the reference/loan participation was satisfied.

6. Equity Investment in Unconsolidated Subsidiaries

Our equity investments in unconsolidated subsidiaries consist primarily of our co-investments in investment management vehicles that we sponsor and manage. At March 31, 2008, we had co-investments in two such vehicles, Fund III and CTOPI. In addition to our co-investments, we record capitalized costs associated with these vehicles in equity investments in unconsolidated subsidiaries.

Activity relating to our equity investment in unconsolidated subsidiaries for the three months ended March 31, 2008 was as follows (in thousands):

	Fund III	CTOPI	Other and Capitalized Costs	Total
Equity Investment				
Beginning balance	$ 923	$ (60)	$ 35	$ 898
Income (loss) from equity investments	32	(27)	2	7
Ending balance	$ 955	$ (87)	$ 37	$ 905

Capitalized Costs								
Beginning balance	$	79	$	—	$	—	$	79
Amortization of capitalized costs		(79)		—		—		(79)
Ending balance	$	—	$	—	$	—	$	—
Total Balance	$	955	$	(87)	$	37	$	905

In accordance with the management agreement with Fund III and CTOPI, CTIMCO may earn incentive compensation when certain returns are achieved for the shareholders/partners of Fund III and CTOPI, which will be accrued if and when earned.

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7. Debt

At March 31, 2008 and December 31, 2007, we had $2.3 billion of total debt outstanding. The balances of each category of debt and their respective coupons and all in effective costs, including the amortization of fees and expenses were as follows (in thousands):

	March 31, 2008				December 31, 2007			
	Face Value	Book Value	Coupon (1)	All-In Cost	Face Value	Book Value	Coupon (1)	All-In Cost
Repurchase Obligations	$ 910,049	$ 910,049	3.70%	3.97%	$ 911,857	$ 911,857	5.56%	5.80%
Collateralized debt obligations								
CDO I (Floating)	252,778	252,778	3.32%	3.76%	252,778	252,778	5.22%	5.67%
CDO II (Floating)	298,913	298,913	3.19%	3.45%	298,913	298,913	5.09%	5.32%
CDO III (Fixed)	256,981	258,754	5.22%	5.37%	259,803	261,654	5.22%	5.37%
CDO IV (Floating)(2)	377,459	377,459	3.22%	3.32%	378,954	378,954	5.04%	5.11%
Total CDOs	1,186,131	1,187,904	3.67%	3.90%	1,190,448	1,192,299	5.12%	5.34%
Senior Unsecured Credit Facility	100,000	100,000	4.45%	4.68%	75,000	75,000	6.10%	6.40%
Junior Subordinated Debentures	128,875	128,875	7.20%	7.30%	128,875	128,875	7.20%	7.30%
Total	$ 2,325,055	$ 2,326,828	3.91%	4.15%	$ 2,306,180	$ 2,308,031	5.45%	5.66%

(1) Calculations based on LIBOR of 2.70% as of March 31, 2008 and LIBOR of 4.60% as of December 31, 2007.
(2) Comprised of $362.8 million of floating rate notes sold and $14.7 million of fixed rate notes sold.

Repurchase Obligations
At March 31, 2008, we were party to nine master repurchase agreements with seven counterparties that provide total commitments of $1.6 billion. At March 31, 2008, we borrowed $848.7 million under these agreements. We were also a party to asset specific repurchase obligations. At March 31, 2008, these asset specific repurchase obligations represented borrowings of $61.4 million. Our total borrowings at March 31, 2008 under repurchase agreements were $910.0 million and we had the ability to borrow an additional $84.2 million without pledging additional collateral. Loans and CMBS with a carrying value of $1.7 billion are pledged as collateral for our repurchase

agreements.

During the quarter, one of our repurchase agreement counterparties, Bear Stearns, experienced extreme liquidity pressure and responded by agreeing to combine with JP Morgan. Bear Stearns is one of our largest counterparties with $480 million of commitments (the majority of which matures August 2008) and $344 million of borrowings at quarter end on the balance sheet in addition to multiple relationships with our investment management vehicles. At quarter end, our relationships with Bear Stearns were being managed by JP Morgan, and we expect that our Bear Stearns lending relationships will be assumed by JP Morgan going forward. JP Morgan is also a repurchase agreement counterparty with $250 million of commitments (maturing October 2008) and $187 million of borrowings at quarter end on the balance sheet in addition to relationships with our investment management vehicles. We anticipate that both of these credit relationships will be extended in 2008.

Collateralized Debt Obligations

At March 31, 2008, we had CDOs outstanding from four separate issuances with a total face value of $1.2 billion. Our CDOs are financing vehicles for our assets and, as such, are consolidated on our balance sheet at $1.2 billion, representing the amortized sales price of the securities we sold to third parties. In total, our two reinvesting CDOs provide us with $551.7 million of debt financing at a cash cost of LIBOR plus 0.55% (3.25% at March 31, 2008) and an all-in effective interest rate (including the amortization of issuance costs) of LIBOR plus 0.89% (3.59% at March 31, 2008). Our two static CDOs provide us with $634.4 million of financing with a cash cost of 4.03% and an all-in effective interest rate of 4.16% at March 31, 2008. On a combined basis, our CDOs provide us with $1.2 billion of non-recourse, non-mark-to-market, index matched financing at a weighted average cash cost of 0.53% over the applicable indices (3.67% at March 31, 2008) and a weighted average all in cost of 0.75% over the applicable indices (3.90% at March 31, 2008).

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Senior Unsecured Credit Facility

In March 2007, we closed a $50.0 million senior unsecured revolving credit facility with WestLB AG, which we amended in June 2007, increasing the size to $100.0 million and adding new lenders to the syndicate. In March 2008, we exercised our term-out option under the agreement, extending the maturity date of the $100 million principal balance outstanding to March 2009 as a non revolving term loan. The loan bears interest at a cost of LIBOR plus 1.75% (LIBOR plus 1.98% on an all in basis).

Junior Subordinated Debentures

At March 31, 2008, we had a total of $128.9 million of junior subordinated debentures outstanding (that back $125 million of trust preferred securities sold to third parties). Junior subordinated debentures are comprised of two issuances of debentures, $77.3 million of debentures backing $75 million of trust preferred securities sold to third parties in March 2007 and $51.6 million of debentures backing $50 million of trust preferred securities sold to third parties in 2006. On a combined basis the securities provide us with $125 million of financing at a cash cost of 7.20% and an all-in effective rate of 7.30%.

Our interests in the two issuing entities, CT Preferred Trust I and CT Preferred Trust II, are accounted for using the equity method and the assets and liabilities are not consolidated into our financial statements due to our determination that CT Preferred Trust I and CT Preferred Trust II are variable interest entities under FIN 46R and that we are not the primary beneficiary of the entities. Interest on the junior subordinated debentures is included in interest and related expenses on our consolidated statements of income while the junior subordinated debentures are presented as a separate item in our consolidated balance sheet.

8. Participations Sold

Participations sold represent interests in loans that we originated and subsequently sold to CT Large Loan 2006, Inc. (a fund that we manage) and third parties. We present these sold interests as both assets and liabilities (in equal amounts) in conformity with GAAP on the basis that these arrangements do not qualify as sales under FAS 140. At March 31, 2008, we had seven such participations sold with a total book balance of $409.3 million at a weighted average coupon of LIBOR plus 3.38% (6.08% at March 31, 2008) and a weighted average yield of LIBOR plus 3.40% (6.10% at March 31, 2008).

The income earned on the loans is recorded as interest income and an identical amount is recorded as interest expense on the consolidated statements of income.

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9. Derivative Financial Instruments

To manage interest rate risk, we typically employ interest rate swaps or other arrangements, to convert a portion of our floating rate debt to fixed rate debt in order to index match our assets and liabilities. The net payments due under these swap contracts are recognized as interest expense over the life of the contracts.

The following table summarizes the notional and fair values of our derivative financial instruments as of March 31, 2008. The notional value provides an indication of the extent of our involvement in the instruments at that time, but does not represent exposure to credit or interest rate risk (in thousands):

Hedge	Type	Notional Value	Interest Rate	Maturity	Fair Value
Swap	Cash Flow Hedge	$ 316,684	5.10%	2015	$ (23,108)
Swap	Cash Flow Hedge	73,786	4.58%	2014	(3,489)
Swap	Cash Flow Hedge	18,649	3.95%	2011	(700)
Swap	Cash Flow Hedge	18,198	5.14%	2014	(1,744)
Swap	Cash Flow Hedge	16,894	4.83%	2014	(1,351)
Swap	Cash Flow Hedge	16,377	5.52%	2018	(2,142)
Swap	Cash Flow Hedge	12,928	5.05%	2016	(1,003)
Swap	Cash Flow Hedge	12,310	5.02%	2009	(465)
Swap	Cash Flow Hedge	7,062	5.11%	2016	(525)
Swap	Cash Flow Hedge	5,905	4.77%	2011	(316)
Swap	Cash Flow Hedge	5,104	4.12%	2016	(149)
Swap	Cash Flow Hedge	3,321	5.45%	2015	(393)
Swap	Cash Flow Hedge	2,870	5.08%	2011	(204)
Swap	Cash Flow Hedge	780	5.31%	2011	(58)
Total/Weighted Average		$ 510,868	4.97%	2015	$ (35,647)

As of March 31, 2008, the derivative financial instruments were reported at their fair value of $35.6 million as interest rate hedge liabilities. Income and expense associated with these instruments is recorded as interest expense on our consolidated statements of income. The amount of hedge ineffectiveness was not material during any of the periods presented.

Capital Trust, Inc. and Subsidiaries
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10. Earnings Per Share

The following table sets forth the calculation of Basic and Diluted EPS for the three months ended March 31, 2008 and 2007 (in thousands, except share and per share amounts):

	Three Months Ended March 31, 2008			Three Months Ended March 31, 2007		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic EPS:						
Net earnings allocable to common stock	$ 14,773	17,942,649	$ 0.82	$ 14,849	17,513,742	$ 0.85
Effect of Dilutive Securities:						
Options outstanding for the purchase of common stock	—	74,764		—	210,753	
Diluted EPS:						
Net earnings per share of common stock and assumed conversions	$ 14,773	18,017,413	$ 0.82	$ 14,849	17,724,495	$ 0.84

11. Income Taxes

We made an election to be taxed as a REIT under Section 856(c) of the Internal Revenue Code of 1986, as amended, commencing with the tax year ending December 31, 2003. As a REIT, we generally are not subject to federal, state, and local income taxes except for the operations of our taxable REIT subsidiary, CTIMCO and its subsidiaries. To maintain qualification as a REIT, we must distribute at least 90% of our REIT taxable income to our shareholders and meet certain other requirements. If we fail to qualify as a REIT in any taxable year, we may be subject to federal, state and local income taxes on our taxable income at regular corporate rates. At March 31, 2008, we were in compliance with all REIT requirements.

We did not pay any taxes at the REIT level during the periods ended March 31, 2008 or 2007. However, CTIMCO, our investment management subsidiary, is a taxable REIT subsidiary and subject to taxes on its earnings. During the period ended March 31, 2008, CTIMCO recorded an operating loss before income taxes of $662,000, which resulted in an income tax benefit of $599,000, all of which we recorded.

12. Shareholders' Equity

On January 15, 2008, we issued 53,192 shares of class A common stock under our dividend reinvestment plan. Net proceeds totaled approximately $1.5 million.

On March 4, 2008, we declared a dividend of $0.80 per share of class A common stock applicable to the three-month period ended March 31, 2008, which was paid on April 15, 2008 to shareholders of record on March 31, 2008.

On March 28, 2008, we closed a public offering of 4,000,000 shares of class A common stock. We received net proceeds of approximately $113.0 million. Morgan Stanley & Co. Incorporated acted as the sole underwriter of the offering.

Capital Trust, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
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13. Employee Benefit and Incentive Plans

We had four benefit plans in effect at March 31, 2008: (1) the second amended and restated 1997 long-term incentive stock plan, or 1997 Employee Plan, (2) the amended and restated 1997 non-employee director stock plan, or 1997 Director Plan, (3) the amended and restated 2004 long-term incentive plan, or 2004 Plan, and (4) the 2007 long-term incentive plan, or 2007 Plan. The 1997 plans expired in 2007 and no new awards may be issued under them and no further grants will be made under the 2004 Plan. Under the 2007 Plan, a maximum of 700,000 shares of class A common stock may be issued. At March 31, 2008, there were 627,667 shares available under the 2007 Plan.

Activity under these four plans for the period ended March 31, 2008 is summarized in the table below in share and share equivalents:

Benefit Type	1997 Employee Plan	1997 Director Plan	2004 Plan	2007 Plan	Total
Options(1)					
Beginning Balance	223,811	16,667	—	—	240,478
Canceled	(20,000)	(16,667)	—	—	(36,667)
Ending Balance	203,811	—	—	—	203,811
Restricted Stock(2)					
Beginning Balance	—	—	423,931	—	423,931
Granted	—	—	—	44,550	44,550
Vested	—	—	(57,904)	—	(57,904)
Forfeited	—	—	(414)	—	(414)
Ending Balance	—	—	365,613	44,550	410,163
Stock Units(3)					
Beginning Balance	—	80,017	—	14,570	94,587
Granted	—	—	—	16,684	16,684
Ending Balance	—	80,017	—	31,254	111,271
Total Outstanding Shares	203,811	80,017	365,613	75,804	725,245

(1) All options are fully vested as of March 31, 2008.

(2) Comprised of both performance based awards that vest upon the attainment of certain common equity return thresholds and time based awards that vest based upon an employee's continued employment on vesting dates.

(3) Stock units are granted to certain members of our board of directors in lieu of cash compensation for services and in lieu of dividends earned on previously granted stock units. Under the terms of certain

deferral agreements, certain shares of restricted stock converted to deferred stock units upon their initial vesting.

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The following table summarizes the outstanding options as of March 31, 2008:

Exercise Price per Share	Options Outstanding		Weighted Average Exercise Price per Share		Weighted Average Remaining Life	
	1997 Employee Plan	1997 Director Plan	1997 Employee Plan	1997 Director Plan	1997 Employee Plan	1997 Director Plan
$10.00 - $15.00	43,530	—	$13.41	$ —	2.76	—
$15.00 - $20.00	126,947	—	16.38	—	3.27	—
$25.00 - $30.00	33,334	—	27.00	—	0.38	—
Total/W. Average	203,811	—	$17.48	$ —	2.69	—

In addition to the equity interests detailed above, we have granted percentage interests in the incentive compensation received by us from the private equity funds we manage. At March 31, 2008, we had granted, net of forfeitures, 43% of the Fund III incentive compensation received by us.

A summary of the unvested restricted shares as of and for the three month period ended March 31, 2008 was as follows:

	Restricted Shares	
	Shares	Grant Date Fair Value
Unvested at January 1, 2008	423,931	$ 30.96
Granted	44,550	27.44
Vested	(57,904)	28.18
Forfeited	(414)	51.25
Unvested at March 31, 2008	410,163	$ 30.95

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