

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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001
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. 1-10150

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, 27TH FLOOR
NEW YORK, NY
(Address of principal executive offices)

10036
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of Exchange on which registered:
COMMON STOCK, \$0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
9.375% SERIES B CUMULATIVE REDEEMABLE PREFERRED STOCK, \$0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
9.200% SERIES C CUMULATIVE REDEEMABLE PREFERRED STOCK, \$0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
8.000% SERIES D CUMULATIVE REDEEMABLE PREFERRED STOCK, \$0.001 PAR VALUE	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act: None

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 12 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 /X/ No / /

As of July 31, 2001, there were 86,485,250 shares of common stock of iStar
Financial Inc., \$0.001 par value per share, outstanding ("Common Stock").

ISTAR FINANCIAL INC.
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PART I--CONSOLIDATED FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ISTAR FINANCIAL INC.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

(UNAUDITED)

AS OF	AS OF	JUNE 30,	DECEMBER 31,	2001	2000	-----	--
ASSETS							
Loans and other lending investments, net.....	\$2,252,255	\$2,225,183	Real estate subject to operating leases, net.....	1,634,524	1,670,169	Cash and cash equivalents.....	26,301
				22,752	Restricted cash.....	27,800	
				20,441	Marketable securities.....	41	41
					Accrued interest and operating lease receivable.....	17,353	20,167
					Deferred operating lease income receivable.....	15,220	10,236
					Deferred expenses and other assets.....	77,135	62,224
					Investment in iStar Operating assets.....	2,721	
					3,562	-----	Total
	\$4,053,350	\$4,034,775	=====	=====	LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities: Accounts payable, accrued expenses and other liabilities....	\$ 61,320	\$ 52,038	Dividends payable.....	5,225	Debt obligations.....	2,153,031	2,131,967
			-----	-----	Total liabilities.....	2,219,576	2,240,666
			-----	-----	Commitments and contingencies.....	--	--
					Minority interest in consolidated entities.....	2,649	6,224
					Shareholders' equity: Series A Preferred Stock, \$0.001 par value, liquidation preference \$50.00 per share, 4,400 shares issued and outstanding at June 30, 2001 and December 31, 2000, respectively.....	4	4
					Series B Preferred Stock, \$0.001 par value, liquidation preference \$25.00 per share, 2,000 shares issued and outstanding at June 30, 2001 and December 31, 2000,		

respectively.....
2 2 Series C Preferred Stock, \$0.001 par value,
liquidation preference \$25.00 per share, 1,300 shares
issued and outstanding at June 30, 2001 and December 31,
2000,
respectively.....
1 1 Series D Preferred Stock, \$0.001 par value,
liquidation preference \$25.00 per share, 4,000 shares
issued and outstanding at June 30, 2001 and December 31,
2000,
respectively.....
4 4 Common Stock, \$0.001 par value, 200,000 shares
authorized, 86,288 and 85,726 shares issued and
outstanding at June 30, 2001 and December 31, 2000,
respectively..... 86 85 Warrants and
options..... 20,953
16,943 Additional paid in
capital..... 1,977,645
1,966,396 Retained earnings
(deficit)..... (112,290)
(154,789) Accumulated other comprehensive income (losses)
(See Note
12).....
(14,539) (20) Treasury stock (at
cost)..... (40,741)
(40,741) ----- Total shareholders'
equity..... 1,831,125
1,787,885 ----- Total liabilities and
shareholders' equity..... \$4,053,350
\$4,034,775 =====

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

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ISTAR FINANCIAL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

(UNAUDITED)

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	JUNE 30,	JUNE 30,	JUNE 30,	JUNE 30,
	2001	2000	2001	2000
----- REVENUE: Interest				
income.....	\$			
63,903	\$ 66,864	\$130,816	\$126,947	Operating lease
income.....	49,244	47,223		
	98,767	93,495		Other
income.....				
7,678	3,827	13,861	8,360	-----
	----- Total			
revenue.....				
120,825	117,914	243,444	228,802	-----
----- COSTS AND EXPENSES: Interest				
expense.....				
42,770	87,728	80,559	Operating costs-corporate	
tenant lease assets.....	3,274	2,959	6,510	6,284
	Depreciation and			
amortization.....	8,778	8,862		
	17,586	17,871	General and	
administrative.....	6,498			
7,808	12,600	14,711	Provision for possible credit	
losses.....	1,750	1,500	3,500	3,000
	Stock-based compensation			
expense.....	1,200	586	2,060	1,134
	----- Total costs			
and expenses.....	62,868			
64,485	129,984	123,559	-----	-----
----- Net income before minority interest,				
gain on sale of corporate tenant lease assets,				
extraordinary loss and cumulative effect of				
change in accounting				
principle.....				
57,957	53,429	113,460	105,243	Minority interest
	in consolidated entities..... (41) (41)			
(136)	(82)	Gain on sale of corporate tenant lease		
assets.....	1,044	441	1,599	974

options.....	-- -- --	
8,429 Dividends declared-preferred stock.....	(18,454) -- --	(18,288)
Dividends declared-common stock.....	(52,651) -- --	
(52,651) Restricted stock units issued to employees in lieu of cash bonuses.....	-- -- --	1,478
Restricted stock units granted to employees.....	-- -- --	1,021
Options granted to employees.....	-- -- --	4,010
Issuance of stock under DRIP plan.....	-- -- --	156
Cumulative effect of change in accounting principle.....	-- (9,445) --	(9,445)
Change in accumulated other comprehensive income.....	-- (5,074) --	(5,074)
Net income for the period.....	113,604 --	
113,604 -----		
Balance at June 30, 2001.....	\$(112,290)	
	\$(14,539) \$(40,741) \$1,831,125	
=====		

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

ISTAR FINANCIAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)
(UNAUDITED)

	FOR THE JUNE 30,	FOR THE JUNE 30,	FOR THE JUNE 30,	FOR THE JUNE 30,
	2001	2000*	2001	2000*
Cash flows from operating activities: Net income.....	\$ 58,960	\$ 53,829	\$ 113,604	\$ 105,818
Adjustments to reconcile net income to cash flows provided by operating activities: Minority interest.....	41	41		
Non-cash expense for options issued.....	1,200	586	2,060	1,134
Depreciation and amortization.....	13,488	11,846		
Amortization of discounts/premiums, deferred interest and costs on lending investments.....	(4,683)	(19,301)	(11,750)	
Equity in earnings of unconsolidated joint ventures and subsidiaries.....	(887)	(2,087)	(3,689)	(2,411)
Distributions from operating joint ventures.....	1,818	1,426		
Deferred operating lease income adjustments.....	(2,407)	(2,249)	(4,983)	
Realized (gains) losses on sales of securities.....	--	--	229	
Gain on sale of corporate tenant lease assets.....	(441)	(1,599)	(974)	
Extraordinary loss on early extinguishment of debt.....	--	--	1,037	317
Cumulative effect of change in accounting principle.....	--	--	282	
Provision for possible credit losses.....	1,750	1,500	3,500	
Changes in assets and liabilities: (Increase) decrease in accrued interest and operating lease income receivable.....	1,786	(768)		
Increase in deferred expenses and other assets.....	(5,384)	(6,526)	(6,230)	(9,967)
Increase (decrease) in accounts payable, accrued expenses and other liabilities.....	(150)	421	(2,745)	(4,336)
Cash flows provided by operating activities.....	54,742	52,895	115,937	99,788
Cash flows from				

investing activities: New investment				
originations.....	(300,182)			
(231,248) (543,471) (443,173) Principal fundings on				
existing loan commitments.....	(13,327)	(21,267)		
(24,442) (37,809) Net proceeds from sale of corporate				
tenant lease assets... 4,079 100,974 7,834 146,265				
Repayments of and principal collections from loans and				
other lending				
investments.....	309,588			
41,429 556,980 163,232 Investments in and advances to				
unconsolidated joint				
ventures.....				
(169) (11,305) (488) (11,973) Distributions from				
unconsolidated joint ventures.....	--	--	24,265	--
Capital expenditures for build-to-suit				
activities.....	(4,772)	--	(6,419)	--
improvement projects on real estate subject to				
operating				
leases.....	(2,083)			
-- (2,083) -- Other capital expenditures on real estate				
subject to operating				
leases.....	(813)			
(1,224) (1,572) (3,082) -----				
----- Cash flows provided by (used in) investing				
activities.....	(7,679)	(122,641)	10,604	(186,540)

----- Cash flows from				
financing activities: Net borrowings (repayments) under				
revolving credit				
facilities.....				
141,893 (562,304) 183,052 (497,127) Borrowings under				
term loans.....	193,000			
60,000 210,040 90,000 Repayments under term				
loans.....	(78,883)	(230,629)		
(116,215) (240,355) Repayments under unsecured				
notes.....	(100,000)	--	(100,000)	
-- Borrowings under repurchase				
agreements.....	--	27,981	367	27,981
Repayments under repurchase				
agreements.....	(24,683)	(2,273)		
(56,008) (2,392) Repayments under bond				
offerings.....	(99,908)	857,015		
(101,897) 857,015 Common dividends				
paid.....	(52,651)			
(51,170) (104,087) (99,611) Preferred dividends				
paid.....	(9,145)	(9,144)		
(18,288) (18,288) Increase in restricted cash held in				
connection with debt				
obligations.....				
(14,575) (4,882) (7,358) (5,943) Distributions to				
minority interest in consolidated				
entities.....				
(41) (41) (3,711) (82) Extraordinary loss on early				
extinguishment of debt.....	--	--	(1,037)	(317)
Payments for deferred financing				
costs.....	(5,032)	(23,858)	(16,459)	
(25,771) Increase in loan				
costs.....	--	(25)	--	
(131) Proceeds from exercise of options and issuance of				
DRIP				
shares.....				
6,962 83 8,609 83 -----				
-- Cash flows provided by (used in) financing				
activities.....	(43,063)	60,753	(122,992)	85,062

----- Increase (decrease)				
in cash and cash equivalents.....	4,000	(8,993)		
3,549 (1,690) Cash and cash equivalents at beginning of				
period.....	22,301	41,711	22,752	34,408

----- Cash and cash				
equivalents at end of period.....	\$ 26,301			
\$ 32,718 \$ 26,301 \$ 32,718 =====				
=====				
===== Supplemental disclosure of cash				
flow information: Cash paid during the period for				
interest, net of amounts				
capitalized.....				
\$ 38,147 \$ 34,595 \$ 80,970 \$ 71,445 =====				
=====				
=====				

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--ORGANIZATION AND BUSINESS

ORGANIZATION--iStar Financial Inc. (the "Company") began its business in 1993 through private investment funds formed to capitalize on inefficiencies in the real estate finance market. In March 1998, these funds contributed their approximately \$1.1 billion of assets to the Company's predecessor, Starwood Financial Trust, in exchange for a controlling interest in that company (collectively, the "Recapitalization Transactions"). Since that time, the Company has grown by originating new lending and leasing transactions, as well as through corporate acquisitions. Specifically, in September 1998, the Company acquired the loan origination and servicing business of a major insurance company, and in December 1998, the Company acquired the mortgage and mezzanine loan portfolio of its largest private competitor. Additionally, in November 1999, the Company acquired TriNet Corporate Realty Trust, Inc. ("TriNet" or the "Leasing Subsidiary"), which was then the largest publicly traded company specializing in the net leasing of corporate office and industrial facilities (the "TriNet Acquisition"). The TriNet Acquisition was structured as a stock-for-stock merger of TriNet with a subsidiary of the Company. Concurrent with the TriNet Acquisition, the Company also acquired its external advisor (the "Advisor Transaction") in exchange for shares of common stock of the Company ("Common Stock") and converted its organizational form to a Maryland corporation (the "Incorporation Merger"). As part of the conversion to a Maryland corporation, the Company replaced its dual class common share structure with a single class of Common Stock. The Company's Common Stock began trading on the New York Stock Exchange under the symbol "SFI" in November 1999.

During 1993 through 1997, the Company did not qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). However, pursuant to a closing agreement with the Internal Revenue Service (the "IRS") obtained in March 1998, the Company was eligible and elected to be taxed as a REIT for the taxable year beginning January 1, 1998.

BUSINESS--The Company is the leading publicly traded finance company focused on the commercial real estate industry. The Company provides structured financing to private and corporate owners of real estate nationwide, including senior and junior mortgage debt, corporate mezzanine and subordinated capital, and corporate net lease financing. The Company seeks to deliver superior risk-adjusted returns on equity for shareholders by providing innovative and value-added financing solutions to its customers.

The Company has implemented its investment strategy by: (1) focusing on the origination of large, highly structured mortgage, corporate and lease financings where customers require flexible financial solutions, and avoiding commodity businesses in which there is significant direct competition from other providers of capital; (2) developing direct relationships with borrowers and corporate tenants as opposed to sourcing transactions through intermediaries; (3) adding value beyond simply providing capital by offering borrowers and corporate tenants specific lending expertise, flexibility, certainty and continuing relationships beyond the closing of a particular financing transaction; and (4) taking advantage of market anomalies in the real estate financing markets when the Company believes credit is mispriced by other providers of capital, such as the spread between lease yields and the yields on corporate tenants' underlying credit obligations.

The Company intends to continue to emphasize a mix of portfolio financing transactions to create built-in diversification and single-asset financings for properties with strong, long-term competitive market positions.

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2--BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements have been prepared in conformity with the instructions to Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles ("GAAP"). The Consolidated Financial Statements include the accounts of the Company, its qualified REIT subsidiaries, and its

majority-owned and controlled partnerships. Certain third-party mortgage servicing operations are conducted through iStar Operating, Inc. ("iStar Operating"), a taxable corporation which is not consolidated with the Company for financial reporting or income tax purposes. The Company owns all of the non-voting preferred stock and a 95% economic interest in iStar Operating, which is accounted for under the equity method for financial reporting purposes. The Company does not own any of the outstanding voting stock of iStar Operating. In addition, the Company has an investment in TriNet Management Operating Company, Inc. ("TMO"), a taxable noncontrolled subsidiary of the Company, which is also accounted for under the equity method. Further, certain other investments in partnerships or joint ventures which the Company does not control are also accounted for under the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying Consolidated Financial Statements contain all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company's consolidated financial position at June 30, 2001 and December 31, 2000 and the results of its operations, changes in shareholders' equity and its cash flows for the three- and six-month periods ended June 30, 2001 and 2000, respectively. Such operating results are not necessarily indicative of the results that may be expected for any other interim periods or the entire year.

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

LOANS AND OTHER LENDING INVESTMENTS, NET--As described in Note 4, "Loans and Other Lending Investments," includes the following investments: senior mortgages, subordinate mortgages, corporate/ partnership loans/unsecured notes, loan participations and other lending or similar investments. In general, management considers its investments in this category as held-to-maturity and, accordingly, reflects such items at amortized historical cost.

REAL ESTATE SUBJECT TO OPERATING LEASES AND DEPRECIATION--Real estate subject to operating leases is generally recorded at cost. Certain improvements and replacements are capitalized when they extend the useful life, increase capacity or improve the efficiency of the asset. Repairs and maintenance items are expensed as incurred. The Company capitalizes interest costs incurred during the land development or construction period on qualified development projects, including investments in joint ventures accounted for under the equity method. Depreciation is computed using the straight line method of cost recovery over estimated useful lives of 40.0 years for buildings, five years for furniture and equipment, the shorter of the remaining lease term or expected life for tenant improvements, and the remaining life of the building for building improvements.

Real estate assets to be disposed of are reported at the lower of their carrying amount or fair value less costs to sell. The Company also periodically reviews long-lived assets to be held and used for an impairment in value whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. In management's opinion, real estate assets to be held and used are not carried at amounts in excess of their estimated recoverable amounts.

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ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITALIZED INTEREST--The Company capitalizes interest costs incurred during the land development or construction period on qualified development projects, including investments in joint ventures accounted for under the equity method. Interest capitalized was approximately \$487,000 and \$338,000 during the six-month periods ended June 31, 2001 and 2000, respectively, and was approximately \$286,000 and \$0 during the three-month periods ended June 31, 2001 and 2000, respectively.

CASH AND CASH EQUIVALENTS--Cash and cash equivalents include cash held in banks or invested in money market funds with original maturity terms of less than 90 days.

RESTRICTED CASH--Restricted cash represents amounts required to be maintained in escrow under certain of the Company's debt obligations.

MARKETABLE SECURITIES--From time to time, the Company invests excess working capital in short-term marketable securities such as those issued by the Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("FNMA"), and Federal Home Loan Mortgage Corporation ("FHLMC"). Although the Company generally intends to hold such investments for investment purposes, it may, from time to time, sell any of its investments in these securities as part of its management of liquidity. Accordingly, the Company

considers such investments as "available-for-sale" and reflects such investments at fair market value with changes in fair market value reflected as a component of shareholders' equity.

REPURCHASE AGREEMENTS--The Company may enter into sales of securities or loans under agreements to repurchase the same security or loan. The amounts borrowed under repurchase agreements are carried on the balance sheet as part of debt obligations at the amount advanced plus accrued interest. Interest incurred on the repurchase agreements is reported as interest expense.

REVENUE RECOGNITION--The Company's revenue recognition policies are as follows:

LOANS AND OTHER LENDING INVESTMENTS: The Company generally intends to hold all of its loans and other lending investments to maturity. Accordingly, it reflects all of these investments at amortized cost less allowance for loan losses, acquisition premiums or discounts, deferred loan fees and undisbursed loan funds. On occasion, the Company may acquire loans at either premiums or discounts based on the credit characteristics of such loans. These premiums or discounts are recognized as yield adjustments over the lives of the related loans. If loans that were acquired at a premium or discount are prepaid, the Company immediately recognizes the unamortized premium or discount as a decrease or increase in the prepayment gain or loss, respectively. Loan origination or exit fees, as well as direct loan origination costs, are also deferred and recognized over the lives of the related loans as a yield adjustment. Interest income is recognized using the effective interest method applied on a loan-by-loan basis.

Certain of the Company's loans provide for accrual of interest at specified rates which differ from current payment terms. Interest is recognized on such loans at the accrual rate subject to management's determination that accrued interest and outstanding principal are ultimately collectible, based on the underlying collateral and operations of the borrower.

Prepayment penalties or yield maintenance payments from borrowers are recognized as additional income when received. Certain of the Company's loan investments provide for additional interest based on the borrower's operating cash flow or appreciation of the underlying collateral. Such amounts are considered contingent interest and are reflected as income only upon certainty of collection.

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASING INVESTMENTS: Operating lease revenue is recognized on the straight-line method of accounting from the later of the date of the origination of the lease or the date of acquisition of the facility subject to existing leases. Accordingly, contractual lease payment increases are recognized evenly over the term of the lease. The cumulative difference between lease revenue recognized under this method and contractual lease payment terms is recorded as a deferred operating lease income receivable on the balance sheet.

PROVISION FOR POSSIBLE CREDIT LOSSES--The Company's accounting policies require that an allowance for estimated credit losses be maintained at a level that management, based upon an evaluation of known and inherent risks in the portfolio, considers adequate to provide for possible credit losses. Specific valuation allowances are established for impaired loans in the amount by which the carrying value, before allowance for estimated losses, exceeds the fair value of collateral less disposition costs on an individual loan basis. Management considers a loan to be impaired when, based upon current information and events, it believes that it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement on a timely basis. Management measures these impaired loans at the fair value of the loans' underlying collateral less estimated disposition costs. Impaired loans may be left on accrual status during the period the Company is pursuing repayment of the loan; however, these loans are placed on non-accrual status at such time as either: (1) the loans become 90 days delinquent; or (2) management determines the borrower is incapable of, or has ceased efforts toward, curing the cause of the impairment. While on non-accrual status, interest income is recognized only upon actual receipt. Impairment losses are recognized as direct write-downs of the related loan with a corresponding charge to the provision for possible credit losses. Charge-offs occur when loans, or a portion thereof, are considered uncollectible and of such little value that further pursuit of collection is not warranted. Management also provides a portfolio reserve based upon its periodic evaluation and analysis of the portfolio, historical and industry loss experience, economic conditions and trends, collateral values and quality, and other relevant factors.

INCOME TAXES--The Company intends to operate in a manner consistent with and to elect to be treated as a REIT. As a REIT, the Company is subject to federal income taxation at corporate rates on its REIT taxable income; however, the Company is allowed a deduction for the amount of dividends paid to its shareholders, thereby subjecting the distributed net income of the Company to taxation at the shareholder level only. iStar Operating and TMOC are not consolidated for federal income tax purposes and are taxed as corporations. For financial reporting purposes, current and deferred taxes are provided for in the portion of earnings recognized by the Company with respect to its interest in iStar Operating and TMOC.

EARNINGS (LOSS) PER COMMON SHARES--In accordance with the Statement of Financial Accounting Standards No. 128 ("FASB No. 128"), the Company presents both basic and diluted earnings per share ("EPS"). Basic earnings per share ("Basic EPS") excludes dilution and is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding for the period. Diluted earnings per share ("Diluted EPS") reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower earnings per share amount.

USE OF ESTIMATES--The preparation of financial statements in conformity with generally accepted accounting principles 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

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ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

CHANGE IN ACCOUNTING PRINCIPLE--In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). On June 23, 1999, the FASB voted to defer the effectiveness of SFAS No. 133 for one year. SFAS No. 133 is now effective for fiscal years beginning after June 15, 2000, but earlier application is permitted as of the beginning of any fiscal quarter subsequent to June 15, 1998. SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as: (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (2) a hedge of the exposure to variable cash flows of a forecasted transaction; or (3) in certain circumstances, a hedge of a foreign currency exposure. The Company adopted this pronouncement, as amended by Statement of Financial Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities--deferral of the Effective Date of FASB Statement No. 133" and Statement of Financial Accounting Standards No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities--an Amendment of FASB Statement No. 133," on January 1, 2001. Because the Company has primarily used derivatives as cash flow hedges of interest rate risk only, the adoption of SFAS No. 133 did not have a material financial impact on the financial position and results of operations of the Company. However, should the Company change its current use of such derivatives (see Note 8), the adoption of SFAS No. 133 could have a more significant effect on the Company prospectively.

Upon adoption, the Company recognized a charge to net income of approximately \$282,000 and an additional charge of \$9.4 million to other comprehensive income, representing the cumulative effect of the change in accounting principle.

OTHER NEW ACCOUNTING STANDARDS--In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." In June 2000, the SEC staff amended SAB 101 to provide registrants with additional time to implement SAB 101. The Company adopted SAB 101, as required, in the fourth quarter of fiscal 2000. The adoption of SAB 101 did not have a material financial impact on the financial position or the results of operations of the Company.

In March 2000, the FASB issued FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation." The Company was required to adopt FIN 44 effective July 1, 2000 with respect to certain provisions applicable to new awards, exchanges of awards in a business

Fixed: 6.13% to 18.25%
Yes (3) No Variable:
LIBOR + 1.50% Variable:
LIBOR + 1.50% to 4.50%
to 4.50% Subordinated
Mortgages 2002 to 2011
Fixed: 7.00% to 15.25%
Fixed: 7.32% to 17.00%
Yes (3) Yes (4)
Variable: LIBOR + 5.80%
Variable: LIBOR + 5.80%
Corporate Loans/ 2001 to
2011 Fixed: 6.13% to
15.00% Fixed: 6.13% to
17.50% Yes Yes (4)
Partnership Loans/
Variable: LIBOR + 2.78%
Variable: LIBOR + 2.78%
Unsecured Notes to 7.50%
to 7.50% Loan
Participations 2003 to
2005 Fixed: 10.00% to
13.60% Fixed: 13.60% to
14.00% No Yes (4)
Variable: LIBOR + 4.50%
Variable: LIBOR + 4.50%
Other Lending 2002 to
2013 Fixed: 6.75% to
12.75% Fixed: 6.75% to
12.75% No Yes (4)
Investments Variable:
LIBOR + 7.56% Variable:
LIBOR + 7.56% to 9.36%
to 9.36% Gross Carrying
Value Provision for
Possible Credit Losses
Total, Net

EXPLANATORY NOTES:

- (1) Amounts and details are for loans outstanding as of June 30, 2001.
- (2) Substantially all variable-rate loans are based on 30-day LIBOR and reprice monthly. The 30-day LIBOR rate on June 30, 2001 was 3.86%.
- (3) The loans require fixed payments of principal and interest resulting in partial principal amortization over the term of the loan with the remaining principal due at maturity. In addition, one of the loans permits additional annual prepayments of principal of up to \$1.3 million without penalty at the borrower's option.
- (4) Under some of these loans, the lender receives additional payments representing additional interest from participation in available cash flow from operations of the property and the proceeds, in excess of a base amount, arising from a sale or refinancing of the property.

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ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

During the six-month periods ended June 30, 2001 and 2000, respectively, the Company and its affiliated ventures originated or acquired an aggregate of approximately \$543.5 million and \$443.2 million in loans and other lending investments, funded \$24.4 million and \$37.8 million under existing loan commitments, and received principal repayments of \$557.0 million and \$163.2 million.

As of June 30, 2001, the Company had nine loans with unfunded commitments. The total unfunded commitment amount was approximately \$127.4 million, of which \$53.4 million was discretionary (i.e., at the Company's option) and \$74.0 million was non-discretionary.

The Company's loans and other lending investments are predominantly pledged as collateral under either the iStar Asset Receivables secured notes, the secured revolving facilities or secured term loans (see Note 6).

The Company has reflected provisions for possible credit losses of

approximately \$1.8 million and \$1.5 million in its results of operations during the three months ended June 30, 2001 and 2000, respectively, and \$3.5 million and \$3.0 million during the six months ended June 30, 2001 and 2000, respectively. These provisions represent portfolio reserves based on management's evaluation of general market conditions, the Company's internal risk management policies and credit risk ratings system, industry loss experience, the likelihood of delinquencies or defaults, and the underlying collateral. No direct impairment reserves on specific loans were considered necessary. Management may transfer reserves between general and specific reserves as considered necessary.

NOTE 5--REAL ESTATE SUBJECT TO OPERATING LEASES

The Company's investments in real estate subject to operating leases, at cost, were as follows (in thousands) (unaudited):

	JUNE 30,	DECEMBER 31,	2001	2000	-----	--
improvements.....						
	\$1,299,223	\$1,294,572				
Land and land improvements.....						
	343,458	344,490				
Less: accumulated depreciation.....						
	(63,740)	(46,975)				
Investments in unconsolidated joint ventures.....						
	55,583	78,082				
Real estate subject to operating leases, net.....			\$1,634,524	\$1,670,169		
			=====	=====		

Under certain leases, the Company receives additional participating lease payments to the extent gross revenues of the tenant exceed a base amount. The Company earned no such additional participating lease payments in the three- and six-month periods ended June 31, 2001 and 2000, respectively. In addition, the Company also receives reimbursements from tenants for certain facility operating expenses.

INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED JOINT VENTURES--At June 30, 2001, the Company had investments in five joint ventures: (1) TriNet Sunnyvale Partners L.P. ("Sunnyvale"), whose external partners are John D. O'Donnell, Trustee, John W. Hopkins, and Donald S. Grant; (2) Corporate Technology Associates LLC ("CTC I"), whose external member is Corporate Technology Centre Partners LLC; (3) Sierra Land Ventures ("Sierra"), whose external joint venture partner is Sierra-LC Land, Ltd.; (4) TriNet Milpitas Associates, LLC ("Milpitas"), whose external member is The Prudential Insurance Company of America; and (5) ACRE Simon, L.L.C. ("ACRE"), whose external partner is William E. Simon & Sons Realty Investments, L.L.C. These ventures were formed for the purpose of operating, acquiring and in certain cases, developing corporate tenant lease facilities. At June 30, 2001, all facilities held by CTC II and TN-CP had been sold. The Company previously had an equity investment in CTC II, which was sold for approximately \$66.0 million in September 2000. In connection with this sale, the note receivable from the venture was modified to mature on December 31, 2001. The note receivable and related accrued interest are included in Loans and Other Lending Investments at June 30, 2001 and December 31, 2000.

At June 30, 2001, the ventures comprised 23 net leased facilities. Additionally, 17.7 acres of land are held for sale. The Company's combined investment in these joint ventures at June 30, 2001 was \$55.6 million. The joint ventures' purchase price for the 23 facilities owned at June 30, 2001 was \$344.5 million. The purchase price of the land held for sale was \$6.8 million. In the aggregate, the joint ventures had total assets of \$383.6 million and total liabilities of \$280.7 million as of June 30, 2001, and net income of \$4.4 million and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5--REAL ESTATE SUBJECT TO OPERATING LEASES (CONTINUED)

\$8.0 million for the three and six months ended June 30, 2001. The Company accounts for these investments under the equity method because the Company's joint venture partners have certain participating rights which limit the Company's control. The Company's investments in and advances to unconsolidated joint ventures, its percentage ownership interests, its respective income and the Company's pro rata share of its ventures' third-party debt as of June 30, 2001 are presented below (in thousands) (unaudited):

PRO RATA JOINT SHARE OF OWNERSHIP EQUITY VENTURE THIRD-
 PARTY UNCONSOLIDATED JOINT VENTURE % INVESTMENT INCOME
 DEBT - -----

	----- Operating:			
Sunnyvale.....	44.7%	\$12,208	\$ 218	\$ 10,728 CTC
I.....	50.0%	10,226	2,051	60,838
Milpitas.....	50.0%	24,398	2,021	40,385 ACRE
Simon.....	20.0%	4,972	92	6,675 Development:
Sierra.....	50.0%	3,779	148	724 -----
Total.....		\$55,583	\$4,530	\$119,350 =====

Effective September 29, 2000, iStar Sunnyvale Partners, LP (the entity which is controlled by Sunnyvale) entered into an interest rate cap agreement with Bear Stearns Financial Products, limiting the venture's exposure to interest rate movements on its \$24.0 million LIBOR-based mortgage loan to an interest rate cap of 9.0% through November 9, 2003.

Currently, the limited partners of Sunnyvale have the option to convert their partnership interest into cash; however, the Company may elect to deliver 297,728 shares of Common Stock in lieu of cash. Additionally, commencing in February 2002, subject to acceleration under certain circumstances, the venture interest held by the external member of Milpitas may be converted into 984,476 shares of Common Stock.

Income generated from the above joint venture investments is included in Operating Lease Income in the Consolidated Statements of Operations.

ISTAR FINANCIAL INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6--DEBT OBLIGATIONS

As of June 30, 2001 and December 31, 2000, the Company has debt obligations under various arrangements with financial institutions as follows (in thousands) (unaudited):

CARRYING VALUE AS OF MAXIMUM -----	STATED SCHEDULED
AMOUNT JUNE 30, DECEMBER 31, INTEREST	MATURITY AVAILABLE 2001 2000 RATES
DATE -----	
----- SECURED REVOLVING	
CREDIT FACILITIES: Line of	
credit..... \$ 700,000 \$	
194,100 \$ 284,371 LIBOR + 1.75% -	
2.25% March 2005 (1) Line of	
credit..... 700,000 514,503	
-- LIBOR + 1.40% - 2.15% January 2005	
(1) Line of credit.....	
500,000 81,248 307,978 LIBOR + 1.50% -	
1.75% August 2003 (1) UNSECURED	
REVOLVING CREDIT FACILITIES: Line of	
credit..... 350,000 153,000	
173,450 LIBOR + 1.55% May 2002 (2)	
Line of credit..... 100,000	
6,000 -- LIBOR + 2.25% January 2003	
(2) -----	
Total revolving credit \$2,350,000	
948,851 765,799	
facilities..... =====	
SECURED TERM LOANS: Secured by real	
estate under operating 149,113 150,678	
7.44% March 2009	
leases.....	
Secured by corporate lending 60,000	
60,000 LIBOR + 2.50% June 2004 (3)	
investments.....	
Secured by real estate under operating	
-- 77,860 LIBOR + 1.38% June 2001	
leases.....	
Secured by real estate under operating	

40,720 60,471 Fixed: 6.00%-11.38%
Various through 2011

leases.....
Secured by real estate under operating
193,000 -- LIBOR + 1.85% (4) July 2006
(4)

leases.....
----- Total term
loans..... 442,833
349,009 Debt

premiums.....
379 51 ----- Total
secured term loans.....
443,212 349,060 iStar Asset
Receivables secured notes: Class
A.....
105,216 207,114 LIBOR + 0.30% August
2003 (5) Class
B.....
94,055 94,055 LIBOR + 0.50% October
2003 (5) Class
C.....
105,813 105,813 LIBOR + 1.00% January
2004 (5) Class
D.....
52,906 52,906 LIBOR + 1.45% June 2004
(5) Class
E.....
123,447 123,447 LIBOR + 2.75% January
2005 (5) Class
F.....
5,000 5,000 LIBOR + 3.15% January 2005
(5) ----- Total iStar
Asset Receivables secured 486,437
588,335

notes.....
UNSECURED NOTES (6): 6.75% Dealer
Remarketable Securities 125,000
125,000 6.75% March 2013
(7).....
7.30%

Notes..... --
100,000 7.30% May 2001 7.70%
Notes.....
100,000 100,000 7.70% July 2017 7.95%
Notes.....
50,000 50,000 7.95% May 2006 -----
----- Total unsecured
notes..... 275,000
375,000 Less: debt discount
(8)..... (17,091)
(18,490) ----- Total
unsecured notes.....
257,909 356,510 OTHER DEBT
OBLIGATIONS.....
16,622 72,263 Various Various -----
----- TOTAL DEBT
OBLIGATIONS.....
\$2,153,031 \$2,131,967 =====
=====

EXPLANATORY NOTES: _____

- (1) Maturity date reflects a one-year "term-out" extension at the Company's option.
- (2) Subsequent to June 30, 2001, the Company replaced both of these facilities with a new \$300.0 million revolving credit facility bearing interest at LIBOR + 2.125%. The new facility has an initial maturity of July 2003 with a one-year extension at the Company's option and another one-year extension at the lenders' option.
- (3) Maturity date reflects a one-year extension at the Company's option.
- (4) On June 14, 2001, the Company closed \$193.0 million of financing secured by 15 corporate tenant lease assets. The three-year floating-rate loan bears interest at LIBOR plus 1.85% (not to exceed 10.00%) and has two one-year extensions at the Company's option (maturity date reflects extensions).

- (5) Principal payments on these bonds are a function of the principal repayments on loan assets which collateralize these obligations. The dates indicated above represent the expected date on which the final payment would occur for such class based on the assumptions that the loans which collateralize the obligations are not voluntarily prepaid, the loans are paid on their effective maturity dates and no extensions of the effective maturity dates of any of the loans are granted. The final maturity date for the underlying indenture on classes A, B, C, D, E and F is September 25, 2022.
- (6) The notes are callable by the Company at any time for an amount equal to the total of principal outstanding, accrued interest and the applicable make-whole prepayment premium.
- (7) Subject to mandatory tender on March 1, 2003, to either the dealer or the Leasing Subsidiary. The initial coupon of 6.75% applies to first five-year term through the mandatory tender date. If tendered to the dealer, the notes must be remarketed. The rates reset upon remarketing.
- (8) These obligations were assumed as part of the TriNet Acquisition. As part of the accounting for the purchase, these fixed rate obligations were considered to have stated interest rates which were below the then prevailing market rates at which the Leasing Subsidiary could issue new debt obligations and, accordingly, the Company ascribed a market discount to each obligation. Such discounts will be amortized as an adjustment to interest expense using the effective interest method over the related term of the obligations. As adjusted, the effective annual interest rates on these obligations were 8.81%, 8.75%, 9.51% and 9.04%, for the 6.75% Dealer Remarketable Securities, 7.30% Notes, 7.70% Notes and 7.95% Notes, respectively.

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ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6--DEBT OBLIGATIONS (CONTINUED)

Availability of amounts under the secured revolving credit facilities are based on percentage borrowing base calculations. Certain of the Leasing Subsidiary's debt obligations contain financial covenants pertaining to the subsidiary.

On January 31, 2000, the Company closed a new unsecured revolving credit facility. The facility is led by a major commercial bank, which committed \$50.0 million of the facility amount. On July 7, 2000, the Company increased the facility amount to \$100.0 million through syndication. The new facility has a two-year primary term and a one-year extension, at the Company's option, and bears interest at LIBOR plus 2.25%.

On February 4, 2000, the Company extended the term of its existing \$500.0 million secured credit facility. The Company extended the original August 2000 maturity date to August 2002, through a one-year extension to the facility's draw period and an additional one-year "term out" period during which outstanding principal amortizes 25% per quarter. In connection with the extension, the Company and the facility lender also expanded the range of assets that the lender would accept as collateral under the facility. In exchange for the extension and expansion, the Company agreed to increase the facility's interest rate from LIBOR plus 1.25% to 1.50%, to a revised rate of LIBOR plus 1.50% to 1.75%, depending upon certain conditions.

On May 17, 2000, the Company closed the inaugural offering under its proprietary matched funding program, iStar Asset Receivables ("STARs"), Series 2000-1. In the initial transaction, a wholly-owned subsidiary of the Company issued \$896.5 million of investment grade bonds secured by the subsidiary's assets, which had an aggregate outstanding principal balance of approximately \$1.2 billion at inception. Principal payments received on the assets will be utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funds the maturity of the underlying assets financed under the program. The Company initially purchased the class F bonds at a par value of \$38.2 million, which the Company financed with a \$27.8 million repurchase agreement maturing in May 2001 (this repurchase agreement was repaid in April 2001). On July 17, 2000, the Company sold, at par, \$5.0 million of the class F bonds to an institutional investor. For accounting purposes, these transactions were treated as secured financings.

On June 20, 2000, the Company closed a \$60.0 million term loan secured by a corporate lending investment it originated in the first quarter of 2000. The new loan replaced a \$30.0 million interim facility, and effectively match funds the expected weighted average maturity of the underlying corporate loan asset. The loan has a three-year primary term and a one-year extension, at the Company's

option, and bears interest at LIBOR plus 2.50%.

On December 28, 2000, the Company expanded its existing \$675.0 million secured warehouse facility to \$700.0 million. The Company extended the original March 2001 maturity date to March 2005, including a one-year "term-out" extension option to the facility's maturity during which the interest rate spread will increase 0.25%, no additional draws under the facility will be permitted, and the outstanding principal must amortize 25% per quarter. In connection with the extension, the Company and the facility lender also increased the range of collateral eligible for inclusion in the facility. Also in connection with the extension, the Company agreed to increase the facility's interest rate from LIBOR plus 1.50% to a revised rate of LIBOR plus 1.75% to 2.25%, depending upon certain conditions.

On January 11, 2001, the Company closed a new \$700.0 million secured revolving credit facility which is led by a major commercial bank. The new facility has a three-year primary term and one-year

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6--DEBT OBLIGATIONS (CONTINUED)

"term-out" extension option, and bears interest at LIBOR plus 1.40% to 2.15%, depending upon the collateral contributed to the borrowing base. The new facility accepts a broad range of structured finance assets and has a final maturity of January 2005. In addition, on February 22, 2001, the Company extended the maturity of its \$350.0 million unsecured revolving credit facility to May 2002.

On May 15, 2001, the Company repaid its \$100.0 million 7.30% unsecured notes. These notes were senior unsecured obligations of the Company and ranked equally with the Company's other senior unsecured and unsubordinated indebtedness.

On June 14, 2001, the Company closed \$193.0 million of financing secured by 15 corporate tenant lease assets. The three-year floating-rate loan bears interest at LIBOR plus 1.85% (not to exceed 10.00%) and has two one-year extensions at the Company's option. The Company used these proceeds to repay a \$77.8 million secured term loan maturing in June 2001 and to pay down a portion of its revolving credit facilities. In addition, the Company extended the final maturity of its \$500.0 million secured revolving credit facility to August 12, 2003.

On July 27, 2001, the Company completed a \$300.0 million revolving credit facility with a group of leading financial institutions. The new facility has an initial maturity of July 2003, with a one-year extension at the Company's option and another one-year extension at the lenders' option. The new facility replaces two prior credit facilities maturing in 2002 and 2003, and bears interest at LIBOR + 2.125%.

During the six-month period ended June 30, 2001, the Company incurred an extraordinary loss of approximately \$1.0 million as a result of the early retirement of certain secured debt obligations of its Leasing Subsidiary.

As of June 30, 2001, future expected/scheduled maturities of outstanding long-term debt obligations are as follows (in thousands) (unaudited) (1):

2001 (remaining six months).....	\$ 16,622
2002.....	167,807
2003.....	286,520
2004.....	218,719
2005.....	840,675
Thereafter.....	639,400

Total principal maturities.....	2,169,743
Net unamortized debt discounts.....	(16,712)

Total debt obligations.....	\$2,153,031
	=====

EXPLANATORY NOTE: _____

(1) Assumes exercise of extensions to the extent such extensions are at the Company's option.

As described in Note 1, the Company consummated a series of transactions on November 4, 1999 in which its class A and class B shares were exchanged into a single class of Common Stock. The Company's charter now provides for the issuance of up to 200.0 million shares of Common Stock, par

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7--SHAREHOLDERS' EQUITY (CONTINUED)

value \$0.001 per share, and 30.0 million shares of preferred stock. As part of these transactions, the Company adopted articles supplementary creating four series of preferred stock designated as 9.5% Series A Cumulative Redeemable Preferred Stock, consisting of 4.4 million shares, 9.375% Series B Cumulative Redeemable Preferred Stock, consisting of 2.3 million shares, 9.20% Series C Cumulative Redeemable Preferred Stock, consisting of approximately 1.5 million shares, and 8.0% Series D Cumulative Redeemable Preferred Stock, consisting of 4.6 million shares. The Series B, C and D Cumulative Redeemable Preferred Stock were issued in the TriNet Acquisition in exchange for similar issuances of TriNet stock then outstanding. The Series A, B, C and D Cumulative Redeemable Preferred Stock are redeemable without premium at the option of the Company at their respective liquidation preferences beginning on December 15, 2003, June 15, 2001, August 15, 2001 and October 8, 2002, respectively.

STOCK REPURCHASE PROGRAM: The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of both June 30, 2001 and December 31, 2000, the Company had repurchased approximately 2.3 million shares at an aggregate cost of approximately \$40.7 million.

NOTE 8--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS

RISK MANAGEMENT--In the normal course of its on-going business operations, the Company encounters economic risk. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's loan assets that results from a property's, borrower's or tenant's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of loans due to changes in interest rates or other market factors, including the rate of prepayments of principal and the value of the collateral underlying loans and the valuation of corporate tenant lease facilities held by the Company.

USE OF DERIVATIVE FINANCIAL INSTRUMENTS--The Company's use of derivative financial instruments is primarily limited to the utilization of interest rate agreements or other instruments to manage interest rate risk exposure. The principal objective of such arrangements is to minimize the risks and/or costs associated with the Company's operating and financial structure as well as to hedge specific anticipated transactions. The counterparties to these contractual arrangements are major financial institutions with which the Company and its affiliates may also have other financial relationships. The Company is potentially exposed to credit loss in the event of nonperformance by these counterparties. However, because of their high credit ratings, the Company does not anticipate that any of the counterparties will fail to meet their obligations.

In connection with the TriNet Acquisition, the Company acquired LIBOR interest rate caps currently struck at 7.75%, and 7.75% in notional amounts of \$75.0 million and \$35.0 million, respectively, which both expire in December 2004. In June 2001, an interest rate cap acquired in the TriNet Acquisition, with a notional amount of \$75.0 million, matured. In connection with the closing of STARS, Series 2000-1 in May 2000, the Company entered into a LIBOR interest rate cap struck at

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS (CONTINUED)

10.00% in the notional amount of \$312.0 million, and simultaneously sold a LIBOR

interest rate cap with the same terms. Since these instruments do not reduce the Company's net interest rate risk exposure, they do not qualify as hedges and changes in their respective values are charged to earnings. As the significant terms of these arrangements are substantially the same, the effects of a revaluation of these two instruments are expected to substantially offset one another. In January 2001, March 2001 and June 2001 three interest rate caps with notional amounts of \$40.4 million, \$300.0 million and \$38.3 million respectively, matured. At June 30, 2001 and December 31, 2000, the net fair value of the Company's interest rate caps were \$0.4 million and \$0.4 million, respectively.

The Company has entered into LIBOR interest rate swaps struck at 7.055% and 7.058%, both with notional amounts of \$125.0 million that expire in June 2003. These swaps effectively fix the interest rate on a portion of the Company's floating-rate term loan obligations. In connection with the TriNet Acquisition, the Company acquired an interest rate swap which, together with certain existing interest rate cap agreements, effectively fix the interest rate on \$75.0 million of the Leasing Subsidiary's LIBOR-based borrowings at 5.58% plus the applicable margin through December 1, 2004. Management expects that it will have aggregate LIBOR-based borrowings at the Leasing Subsidiary in excess of the notional amount for the duration of the swap. The actual borrowing cost to the Company with respect to indebtedness covered by the swap will depend upon the applicable margin over LIBOR for such indebtedness, which will be determined by the terms of the relevant debt instruments. In January 2001 and June 2000, interest rate swaps with notional amounts of approximately \$92.0 million and \$112.0 million, respectively, matured. At June 30, 2001 and December 31, 2000, the fair value (liability) of the Company's interest rate swaps was (\$12.8) million and (\$7.7) million, respectively.

During the year ended December 31, 1999, the Company settled an aggregate notional amount of approximately \$63.0 million that was outstanding under certain hedging agreements which the Company had entered into in order to hedge the potential effects of interest rate movements on anticipated fixed-rate borrowings. The settlement of such agreements resulted in a receipt of approximately \$0.6 million which had been deferred pending completion of the planned fixed-rate financing transaction. Subsequently, the transaction was modified and was actually consummated as a variable-rate financing transaction. As a result, the previously deferred receipt no longer qualified for hedge accounting treatment and the \$0.6 million was recognized as a gain included in other income in the consolidated statement of operations for the year ended December 31, 2000 in connection with the closing of STARS, Series 2000-1 in May 2000.

During the year ended December 31, 1999, the Company refinanced its \$125.0 million term loan maturing March 15, 1999 with a \$155.4 million term loan maturing March 5, 2009. The new term loan bears interest at 7.44% per annum, payable monthly, and amortizes over an approximately 22-year schedule. The new term loan represented forecasted transactions for which the Company had previously entered into U.S. Treasury-based hedging transactions. The net \$3.4 million cost of the settlement of such hedges has been deferred and is being amortized as an increase to the effective financing cost of the new term loan over its effective ten-year term.

CREDIT RISK CONCENTRATIONS--Concentrations of credit risks arise when a number of borrowers or customers related to the Company's investments are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. The Company regularly monitors various segments of its portfolio to assess

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS (CONTINUED)

potential concentrations of credit risks. Management believes the current credit risk portfolio is reasonably well diversified and does not contain any unusual concentration of credit risks.

Substantially all of the Company's real estate subject to operating leases (including those held by joint ventures) and loans and other lending investments, are collateralized by facilities located in the United States, with significant concentrations (i.e., greater than 10.0%) as of June 30, 2001 in California (24.9%), Texas (14.1%) and New York (11.3%). As of June 30, 2001, the Company's investments also contain significant concentrations in the following asset/collateral types: office (47.9%) and hotel/resorts (20.1%).

The Company underwrites the credit of prospective borrowers and customers

and often requires them to provide some form of credit support such as corporate guarantees or letters of credit. Although the Company's loans and other lending investments and corporate customer lease assets are geographically diverse and the borrowers and customers operate in a variety of industries, to the extent the Company has a significant concentration of interest or operating lease revenues from any single borrower or customer, the inability of that borrower or customer to make its payment could have an adverse effect on the Company.

NOTE 9--INCOME TAXES

Although originally formed to qualify as a REIT under the Code for the purpose of making and acquiring various types of mortgage and other loans, during 1993 through 1997, the Company failed to qualify as a REIT. As confirmed by a closing agreement with the IRS obtained in March 1998, the Company was eligible, elected to be taxed as a REIT and qualified for REIT status for the tax years commencing on January 1, 1998. The Company did not incur any material tax liabilities as a result of its operations during such years.

NOTE 10--STOCK OPTION PLANS AND EMPLOYEE BENEFITS

The Company's 1996 Long-Term Incentive Plan (the "Plan") is designed to provide incentive compensation for officers, other key employees and directors of the Company. The Plan provides for awards of stock options and shares of restricted stock and other performance awards. The maximum number of shares of Common Stock available for awards under the Plan is 9.0% of the outstanding shares of Common Stock, calculated on a fully diluted basis, from time to time; provided that the number of shares of Common Stock reserved for grants of options designated as incentive stock options is 5.0 million, subject to certain antidilution provisions in the Plan. All awards under the Plan, other than automatic awards to non-employee directors, are at the discretion of the Board or a committee of the Board. At June 30, 2001, a total of approximately 7.9 million shares of Common Stock were available for awards under the Plan, of which options to purchase approximately 6.0 million shares of Common Stock were outstanding and approximately 650,000 shares of restricted stock were outstanding.

Concurrently with the Recapitalization Transactions, the Company issued approximately 2.5 million (as adjusted) fully vested and immediately exercisable options to purchase class A shares at \$14.72 per share (as adjusted) to the external advisor with a term of ten years. The external advisor granted a portion of these options to its employees and the remainder were allocated to an affiliate. Upon consummation of the Advisor Transaction, these individuals became employees of the Company. In general, the grants to these employees provided for scheduled vesting over a predefined service period

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10--STOCK OPTION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

of three to five years and, under certain conditions, provide for accelerated vesting. These options expire on March 15, 2008.

In connection with the TriNet Acquisition, outstanding options to purchase TriNet stock under TriNet's stock option plans were converted into options to purchase shares of Common Stock on substantially the same terms, except that both the exercise price and number of shares issuable upon exercise of the TriNet options were adjusted to give effect to the merger exchange ratio of 1.15 shares of Common Stock for each share of TriNet common stock. In addition, options held by the former directors of TriNet and certain executive officers became fully vested as a result of the transaction.

Also, as a result of the TriNet Acquisition, TriNet terminated its dividend equivalent rights program. The program called for immediate vesting and cash redemption of all dividend equivalent rights upon a change of control of 50.0% or more of the voting common stock of TriNet. Concurrent with the TriNet Acquisition, all dividend equivalent rights were vested and amounts due to former TriNet employees of approximately \$8.3 million were paid by the Company. Such payments were included as part of the purchase price paid by the Company to acquire TriNet for financial reporting purposes.

Changes in options outstanding during the six months ended June 30, 2001 are as follows:

NUMBER OF SHARES -----
----- AVERAGE NON-EMPLOYEE STRIKE EMPLOYEES
DIRECTORS OTHER PRICE -----
----- OPTIONS OUTSTANDING, DECEMBER
31, 2000

\$19.75
1,695,400
9.62
\$19.69
2,083
\$19.54
\$20.63 -
\$21.44
108,050
2.48
\$21.12
100,050
\$21.13
\$22.44 -
\$22.45
20,000
9.26
\$22.44 --
\$ --
\$23.32 -
\$23.64
72,335
2.88
\$23.57
52,850
\$23.55
\$24.13 -
\$24.71
127,500
4.28
\$24.28
126,500
\$24.27
\$25.10 -
\$26.09
21,700
5.15
\$26.04
20,700
\$26.09
\$26.30 -
\$26.85
110,100
3.05
\$26.75
108,100
\$26.74
\$27.00
25,000
9.99
\$27.00 --
\$ --
\$28.26 -
\$28.54
55,613
3.29
\$28.37
55,613
\$28.37
\$30.33
96,025
3.40
\$30.33
85,967
\$30.33
\$33.15 -
\$33.70
10,350
1.47
\$33.39
8,913
\$33.43
\$55.39
5,094 7.92
\$55.39
3,396
\$55.39 ---

5,954,898
7.78
\$18.06
2,419,319
\$17.89
=====

EXPLANATORY NOTE:

(1) Includes approximately 764,000 options which were granted, on a fully exercisable basis, in connection with the Recapitalization Transactions to Starwood Capital Group, and were subsequently regranted by that entity to its employees subject to vesting requirements. As a result of those vesting requirements, less than 2,000 of these options are currently exercisable by the beneficial owners. In the event that these employees forfeit such options, they revert to Starwood Capital Group, who may regrant them at its discretion.

The Company has elected to use the intrinsic method for accounting for options issued to employees or directors, as allowed under Statement of Financial Accounting Standards No. 123 "Accounting for Stock Based Compensation" ("SFAS No. 123") and, accordingly, recognizes no compensation charge in connection with these options to the extent that the options exercise price equals or exceeds the quoted price of the Company's common shares at the date of grant or measurement date. In connection with the Advisor Transaction, as part of the computation of the one-time charge to earnings, the Company calculated a deferred compensation charge of approximately \$5.1 million. This deferred charge represents the difference of the closing sales price of the shares of Common Stock on the date of the Advisor Transaction of \$20.25 over the strike price of the options of \$14.72 per share (as adjusted) for the unvested portion of the options granted to former employees of the Advisor who are now employees of the Company. This deferred charge will be amortized over the related remaining vesting terms to the individual employees as additional compensation expense.

In connection with the original grant of options in March 1998 to its external advisor, the Company utilized the option value method as required by SFAS No. 123. An independent financial

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10--STOCK OPTION PLANS AND EMPLOYEE BENEFITS (CONTINUED)
advisory firm estimated the value of these options at date of grant to be approximately \$2.40 per share using a Black-Scholes valuation model. In the absence of comparable historical market information for the Company, the advisory firm utilized assumptions consistent with activity of a comparable peer group of companies, including an estimated option life of five years, a 27.5% volatility rate and an estimated annual dividend rate of 8.5%. The resulting charge to earnings was calculated as the number of options allocated to the Advisor multiplied by the estimated value at consummation. A charge of approximately \$6.0 million was reflected in the Company's first quarter 1998 financial results for this original grant.

Future charges may be taken to the extent of additional option grants, which are at the discretion of the Board of Directors.

During the six-month period ended June 30, 2001, the Company granted 94,859 restricted shares to employees in lieu of cash bonuses for the year ended December 31, 2000 at the employees' election. These restricted shares were immediately vested on the date of grant and are not transferable for a period of one year following vesting. In addition, during the three months ended June 30, 2001, the Company entered into a three-year employment agreement with an executive in connection with his appointment as president of the Company. Under the agreement, in lieu of salary and bonus, the Company granted the executive 500,000 unvested restricted shares. The vesting of these shares is a function of the total rate of return (dividends and price appreciation) on the Company's Common Stock, although none of the shares vest (regardless of the total return to shareholders) if the executive voluntarily terminates his employment without good reason prior to September 30, 2002. Until shares under the agreement are otherwise vested or forfeited, the executive will receive dividends on the share grant during the term of the agreement if and when the Company declares and pays dividends on its Common Stock. None of these restricted shares were vested at

During the three months ended June 30, 2001, the Company also entered into a new three-year employment agreement with its chief executive officer. As part of this agreement, the Company confirmed a prior grant of 750,000 stock options made to the executive on March 2, 2001. The options will vest in equal installments of 250,000 shares in each January beginning with January 2002. The Company also granted the executive 2,000,000 unvested phantom shares, each of which represents one share of the Company's Common Stock. These shares will vest in installments on a contingent basis if the average closing price of the Company's Common Stock achieves certain levels (\$25.00 to \$37.00 per share) over specified periods of time. Shares that have contingently vested generally will not become fully vested until the end of the three-year term of the agreement, except upon certain termination or change of control events. Further, if the stock price drops below certain specified levels for the 60-day average before such date, they would also not fully vest and be forfeited. The executive will receive dividends on shares that have contingently or fully vested and have not been forfeited under the terms of the agreement, if and when the Company declares and pays dividends on its Common Stock.

During the year ended December 31, 2000, the Company granted 143,646 restricted shares to employees. Of this total, 74,996 restricted shares were granted in lieu of cash bonuses at the employees' election, were immediately vested on the date of grant, and were not transferable for a period of one year following vesting. An additional 68,650 of such restricted shares vest over periods ranging from one to three years following the date of grant and are transferable upon vesting.

Effective November 4, 1999, the Company implemented a savings and retirement plan (the "401 (k) Plan"), which is a voluntary, defined contribution plan. All employees are eligible to participate in

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10--STOCK OPTION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

the 401 (k) Plan following completion of six months of continuous service with the Company. Each participant may contribute on a pretax basis between 2% and 15% of such participant's compensation. At the discretion of the Board of Directors, the Company may make matching contributions on the participant's behalf up to 50% of the first 10% of the participant's annual contribution. The Company made contributions of approximately \$65,000 and \$45,000 to the 401(k) Plan for the three-month periods ended June 30, 2001 and 2000, respectively and approximately \$178,000 and \$175,000 to the 401(k) Plan for the six-month periods ended June 30, 2001 and 2000, respectively.

NOTE 11--EARNINGS PER SHARE

Prior to November 4, 1999, Basic EPS was computed based on the income allocable to class A shares (net income reduced by accrued dividends on preferred shares and by 1% allocated to class B shares), divided by the weighted average number of class A shares outstanding during the period. Diluted EPS was based on the net earnings allocable to class A shares plus dividends on class B shares which were convertible into class A shares, divided by the weighted average number of class A shares and dilutive potential class A shares that were outstanding during the period. Dilutive potential class A shares included the class B shares, which were convertible into class A shares at a rate of 49 class B shares for one class A share, and potentially dilutive options to purchase class A shares issued to the Advisor and the Company's directors and warrants to acquire class A shares.

As described in Note 1, in the Incorporation Merger, the class B shares were converted into shares of Common Stock on a 49-for-one basis (the same ratio at which class B shares were previously convertible into class A shares), and the class A shares were converted into shares of Common Stock on a one-for-one basis. As a result, the Company no longer has multiple classes of common shares. Basic and diluted earnings per share are based upon the following weighted average shares outstanding during the three- and six-month periods ended June 30, 2001 and 2000, respectively (in thousands):

	FOR THE	FOR THE	THREE MONTHS	ENDED	SIX MONTHS	
	ENDED	JUNE 30,	JUNE 30,	-----		
	-----	2001	2000	2001	2000	-----
	-----	(UNAUDITED) Weighted				
	average common shares outstanding for basic					
	earnings per common					
	share.....	86,081	85,281			
	85,958	85,184	Add: effect of assumed shares issued			

under treasury stock method for stock options and restricted shares.....
 1,871 709 1,568 541 Add: effect of contingent shares..... 115 -- 58 -- Add: effect of joint venture shares.....
 75 -- -- -- ----- Weighted average common shares outstanding for diluted earnings per common share..... 88,142
 85,990 87,584 85,725 =====

NOTE 12--COMPREHENSIVE INCOME

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130") effective for fiscal years beginning after December 15, 1997. The statement changes the reporting of certain items currently reported as changes in the shareholders' equity section of the balance sheet and establishes standards for the reporting and display

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 12--COMPREHENSIVE INCOME (CONTINUED)

of comprehensive income and its components in a full set of general-purpose financial statements. SFAS No. 130 requires that all components of comprehensive income shall be reported in the financial statements in the period in which they are recognized. Furthermore, a total amount for comprehensive income shall be displayed in the financial statements. The Company has adopted this standard effective January 1, 1998. Total comprehensive income was \$80.6 million and \$87.1 million for the six-month periods ended June 30, 2001 and 2000, respectively, and \$51.0 million and \$44.6 million for the three-month period ended June 2001 and 2000, respectively. The primary component of comprehensive income other than net income was the adoption of SFAS No. 133.

For the three and six months ended June 30, 2001, the change in fair market value of the Company's interest rate swaps was \$1.3 million and \$(5.1) million and was recorded in other comprehensive income. The reconciliation to other comprehensive income is as follows (in thousands) (unaudited):

	FOR THE THREE MONTHS ENDED	SIX MONTHS ENDED		
	JUNE 30,	JUNE 30,		
	2001	2000	2001	2000
income.....	\$49,733	\$44,602	\$95,150	\$87,364
Other comprehensive income (loss): Unrealized gains (losses) on securities for the period.....	--	--	(229)	(9,445)
Unrealized derivative gains (losses) on cash flow hedges.....	1,280	(5,074)	--	--
			Comprehensive	
income.....	\$44,602	\$80,631	\$87,135	\$51,013

NOTE 13--DIVIDENDS

In order to maintain its election to qualify as a REIT, the Company must 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 distribution rate was modified to 95% from 90% by the REIT Modernization Act beginning in fiscal 2001. The Company anticipates it will distribute all of its taxable income to its shareholders. Because taxable income differs from cash flow from operations due to non-cash revenues or expenses, in certain circumstances, the Company may be required to borrow to make sufficient dividend payments to meet this anticipated dividend threshold.

On November 4, 1999, the class A shares were converted into shares of Common Stock on a one-for-one basis. In November 1999, the Company declared and paid a dividend of a total of one million shares of Common Stock pro rata to all holders of record of Common Stock as of the close of business on November 3, 1999. For the year ended December 31, 2000, total dividends declared by the

Company aggregated \$205.5 million, or \$2.40 per common share. Total common dividends declared by the Company aggregated \$52.6 million or \$0.6125 per share of Common Stock for the three-and six-months ended June 30, 2001. This dividend, paid on April 2, 2001, was applicable to the three-month period ended March 31, 2001 and payable to shareholders of record on April 16, 2001. On July 2, 2001, the Company declared a dividend of approximately \$53.2 million, or \$0.6125 per share of Common Stock, applicable to the second quarter and payable to shareholders of record on July 16,

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ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 13--DIVIDENDS (CONTINUED)

2001. The Company also declared dividends aggregating \$10.4 million, \$2.4 million, \$1.4 million and \$4.0 million, respectively, on its Series A, B, C and D preferred stock, respectively, for the six-month period ended June 30, 2001 and \$5.2 million, \$1.2 million, \$0.7 million and \$2.0 million, respectively, on its Series A, B, C and D preferred stock, respectively, for the three-month period ended June 30, 2001. There are no divided arrearages on any of the preferred shares currently outstanding.

The Series A preferred stock has a liquidation preference of \$50.00 per share and carries an initial dividend yield of 9.50% per annum. The dividend rate on the preferred shares will increase to 9.75% on December 15, 2005, to 10.00% on December 15, 2006 and to 10.25% on December 15, 2007 and thereafter. Dividends on the Series A preferred shares are payable quarterly in arrears and are cumulative.

Holder of shares of the Series B preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 9.375% per annum of the \$25.00 liquidation preference, equivalent to a fixed annual rate of \$2.34 per share. 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 Series B 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.

Holder of shares of the Series C preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 9.20% per annum of the \$25.00 liquidation preference, equivalent to a fixed annual rate of \$2.30 per share. The remaining terms relating to dividends of the Series C preferred stock are substantially identical to the terms of the Series B preferred stock described above.

Holder of shares of the Series D preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 8.00% per annum of the \$25.00 liquidation preference, equivalent to a fixed annual rate of \$2.00 per share. The remaining terms relating to dividends of the Series D preferred stock are substantially identical to the terms of the Series B preferred stock described above.

The exact amount of future quarterly dividends to common shareholders will be determined by the Board of Directors based on the Company's actual and expected operations for the fiscal year and the Company's overall liquidity position.

NOTE 14--SEGMENT REPORTING

Statement of Financial Accounting Standard No. 131 ("SFAS No. 131") establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected financial information about operating segments in interim financial reports issued to shareholders.

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ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 14--SEGMENT REPORTING (CONTINUED)

The Company has two reportable segments: Real Estate Lending and Corporate Tenant Leasing. The Company does not have substantial foreign operations. The accounting policies of the segments are the same as those described in Note 3. The Company has no single customer that accounts for 10% or more of revenues (see Note 8 for other information regarding concentrations of credit risk).

The Company evaluates performance based on the following financial measures for each segment. Selected results of operations for the three- and six-month periods ended June 30, 2001 and 2000 and selected asset information as of June 30, 2001 and December 31, 2000 regarding the Company's operating segments are as follows (in thousands):

	CREDIT REAL ESTATE	TENANT	CORPORATE/	OTHER	
(2) TOTAL	LENDING	LEASING	(1)		
	(UNAUDITED)				
Total revenues(3): Three months ended: June 30,					
2001.....	\$ 72,592	\$ 49,353	\$ (1,120)	\$	
	120,825	June 30,			
2000.....	69,468	47,930	516	117,914	Six months ended: June 30,
2001.....	\$ 144,925	\$ 98,981	\$ (462)	\$ 243,444	June 30,
2000.....	134,225	94,330	247	228,802	Total operating and interest expense(4): Three months ended: June 30,
2001.....	\$ 29,264	\$ 25,906	\$ 7,698	\$ 62,868	June 30,
2000.....	28,295	18,933	17,257	64,485	Six months ended: June 30,
2001.....	\$ 63,390	\$ 51,934	\$ 14,660	\$ 129,984	June 30,
2000.....	50,813	39,004	33,742	123,559	Net operating income before minority interest and gain on sale of net lease assets(5): Three months ended: June 30,
2001.....	\$ 43,328	\$ 23,447	\$ (8,818)	\$ 57,957	June 30,
2000.....	41,173	28,997	(16,741)	53,429	Six months ended: June 30,
2001.....	\$ 81,535	\$ 47,047	\$(15,122)	\$	June 30,
2000.....	83,412	55,326	(33,495)	105,243	Total long-lived assets(6): June 30,
2001.....	\$2,252,255	\$1,634,524	N/A	\$3,886,779	December 31,
2000.....	2,225,183	1,670,169	N/A	3,895,352	Total assets: June 30,
2001.....	\$2,252,255	\$1,634,524	\$166,571		December 31,
2000.....	2,225,183	1,670,169	139,423		4,034,775

EXPLANATORY NOTES:

(1) Includes the Company's pre-existing Corporate Tenant Leasing investments since March 18, 1998 and the Corporate Tenant Leasing business acquired in the TriNet Acquisition since November 4, 1999.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 14--SEGMENT REPORTING (CONTINUED)

- (2) Corporate and 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 servicing business, which is not considered a material separate segment.
- (3) Total revenues represents all revenues earned during the period from the assets in each segment. Revenue from the Real Estate Lending business primarily represents interest income and revenue from the Corporate Tenant Leasing business primarily represents operating lease income.
- (4) Total operating and interest expense represents provision for possible credit losses for the Real Estate Lending business and operating costs on corporate tenant lease assets for the Corporate Tenant Leasing business, as well as interest expense specifically related to each segment. General and administrative expense, advisory fees (prior to November 4, 1999) and stock-based compensation expense is included in Corporate and Other for all periods. Depreciation and amortization of \$8.8 million and \$8.9 million for the three-month periods ended June 30, 2001 and 2000, respectively, and \$17.6 million and \$17.9 million for the six-month periods ended June 30, 2001 and 2000, respectively, are included in the amounts presented above.
- (5) Net operating income before minority interests represents net operating income before minority interest, gain on sale of corporate tenant lease assets and extraordinary loss as defined in note (3) above, less total operating and interest expense, as defined in note (4) above.
- (6) Total long-lived assets is comprised of Loans and Other Lending Investments, net and Real Estate Subject to Operating Leases, net, for each respective segment.

NOTE 15--SUBSEQUENT EVENTS

On July 27, 2001, the Company completed a \$300.0 million revolving credit facility with a group of leading financial institutions. The new facility has an initial maturity of July 2003, with a one-year extension at the Company's option and another one-year extension at the lenders' option. The new facility replaces two prior credit facilities maturing in 2002 and 2003, and bears interest at LIBOR + 2.125%.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto appearing elsewhere in this report and also with the Company's Annual Report for 2000 filed on Form 10-K. Unless otherwise defined in this report, or unless the context otherwise requires, the capitalized words or phrases referred to in this section have the meaning ascribed to them in such financial statements and the notes thereto.

GENERAL

The Company began its business in 1993 through private investment funds formed to take advantage of the lack of well-capitalized lenders capable of servicing the needs of high-end customers in its markets. In March 1998, the Company's private investment funds contributed their approximately \$1.1 billion of assets to the Company's predecessor, Starwood Financial Trust, in exchange for a controlling interest in that public company. In November 1999, the Company acquired its leasing subsidiary, TriNet Corporate Realty Trust, Inc., which was then the largest publicly-traded company specializing in the net leasing of corporate office and industrial facilities. Concurrent with the TriNet Acquisition, the Company also acquired its external advisor in exchange for shares of its Common Stock and converted its organizational form to a Maryland corporation. As part of the conversion to a Maryland corporation, the Company replaced its dual-class Common Stock structure with a single class of Common Stock. This single class of Common Stock began trading on the New York Stock Exchange under the symbol "SFI" in November 1999.

RESULTS OF OPERATIONS

THREE-MONTH PERIOD ENDED JUNE 30, 2001 COMPARED TO THE THREE-MONTH PERIOD ENDED JUNE 30, 2000

INTEREST INCOME--Interest income decreased to approximately \$63.9 million for the three months ended June 30, 2001 from approximately \$66.9 million for the same period in 2000. This decrease in interest income is primarily a result of the decrease in average LIBOR rates on the Company's variable-rate lending investments, which was partially offset by the increase in the average balance of loans and other lending investments.

OPERATING LEASE INCOME-- Operating lease income increased to \$49.2 million for the three months ended June 30, 2001 from \$47.2 million for the same period in 2000. Of this increase, \$1.3 million was attributable to new corporate tenant lease investments and \$3.6 million to additional operating lease income from existing corporate tenant lease investments owned in both quarters. These increases in operating lease income from assets owned were partially offset by a \$2.9 million decrease in operating lease income resulting from asset dispositions made in 2000 and 2001.

OTHER INCOME--Other income for the three-month period ended June 30, 2001 is primarily comprised of approximately \$8.5 million in realized gains and prepayment penalties from the early repayment of senior mortgages, subordinate mortgages and corporate/partnership loans. Other income was offset by approximately \$1.2 million in losses from iStar Operating.

Other income for the three-month period ended June 30, 2000 included a prepayment penalty of approximately \$2.1 million resulting from a partial repayment of a senior mortgage.

INTEREST EXPENSE--The Company's interest expense decreased by \$1.4 million for the three months ended June 30, 2001 over the same period in the prior year. The decrease was primarily due to lower average LIBOR rates on the Company's outstanding floating-rate debt obligations.

OPERATING COSTS-CORPORATE TENANT LEASE ASSETS--For the three months ended June 30, 2001, operating costs associated with corporate tenant lease assets increased by approximately \$315,000 to

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approximately \$3.3 million, from \$3.0 million for the same period in 2000. This increase is primarily due to an increase in unreimbursed operating expenses associated with corporate tenant lease assets.

DEPRECIATION AND AMORTIZATION--Depreciation and amortization decreased by approximately \$84,000 to \$8.8 million for the three months ended June 30, 2001 over the same period in the prior year. This decrease is primarily the result of corporate tenant lease dispositions in 2000 and 2001, partially offset by additional depreciation on capital investments.

GENERAL AND ADMINISTRATIVE--The Company's general and administrative expenses during the three months ended June 30, 2001 decreased by approximately \$1.3 million to \$6.5 million compared to the same period in 2000.

PROVISION FOR POSSIBLE CREDIT LOSSES--The Company's charge for provision for possible credit losses increased to \$1.8 million from \$1.5 million as a result of expanded lending operations as well as additional seasoning of the Company's existing lending portfolio. As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, the Company has not realized any actual losses on any of its loan investments to date. However, the Company has considered it prudent to establish a policy of providing reserves for potential losses in the current portfolio which may occur in the future. Accordingly, since its first full quarter as a public company (the quarter ended June 30, 1998), management has reflected quarterly provisions for possible credit losses in its operating results. The Company will continue to recognize quarterly provisions until a stabilized reserve level is attained.

STOCK-BASED COMPENSATION EXPENSE--Stock-based compensation expense increased by approximately \$614,000 as a result of charges relating to grants of stock options, including amortization of the deferred charge related to options granted to employees of the Company's former external advisor subsequent to such personnel becoming direct employees of the Company as of November 4, 1999.

GAIN ON SALE OF CORPORATE TENANT LEASE ASSETS--On April 18, 2001, the Company disposed of one corporate tenant lease asset for total proceeds of \$4.5 million, and recognized a gain of approximately \$1.0 million.

During the second quarter of 2000, the Company disposed of three assets for total proceeds of \$102.3 million, and recognized gains of approximately \$440,000.

SIX-MONTH PERIOD ENDED JUNE 30, 2001 COMPARED TO THE SIX-MONTH PERIOD ENDED JUNE 30, 2000

INTEREST INCOME--Interest income increased to approximately \$130.8 million for the six months ended June 30, 2001 from approximately \$126.9 million for the same period in 2000. This increase in interest income is a result of a higher average balance of loans and other lending investments.

OPERATING LEASE INCOME--Operating lease income increased to \$98.8 million for the six months ended June 30, 2001 from \$93.5 million for the same period in 2000. Of this increase, \$2.7 million was attributable to new corporate tenant lease investments and \$7.4 million to additional operating lease income from existing corporate tenant lease investments owned in both quarters. In addition, joint venture income contributed \$1.8 million to the increase. These increases in operating lease income from assets owned were partially offset by a \$6.7 million decrease in operating lease income resulting from asset dispositions made in 2000 and 2001.

OTHER INCOME--Other income for six-month period ended June 30, 2001 is primarily comprised of approximately \$9.2 million in realized gains and prepayment penalties from the early repayment of senior mortgages, subordinate mortgages and corporate/partnership loans, \$3.0 million in participation payments and advisory fees of approximately \$868,000. Other income was offset by approximately \$842,000 in losses from iStar Operating.

Other income for the six-month period ended June 30, 2000 included prepayment fees of approximately \$5.4 million resulting from the full or partial repayments of three loans and a fee of

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\$1.1 million resulting from the purchase of a sub-performing loan and subsequent restructuring of such loan to fully-performing status.

INTEREST EXPENSE--The Company's interest expense increased by \$7.2 million for the six months ended June 30, 2001 over the same period in the prior year. The increase was primarily due to higher average borrowings by the Company's credit facilities, other term loans and unsecured notes, in addition to the amortization of deferred financing costs on the Company's credit facilities. This increase was partially offset by the lower average LIBOR rates on the Company's floating-rate debt obligations.

OPERATING COSTS-CORPORATE TENANT LEASE ASSETS--For the six months ended June 30, 2001, operating costs increased by approximately \$226,000 to \$6.5 million, from \$6.3 million for the same period in 2000. This increase is primarily due to an increase in unreimbursed operating expenses associated with corporate tenant lease assets. The increase is offset by a reduction of general and administrative costs related to the facilities.

DEPRECIATION AND AMORTIZATION--Depreciation and amortization decreased by approximately \$285,000 to \$17.6 million for the six months ended June 30, 2001 over the same period in the prior year. This decrease is primarily the result of corporate tenant lease dispositions in 2000 and 2001, partially offset by additional depreciation on capital investments.

GENERAL AND ADMINISTRATIVE--The Company's general and administrative expenses during the six months ended June 30, 2001 decreased by approximately \$2.1 to \$12.6 million compared to the same period in 2000.

PROVISION FOR POSSIBLE CREDIT LOSSES--The Company's charge for provision for possible credit losses increased to \$3.5 million from \$3.0 million as a result of expanded lending operations as well as additional seasoning of the Company's existing lending portfolio. As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, the Company has not realized any actual losses on any of its loan investments to date. However, the Company has considered it prudent to establish a policy of providing reserves for potential losses in the current portfolio which may occur in the future. Accordingly, since its first full quarter as a public company (the quarter ended June 30, 1998), management has reflected quarterly provisions for possible credit losses in its operating results. The Company will continue to recognize quarterly provisions until a stabilized reserve level is attained.

STOCK-BASED COMPENSATION EXPENSE--Stock-based compensation expense increased by approximately \$926,000 as a result of charges relating to grants of stock options, including amortization of the deferred charge related to options granted to employees of the Company's former external advisor subsequent to such personnel becoming direct employees of the Company as of November 4, 1999.

GAIN ON SALE OF CORPORATE TENANT LEASE ASSETS--During the six months ended June 30, 2001, the Company disposed of two corporate tenant lease assets for total proceeds of \$8.4 million, and recognized gains of approximately \$1.6 million.

During the first six months of 2000, the Company disposed of five assets for

total proceeds of \$148.3 million, and recognized gains of approximately \$973,000.

EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT--During the six months ended June 30, 2001, the Company repaid a secured term loan which had an original maturity date of December 2004. In connection with this early repayment, the Company incurred certain prepayment penalties, which resulted in an extraordinary loss on early extinguishment of debt of approximately \$1.0 million during the first quarter of 2001.

During the first quarter of 2000, certain of the proceeds from an asset disposition were used to partially repay \$8.1 million of a secured term loan. In connection with this partial paydown, the Company incurred certain prepayment penalties, which resulted in an extraordinary loss on early extinguishment of debt of \$317,000.

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INTEREST RATE RISK MANAGEMENT

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. In pursuing its business plan, the primary market risk to which the Company is exposed is interest rate risk. Consistent with its liability management objectives, the Company has implemented an interest rate risk management policy based on match funding, with the objective that floating-rate assets be primarily financed by floating-rate liabilities and fixed-rate assets be primarily financed by fixed-rate liabilities.

The Company's operating results will depend in part on the difference between the interest and related income earned on its assets and the interest expense incurred in connection with its interest-bearing liabilities. Competition from other providers of real estate financing may lead to a decrease in the interest rate earned on the Company's interest-bearing assets, which the Company may not be able to offset by obtaining lower interest costs on its borrowings. Changes in the general level of interest rates prevailing in the financial markets may affect the spread between the Company's interest-earning assets and interest-bearing liabilities. Any significant compression of the spreads between interest-earning assets and interest-bearing liabilities could have a material adverse effect on the Company. In addition, an increase in interest rates could, among other things, reduce the value of the Company's interest-bearing assets and its ability to realize gains from the sale of such assets, and a decrease in interest rates could reduce the average life of the Company's interest-earning assets.

A substantial portion of the Company's loan investments are subject to significant prepayment protection in the form of lock-outs, yield maintenance provisions or other prepayment premiums which provide substantial yield protection to the Company. Those assets generally not subject to prepayment penalties include: (1) variable-rate loans based on LIBOR, originated or acquired at par, which would not result in any gain or loss upon repayment; and (2) discount loans and loan participations acquired at discounts to face values, which would result in gains upon repayment. Further, while the Company generally seeks to enter into loan investments which provide for substantial prepayment protection, in the event of declining interest rates, the Company could receive such prepayments and may not be able to reinvest such proceeds at favorable returns. Such prepayments could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

While the Company has not experienced any significant credit losses, in the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to the Company which adversely affect its liquidity and operating results. Further, such delinquencies or defaults could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond the control of the Company. As more fully discussed in Note 8 to the Company's Consolidated Financial Statements, the Company employs match funding-based hedging strategies to limit the effects of changes in interest rates on its operations, including engaging in interest rate caps, floors, swaps, futures and other interest rate-related derivative contracts. These strategies are specifically designed to reduce the Company's exposure, on specific transactions or on a portfolio basis, to changes in cash flows as a result of interest rate movements in the market. The Company does not enter into derivative contracts for speculative purposes nor as a hedge against changes in credit risk of its borrowers or of the Company itself.

Each interest rate cap or floor agreement is a legal contract between the Company and a third party (the "counterparty"). When the Company purchases a cap

or floor contract, the Company makes an up-front payment to the counterparty and the counterparty agrees to make payments to the Company in the future should the reference rate (typically one- or three-month LIBOR) rise above (cap agreements) or fall below (floor agreements) the "strike" rate specified in the contract. Each

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contract has a notional face amount. Should the reference rate rise above the contractual strike rate in a cap, the Company will earn cap income. Should the reference rate fall below the contractual strike rate in a floor, the Company will earn floor income. Payments on an annualized basis will equal the contractual notional face amount multiplied by the difference between the actual reference rate and the contracted strike rate. The cost of the up-front payment is amortized over the term of the contract.

Interest rate swaps are agreements in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which swaps are based is not exchanged. In general, the Company's swaps are "pay fixed" swaps involving the exchange of floating-rate interest payments from the counterparty for fixed interest payments from the Company.

Interest rate futures are contracts, generally settled in cash, in which the seller agrees to deliver on a specified future date the cash equivalent of the difference between the specified price or yield indicated in the contract and the value of that of the specified instrument (e.g., U.S. Treasury securities) upon settlement. The Company generally uses such instruments to hedge forecasted fixed-rate borrowings. Under these agreements, the Company will generally receive additional cash flow at settlement if interest rates rise and pay cash if interest rates fall. The effects of such receipts or payments will be deferred and amortized over the term of the specific related fixed-rate borrowings. In the event that, in the opinion of management, it is no longer probable that a forecasted transaction will occur under terms substantially equivalent to those projected, the Company will cease recognizing such transactions as hedges and immediately recognize related gains or losses based on actual settlement or estimated settlement value.

While a REIT may freely utilize the types of derivative instruments discussed above to hedge interest rate risk on its liabilities, the use of derivatives for other purposes, including hedging asset-related risks such as credit, prepayment or interest rate exposure on the Company's loan assets, could generate income which is not qualified income for purposes of maintaining REIT status. As a consequence, the Company may only engage in such instruments to hedge such risks on a limited basis.

There can be no assurance that the Company's profitability will not be adversely affected during any period as a result of changing interest rates. In addition, hedging transactions using derivative instruments involve certain additional risks such as counterparty credit risk, legal enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. With regard to loss of basis in a hedging contract, indices upon which contracts are based may be more or less variable than the indices upon which the hedged assets or liabilities are based, thereby making the hedge less effective. The counterparties to these contractual arrangements are major financial institutions with which the Company and its affiliates may also have other financial relationships. The Company is potentially exposed to credit loss in the event of nonperformance by these counterparties. However, because of their high credit ratings, the Company does not anticipate that any of the counterparties will fail to meet their obligations. There can be no assurance that the Company will be able to adequately protect against the foregoing risks and that the Company will ultimately realize an economic benefit from any hedging contract it enters into which exceeds the related costs incurred in connection with engaging in such hedges.

LIQUIDITY AND CAPITAL RESOURCES

The Company requires capital to fund its investment activities and operating expenses. The Company has significant access to capital resources to fund its existing business plan, which includes the expansion of its real estate lending and corporate tenant leasing businesses. The Company's capital sources include cash flow from operations, borrowings under lines of credit, additional term borrowings, long-term financing secured by the Company's assets, unsecured financing and the issuance of common, convertible and /or preferred equity securities. Further, the Company may acquire other businesses or assets using its capital stock, cash or a combination thereof.

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The distribution requirements under the REIT provisions of the Code limit the Company's ability to retain earnings and thereby replenish capital committed

to its operations. However, the Company believes that its significant capital resources and access to financing will provide it with financial flexibility and market responsiveness at levels sufficient to meet current and anticipated capital requirements, including expected new lending and leasing transactions.

The Company believes that its existing sources of funds will be adequate for purposes of meeting its short- and long-term liquidity needs. The Company's ability to meet its long-term (i.e., beyond one year) liquidity requirements is subject to the renewal of its credit lines and/or obtaining other sources of financing, including issuing additional debt or equity from time to time. Any decision by the Company's lenders and investors to enter into such transactions with the Company will depend upon a number of factors, such as compliance with the terms of its existing credit arrangements, the Company's financial performance, 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 such capital commitments and the relative attractiveness of alternative investment or lending opportunities.

As more fully discussed in Note 6 to the Company's Consolidated Financial Statements, at June 30, 2001, the Company had existing fixed-rate borrowings of approximately \$149.1 million secured by real estate under operating leases which mature in 2009, an aggregate of approximately \$253.0 million in LIBOR-based, variable-rate loans secured by subordinate mortgage investments and real estate under operating leases which mature between fiscal 2004 and 2006, fixed-rate corporate debt obligations aggregating approximately \$257.9 million which mature between 2006 and 2017, and other variable- and fixed-rate secured debt obligations aggregating approximately \$57.7 million which mature at various dates through 2011.

In addition, the Company has entered into LIBOR-based secured revolving credit facilities of \$700.0 million, \$700.0 million and \$500.0 million, respectively, which expire in fiscal 2005, 2005 and 2003, respectively. The maturities of these secured revolving facilities include a one-year "term-out" extension at the Company's option. As of June 30, 2001, the Company had drawn approximately \$194.1 million, \$514.5 million and \$81.3 million under these facilities, respectively. Availability under these facilities is based on collateral provided under a borrowing base calculation. At June 30, 2001, the Company also had two unsecured credit facilities totaling \$450.0 million. The \$100.0 million facility had a balance of \$6.0 million as of June 30, 2001, would have matured in January 2003, including a one-year extension at the Company's option, and bore interest at LIBOR plus 2.25%. In addition, the Leasing Subsidiary's \$350.0 million unsecured credit facility had a balance of \$153.0 million as of June 30, 2001, would have matured on May 31, 2002, and bore interest at LIBOR plus 1.55%. As described below, subsequent to June 30, 2001, the Company replaced both of these facilities with a new revolving credit facility.

In connection with the TriNet Acquisition, the Company acquired LIBOR interest rate caps currently struck at 7.75% and 7.75% in notional amounts of \$75.0 million and \$35.0 million, respectively, which both expire in December 2004. In June 2001, an interest rate cap acquired in the TriNet Acquisition, with a notional amount of \$75.0 million, matured. In connection with the closing of STARS, Series 2000-1 in May 2000, the Company entered into a LIBOR interest rate cap struck at 10.00% in the notional amount of \$312.0 million, and simultaneously sold a LIBOR interest rate cap with the same terms. Since these instruments do not reduce the Company's net interest rate risk exposure, they do not qualify as hedges and changes in their respective values are charged to earnings. As the significant terms of these arrangements are substantially the same, the effects of a revaluation of these two instruments are expected to substantially offset one another. In January 2001, March 2001 and June 2001, three interest rate caps with notional amounts of \$40.4 million, \$300.0 million and \$38.3 million, respectively, matured. At June 30, 2001 and December 31, 2000, the net fair value of the Company's interest rate caps were \$0.4 million and \$0.4 million, respectively.

The Company has entered into LIBOR interest rate swaps struck at 7.055% and 7.058%, both with notional amounts of \$125.0 million and expiring in June 2003. These swaps effectively fix the interest rate on a portion of the Company's floating-rate term loan obligations. In connection with the TriNet Acquisition, the Company acquired an interest rate swap which, together with certain existing interest rate cap agreements, effectively fix the interest rate on \$75.0 million of the Leasing Subsidiary's LIBOR-based borrowings at 5.58% plus the applicable margin through December 1, 2004. Management expects that it will have aggregate LIBOR-based borrowings at the Leasing Subsidiary in excess of the notional amount for the duration of the swap. The actual borrowing cost to the Company with respect to indebtedness covered by the swap will depend upon the applicable margin over LIBOR for such indebtedness, which will be determined by the terms of the relevant debt instruments. In January 2001 and June 2000, interest rate swaps with notional amounts of approximately \$92.0 million and

\$112.0 million, respectively, matured. At June 30, 2001 and December 31, 2000, the fair value (liability) of the Company's remaining interest rate swaps was \$(12.8) million and \$(7.7) million, respectively.

On February 4, 2000, the Company extended the term of its existing \$500.0 million secured credit facility. The Company extended the original August 2000 maturity date to August 2002, through a one-year extension to the facility's draw period and an additional one-year "term out" period during which outstanding principal amortizes 25% per quarter. In connection with the extension, the Company and the facility lender also expanded the range of assets that the lender would accept as collateral under the facility. In exchange for the extension and expansion, the Company agreed to increase the facility's interest rate from LIBOR plus 1.25% to 1.50%, to a revised rate of LIBOR plus 1.50% to 1.75%, depending upon certain conditions. During the quarter ended June 30, 2001, the Company again extended the term of this facility, as described below.

On May 17, 2000, the Company closed the inaugural offering under its proprietary matched funding program, STARS, Series 2000-1. In the initial transaction, a wholly-owned subsidiary of the Company issued \$896.5 million of investment grade bonds secured by the subsidiary's assets, which had an aggregate outstanding principal balance of approximately \$1.2 billion at inception. Principal payments received on the assets will be utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funds the maturity of the underlying assets financed under the program. The Company initially purchased the class F bonds at a par value of \$38.2 million, which the Company financed with a \$27.8 million repurchase agreement maturing in May 2001 (this repurchase agreement was repaid in April, 2001). On July 17, 2000, the Company sold, at par, \$5.0 million of the class F bonds to an institutional investor. For accounting purposes, these transactions were treated as secured financings.

On June 20, 2000, the Company closed a \$60.0 million term loan secured by a corporate lending investment it originated in the first quarter of 2000. The new loan replaced a \$30.0 million interim facility, and effectively match funds the expected weighted average maturity of the underlying corporate loan asset. The loan has a three-year primary term and a one-year extension, at the Company's option, and bears interest at LIBOR plus 2.50%.

On December 28, 2000, the Company expanded its existing \$675.0 million secured warehouse facility to \$700.0 million. The Company extended the original March 2001 maturity date to March 2005, including a one-year "term-out" extension option to the facility's maturity during which the interest rate spread will increase 0.25%, no additional draws under the facility will be permitted, and the outstanding principal must amortize 25% per quarter. In connection with the extension, the Company and the facility lender also increased the range of collateral eligible for inclusion in the facility. Also in connection with the extension, the Company agreed to increase the facility's interest rate from LIBOR plus 1.50% to a revised rate of LIBOR plus 1.75% to 2.25%, depending upon certain conditions.

On January 11, 2001, the Company closed a new \$700.0 million secured revolving credit facility which is led by a major commercial bank. The new facility has a three-year primary term and one-year "term-out" extension option, and bears interest at LIBOR plus 1.40% to 2.15%, depending upon the

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collateral contributed to the borrowing base. The new facility accepts a broad range of structured finance assets and has a final maturity of January 2005.

On May 15, 2001, the Company repaid its \$100.0 million 7.30% unsecured notes.

On June 14, 2001, the Company closed \$193.0 million of financing secured by 15 corporate tenant lease assets. The three-year floating-rate loan bears interest at LIBOR plus 1.85% (not to exceed 10%) and has two one-year extensions at the Company's option. The Company used these proceeds to repay a \$77.8 million secured term loan maturing in June 2001 and to pay down a portion of its revolving credit facilities. In addition, the Company extended the final maturity of its \$500.0 million secured revolving credit facility to August 12, 2003.

On July 27, 2001, the Company completed a \$300.0 million revolving credit facility with a group of leading financial institutions. The new facility has an initial maturity of July 2003, with a one-year extension at the Company's option and another one-year extension at the lenders' option. The new facility replaces two prior credit facilities maturing in 2002 and 2003, and bears interest at LIBOR + 2.125%.

STOCK REPURCHASE PROGRAM: The Board of Directors approved, and the Company

has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of both June 30, 2001 and December 31, 2000, the Company had repurchased approximately 2.3 million shares at an aggregate cost of approximately \$40.7 million.

ADJUSTED EARNINGS

Adjusted earnings represents net income computed in accordance with GAAP, before gains (losses) on sales of corporate tenant lease assets, extraordinary items and cumulative effect, plus depreciation and amortization, less preferred stock dividends, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect adjusted earnings on the same basis.

The Company believes that to facilitate a clear understanding of the historical operating results of the Company, adjusted earnings should be examined in conjunction with net income as shown in the Consolidated Statements of Operations. Adjusted earnings should not be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of the Company's performance,

or to cash flows from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is it indicative of funds available to fund the Company's cash needs.

	FOR THE THREE MONTHS ENDED		SIX MONTHS ENDED		
	JUNE 30,	JUNE 30,	JUNE 30,	JUNE 30,	
	2001	2000	2001	2000	

	2001	2000	2001	2000	-----
	--	-----	-----	-----	-----
Adjusted earnings: Net					
income.....	\$58,960	\$53,829	\$113,604	\$105,818	Add:
Depreciation.....	8,778	8,862	17,586	17,871	Add: Allocated share of
					joint venture
depreciation.....	954	832	1,905	1,442	Add: Amortization of deferred
financing costs.....	4,890	3,054	10,432	5,288	Less: Preferred
dividends.....	(9,227)	(18,454)	(18,454)	(9,227)	Add: Cumulative effect of
(1).....	--	--	282		change in accounting principle
-- Less: Gain on sale of corporate tenant lease					
assets.....	(1,044)	(441)	(1,599)	(974)	Add: Extraordinary
					loss-early extinguishment of
debt.....	--	--	1,037	317	
Adjusted earnings allocable to common shareholders:					
Basic.....	\$63,311	\$56,909	\$124,793	\$111,308	=====
					=====
Diluted.....	\$63,545	\$57,144	\$125,267	\$111,779	=====
					=====
					Adjusted earnings per common
					share:
Basic.....	\$ 0.74	\$ 0.67	\$ 1.45	\$ 1.31	=====
					=====
Diluted.....	\$ 0.72	\$ 0.66	\$ 1.42	\$ 1.30	=====
					=====

EXPLANATORY NOTE:

(1) Represents one-time effect of adoption of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" as of January 1, 2001.

NEW ACCOUNTING STANDARDS

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). On June 23, 1999, the FASB voted to defer the effectiveness of SFAS

No. 133 for one year. SFAS No. 133 is now effective for fiscal years beginning after June 15, 2000, but earlier application is permitted as of the beginning of any fiscal quarter subsequent to June 15, 1998. SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as: (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (2) a hedge of the exposure to variable cash flows of a forecasted transaction; or (3) in certain circumstances a hedge of a foreign currency exposure. The Company adopted this pronouncement, as amended by Statement of Financial Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities-deferral of the Effective Date of FASB Statement No. 133" and Statement of Financial Accounting Standards No. 138 "Accounting for Certain Hedging Activities-an Amendment of FASB No. 133," January 1, 2001. Because the Company has primarily used derivatives as cash flow hedges of interest rate risk only, the adoption of SFAS No. 133 did not have a material financial impact on the financial position and results of operations of the Company. However, should the Company change its current use of such derivatives (see Note 8), the adoption of SFAS No. 133 could have a more significant effect on the Company prospectively.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." In June 2000, the SEC staff amended SAB 101 to provide registrants with additional time to implement SAB 101. The Company

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adopted SAB 101, as required, in the fourth quarter of fiscal 2000. The adoption of SAB 101 did not have a material financial impact on the financial position or results of operations of the Company.

In March 2000, the FASB issued FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation." The Company was required to adopt FIN 44 effective July 1, 2000 with respect to certain provisions applicable to new awards, exchanges of awards in a business combination, modifications to outstanding awards, and changes in grantee status that occur on or after that date. FIN 44 addresses practice issues related to the application of Accounting Practice Bulletin Opinion No. 25, "Accounting for Stock Issued to Employees." The initial adoption of FIN 44 by the Company did not have a material impact on its consolidated financial position or results of operations.

OTHER MATTERS

1940 ACT EXEMPTION

The Company at all times intends to conduct its business so as to not become regulated as an investment company under the Investment Company Act of 1940. If the Company were to become regulated as an investment company, then the Company's ability to use leverage would be substantially reduced. The Investment Company Act exempts entities that are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" (i.e., "Qualifying Interests"). Under the current interpretation of the staff of the SEC, in order to qualify for this exemption, the Company must maintain at least 55% of its assets directly in Qualifying Interests. As of June 30, 2001, the Company calculates that it is in and has maintained compliance with this requirement.

FORWARD-LOOKING STATEMENTS

When used in this Form 10-Q, in future SEC filings or in press releases or other written or oral communications, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions that such forward-looking statements speak only as of the date made and that various factors including regional and national economic conditions, changes in levels of market interest rates, credit and other risks of lending and investment activities, and competitive and regulatory factors could affect the Company's financial performance and could cause actual results for future periods to differ materially from those anticipated or projected.

The Company does not undertake and specifically disclaims any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements except as required by law.

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ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 17, 2001, the Company held its 2001 annual meeting of shareholders to vote on the election of eight directors and the ratification of its independent auditors. Both proposals were approved as described in the following summary:

1. ELECTION OF DIRECTORS:

DIRECTOR ELIGIBLE VOTES FOR WITHHELD - -----	-----
Jr.....	Willis Andersen,
82,131,109	82,606,374
475,265	Spencer B.
Haber.....	H. Cabot Lodge
82,606,374	82,143,168
463,206	III.....
82,606,374	82,180,339
426,035	William M.
Matthes.....	John G.
82,606,374	82,173,750
432,624	McDonald.....
82,606,374	82,178,007
428,367	Stephen B.
Oresman.....	Barry S.
82,606,374	82,128,520
477,854	Sternliet.....
82,606,374	82,074,582
531,792	Jay
Sugarman.....	82,606,374
82,184,062	422,312

2. INDEPENDENT AUDITORS:

ELIGIBLE VOTES FOR AGAINST ABSTAIN -----	-----
2001.....	To ratify the
82,606,374	appointment of PricewaterhouseCoopers LLP as
82,427,843	the Independent Auditors for the fiscal year
111,402	ended December 31,
67,129	

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM-8-K

A. EXHIBITS

- 10.15 Employment Agreement, dated as of April 1, 2001, by and between iStar Financial Inc. and Spencer B. Haber.
- 10.16 Employment Agreement, dated as of March 31, 2001, by and between iStar Financial Inc. and Jay Sugarman.
- 10.17 Reimbursement Agreement, dated as of June 14, 2001, by and between iStar Financial Inc. and certain of its shareholders.

B. REPORTS ON FORM 8-K

None.

SIGNATURES

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

iSTAR FINANCIAL INC.
REGISTRANT

Date: August 3, 2001

/s/ JAY SUGARMAN

Jay Sugarman
CHAIRMAN OF THE BOARD OF DIRECTORS AND
CHIEF EXECUTIVE OFFICER

Date: August 3, 2001

/s/ SPENCER B. HABER

Spencer B. Haber
PRESIDENT, CHIEF FINANCIAL OFFICER, DIRECTOR AND
SECRETARY

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made as of April 1, 2001, by and between iStar Financial Inc., a Maryland corporation (the "Company"), and Spencer Haber (the "Executive").

W I T N E S S E T H T H A T :

WHEREAS, the Company wishes to provide for the employment by the Company of Executive, and Executive wishes to serve the Company, in the capacities and on the terms and conditions set forth in this Agreement;

NOW, THEREFORE, it is hereby agreed as follows:

1. EMPLOYMENT PERIOD. The Company shall continue to employ Executive, and Executive shall continue to serve the Company, on the terms and conditions set forth in this Agreement. The term of Executive's employment under this Agreement shall be deemed to have commenced on April 1, 2001 (the "Effective Date") and, unless earlier terminated in accordance with Section 4 hereof, shall continue through April 1, 2004; provided that Executive may elect on or before March 29, 2004 to extend this Agreement for one additional year if the "Determination Date" (as defined in the restricted stock agreement attached hereto as Exhibit A (the "Restricted Stock Agreement")) has not occurred by March 29, 2004 (such period of employment being referred to hereunder as the "Employment Period").

2. POSITION AND DUTIES.

(a) During the Employment Period, Executive shall serve as President and Chief Financial Officer ("CFO") and, subject to Executive's election to the Board of Directors of the Company (the "Board") by the Company's shareholders, a member of the Board. Executive shall have such duties and responsibilities as are customarily assigned to the president and chief financial officer of a company of the size and nature of the Company, and such other duties and responsibilities not inconsistent therewith as may from time to time be assigned to him by the Board and the Chief Executive Officer of the Company ("CEO"); provided that any CEO or the Board may assign all or a portion of Executive's duties related to the CFO function to other personnel from time to time, provided that any such personnel will report to Executive. The Company shall use all reasonable efforts to maintain Executive as a member of the Board throughout the Employment Period. Executive agrees that upon the termination of his employment hereunder for any reason his membership on the Board shall immediately and automatically terminate, and Executive shall execute such documents as may be reasonably necessary in order to accomplish such termination from the Board.

(b) In his capacity as President and CFO, Executive shall report directly to the CEO.

(c) During the Employment Period, and excluding any periods of vacation and sick leave to which Executive is entitled, Executive shall devote substantially all of his business time and attention to the business and affairs of the Company and perform, faithfully and diligently, his duties and responsibilities hereunder. It shall not be considered a violation of the foregoing for Executive to: (i) serve on the board of directors, or board committees, of Capital Thinking, Inc. and Juice Software, Inc. (ii) serve on other corporate, industry, civic, social or charitable boards or committees or engage in charitable activities and community affairs provided that the CEO approves Executive's service on such corporate or industry boards or committees which consent shall not be unreasonably withheld; or (iii) manage his own personal investments and affairs; provided that the foregoing activities do not materially interfere with the performance of Executive's responsibilities hereunder. To the extent that Executive receives remuneration for his service on a board on which his membership is not related to an investment made by the Company, he may retain such remuneration. Executive shall remit all other board membership remuneration to the Company.

3. COMPENSATION.

(a) RESTRICTED STOCK. On the effective date of this Agreement, Executive shall receive a restricted stock grant of 500,000 shares of Company common stock (the "Restricted Stock Grant"). The Restricted Stock Grant will be

granted in accordance with, and subject to, the terms of the Restricted Stock Agreement. The terms of the Restricted Stock Agreement are hereby incorporated by reference into this Agreement.

(b) FRINGE BENEFITS.

(i) REIMBURSEMENT OF EXPENSES AND ADMINISTRATIVE SUPPORT. The Company shall pay or reimburse Executive, upon the presentation of appropriate documentation of such expenses, for all reasonable travel and other expenses incurred by Executive in the ordinary course of performing his obligations under this Agreement. The Company further agrees to furnish Executive with office space, administrative support and other assistance and accommodations as shall be reasonably required by Executive in the performance of his duties hereunder.

(ii) PARTICIPATION IN BENEFIT PLANS. Executive shall be entitled to participate, during the Employment Period, in the Company's benefit plans, programs and arrangements, including but not limited to qualified and non-qualified pensions and retirement plans, supplemental pension and retirement plans, group hospitalization, health, medical, vision, dental care, death benefit, disability, post-retirement welfare plans, and other present and future employee benefit plans, programs and arrangements of the Company for which key executives are or shall become eligible (collectively, the "Benefit Plans"), on no less favorable terms than other key executives of the Company other than the CEO. This will confirm that Executive's service with the Company, for purposes of determining his entitlements and benefits under the Benefit Plans, commenced on June 15, 1998. The foregoing shall not be construed as a guaranty of, or as an obligation on the part of the Company to provide, any future awards

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including, but not limited to, stock options, restricted stock or other performance awards under any Company incentive plans from time to time in effect for its executives and other employees.

(iii) VACATION. During the Employment Period, Executive shall be entitled to four weeks paid vacation per annum. Executive shall not be entitled to any cash payment in respect of any unused vacation time.

(c) OTHER COMPENSATION. Executive shall not be entitled to any base salary or bonus during the Employment Period.

4. TERMINATION OF EMPLOYMENT.

(a) DEATH OR DISABILITY. Executive's employment hereunder shall terminate automatically upon Executive's death. The Company shall be entitled to terminate Executive's employment hereunder because of Executive's "Disability." For this purpose, "Disability" means that Executive has been unable, for a period of not less than (x) 120 consecutive days, or (y) 180 days within any 12 month period, to perform Executive's duties under this Agreement, as a result of physical or mental illness, injury or impairment. A termination of Executive's employment by the Company due to Disability shall be communicated to Executive by written notice, and shall be effective on the 30th day after receipt of such notice by Executive (the "Disability Effective Date"), unless Executive returns to full-time performance of his duties hereunder before the Disability Effective Date.

(b) BY THE COMPANY.

(i) The Company may terminate Executive's employment hereunder for Cause or without Cause. "Cause" means (w) the conviction of Executive (including a guilty plea) for the commission of any felony, (x) Executive commits a fraud on the Company which results in material damage to the Company, or (y) willful and complete abandonment by Executive of his duties hereunder.

(ii) A termination of Executive's employment hereunder for Cause or without Cause may only be effected in accordance with the following procedures. The Company shall give Executive written notice of its intention to terminate Executive's employment for Cause or without Cause, and, if for Cause, setting forth in reasonable detail the specific circumstances that it considers constitute Cause and the specific provision(s) of this Agreement on which it relies, and stating the date, time and place of the Special Members Meeting ("Notice of Termination"). "Special Members Meeting" means a meeting of the Board, called and held specifically for the purpose of considering Executive's termination, that takes place not less than ten, and not more than twenty, business days after Executive receives the Notice of Termination. Executive shall be given an opportunity, together with his counsel, to be heard at the Special Members Meeting if the termination is for Cause. Executive's termination shall be effective when and if a resolution is duly adopted at the Special Members Meeting terminating his employment with the affirmative vote of 75% or

of the members of the Board excluding Executive, subject to, if applicable, DE NOVO review of the question whether Cause existed through arbitration in accordance with Section 11.

(iii) A termination of Executive's employment hereunder by the Company without Cause in accordance with subparagraph (ii) above shall not constitute a breach of this Agreement.

(c) BY EXECUTIVE.

(i) Executive may terminate his employment hereunder for Good Reason or without Good Reason. "Good Reason" means any of the following that is not cured within 30 calendar days following written notice thereof from Executive to the Company in accordance with Section 4(c)(ii) hereof:

(A) failure by the Company to maintain Executive as President and CFO of the Company with such duties as are described in Section 2(a) (subject to the allowable delegation of Executive's duties as described in Section 2(a)) or failure of the Executive to be elected or reelected as a member of the Board (other than in respect of Executive's voluntary resignation from, or failure to stand for reelection to, the Board);

(B) the assignment to Executive of any duties or responsibilities inconsistent in any respect with those customarily associated with the positions to be held by Executive pursuant to this Agreement or any diminution in Executive's position, authority, duties or responsibilities in a manner inconsistent with the terms and provisions of this Agreement (subject to the allowable delegation of Executive's duties as described in Section 2(a));

(C) any requirement that Executive's services hereunder be rendered primarily at a location or locations other than Executive offices of the Company in the borough of Manhattan in New York City; provided, however, that Executive offices may be relocated within the borough of Manhattan in New York City;

(D) any purported termination of Executive's employment hereunder by the Company for a reason or in a manner not expressly permitted by this Agreement;

(E) the failure of any successor to all or substantially all of the assets or business of the Company to promptly assume in writing all of the obligations of the Company under this Agreement; or

(F) any other material breach of this Agreement by the Company.

(ii) A termination of employment by Executive for Good Reason shall be effectuated by his giving the Company a written notice of the

termination, setting forth in reasonable detail the circumstances that constitute Good Reason and the specific provision or provisions of this Agreement on which Executive relies ("Notice of Termination for Good Reason"). The termination shall be effective on the fifth business day following the date as of which any applicable cure period for the Company, if any, shall have expired without full cure having occurred.

(d) NO WAIVER. The failure to set forth any fact or circumstance in a Notice of Termination for Cause or a Notice of Termination for Good Reason shall not constitute a waiver of the right to assert, and shall not preclude the party giving notice from asserting, such fact or circumstance in an attempt to enforce any right under, or in connection with, this Agreement.

(e) DATE OF TERMINATION. The "Date of Termination" means the date of Executive's death, the Disability Effective Date, the date of the termination of Executive's employment by the Company for Cause or without Cause or by Executive without Good Reason or with Good Reason is effective, or the date Executive's employment hereunder terminates pursuant to the provisions of Section 1.

(f) NOTICE OF TERMINATION. Executive agrees that he will provide a thirty (30) day advance written notice of termination of employment to the Board if Executive is terminating employment without Good Reason.

5. OBLIGATIONS OF THE COMPANY AND EXECUTIVE UPON TERMINATION OF EXECUTIVE.

(a) RESTRICTED STOCK GRANT AND OTHER COMPENSATION. If Executive's employment hereunder is terminated, all of Executive's rights and obligations with respect to the Restricted Stock Grant and other compensation not covered by this Agreement shall be governed by the terms of Restricted Stock Agreement and any other agreements relating to such other compensation.

(b) WITHOUT CAUSE BY THE COMPANY OR FOR GOOD REASON BY EXECUTIVE. If Executive's employment hereunder is terminated by Executive with Good Reason, or by the Company without Cause or due to Disability, Executive shall receive:

(i) Company-paid, continued medical insurance coverage, as then provided generally to employees of the Company and their eligible dependents, for Executive and his eligible dependents for a period of one year following the Date of Termination; which coverage shall be included as part of any required COBRA coverage; PROVIDED, HOWEVER, that the COBRA coverage shall terminate with respect to Executive and his eligible dependents as of the earliest date allowed by law; and

(ii) Additional rights and benefits of Executive under the benefit plans and programs of the Company and its affiliates shall be determined in accordance with the provisions of such plans and programs, if any.

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(c) OTHER TERMINATION. Except as otherwise provided in this Agreement, if Executive's employment hereunder is terminated for any reason other than by Executive with Good Reason, or by the Company without Cause or due to Disability, the Executive shall receive only such rights and benefits to which he may be entitled in accordance with the provisions of the benefit plans and programs of the Company and its affiliates applicable to Executive, if any.

(d) RELEASE. The Company's obligation to make any payment or provide any benefit pursuant to Section 5(b) shall be contingent on Executive delivering to the Company, within thirty (30) business days after the Date of Termination, the release attached hereto as Exhibit B.

(e) OTHER OBLIGATIONS. The respective obligations of the Company and Executive under Sections 5 through 15 shall survive any termination of Executive's employment.

6. CHANGE OF CONTROL.

(a) CHANGE OF CONTROL. For the purpose of this Agreement, a "Change of Control" shall be deemed to have taken place if:

(i) individuals who, as of June 1, 2001, are members of the Board (the "Incumbent Directors") cease for any reason to constitute at least a majority of the members of the Board, PROVIDED that (x) any individual becoming a member of the Board subsequent to June 1, 2001 whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without prior written objection to such nomination) shall be deemed to be an Incumbent Director; (y) no individual initially elected or nominated as a member of the Board as a result of an actual or threatened election contest with respect to members of the Board or as a result of any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board shall be deemed to be an Incumbent Director, EXCEPT that this clause (y) shall not apply (i) to any individual who has been designated by any of the Starwood Entities to succeed to any of the four Board seats occupied as of June 1, 2001 by Messrs. Dishner, Grose, Kleeman and Sternlicht or (ii) to any other individual who is proposed or nominated by any of Starwood Capital Group, L.L.C., Starwood Capital Group, L.P., their affiliates, and related parties (collectively, "Starwood Entities"), and approved by a vote of at least a majority of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without prior written objection to such nomination), if after such individual's election or appointment, a majority of all members of the Board are clearly and demonstrably independent of, and not affiliated with, any of the Starwood Entities; and (z) any individual who becomes a director in accordance with clause (y)(i) or (y)(ii) shall be deemed to be an Incumbent Director;

(ii) any "Person" (as such term is used as of the Effective Date in Section 13(d) of the Securities Exchange Act of 1934 (the "Exchange Act") but excluding any individual or entity to the extent provided pursuant to clauses (A) through (C) of this Section 6(a)(ii)) is or becomes a "Beneficial Owner" (as defined as of the Effective Date in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of 50% or more of the Company's "Voting Securities" (measured either by value or by voting power); PROVIDED that, for purposes of this Agreement, "Voting Securities" shall mean outstanding securities eligible (after giving effect to Section 160(c) of the General Corporation Law of Delaware and any similar or successor provision governing "treasury shares") to vote for the election of members of the board of directors, or corresponding governing person or body, of the issuer of such securities; and PROVIDED, FURTHER, that the following individuals and entities shall be excluded pursuant to the first parenthetical of this Section 6(a)(ii):

(A) any employee benefit plan (or related trust) sponsored or maintained by the Company or by any entity of which the Company is the Beneficial Owner of more than fifty percent (50%) of the Voting Securities (measured both by value and by voting power) (a "Subsidiary");

(B) any Starwood Entity; and

(C) any individual or entity, other than a Starwood Entity, that becomes the Beneficial Owner, directly or indirectly, of Voting Securities of the Company by acquisition from a Starwood Entity, but only with respect to Voting Securities that are acquired directly from a Starwood Entity, and only for so long as a majority of the members of the Board are clearly and demonstrably independent of, and not affiliated with, any Person that includes any such individual or entity.

(iii) (x) the Company combines with another entity and is the surviving entity, or (y) all or substantially all of the business or assets of the Company is disposed of pursuant to a sale, merger, consolidation or other transaction or series of transactions, UNLESS the holders of Voting Securities of the Company immediately prior to such combination, sale, merger, consolidation or other transaction or series of transactions (each a "Triggering Event") immediately after such Triggering Event own, directly or indirectly, by reason of their ownership of Voting Securities of the Company immediately prior to such Triggering Event, more than fifty percent (50%) of the Voting Securities (measured both by value and by voting power) of: (q) in the case of a combination in which the Company is the surviving entity, the surviving entity and (r) in any other case, the entity (if any) that succeeds to substantially all of the business and assets of the Company;

(iv) the holders of Voting Securities of the Company approve a plan of complete liquidation or dissolution of the Company;

(v) neither Common Stock of the Company, nor securities into which Common Stock of the Company may by existing contractual right be converted without payment of consideration, or for which Common Stock of the

Company may by existing contractual right be exchanged without payment of consideration, are listed for trading on a national securities exchange or national market system in the United States; or

(vi) any other transaction or event occurs that is, or has been, designated by the Board as a Change of Control.

(b) ADDITIONAL PAYMENTS BY THE COMPANY.

(i) If it is determined (as hereafter provided) that any payment or distribution by the Company to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, including without limitation any stock option, stock appreciation right or similar right, or the lapse or termination of any restriction on or the vesting or exercisability of any of the foregoing (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision thereto) or to any similar tax imposed by state or local law, or any interest or penalties with respect to such excise tax (such tax or taxes, together with any such interest and penalties, are hereafter collectively referred to as the "Excise Tax"), then Executive will be entitled to receive an additional payment or payments (a "Gross-Up Payment") in an amount

such that, after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(ii) Subject to the provisions of Section 6(b)(ii) hereof, all determinations required to be made under this Section 6(b), including whether an Excise Tax is payable by Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required and the amount of such Gross-Up Payment, will be made by a nationally recognized firm of certified public accountants (the "Accounting Firm") selected by the mutual consent of Executive and the Company; provided that if Executive and the Company cannot agree on the identity of the Accounting Firm, then the Accounting Firm shall be PricewaterhouseCoopers unless that firm is unwilling or unable to provide such services, in which case the Accounting Firm may be selected by the Company. The Company will direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and Executive within 30 calendar days after the date of the Change of Control or the date of Executive's termination of employment, if applicable, and any other such time or times as may be requested by the Company or Executive. If the Accounting Firm determines that any Excise Tax is payable by Executive, the Company will pay the required Gross-Up Payment to Executive no later than five calendar days prior to the due date for Executive's income tax return on which the Excise Tax is included. If the Accounting Firm determines that no Excise Tax is payable by Executive, it will, at the same time as it makes such determination, furnish Executive with an opinion that he has substantial

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authority not to report any Excise Tax on his federal, state, local income or other tax return. Any determination by the Accounting Firm as to the amount of the Gross-Up Payment will be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable state or local tax law at the time of any determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts or fails to pursue its remedies pursuant to Section 6(b)(vi) hereof and Executive thereafter is required to make a payment of any Excise Tax, Executive shall so notify the Company, which will direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and Executive as promptly as possible. Any such Underpayment will be promptly paid by the Company to, or for the benefit of, Executive within five business days after receipt of such determination and calculations.

(iii) The Company and Executive will each provide the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determination contemplated by Section 6(b)(ii) hereof.

(iv) The federal, state and local income or other tax returns filed by Executive will be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by Executive. Executive will make proper payment of the amount of any Excise Tax, and at the request of the Company, provide to the Company true and correct copies (with any amendments) of his federal income tax return as filed with the Internal Revenue Service and corresponding state and local tax returns, if relevant, as filed with the applicable taxing authority, and such other documents reasonably requested by the Company, evidencing such payment. If prior to the filing of Executive's federal income tax return, or corresponding state or local tax return, if relevant, the Accounting Firm determines that the amount of the Gross-Up Payment should be reduced, Executive will within five business days pay to the Company the amount of such reduction.

(v) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations contemplated by Sections 6(b)(ii) and (iv) hereof will be borne by the Company. If such fees and expenses are initially advanced by Executive, the Company will reimburse Executive the full amount of such fees and expenses within five business days after receipt from Executive of a statement therefor and reasonable evidence of his payment thereof.

(vi) Executive will notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by

the Company of a Gross-Up Payment. Such notification will be given as promptly as practicable but no later than ten (10) business days after Executive actually receives notice of such claim and Executive will further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by Executive). Executive will not pay such claim prior to the earlier of (x) the expiration of the 30-calendar-day period following the date on which he gives such notice to the Company and (y) the date that any payment of amount with respect to such claim is due. If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive will:

(A) provide the Company with any written records or documents in his possession relating to such claim reasonably requested by the Company;

(B) take such action in connection with contesting such claim as the Company will reasonably request in writing from time to time, including without limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(C) cooperate with the Company in good faith in order effectively to contest such claim; and

(D) permit the Company to participate in any proceedings relating to such claim; PROVIDED, HOWEVER, that the Company will bear and pay directly all costs and expenses (including interest and penalties) incurred in connection with such contest and will indemnify and hold harmless Executive, on an after-tax basis, for and against any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses. Without limiting the foregoing provisions of this Section 6(b)(vi), the Company will control all proceedings taken in connection with the contest of any claim contemplated by this Section 6(b)(vi) and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (provided that Executive may participate therein at his own cost and expense) and may, at its option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company will determine; provided, however, that if the Company directs Executive to pay the tax claimed and sue for a refund, the Company will advance the amount of such payment to Executive on an interest-free basis and will indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance; and PROVIDED FURTHER, HOWEVER, that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the

Company's control of any such contested claim will be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and Executive will be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(vii) If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 6(b)(vi) hereof, Executive receives any refund with respect to such claim, Executive will (subject to the Company's complying with the requirements of Section 6(b)(vi) hereof) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 6(b)(vi) hereof, a determination is made that Executive will not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial or refund prior to the expiration of 30 calendar days after such determination, then such advance will be forgiven and will not be required to be repaid and the amount of such advance will offset, to the extent thereof, the amount of Gross-Up Payment required to be paid pursuant to this Section 6(b). If, after the receipt by Executive of a Gross-Up Payment but before the payment by Executive of the Excise Tax, it is determined by the Accounting Firm that the Excise Tax payable by Executive is less than the amount originally computed by the Accounting Firm and consequently that the amount of the Gross-Up Payment is larger than that required by this Section 6(b),

Executive shall promptly refund to the Company the amount by which the Gross-Up Payment initially made to Executive exceeds the Gross-Up Payment required under this Section 6(b).

7. WITHHOLDING. Notwithstanding any other provision of this Agreement, the Company may withhold from amounts payable under this Agreement all federal, state, local and foreign taxes that are required to be withheld by applicable law or regulation.

8. CONFIDENTIAL INFORMATION. Executive shall hold all secret or confidential information, knowledge or data relating to the Company or any of its affiliates and their respective businesses that Executive obtains during his employment hereunder and that is not public knowledge (other than as a result of Executive's violation of this Section 8) ("Confidential Information") in strict confidence. Executive shall not communicate, divulge or disseminate Confidential Information at any time during or after Executive's employment with the Company, except (i) in the course of performing his duties for the Company, (ii) in confidence to any attorney, accountant or other professional for the purpose of securing professional advice, (iii) with the prior written consent of the Company or (iv) as otherwise required by law, regulation or legal process. If Executive is requested pursuant to, or required by, applicable law, regulation or legal process to disclose any Confidential Information, Executive shall provide the Company, as promptly as the circumstances reasonably permit, with notice of such request or requirement and, unless a protective order or other appropriate relief is previously obtained, the Confidential Information subject to such request may be disclosed pursuant to and in accordance with the terms of such request or requirement, provided that

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Executive shall use his best reasonable efforts, at the Company's request and expense, to limit any such disclosure to the precise terms of such request or requirement.

9. NON-COMPETITION. Executive acknowledges that the services to be rendered by him to the Company (which, as used in this Section 9, shall be deemed to include the Company and each of its subsidiaries) are of a special and unique character. In consideration of his employment hereunder, Executive agrees, for the benefit of the Company, that he will not (other than in connection with performing his duties for the Company, or its affiliates):

(a) during the Initial Employment Period and the Additional Employment Period, if applicable, and, if Executive's employment hereunder is terminated for any reason other than a termination by the Company without Cause, for twelve months thereafter, engage, directly or indirectly, whether as principal, agent, representative, consultant, employee, partner, stockholder, limited partner or other investor (other than an investment of not more than (x) five percent (5%) of the stock or equity of any corporation the capital stock of which is publicly traded or (y) five percent (5%) of the ownership interest of any limited partnership or other entity) or otherwise, within the United States of America, in any business that competes directly and materially with the Company (a "Competitive Business"); or

(b) during the Initial Employment Period and the Additional Employment Period, if applicable, and, if Executive's employment hereunder is terminated by the Company without Cause for twelve months thereafter, engage directly or indirectly, whether as principal, employee, partner stockholder, limited partner or other investor (other than an investment of not more than (x) five percent (5%) of the stock or equity of any corporation the capital stock of which is publicly traded or (y) five percent (5%) of the ownership interest of any limited partnership or other entity) or otherwise, within the United States of America acting as a principal in the mezzanine and subordinated lending or credit tenant leasing businesses; or

(c) during the Initial Employment Period and the Additional Employment Period, if applicable, and for twelve months thereafter: (i) solicit or entice, or attempt to solicit or entice, away from the Company any individual who is known by Executive to then be an officer or employee of the Company either for his own account or for any individual, firm or corporation, whether or not such individual would commit a breach of a contract of employment by reason of leaving the service of the Company, or (ii) employ, directly or indirectly, any person who is known by Executive to have been, during the twelve months prior to employment by Executive, an officer, employee or sales representative of the Company.

None of the following shall be considered a Competitive Business:

(i) Originating first mortgage commercial loans on behalf of third party clients for purposes of securitization of such loans with no

intention to retain junior securities;

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(ii) Acting as an advisor or agent, but not a principal, in merger and acquisition transactions in the real estate industry;

(iii) Any business that does not compete in a product line constituting more than 10% of the assets of the Company based on its most recent balance sheet as of Executive's termination of employment.

Further, Executive shall not be restricted from engaging in a non-competing business even if another division, subsidiary or affiliate of that enterprise does compete with the Company so long as he does not perform any services for such division, subsidiary or affiliate.

Should Executive be terminated by the Company without Cause, the Executive understands that the provisions of this Section 9 may limit Executive's ability to earn a livelihood in a business similar to the business of the Company but nevertheless agrees and hereby acknowledges that (i) such provisions do not impose a greater restraint than is necessary to protect the goodwill or other business interests of the Company, (ii) such provisions contain reasonable limitations as to time and scope of activity to be restrained, (iii) such provisions are not harmful to the general public, (iv) such provisions are not unduly burdensome to Executive, and (v) the consideration provided hereunder is sufficient to compensate Executive for the restrictions contained in such provisions. In consideration thereof and in light of Executive's education, skills and abilities, Executive agrees that Executive will not assert in any forum that such provisions prevent Executive from earning a living or otherwise are void or unenforceable or should be held void or unenforceable.

10. INDEMNIFICATION.

(a) The Company shall promptly indemnify and hold harmless Executive, to the fullest extent permitted by Maryland law, against all costs, expenses, liabilities and losses (including, without limitation, attorneys' fees reasonably incurred, reasonable costs of investigation, judgments, fines, penalties, ERISA excise taxes, interest and amounts paid, or to be paid, in settlement) incurred by Executive in connection with any Proceeding or Claim.

(b) The Company shall advance to Executive all costs and expenses (including, without limitation, attorneys' fees) reasonably incurred by him in connection with a Proceeding or Claim within 20 days after receipt by the Company of a written request for such advance. Such request shall include an itemized list of the costs and expenses and a statement evidencing Executive's agreement to repay the amount of such advance if it shall ultimately be determined that he is not entitled to be indemnified against such costs and expenses. Upon a request under this subsection (b), Executive shall be deemed to have met any standard of conduct required for indemnification of such costs and expenses unless the contrary shall be established by a court of competent jurisdiction or through arbitration in accordance with Section 11.

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(c) For the purposes of this Agreement, (i) the term "Proceeding" shall mean any action, suit or proceeding, whether civil, criminal, administrative or investigative, in which Executive is made, or is threatened to be made, a party or a witness by reason of the fact that he is or was an officer or employee of the Company or is or was serving as an officer, director, member, employee, trustee or agent of any other entity at the request of the Company, whether or not the basis of such Proceeding arises out of or in connection with Executive's alleged action or omission in an official capacity, and (ii) the term "Claim" shall mean any claim, demand, investigation, discovery request, or request for testimony or information that arises out of or relates to Executive's service as an officer, employer, agent or representative of the Company or service at the Company's request as a director, officer, employee, agent, manager, consultant, advisor, or representative of any other entity.

(d) The Company shall not settle any Proceeding or Claim in any manner which would impose on Executive any penalty or limitation without his prior written consent. Executive shall not settle any Proceeding or Claim in a manner that would impose any indemnification obligation on the Company pursuant to this Section 10 without the prior written consent of the Company. Neither the Company nor Executive shall unreasonably delay or withhold its or his consent under this subsection (d) to any proposed settlement.

(e) The indemnification, and right to advancement of expenses, provided in this Section 10 shall continue as to Executive even if he has ceased to serve in any of the capacities referred to in Section 10(c) and shall inure to the benefit of Executive's heirs, executors and administrators.

(f) The indemnification provided in this Section 10 shall not extend to any claims or disputes arising between the Company and Executive under, pursuant to, or with respect to, this Agreement or any agreement referred to in Section 3 above. In the event of any such claim or dispute, such dispute shall be resolved in accordance with Section 11.

(g) During the Employment Period and for six years thereafter, the Company shall keep in place, or cause to be kept in place, a liability insurance policy (or policies) providing coverage to Executive that is in no respect less favorable than the coverage provided to any other present or former officer, director, or trustee of the Company.

11. ARBITRATION. The provisions of this Section 11 shall apply and control over any conflicting or inconsistent provisions elsewhere set forth in this Agreement. In the event of any controversy, dispute or claim arising out of or relating to this Agreement, the agreements referred to in Section 3, or Executive's employment by the Company or its affiliates, the parties hereto agree that all such matters shall be resolved pursuant to arbitration in accordance with the rules and procedures of the American Arbitration Association applicable to resolution of employment disputes, provided, however, the parties shall be allowed to have discovery as provided by the Federal Rules of Civil Procedure in connection with such arbitration. The Company will

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advance fees and expenses related to such arbitration to Executive; provided that if Executive does not substantially prevail he will refund such fees and expenses to the Company.

12. SUCCESSORS; BENEFICIARIES.

(a) This Agreement is personal to Executive and, without the prior written consent of the Company, shall not be assignable by Executive; PROVIDED, HOWEVER, that any of Executive's rights to compensation hereunder may be transferred by will or by the laws of descent and distribution or as provided in Section 12 (d).

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) No rights of the Company under this Agreement may be assigned or transferred by the Company, other than to a successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company that promptly and expressly agrees to assume and perform this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean both the Company as defined in the first sentence of this Agreement and any such successor that assumes and agrees to perform this Agreement, by operation of law or otherwise.

(d) Executive shall be entitled, to the extent permitted under any applicable law, to select and change the beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of his incompetence, references in his Agreement to Executive shall be deemed, where appropriate, to refer to his beneficiary, estate or other legal representative.

13. REPRESENTATIONS.

(a) The Company represents and warrants that (i) it is fully authorized, by action of any person or body whose action is required, to enter into this Agreement and to perform its obligations under it; (ii) the execution, delivery and performance of this Agreement by the Company does not violate any applicable law, regulation, order, judgment or decree or any agreement, plan or corporate governance document of the Company; and (iii) upon the execution and delivery of this Agreement by the parties, this Agreement shall be the valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

(b) Executive represents and warrants that, to the best of his knowledge and belief, (i) delivery and performance of this Agreement by him does not violate any applicable law, regulation, order, judgment or decree or any agreement to

which Executive is a party or by which he is bound, and (ii) upon the execution and delivery of this Agreement by the parties, this Agreement shall be the valid and binding obligation of Executive, enforceable against him in accordance with its terms, except to the extent enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

14. LIMITATION ON STOCK PURCHASES. Executive shall obtain the approval of the CEO and the Chairman of the Compensation Committee prior to any open market purchases of Company common stock in excess of 10,000 shares on any individual trading day.

15. RELEASE. Executive releases the Company and its affiliates and their respective predecessors, and all current and former members, trustees, directors, officers and employees of any such entities, from any claims in respect of accelerated vesting of equity grants on account of any event or circumstances occurring or existing through and including the Effective Date.

16. MISCELLANEOUS.

(a) Except as provided in Section 10(a), this Agreement shall be governed by, and construed, performed and enforced in accordance with, the laws of the State of New York, without reference to principles of conflict of laws. This Agreement may not be amended or modified except by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications under this Agreement shall be in writing and shall be given (i) by hand delivery or (ii) by registered or certified mail, return receipt requested, postage prepaid, addressed as follows or (iii) by nationally recognized overnight courier, addressed as follows:

If to Executive:

Spencer Haber
4 Sound View Terrace
Greenwich, Connecticut 06830
With copies to:

Hogan & Hartson, L.L.P.
8300 Greensboro Drive
Suite 1100
McLean, Virginia 22102
Attention: Stanley J. Brown, Esq.

If to the Company:

iStar Financial Inc.
1114 Avenue of the Americas
27th Floor
New York, New York 10036
Attention: Chief Executive Officer

With copies to:

Chairman, Compensation Committee
of the Board of Directors
c/o iStar Financial, Inc.
1114 Avenue of the Americas
27th Floor
New York, NY 10036
Attention: Corporate Secretary

and

Paul, Weiss, Rifkind, Wharton & Garrison
1285 Avenue of the Americas

or to such other address or addresses as either party furnishes to the other in writing in accordance with this Section 16(b). Notices and communications shall be effective when actually received by the addressee.

(c) If any provision of this Agreement, including but not limited to Section 9, or the application of any such provision to any party or circumstances shall be determined by any court of competent jurisdiction to be invalid or unenforceable to any extent, the remainder of this Agreement, or the application of such provision to such person or circumstances other than those to which it is so determined to be invalid or unenforceable, shall not be affected thereby, and each provision hereof shall be enforced to the fullest extent permitted by law. If the final judgment of a court of competent jurisdiction declares that any provision of this Agreement is invalid or unenforceable, the parties hereto agree that the court making the determination of invalidity or unenforceability shall have the power, and is hereby directed, to reduce the scope, duration or area of the provision, to delete specific words or phrases and to replace any invalid or unenforceable provision with a provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable provision, and this Agreement shall be enforceable as so modified.

(d) The captions and headings in this Agreement are not part of the provisions hereof and shall have no force or effect.

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(e) Executive's or the Company's failure to insist upon strict compliance with any provisions of, or to assert, any right under, this Agreement shall not be deemed to be a waiver of such provision or right or of any other provision of or right under this Agreement.

(f) No individual who is a direct or indirect officer, employer, owner, member, director or trustee of the Company shall have any personal liability under this Agreement.

(g) Executive and the Company acknowledge that this Agreement represents the entire agreement, and supersedes any other agreement between them; including the Executive's prior employment agreement dated June 9, 1998, concerning the specific subject matter hereof. However, this subsection (g) specifically excludes all equity compensation previously granted to Executive.

(h) The rights and benefits of Executive under this Agreement may not be anticipated, assigned, alienated or subject to attachment, garnishment, levy, execution or other legal or equitable process except as required by law or as provided in Sections 12(a) or 12(d). Any attempt by Executive to anticipate, alienate, assign, sell, transfer, pledge, encumber or charge the same, except as required by law or as provided in Sections 12(a) or 12(d), shall be void. Payments hereunder shall not be considered assets of Executive in the event of insolvency or bankruptcy.

(i) This Agreement may be executed in several counterparts, each of which shall be deemed an original, and said counterparts shall constitute one and the same instrument.

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IN WITNESS WHEREOF, Executive has hereunto set his hand, and the Company has caused this Agreement to be executed in their name and on their behalf, all as of the day and year first above written.

/s/ Spencer Haber

SPENCER HABER

iSTAR FINANCIAL INC.

By: /s/ Jay Sugarman

Exhibit A

RESTRICTED STOCK AGREEMENT

THIS RESTRICTED STOCK AGREEMENT (the "Agreement"), is made effective as of the first day of April, 2001, between iStar Financial Inc., a Maryland corporation (the "Company"), and Spencer Haber (the "Executive").

WHEREAS, pursuant to the Starwood Financial Trust 1996 Long-Term Incentive Plan (the "Plan"), the Company desires to grant to Executive the restricted share award provided for herein (the "Restricted Share Award") as compensation for performance of services to the Company, such grant to be subject to the terms set forth herein, the Plan and the employment agreement between the Company and Executive dated as of April 1, 2001 (the "Employment Agreement"); and

WHEREAS, Executive has executed the Employment Agreement as a condition precedent to the grant to Executive of the Restricted Share Award hereunder.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties hereto agree as follows:

1. Grant of Restricted Share Award.

Subject to the terms and conditions of this Agreement, the Plan and the Employment Agreement, Executive is hereby granted 500,000 shares of the Company's common stock ("Common Stock"), par value \$.01 per share, subject to the vesting and forfeiture provisions and the other terms and conditions contained in this Agreement. To the extent that there should be any inconsistency between the Plan, the Employment Agreement and this Agreement, the Employment Agreement and this Agreement shall govern.

2. DEFINED TERMS.

Except as otherwise specifically provided, capitalized terms shall have the meanings attributed thereto in the Plan and the Employment Agreement. Whenever a capitalized term's definition under the Plan differs from such term's definition under the Employment Agreement, the Employment Agreement's definition shall control. Additionally, the following terms shall have the meanings set forth below:

(a) "BASE PRICE" shall mean \$20.06 per share.

(b) "BENEFICIARY" shall mean Executive's designated beneficiary or beneficiaries pursuant to a written notice to the Administrator or, if there is no such beneficiary, Executive's estate or legal representative.

(c) "CHANGE OF CONTROL PRICE" of a security shall mean, if such security is publicly traded on a national securities exchange or national market system in the United States immediately prior to the occurrence of a Change of Control, then

the closing price for such security, at the end of regular trading on the national security exchange or national market system on which such security is principally traded in the United States, on the most recent day prior to the Change in Control on which regular trading of such security shall have occurred, and otherwise shall mean Fair Market Value of such security as of the occurrence of a Change of Control

(d) "CONTINGENTLY VESTED RESTRICTED SHARES" shall mean Restricted Shares that have become contingently vested in accordance with Section 3, but which remain subject to a risk of forfeiture prior to becoming Fully Vested Restricted Shares.

(e) "DETERMINATION DATE" shall mean the earliest to occur of (i) the date described in the first sentence of Section 3(c), (ii) the last day of the Voluntary Determination Period, (iii) the first date on or following

September 30, 2002 on which Executive is no longer employed by the Company, (iv) the first date following the date hereof on which a Change of Control occurs and (v) March 31, 2004; provided that if Executive elects the one-time extension of the Employment Period as described under Section 1 of the Employment Agreement, then the Determination Date shall occur on March 31, 2005, unless Executive should voluntarily terminate his employment without Good Reason, or is terminated by the Company for Cause, after March 31, 2004 and before March 31, 2005, in which case the Determination Date shall be March 31, 2004.

(f) "DETERMINATION PERIOD" shall mean, unless otherwise specifically stated, the 60 consecutive calendar days ending on the Determination Date.

(g) "DETERMINATION PRICE" shall mean the average closing sale price for Common Stock, on the primary exchange on which Common Stock is traded, for the trading days occurring during the Determination Period.

(h) "FAIR MARKET VALUE" shall mean (x) when used with respect to a security as of a specified date, the fair market value of such security on such date, assuming a market consisting of willing and amply-funded strategic buyers for all outstanding securities of the issuer and determined without discount for lack of liquidity, lack of control, minority status, contractual restrictions, or similar factors and (y) when used with respect to any other property, fair market value as of such date assuming a market consisting of willing and amply-funded buyers and without discount for lack of liquidity, contractual restrictions or similar factors.

(i) "FULLY VESTED RESTRICTED SHARES" shall mean Restricted Shares which are no longer subject to a risk of forfeiture, and no longer subject to the terms, conditions and restrictions of this Agreement.

(j) "RESTRICTED SHARES" shall mean the 500,000 shares of Common Stock granted to Executive under this Agreement.

(k) "TRR CALCULATION" shall mean, as of the Determination Date, the quotient of (i) the sum of (A) the total amount of dividends per share of

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Common Stock declared and paid from January 1, 2001 through the Determination Date and (B) the net gain or loss per share on the Common Stock between the Base Price and the relevant Determination Price divided by (ii) the Base Price.

For the purpose of determining the amount of dividends per share of Common Stock, all dividends on a share of Common Stock shall be assumed to be invested in additional shares of Common Stock ("Deemed Purchase Shares") at the per-share closing price one trading day prior to the dividend payment date. Such Deemed Purchase Shares shall be deemed to generate additional dividends, at the same time and at the same rate as dividends are paid on actual shares of Common Stock (and such deemed dividends shall be deemed invested in additional Deemed Purchase Shares). All such dividends, actual and deemed, paid through the Determination Date are included in the TRR Calculation.

(l) "VOLUNTARY DETERMINATION NOTICE" means a thirty (30) day advance written notice of the termination of Executive's employment without Good Reason (other than as described in the second paragraph of Section 3(d)) given by Executive to the Board, after September 30, 2002 and prior to both the Determination Date and April 1, 2004.

(m) "VOLUNTARY DETERMINATION PERIOD" means the 60 consecutive calendar day period ending on the date the Company receives the Voluntary Determination Notice from Executive.

3. VESTING.

(a) TRR CALCULATION. In determining the number of Restricted Shares which become Contingently Vested Restricted Shares or Fully Vested Restricted Shares pursuant to certain following provisions of this Agreement (which are identified by their reference to this Section 3(a)), the following schedule shall apply:

TRR Calculation on the Determination Date Number of Restricted Shares that become Contingently Vested Restricted Shares or Fully Vested Restricted Shares, as Applicable

0%-29.99%	0-150,000 Restricted Shares using straight line interpolation
30%-60%	250,000-500,000 Restricted Shares using straight line interpolation

(b) ORGANIZATION OF SECTION 3 - GENERALLY. Sections 3(c) through 3(k) describe the vesting and forfeiture of Restricted Shares which occurs upon the Determination Date. Sections 3(l) through 3(o) describe the vesting and forfeiture which occurs upon events other than the Determination Date.

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(c) DETERMINATION DATE - MAXIMUM VESTING PRE-OCTOBER 1, 2002. In the event that the TRR Calculation for any 60 consecutive calendar day period completed during the period from June 1, 2001 through September 30, 2002 (and the applicable 60-day period shall be the Determination Period, and the last day thereof the Determination Date described in clause (i) under the definition of "Determination Date") equals or exceeds 60%, all Restricted Shares shall become Contingently Vested Restricted Shares on the last day of such period. Such Contingently Vested Restricted Shares shall become Fully Vested Restricted Shares on the later of (i) September 30, 2002 or (ii) 180 days following the first Change of Control completed prior to October 1, 2002 (the "Section 3(c) Full Vesting Date"); provided that (A) if Executive voluntarily resigns his employment without Good Reason prior to the Section 3(c) Full Vesting Date, then such Contingently Vested Shares shall be forfeited on the date of such termination, and (B) if Executive's employment is terminated prior to the Section 3(c) Full Vesting Date for any other reason, then such Contingently Vested Shares shall become Fully Vested Restricted Shares on the date of such termination.

(d) DETERMINATION DATE - VOLUNTARY DETERMINATION PERIOD. If the Determination Date occurs on the last day of the Voluntary Determination Period (i.e., the Determination Date described in clause (ii) of the definition of "Determination Date"), then that number of Restricted Shares determined by the table in Section 3(a) shall become Fully Vested Restricted Shares on such Determination Date, and the remaining Restricted Shares shall be forfeited. In the event Executive issues a Voluntary Determination Notice and then his employment does not subsequently terminate without Good Reason due to the mutual agreement of Executive and the Board, the number of Fully Vested Restricted Shares shall be determined in accordance with this Section 3(d) based on the end of the Voluntary Determination Period, and not on any other provision of this Section 3 or this Agreement.

(e) DETERMINATION DATE - DEATH OR DISABILITY. If the Determination Date described in clause (iii) of the definition of "Determination Date" occurs on account of Executive's death or termination by the Company on account of Disability, then that number of Restricted Shares determined by the table in Section 3(a) shall become Fully Vested Restricted Shares on such Determination Date, and the remaining Restricted Shares shall be forfeited; provided that if the value of such Fully Vested Restricted Shares as of the date of termination is less than \$1,200,000, Executive or his Beneficiary (as applicable) shall forfeit all Restricted Shares and in lieu thereof receive from the Company a cash payment of \$1,200,000 within 10 business days following such termination.

(f) DETERMINATION DATE - RESIGNATION WITH GOOD REASON. If the Determination Date described in clause (iii) of the definition of "Determination Date" occurs on account of Executive's resignation with Good Reason, then all Restricted Shares shall become Fully Vested Restricted Shares on such Determination Date (and the table in Section 3(a) shall not apply).

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(g) DETERMINATION DATE - RESIGNATION WITHOUT GOOD REASON. This is the situation described in Section 3(d), and the effects of such a resignation are described therein.

(h) DETERMINATION DATE - TERMINATION FOR CAUSE. If the Determination Date described in clause (iii) of the definition of "Determination Date" occurs on account of the Company's termination of Executive's employment for Cause, then fifty percent (50%) of that number of Restricted Shares

determined by the table in Section 3(a) shall become Fully Vested Restricted Shares on such Determination Date, and the remaining Restricted Shares shall be forfeited.

(i) DETERMINATION DATE - TERMINATION WITHOUT CAUSE. If the Determination Date described in clause (iii) of the definition of "Determination Date" occurs on account of the Company's termination of Executive's employment without Cause, then that number of Restricted Shares shall become Fully Vested Restricted Shares equal to the greater of (i) the number determined by the table in Section 3(a) on such Determination Date, or (ii) the following number of Restricted Shares:

- (1) 250,000 if such termination occurs during 2002;
- and
- (2) 335,000 if such termination occurs during 2003;
- (3) 500,000 if such termination occurs subsequent to 2003,

and the remaining Restricted Shares shall be forfeited. Notwithstanding the foregoing, if a Change of Control is consummated within 90 days following the termination of Executive's employment by the Company without Cause pursuant to this Section 3(i), or a transaction which, if consummated, would constitute a Change of Control is publicly announced within 90 days following the termination of Executive's employment by the Company without Cause pursuant to this Section 3(i) and such Change of Control is subsequently consummated, then an additional number of Restricted Shares shall be reissued to Executive as Fully Vested Restricted Shares as of the time of such Change of Control equal to the excess, if any, of (A) that number of Restricted Shares determined by Section 3(j) as if the Change of Control were the Determination Date, over (B) that number of Restricted Shares which became Fully Vested Restricted Shares in accordance with the first sentence of this Section 3(i).

(j) DETERMINATION DATE - CHANGE OF CONTROL. If the Determination Date described in clause (iv) of the definition of "Determination Date" occurs on account of the occurrence of a Change of Control, then that number of Restricted Shares shall become Contingently Vested Restricted Shares equal to the greatest of (i) if the Change of Control Price is in excess of the book value per share of Common Stock based on the most recent audited financial statements dated on or prior to the Change of Control, (A) 250,000 Restricted Shares if the Change of Control is

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consummated on or prior to December 15, 2001 or (B) all of the Restricted Shares if the Change of Control is consummated after December 15, 2001, (ii) if the Change of Control Price is less than or equal to the book value per share of Common Stock based on the most recent audited financial statements dated on or prior to the Change of Control, then the following number of Restricted Shares:

- (1) 167,000 if the Change of Control occurs during 2001;
- (2) 250,000 if the Change of Control occurs during 2002;
- (3) 335,000 if the Change of Control occurs during 2003;
- or
- (4) 500,000 if the Change of Control occurs subsequent to 2003,

and (iii) the number determined by the table in Section 3(a) (as if the Change of Control Price were the Determination Price). Such Contingently Vested Restricted Shares shall become Fully Vested Restricted Shares on the earlier of (A) 180 days thereafter, or (B) upon the termination of Executive's employment, unless Executive voluntarily resigns his employment without Good Reason during the 180-day period following such Change of Control, in which case the shares are forfeited.

(k) DETERMINATION DATE - CONTINUED EMPLOYMENT. If the Determination Date described in clause (v) of the definition of "Determination Date" occurs on account of Executive's continued employment with the Company through March 31, 2004 or March 31, 2005 (as applicable), then that number of Restricted Shares determined by the table in Section 3(a) shall become Fully Vested Restricted Shares on such Determination Date (taking into account the proviso to clause (v) of the definition of "Determination Date"), and the remaining Restricted Shares shall be forfeited.

(l) NO DETERMINATION DATE - DEATH OR DISABILITY PRIOR TO OCTOBER 1, 2002. If prior to any Determination Date and prior to October 1, 2002, Executive dies or is terminated by the Company on account of Disability, Section 3(e) shall apply as if the date of such termination were a Determination Date.

(m) NO DETERMINATION DATE - RESIGNATION WITHOUT GOOD REASON OR TERMINATION FOR CAUSE PRIOR TO OCTOBER 1, 2002. If, prior to any Determination Date and prior to October 1, 2002, Executive resigns without Good Reason or is terminated by the Company for Cause, then all Restricted Shares shall be forfeited at the time of such termination.

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(n) NO DETERMINATION DATE - TERMINATION WITHOUT CAUSE PRIOR TO OCTOBER 1, 2002. If, prior to any Determination Date and prior to October 1, 2002, the Company terminates Executive's employment without Cause, then that number of Restricted Shares shall become Fully Vested Restricted Shares equal to the greater of (i) the number determined by the table in Section 3(a) as if the date of such termination were the Determination Date, or (ii) the following number of Restricted Shares:

- (1) 167,000 if such termination occurs during 2001; and
- (2) 250,000 if such termination occurs during 2002.

and the remaining Restricted Shares shall be forfeited. Notwithstanding the foregoing, if a Change of Control is consummated within 90 days following the termination of Executive's employment by the Company without Cause pursuant to this Section 3(n), or a transaction which, if consummated, would constitute a Change of Control is publicly announced within 90 days following the termination of Executive's employment by the Company without Cause pursuant to this Section 3(n) and such Change of Control is subsequently consummated, then an additional number of Restricted Shares shall be reissued to Executive as Fully Vested Restricted Shares as of the time of such Change of Control equal to the excess, if any, of (A) that number of Restricted Shares determined by Section 3(j) as if the Change of Control were the Determination Date, over (B) that number of Restricted Shares which became Fully Vested Restricted Shares in accordance with the first sentence of this Section 3(n).

(o) NO DETERMINATION DATE - RESIGNATION WITH GOOD REASON PRIOR TO OCTOBER 1, 2002. If, prior to any Determination Date and prior to October 1, 2002, Executive resigns with Good Reason, then all Restricted Shares shall become Fully Vested Restricted Shares on the date of such resignation.

4. DIVIDENDS.

Executive shall retain all dividends paid by the Company on and after April 1, 2001 until the Determination Date in respect of the Restricted Shares. If there are any Contingently Vested Restricted Shares subsequent to the Determination Date, Executive shall retain all dividends paid in respect of such Contingently Vested Restricted Shares (but not dividends paid on Restricted Shares which have not become Contingently Vested Restricted Shares) until such Contingently Vested Restricted Shares are either forfeited or become Fully Vested Restricted Shares. Executive shall not be required to return any dividends paid on Restricted Shares (including Contingently Vested Restricted Shares) subsequently forfeited in accordance with this Agreement. For purposes of clarification, (i) on and after the time that any Restricted Shares become Fully Vested Restricted Shares, Executive shall be entitled to retain dividends paid thereon to the same extent as other holders of Common Stock (by virtue of this Agreement ceasing to apply to Fully Vested Restricted Shares), and (ii) no dividends shall be paid on any forfeited Restricted Shares.

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5. NO PUBLIC MARKET AFTER A CHANGE OF CONTROL. If, following a Change of Control, no Public Market exists for the Common Stock or any securities into which the Common Stock may have been converted or exchanged for in connection with the Change of Control, Executive shall receive (a) on each of the 90th and 180th days following the Change of Control, the cash equivalent of the dividend payments that would have been received by Executive on any Contingently Vested Restricted Shares and Fully Vested Restricted Shares (or such securities into which they may have been converted or for which they may have been exchanged) held by Executive on such days, based on the Company's most recent quarterly dividend rate prior to the Change of Control, reduced by any cash dividends or distributions actually paid on such shares or securities and any base salary and bonus paid to Executive in respect of the period following

the Change of Control; and (b) on the 180th day following the Change of Control, the Company shall repurchase, for cash, all Contingently Vested Restricted Shares and Fully Vested Restricted Shares then held by Executive (or such securities into which they may have been converted or for which they may have been exchanged) for an amount equal to the Change of Control Price for those Contingently Vested Restricted Shares and Fully Vested Restricted Shares held by Executive at the time of the Change of Control (including for this purpose any Restricted Shares which become those Contingently Vested Restricted Shares and Fully Vested Restricted Shares by virtue of the Change of Control).

A "Public Market" will be deemed to exist if (a) on each of the 90th and 180th days following a Change of Control the Common Stock, or any securities into which the Common Stock may have been converted or exchanged, is listed on any recognized national or international securities exchange or the National Market System of the Nasdaq Stock Market, and (b) for the twenty trading days prior to each of the 90th and 180th days following a Change of Control, the average daily trading volume is at least 50,000 shares of Common Stock or the equivalent number of securities into which the Common Stock may have been converted or exchanged.

6. CERTIFICATES/BOOK ENTRY. The grant of Restricted Shares under this Agreement shall be reflected through electronic book entry. Within 20 business days following the date on which any of the Restricted Shares become Fully Vested Restricted Shares, the Executive may elect, upon one day's written notice to the Company, to receive one or more certificates evidencing the Restricted Shares issued in accordance with the terms of the Plan which have become Fully Vested Restricted Shares. In the event Executive elects to receive certificate(s), the Company shall issue one or more certificates to Executive without any restrictive legends within 5 business days representing such Fully Vested Restricted Shares. In the event Executive does not elect to receive certificates or elects to leave the Fully Vested Restricted Shares in electronic book entry form, Fully Vested Restricted Shares will continue to be reflected through electronic book entry; provided that the Company shall have any annotations relating to any prior restrictions thereon removed within 2 business days following the date on which the Restricted Shares become Fully Vested Restricted Shares.

7. TRANSFERABILITY.

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Neither Executive nor his affiliates shall assign, alienate, pledge, attach, sell or otherwise transfer or encumber any Restricted Share prior to it becoming a Fully Vested Restricted Share.

8. WITHHOLDING.

Executive agrees to make appropriate arrangements with the Company for satisfaction of any applicable federal, state or local income tax, withholding requirements or like requirements. Notwithstanding any other provision of this Agreement, the Company shall be entitled to withhold all federal, state, local and foreign taxes that are required to be withheld by applicable law or regulation from amounts payable or Common Stock deliverable under this Agreement.

9. ADJUSTMENTS FOR STOCK SPLITS, STOCK DIVIDENDS, ETC.

(a) In the event of any recapitalization, reorganization, merger, consolidation, combination, exchange of shares, stock split, spin-off, split-up, or other similar event, or any distribution in respect of Common Stock other than a regular cash dividend, the Restricted Share vesting schedule will be adjusted, to the extent appropriate, so as to avoid dilution, or enlargement, of the economic opportunity and value represented by the Restricted Shares.

(b) If from time to time during the term of this Agreement there is any stock split-up, stock dividend, stock distribution or other reclassification of the Common Stock, any and all new, substituted or additional securities to which Executive is entitled by reason of his ownership of the Restricted Shares shall be immediately subject to the terms of this Agreement.

(c) If the Common Stock is converted into or exchanged for, or stockholders of the Company receive by reason of any distribution in total or partial liquidation, securities of another corporation, or other property (including cash), pursuant to any merger of the Company or acquisition of its assets, then the rights of the Company under this Agreement shall inure to the benefit of the Company's successor and this Agreement shall apply to the securities or other property received upon such conversion, exchange or distribution in the same manner and to the same extent as the Restricted Shares.

(a) This Agreement shall be governed by, and construed, performed and enforced in accordance with, the laws of the State of New York, without reference to principles of conflicts of law. This Agreement may not be amended or modified except by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications under this Agreement shall be given in the same manner and to the same parties as required by the Employment Agreement.

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(c) Executive may make an election pursuant to Section 83(b) of the Code in respect of the Restricted Shares and, if he does so, he shall timely notify the Company of such election and send the Company a copy thereof. Executive shall be solely responsible for properly and timely completing and filing any such election.

(d) All Restricted Shares shall be registered on a Form S-8 or otherwise and tradable by Executive and are not subject to any restrictions or limitations other than those imposed by this Agreement and applicable securities law. Certificates for Restricted Shares shall not bear any restrictive legends after all risks of forfeiture have lapsed.

(e) If any provision of this Agreement, or the application of any such provision to any party or circumstances, shall be determined by any appropriate tribunal or court of competent jurisdiction to be invalid or unenforceable to any extent, the remainder of this Agreement, or the application of such provision to such person or circumstances other than those to which it is so determined to be invalid or unenforceable, shall not be affected thereby, and each provision hereof shall be enforced to the fullest extent permitted by law. If the final judgment of an appropriate tribunal or a court of competent jurisdiction declares that any provision of this Agreement is invalid or unenforceable, the parties hereto agree that the court making the determination of invalidity or unenforceability shall have the power, and is hereby directed, to reduce the scope, duration or area of the provision, to delete specific words or phrases and to replace any invalid or unenforceable provision with a provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable provision, and this Agreement shall be enforceable as so modified.

(f) Any dispute under this Agreement shall be governed in accordance with the provisions of Section 11 of the employment agreement between the Company and the Executive dated as of the date hereof.

(g) The captions and headings in this Agreement are not part of the provisions hereof and shall have no force or effect.

(h) The terms of this Agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns, and of Executive and the beneficiaries, executors, administrators, heirs and successors of Executive.

(i) Executive and the Company acknowledge that subject matters hereof, except to the extent necessary to protect existing rights, supersede any other agreement between them concerning the specific subject matters hereof.

(j) This Agreement may be executed in counterparts, each of which shall be deemed an original, and said counterparts shall constitute one and the same instrument.

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IN WITNESS WHEREOF, Executive has hereunto set his hand, and the Company has caused this Agreement to be executed in their name and on their behalf, all as of the day and year first above written.

iSTAR FINANCIAL INC.

By: _____
Name: Jay Sugarman

Spencer Haber

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made as of March 31, 2001 (the "EFFECTIVE DATE") by and between iStar Financial Inc., a Maryland corporation (together with its successors and assigns, the "Company"), and Jay Sugarman ("EXECUTIVE").

W I T N E S S E T H T H A T

WHEREAS, Executive has been employed as Chief Executive Officer of the Company pursuant to an employment agreement made as of May 20, 1999 between Executive and an affiliate of the Company (the "OLD AGREEMENT"); and

WHEREAS, the Company wishes to provide for the continued employment by the Company of Executive, and Executive wishes to continue to serve the Company, in the capacities and on the terms and conditions set forth in this Agreement;

NOW, THEREFORE, Executive and the Company (the "PARTIES") hereby agree as follows:

1. EMPLOYMENT PERIOD. The Company shall continue to employ Executive, and Executive shall continue to serve the Company, on the terms and conditions set forth in this Agreement. The term of Executive's employment under this Agreement shall be deemed to have commenced as of the Effective Date and, unless earlier terminated in accordance with Section 5, shall continue through the later of March 30, 2004 and the first anniversary of the last "Change of Control" (as defined in Section 7(a)) that occurs on or before March 30, 2004 (the "INITIAL EMPLOYMENT PERIOD"). Upon the expiration of the Initial Employment Period and upon each anniversary thereof, the term of Executive's employment hereunder, if not previously ended, shall automatically be extended for an additional employment period of one year, subject to earlier termination in accordance with Section 5 (collectively, the "ADDITIONAL EMPLOYMENT PERIOD"), unless either Party shall have given written notice to the other Party of its decision not to extend the Initial Employment Period or to further extend the Additional Employment Period at least ninety (90) days prior to the scheduled expiration of the Initial Employment Period or the Additional Employment Period, as the case may be.

2. POSITION AND DUTIES.

(a) During the term of his employment hereunder (the "TERM"), Executive shall serve as Chief Executive Officer of the Company and (subject to Executive's re-election to the Board of Directors of the Company (the "BOARD") by the Company's shareholders) as a member of, and the Chairman of, the Board. Executive shall have the

authorities, duties and responsibilities that are customarily assigned to the chief executive officer and chairman of the board of a company of the size and nature of the Company; and shall have such other duties and responsibilities, not inconsistent therewith, as may from time to time reasonably be assigned to him by the Board. The Company shall use all reasonable efforts to maintain Executive as a member of, and Chairman of, the Board, and as Chief Executive Officer of the Company, throughout the Term. Executive agrees that upon the termination of his employment as Chief Executive Officer of the Company, his chairmanship of, and membership on, the Board shall immediately and automatically terminate and he shall promptly execute any documents evidencing such termination that the Company may reasonably request him to execute.

(b) In his capacity as Chief Executive Officer of the Company, Executive shall report solely and directly to the Board. All other senior executives of the Company shall, during the Term and unless Executive otherwise directs, report directly to Executive.

(c) During the Term, and excluding any periods of vacation and sick leave to which Executive is entitled, Executive shall devote substantially all of his business time and attention to the business and affairs of the Company and shall perform, faithfully and diligently, his duties and responsibilities hereunder. It shall not be considered a violation of the foregoing for Executive to: (i) serve on corporate, industry, civic, social or charitable boards or committees or engage in charitable activities and community affairs; (ii) accept and fulfill a reasonable number of speaking engagements; (iii) manage his own personal investments and affairs; and/or (IV) engage in business activities, consistent with past practice, involving one or more of Starwood Capital Group,

L.L.C., Starwood Capital Group, L.P., their affiliates, and related parties (collectively, "STARWOOD ENTITIES"); provided that the foregoing activities do not materially interfere with the performance of Executive's responsibilities hereunder.

(d) Executive agrees to discharge his duties and obligations under this Agreement in accordance with such reasonable policies, consistent with the express terms of this Agreement, as the Company may from time to time (either before or after the Effective Date) adopt and communicate to Executive.

(e) During the Term, Executive's principal office, and principal place of employment, shall be at the Company's principal executive offices in Manhattan.

3. COMPENSATION.

(a) BASE SALARY. During the Term, Executive shall receive a base salary ("BASE SALARY") at a rate of \$1,000,000 per annum, subject to upward (but not downward)

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adjustment by the Board, or its compensation committee (the "COMPENSATION COMMITTEE"), in their sole discretion. The Base Salary shall be paid in accordance with the Company's customary payroll practices for its senior executives.

(b) ANNUAL BONUS. Executive shall, to the extent provided in this Section 3(b), be entitled to receive an annual incentive award in respect of each fiscal year of the Company that ends during the Term. Executive's target annual incentive award for any such year shall equal the amount of the Base Salary earned by Executive in respect of such year, which amount shall be deemed to be \$1,000,000 for calendar year 2001. Such target annual incentive award shall be awarded for a fiscal year if specified levels of performance are achieved for such year, which levels the Compensation Committee shall have established in good faith and in consultation with Executive, with performance measured solely against one or more of the following criteria: EPS, EBITDA, loan rating, volume of loan origination, attainment of strategy/personnel development goals and such other objective or subjective criteria as the Compensation Committee shall have selected in good faith and in consultation with Executive. To the extent that the actual performance for a fiscal year, so measured, falls short of (or exceeds) the specified levels so established, a lesser (or greater) amount--but in no event more than 200% of the target annual incentive award for such year--shall be awarded to the extent provided under a formula that the Compensation Committee shall have established for such year in good faith and in consultation with Executive. The Compensation Committee shall, in good-faith consultation with Executive, select the performance criteria, establish the target levels of performance, and establish the formula for awards above and below the target level, for any fiscal year prior to the sixtieth (60th) day of such fiscal year (except in the case of fiscal year 2001, for which the day shall be July 15, 2001). Executive shall be paid his annual incentive award (if any) for a fiscal year no later than the earlier of (x) the date that other senior executives of the Company are paid their annual incentive awards (if any) for such year and (y) the sixtieth (60th) day following the last day of such year; provided that any amount otherwise payable for such year pursuant to this Section 3(b) shall be reduced (but not below zero) by the aggregate amount of all dividend equivalents received by Executive during such year pursuant to Section 4(h), and provided further that payment may be deferred, upon Executive's prior written election, in accordance with any compensation deferral program of the Company then available to Executive or to senior executives of the Company generally.

(c) STOCK OPTION GRANT. The Company confirms that on March 2, 2001, the Company granted to Executive a ten-year option to purchase 750,000 shares of the Company's common stock ("COMMON STOCK") at an exercise price of \$19.69 per share. Concurrently with the execution of this Agreement, the parties shall memorialize this prior option grant by entering into an agreement in substantially the form attached hereto as Exhibit A.

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(d) FRINGE BENEFITS.

(i) REIMBURSEMENT OF EXPENSES AND ADMINISTRATIVE SUPPORT. The Company shall promptly pay or reimburse Executive, upon the presentation of appropriate documentation of such expenses, for all reasonable travel and other expenses incurred by Executive in the course of performing services for or on behalf of the Company. The Company further agrees to furnish Executive with

office space, administrative support and any other assistance and accommodations as shall be reasonably required by Executive in the performance of services for or on behalf of the Company.

(ii) PARTICIPATION IN BENEFIT PLANS. Executive shall be entitled to participate, during the Term, in all welfare and retirement benefit plans, programs and arrangements that are generally available to senior executives of the Company, including but not limited to qualified and non-qualified pension and retirement plans, supplemental pension and retirement plans, group hospitalization, health, medical, vision, dental care, death benefit, disability, and post-retirement welfare plans, and other present and future welfare and retirement benefit plans, programs and arrangements (collectively, the "BENEFIT PLANS"), on no less favorable terms than those that apply to other senior executives of the Company generally. Executive shall be credited with seven years of deemed service prior to the Effective Date, as well as with his actual service on and after the Effective Date, for purposes of determining his entitlements and benefits under any such Benefit Plans; provide that in the event that the grant of such deemed service would cause any of the Benefit Plans to lose its tax qualified or tax favored status, the Executive shall receive the after-tax cash equivalent of such benefit in lieu thereof. For avoidance of doubt, the foregoing shall not be construed as a guaranty of, or as an obligation on the part of the Company to provide, any future awards (including, but not limited to, stock options, restricted stock, phantom shares, or other performance awards) under any Company incentive plan from time to time in effect for its senior executives or other employees.

(iii) LIFE INSURANCE. In addition to and without limiting the generality of the foregoing, the Company shall promptly obtain, and thereafter maintain, a term life insurance policy on Executive's life in the face amount of \$10,000,000, which policy shall be owned by Executive or his designee, from a nationally-recognized insurance carrier reasonably acceptable to Executive. Upon termination of Executive's employment with the Company for any reason, the Company shall have no further obligation to pay premiums on such policy.

(iv) VACATION. During the Term, Executive shall be entitled to four weeks' paid vacation per annum. Executive shall not be entitled to any cash payment in respect of any unused vacation time.

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(v) OTHER FRINGE BENEFITS AND PERQUISITES. During the Term, Executive shall be entitled to participate in all fringe benefits and perquisites available to senior executives of the Company generally at levels, and on terms and conditions, that are commensurate with his positions and responsibilities at the Company and shall be entitled to receive such additional fringe benefits and perquisites as the Company may, in its discretion, from time to time provide.

(e) OTHER RIGHTS AND BENEFITS.

(i) Nothing in this Agreement shall prevent or limit Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliates for which Executive may qualify (including, without limitation, any compensation deferral plan or arrangement), nor shall anything in this Agreement limit or otherwise affect such rights as Executive may have under any contract, agreement or arrangement with the Company or any of its affiliates.

(ii) Without limiting the generality of Section 3(e)(i), the Company agrees to cause to be amended, as of the Effective Date, the Non-Qualified Stock Option Agreement, dated as of May 20, 1999, between Starwood Financial Advisors, L.L.C., a predecessor of the Company ("SFA"), and Executive, so that (A) all references to the Old Agreement in the preamble, Section 2.2 and Section 4.8 of that Stock Option Agreement are instead references to this Agreement (as duly amended from time to time in accordance with its terms) or any successor thereto and (B) any termination of Executive's employment with the Company by expiration of the then scheduled term of employment is treated under that Stock Option Agreement as if it were a termination Without Good Reason by Executive. The Company further agrees to treat such Stock Option Agreement as having been so amended, whether or not such amendment is in fact made. The Company agrees to fully and promptly indemnify Executive, on an after-tax basis, for any failure by the Company to fulfill its obligations under this Section 3(e)(ii).

4. PHANTOM SHARES.

(a) GRANT OF PHANTOM SHARES. Effective as of the Effective Date, the Company shall grant Executive 2,000,000 phantom shares (the "PHANTOM SHARES").

Each Phantom Share shall represent one share of common stock of the Company of the class listed on the New York Stock Exchange as of the Effective Date ("COMMON STOCK"), together with any distributions of cash, securities or other property (other than ordinary-course dividends) made or declared in respect of such a share (or in respect of any security or property distributed, directly or indirectly, in respect of such a share) at any time from the Effective Date through the date on

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which such Phantom Share is settled pursuant to Section 4(f). Each Phantom Share shall be subject to the vesting and forfeiture conditions described in Sections 4(b) through 4(e).

(b) CONTINGENT VESTING. The Phantom Shares shall become contingently vested (but shall remain subject to forfeiture until becoming fully vested pursuant to Section 4(d)) ("CONTINGENTLY VESTED") as follows:

(i) seventeen and one half percent (17.5%) of the Phantom Shares (I.E., 350,000 Phantom Shares) shall become Contingently Vested on the first date, no less than sixty (60) calendar days after the Effective Date, on which the "Sixty-Day Average Closing Price" (as defined in Section 4(c)) or "Change of Control Price" (as defined in Section 4(c)) is \$25.00 or higher;

(ii) an additional thirty-two and one-half percent (32.5%) of the Phantom Shares (I.E., an additional 650,000 Phantom Shares) shall become Contingently Vested on the first date, no less than sixty (60) calendar days after the Effective Date, on which the Sixty-Day Average Closing Price or Change of Control Price is \$30.00 or higher;

(iii) an additional thirty percent (30%) of the Phantom Shares (I.E., an additional 600,000 Phantom Shares) shall become Contingently Vested on the first date, no less than sixty (60) calendar days after the Effective Date, on which the Sixty-Day Average Closing Price or Change of Control Price is \$34.00 or higher; and

(iv) the remaining twenty percent (20%) of the Phantom Shares (I.E., the remaining 400,000 Phantom Shares) shall become Contingently Vested on the first date, no less than sixty (60) calendar days after the Effective Date, on which the Sixty-Day Average Closing Price or Change of Control Price is \$37.00 or higher.

(c) CERTAIN DEFINITIONS. For purposes of this Agreement, the following terms shall have the following meanings:

(i) "SIXTY-DAY AVERAGE CLOSING PRICE" of a security as of a specified date shall mean, if such security is publicly traded in the United States on a national securities exchange or national market system as of such date, then the average of the closing prices for such security, at the end of regular trading on the national security exchange or national market system on which such security is then principally traded in the United States, on each day on which regular trading of such security shall have occurred during the sixty (60) calendar day period that ends with the specified date, and otherwise shall mean "Fair Market Value" (as defined in Section 4(c)(iii)) of such security as of such date;

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(ii) "CHANGE OF CONTROL PRICE" of a security shall mean, if such security is publicly traded on a national securities exchange or national market system in the United States immediately prior to the occurrence of a Change of Control, then the closing price for such security, at the end of regular trading on the national security exchange or national market system on which such security is principally traded in the United States, on the most recent day prior to the Change in Control on which regular trading of such security shall have occurred, and otherwise shall mean Fair Market Value of such security as of the occurrence of a Change of Control; and

(iii) "FAIR MARKET VALUE" shall mean (x) when used with respect to a security as of a specified date, the fair market value of such security on such date, assuming a market consisting of willing and amply-funded strategic buyers for all outstanding securities of the issuer and determined without discount for lack of liquidity, lack of control, minority status, contractual restrictions, or similar factors and (y) when used with respect to any other property, fair market value as of such date assuming a market consisting of willing and amply-funded buyers and without discount for lack of

liquidity, contractual restrictions or similar factors.

(d) FULL VESTING. Contingently Vested Phantom Shares that have not previously become fully vested, and no longer subject to any risk of forfeiture, ("FULLY VESTED") shall become Fully Vested as follows:

(i) If Executive remains employed with the Company through March 30, 2004, then all of the Phantom Shares that are Contingently Vested as of such date shall become Fully Vested on such date if and only if the Sixty-Day Average Closing Price equals or exceeds \$12.50 as of such date.

(ii) If Executive's employment with the Company is terminated by the Company for Cause in accordance with this Agreement, no Phantom Shares shall become Fully Vested on or after the "Date of Termination" (as defined in Section 5(e)).

(iii) If Executive's employment with the Company is terminated Without Good Reason by Executive on or before the later of (x) March 30, 2004 and (y) the first anniversary of the last Change of Control that occurs on or before such date, then fifty percent (50%) of the Phantom Shares that are Contingently Vested as of the Date of Termination and that have not previously become Fully Vested shall become Fully Vested as of the later of the Date of Termination and the expiration of the fifteen (15) day period referred to in the second proviso to this Section 4(d)(iii); PROVIDED that such percentage shall be zero if the Date of Termination occurs on or before December 31, 2001 and the second proviso to this Section 4(d)(iii) does not apply; and PROVIDED FURTHER, that such percentage shall be seventy-five percent (75%) if the

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Company elects to extend the non-competition covenant set forth in Section 10(a) through the first anniversary of the Date of Termination by notice given to Executive no later than fifteen (15) days after the date that Executive gives the Company notice, pursuant to Section 5(c), of the termination of his employment.

(iv) If, on or before the later of (x) March 30, 2004 and (y) the first anniversary of the last Change of Control that occurs on or before such date, Executive's employment with the Company is terminated by the Company Without Cause, by Executive with Good Reason in accordance with this Agreement, by either Party for Disability in accordance with this Agreement, or by reason of Executive's death (any of such terminations being an "INVOLUNTARY TERMINATION OF EMPLOYMENT"), then all of the Phantom Shares that are Contingently Vested as of the Date of Termination shall become Fully Vested as of such date.

(v) If Executive's employment with the Company is terminated Without Cause by the Company, or with Good Reason by Executive in accordance with this Agreement, on or before the later of (x) March 30, 2004 and (y) the first anniversary of the last Change of Control that occurs on or before such date, then all of the Phantom Shares that become Contingently Vested on or before the thirtieth (30th) day following the Date of Termination, but have not yet become Fully Vested as of such thirtieth (30th) day, shall become Fully Vested as of such thirtieth (30th) day.

(vi) Notwithstanding anything to the contrary in Section 4(d)(i), Section 4(d)(v) or Section 4(d)(vii), if a Change of Control occurs on or before March 30, 2004 and while Executive remains employed with the Company, then 250,000 of any Phantom Shares that become Contingently Vested upon such Change of Control pursuant to Section 4(b)(ii) through Section 4(b)(iv) shall become Fully Vested if and only if Executive remains employed with the Company through the earliest of (x) the first anniversary of such Change of Control, (y) the occurrence of the next succeeding Change of Control and (z) the occurrence of an Involuntary Termination of Employment.

(vii) If (A) a Potential Change of Control occurs before, or within ninety (90) days following, any Involuntary Termination of Employment and (B) a Change of Control that is not wholly unrelated to such Potential Change of Control occurs within two hundred and seventy (270) days after such Potential Change of Control, then (C) all of the Phantom Shares that are or become Contingently Vested as of the date of the first Change of Control described in clause (B) of this Section 4(d)(vii) shall become Fully Vested as of the date of such Change of Control. For purposes of this Agreement, a "POTENTIAL CHANGE OF CONTROL" shall be deemed to have occurred if (m) any "Person" (as defined in Section 7(a)(ii)) commences a tender offer for securities representing at least thirty percent (30%) of the Company's "Voting Securities" (as defined in Section 7(a)(ii)); (n) the Company or any affiliate

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thereof or any Starwood Entity enters into an agreement the consummation of which would constitute a Change of Control; (o) proxies for the election of members of the Board are solicited by anyone other than the Company; or (p) any other event occurs that the Board deems to be a Potential Change of Control.

(viii) If Executive remains employed with the Company through the first anniversary of any Change of Control that occurs on or before March 30, 2004, then all of the Phantom Shares that are Contingently Vested as of such first anniversary shall become Fully Vested as of such anniversary.

Notwithstanding the foregoing provisions of this Section 4(d), the first 18,750 of the Phantom Shares that become Contingently Vested shall not become Fully Vested until such Phantom Shares have become Fully Vested not only pursuant to the foregoing provisions of this Section 4(d) but also pursuant to the provisions of the Reimbursement Agreement, dated as of June 14, 2001, by and between the Company, SOFI IV Management LLC, Starwood Mezzanine Holdings LP, Starwood Capital Group and the Executive, as such Agreement may from time to time be amended in accordance with its terms.

(e) FORFEITURE. Any Phantom Share that has not become, and no longer can become, Fully Vested pursuant to Section 4(d) shall immediately be forfeited. Accordingly, unless Section 4(d)(vii) or the last sentence of Section 4(d) applies, any Phantom Share that does not become Fully Vested on or before the later of (i) March 30, 2004 and (ii) the first anniversary of the last Change in Control that occurs on or before such date shall be forfeited

(f) SETTLEMENT. Phantom Shares that are Fully Vested shall be settled by the Company no later than seven (7) days following the date on which they become Fully Vested. Such settlement shall be made (I) by delivering to Executive any cash that is then represented by such Phantom Shares, together with nine percent (9%) interest thereon compounded daily through the date of delivery from the date that such Phantom Shares first represented such cash, (II) at the election of the Board or the Compensation Committee, by delivering to Executive any securities then represented by such Phantom Shares that, as of the date of delivery, are (x) fully registered or otherwise qualified, for sale and resale, under all applicable Federal, state and other securities laws (E.G., with respect to Federal securities laws, registered on an SEC Form S-3 or equivalent) and (y) fully listed or otherwise qualified for trading in the United States on a national securities exchange or national market system; or (iii) delivering to Executive in cash an amount equal to the Fair Market Value, as of the date of delivery, (x) of any securities then represented by such Phantom Shares that are not delivered to Executive pursuant to the preceding clause (ii) and (y) of any other property that is then represented by such Phantom Shares. Executive may defer the settlement of Fully Vested

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Phantom Shares pursuant to the first two sentences of this Section 4(f) by delivering an election in writing to the Company, not later than six months prior to the otherwise applicable settlement date and in accordance with such reasonable procedures as the Company may reasonably establish, on notice to Executive, so as to ensure that the deferral is effective for income tax purposes, that (A) specifies the number or percentage of the Phantom Shares, Contingently Vested Phantom Shares, and/or Fully Vested Phantom Shares, whose settlement is to be deferred, (B) describes the date on which the deferred settlement is to take place, and (C) contains such other information as the Company may reasonably require.

(g) ADJUSTMENTS. In the event of any recapitalization, reorganization, merger, consolidation, combination, exchange of securities, stock split, spin-off, split-up, liquidation, dissolution or other comparable transaction or event, or any distribution in respect of securities other than an ordinary course cash dividend, then (i) the dollar figures set forth in Sections 4(b) and 4(d), and the securities, cash and other property represented by each Phantom Share, shall promptly be adjusted to the extent appropriate to avoid dilution or enlargement of the economic opportunity and value represented by the Phantom Shares, (ii) the dollar figure specified in Section 7(b)(i)(A)(y) shall promptly be adjusted to the extent appropriate to avoid dilution or enlargement of the economic opportunity and value represented by the payments specified in Section 7(b), (iii) the number and type of securities specified in Section 15 shall promptly be adjusted to the extent appropriate and (iv) the number of Phantom Shares specified in the last sentence of Section 4(d) shall be appropriately adjusted. If any transaction or event occurs that may require an adjustment pursuant to this Section 4(g), the Company shall promptly deliver to Executive a notice that (A) describes in reasonable detail (x) the substance of such transaction or event and (y) the method by which the required adjustment (if any) was calculated or otherwise determined (or the reasons why no

adjustment was required) and (B) specifies the adjustment (if any) made.

(h) DIVIDEND EQUIVALENTS. On the date of each payment of any ordinary-course dividend on any shares or other securities that are then represented by Phantom Shares that (i) are either Contingently Vested or Fully Vested and (ii) have neither been forfeited pursuant to Section 4(e) nor settled pursuant to Section 4(f), the Company shall pay to Executive an amount equal to the aggregate ordinary-course dividends to which the holder of the shares or other securities that are represented by such Phantom Shares would have been entitled if such shares or other securities had actually been issued and outstanding as of the record date for such dividend.

5. TERMINATION OF EMPLOYMENT.

(a) DEATH OR DISABILITY. Executive's employment with the Company shall terminate automatically upon Executive's death. Either Party shall be entitled to terminate

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Executive's employment with the Company in the event of Executive's Disability. "DISABILITY" shall mean that Executive shall have been unable, as determined by an "Approved Physician" (as defined below), for a period of not less than (x) 120 consecutive days, or (y) 180 days within any 12 month period, to perform his duties for the Company, as a result of physical or mental illness, injury or impairment. A termination of Executive's employment by either Party for Disability shall be communicated to the other Party by written notice, and shall be effective on the 30th day after receipt of such notice by the other Party (such 30th day being the "DISABILITY EFFECTIVE DATE"), unless Executive returns to full-time performance of his duties for the Company before the Disability Effective Date. For purposes of this Agreement, "APPROVED PHYSICIAN" shall mean an independent medical doctor selected by the Parties; PROVIDED that if the Parties cannot promptly agree on such a doctor, each Party shall promptly select an independent medical doctor and the two medical doctors thus selected shall promptly select a third independent medical doctor who shall be the "Approved Physician".

(b) BY THE COMPANY.

(i) The Company may terminate Executive's employment with the Company for Cause or Without Cause. "CAUSE" shall mean (x) Executive is convicted of, or pleads guilty or NOLU CONTENDERE to, any felony, (y) Executive knowingly engages in misconduct that constitutes a willful gross breach of this Agreement, or in other willful gross misconduct, and in either case such misconduct results in material and demonstrable damage to the business or reputation of the Company, or (z) willful and complete abandonment by Executive of his duties for the Company; PROVIDED, HOWEVER, that no act or failure to act shall be considered "knowing" for purposes of this Agreement unless it is done, or omitted to be done, without reasonable belief that such action or omission was in, or not opposed to, the best interests of the Company; and PROVIDED, FURTHER, that no abandonment shall constitute Cause under clause (z) unless Executive shall have failed to fully cure such abandonment no later than ten (10) days after receiving written notice from the Board requesting full cure.

(ii) A termination of Executive's employment for Cause may only be effected in accordance with the following procedures. The Board shall give Executive written notice ("NOTICE OF POTENTIAL TERMINATION FOR CAUSE") of its intention to terminate Executive's employment for Cause, setting forth in reasonable detail the specific circumstances that it considers constitute Cause and the specific provision(s) of this Agreement on which it relies, and stating the date, time and place of a special meeting of the Board called and held specifically for the purpose of considering Executive's termination for Cause. Such special meeting shall take place not less than ten (10), and not more than twenty (20), days after Executive receives the Notice of Potential Termination for Cause. At such special meeting, Executive shall be given an opportunity, together with his counsel, to demonstrate to the Board that Cause does not exist (including, in the case of clause (z) of Section 5(b)(i), an opportunity to

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demonstrate that Executive has fully cured the abandonment that would otherwise constitute Cause). A termination of Executive's employment with the Company for Cause shall be effective when and if a resolution is duly adopted at such special meeting of the Board, by the affirmative vote of three quarters (3/4) of the members of the Board other than Executive, terminating Executive's employment for Cause, subject to DE NOVO review of the question whether Cause existed through arbitration in accordance with Section 12 (PROVIDED, for

avoidance of doubt, that if Cause is determined through such arbitration not to have existed, the termination of Executive's employment shall not be reversed and shall instead be treated as a termination "Without Cause" as such term is defined in Section 5(b)(iii)).

(iii) A termination of Executive's employment by the Company "WITHOUT CAUSE" (that is, neither for Cause nor for Disability, in each case as determined in accordance with this Agreement, and not by notice of non-extension in accordance with Section 1) shall be effected by the Company giving Executive prior written notice of the termination, which notice shall specify the Date of Termination. Termination of Executive's employment in accordance with this Section 5(b)(iii). A termination of Executive's employment Without Cause by the Company shall not constitute a breach of this Agreement.

(c) BY EXECUTIVE.

(i) Executive may terminate his employment with the Company with Good Reason or Without Good Reason. "GOOD REASON" shall mean the occurrence of any of the following events without, in the case of clauses (B) through (G) only, full cure by the Company no later than ten (10) days after receiving notice from Executive requesting cure:

(A) failure by the Company, the Board, and/or the holders of the Company's "Voting Securities" (as defined in Section 7(a)(ii)) to maintain Executive as the Chief Executive Officer of the Company and as a member of, and Chairman of, the Board;

(B) the assignment to Executive of any duty or responsibility that is inconsistent in any respect with those customarily associated with the positions to be held by Executive pursuant to this Agreement; or any material diminution in Executive's positions, authorities, duties or responsibilities;

(C) any requirement that Executive's services for the Company be rendered primarily at a location or locations other than the principal executive offices of the Company in the Borough of Manhattan;

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(D) failure of any successor to all or substantially all of the assets or business of the Company to promptly assume in writing all of the obligations of the Company under this Agreement;

(E) any person is appointed by, or at the direction of, the Board or any committee thereof to be a senior executive of the Company without prior notice to Executive or over his objection; PROVIDED that it shall neither be "Good Reason", nor constitute a breach of this Agreement, if the Board by a vote of a majority its members directs Executive to terminate the employment of another executive of the Company or itself acts directly to do so;

(F) any failure by the Compensation Committee to establish (in consultation with Executive) target performance levels, and a formula for determining awards for performance above and below target levels, for any fiscal year as provided in Section 3(b) prior to July 15, 2001 (in the case of fiscal year 2001) or the sixtieth (60th) day of such fiscal year (in the case of any other fiscal year);

(G) any other material breach of this Agreement by the Company; or

(H) any election by Executive, on at least ten (10) days' notice to the Company, to terminate his employment with the Company at any time during the ninety (90) day period that commences on the first anniversary of any Change of Control.

(ii) A termination of his employment with the Company by Executive with Good Reason shall be effected by his giving the Company prior written notice of the termination setting forth in reasonable detail the circumstances (including expiration of any applicable cure period without full cure) that constitute Good Reason and the specific provision or provisions of this Agreement on which Executive relies and specifying the Date of Termination ("NOTICE OF TERMINATION FOR GOOD REASON"). For avoidance of doubt, a termination of his employment with the Company by Executive shall be treated as with Good Reason only if Good Reason in fact existed, and otherwise shall be treated as a termination Without Good Reason.

(iii) A termination of his employment with the Company by

Executive "WITHOUT GOOD REASON" (that is, neither with Good Reason nor for Disability, in each case determined in accordance with this Agreement, and not by notice of non-extension in accordance with Section 1) shall be effected by his giving the Company prior written notice, no less than thirty (30) days before the Date of Termination, specifying the Date of Termination.

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Termination of Executive's employment in accordance with this Section 5(c)(iii) shall not constitute a breach of this Agreement.

(d) NO WAIVER. The failure to set forth any fact or circumstance in a Notice of Potential Termination for Cause or a Notice of Termination for Good Reason shall not constitute a waiver of the right to assert, and shall not preclude the Party giving notice from asserting, such fact or circumstance in an attempt to enforce any right under, or in connection with, this Agreement.

(e) DATE OF TERMINATION. "DATE OF TERMINATION" means the date of Executive's death, the Disability Effective Date, the date on which the termination of Executive's employment with the Company by the Company for Cause or Without Cause or by Executive with Good Reason or Without Good Reason is effective, or the date, if different, on which Executive's employment with the Company terminates pursuant to the provisions of Section 1.

6. OBLIGATIONS OF THE COMPANY UPON TERMINATION.

(a) DEATH. In the event that Executive's employment hereunder is terminated by Executive's death, then:

(i) the Company shall, within seven (7) days following the date of his death, pay to Executive's designated beneficiary or beneficiaries (or, if there is no such beneficiary, to Executive's estate or legal representative) a lump-sum amount of \$2,000,000; and

(ii) the Company shall continue to provide Executive's spouse and eligible dependents, at its expense, with the medical benefits and insurance coverages (including, without limitation, dental, vision, prescription drug and hospital benefits and coverages) then provided generally to spouses and eligible dependents of senior executives of the Company through the earlier of the first anniversary of the date of his death and the date that Executive's spouse and eligible dependents receive equivalent coverages and benefits under any plans, programs and/or arrangements of another entity. Benefits provided pursuant to this Section 6(a)(ii) shall be included as part of any required COBRA coverage.

(b) DISABILITY. In the event that Executive's employment hereunder is terminated for Disability in accordance with this Agreement, then:

(i) the Company shall, within seven (7) days following the Date of Termination, pay to Executive a lump-sum amount of \$2,000,000; and

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(ii) the Company shall continue to provide Executive and his spouse and eligible dependents, at its expense, with the medical benefits and insurance coverages (including, without limitation, dental, vision, prescription drug and hospital benefits and insurance coverages) then provided generally to senior executives of the Company and their spouses and eligible dependents through the earlier of the first anniversary of the Disability Effective Date and the date that Executive's spouse and eligible dependents receive equivalent coverages and benefits under any plans, programs and/or arrangements of another entity. Benefits provided pursuant to this Section 6(b)(ii) shall be included as part of any required COBRA coverage.

(c) WITHOUT CAUSE BY THE COMPANY OR WITH GOOD REASON BY EXECUTIVE. In the event that Executive's employment hereunder is terminated (x) Without Cause by the Company or (y) with Good Reason by Executive in accordance with this Agreement, then:

(i) the Company shall, within seven (7) days following the Date of Termination, pay Executive a lump-sum amount of (A) \$2,000,000 in the case of a termination Without Cause or with Good Reason pursuant to Section 5(c)(i)(H) and (B) \$5,000,000 in the case of a termination with Good Reason other than pursuant to Section 5(c)(i)(H); and

(ii) the Company shall continue to provide Executive, his spouse and his eligible dependents, at its expense, with the medical benefits

and insurance coverages (including, without limitation, dental, vision, prescription drug and hospital benefits and insurance coverages) then provided generally to senior executives of the Company and their spouses and eligible dependents, through the earlier of the first anniversary of the Date of Termination and the date that Executive, his spouse, and his dependents receive equivalent coverages and benefits under any plans, programs and/or arrangements of a subsequent employer. Benefits provided pursuant to this Section 6(c)(ii) shall be included as part of any required COBRA coverage.

Except as otherwise provided in this Agreement, if Executive's employment is terminated by the Company Without Cause or by Executive with Good Reason neither Executive nor the Company shall have any further rights or obligations under this Agreement other than those provided for in this Section 6.

(d) FOR CAUSE BY THE COMPANY OR WITHOUT GOOD REASON BY EXECUTIVE OR BY EXPIRATION OF THE TERM. In the event that Executive's employment hereunder is terminated (x) by the Company for Cause in accordance with this Agreement, (y) by Executive Without Good Reason or (z) by expiration of the Term pursuant to a notice of non-extension in accordance with Section 1, then Executive shall be entitled solely to the benefits described in

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Section 6(e) below, except that in the event of a termination that is described in clause (z) of this sentence, Executive shall, in addition, be entitled to an amount, in lieu of any annual incentive award for the fiscal year in which his employment hereunder terminates, determined and paid in accordance with Section 3(b) as if his employment hereunder had continued through the end of such year, and based (for avoidance of doubt) solely on the aggregate Base Salary actually earned for such year.

(e) MISCELLANEOUS. On any termination of Executive's employment with the Company, he (or his beneficiaries, legal representatives or estate, as the case may be) shall be entitled to:

(i) Base Salary through the Date of Termination;

(ii) the balance of any annual, long-term, or other incentive award earned but not yet paid (including, without limitation, amounts (if any) due under Section 3(b));

(iii) other or additional benefits in accordance with applicable plans, programs and arrangements of the Company and its affiliates (including, without limitation, under Sections 3(d), 3(e), 4, 7, 11, 12 and 16(g), under any stock option grant or agreement and under the agreements referred to in Section 3(b) of the Old Agreement); and

(iv) payment, promptly when due, of all amounts owed to Executive in connection with the termination or otherwise, such payments to be made by wire transfer of same day funds to the extent reasonably requested by Executive.

(f) GENERAL RELEASE. The Company's obligation to make any payment pursuant to Section 6(c)(i) shall be contingent upon, and is the consideration for, Executive delivering to the Company, within thirty (30) days following the Date of Termination, a general release (the "RELEASE"), in customary form, releasing the Company, its affiliates and all current and former members, officers and employees of the Company (collectively, the "RELEASEES") from any claims relating to his employment hereunder, other than claims relating to continuing obligations under, or preserved by, (x) this Agreement or (y) any compensation or benefit plan, program or arrangement in which Executive was participating as of the Date of Termination (including, without limitation, any stock option grant or agreement and the agreements referred to in Section 3(b) of the Old Agreement); SUBJECT TO no Releasee initiating or maintaining any proceeding or claim against Executive or any of his heirs, beneficiaries or legal representatives or against his estate, other than proceedings and claims relating solely to enforcing Executive's continuing obligations under this Agreement or under any of the agreements, plans, programs and arrangements referred to in clause (y) of this Section 6(f).

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(g) OTHER OBLIGATIONS. The respective obligations of the Parties under Sections 4 through 16 shall survive any termination of Executive's employment.

(h) NO OFFSET, ETC. The Company's obligation to make the payments provided for in, and otherwise to perform its obligations under, this Agreement shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that the Company or any Releasee may have against Executive or others. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement, and such amounts shall not be reduced, regardless of whether Executive obtains other employment or receives benefits or compensation in connection therewith, other than as expressly provided in Sections 6(a)(ii), 6(b)(ii) and 6(c)(ii). Amounts due under this Section 6 are considered to be reasonable by the Company and are not in the nature of a penalty. The payments and benefits provided for in this Section 6 are intended to constitute both liquidated damages and, in the case of the payment described in Section 6(c)(i), consideration for the general release described in this Section 6(f).

7. CHANGE OF CONTROL.

(a) CHANGE OF CONTROL. For purposes of this Agreement, a "CHANGE OF CONTROL" shall be deemed to have taken place if:

(i) individuals who, as of June 1, 2001, are members of the Board (the "INCUMBENT DIRECTORS") cease for any reason to constitute at least a majority of the members of the Board, PROVIDED that (x) any individual becoming a member of the Board subsequent to June 1, 2001 whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without prior written objection to such nomination) shall be deemed to be an Incumbent Director; (y) no individual initially elected or nominated as a member of the Board as a result of an actual or threatened election contest with respect to members of the Board or as a result of any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board shall be deemed to be an Incumbent Director, EXCEPT that this clause (y) shall not apply (i) to any individual who has been designated by any of the Starwood Entities to succeed to any of the four Board seats occupied as of June 1, 2001 by Messrs. Dishner, Grose, Kleeman and Sternlicht or (ii) to any other individual who is proposed or nominated by any Starwood Entity, and approved by a vote of at least a majority of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without prior written objection to such nomination), if after such individual's election or appointment, a majority of all members of the Board are clearly and demonstrably independent of, and not affiliated with, any of the Starwood

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Entities; and (z) any individual who becomes a director in accordance with clause (y)(i) or (y)(ii) shall be deemed to be an Incumbent Director;

(ii) any "PERSON" (as such term is used as of the Effective Date in Section 13(d) of the Securities Exchange Act of 1934 (the "EXCHANGE ACT") but excluding any individual or entity to the extent provided pursuant to clauses (A) through (C) of this Section 7(a)(ii)) is or becomes a "BENEFICIAL OWNER" (as defined as of the Effective Date in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of 50% or more of the Company's "Voting Securities" (measured either by value or by voting power); PROVIDED that, for purposes of this Agreement, "VOTING SECURITIES" shall mean outstanding securities eligible (after giving effect to Section 160(c) of the General Corporation Law of Delaware and any similar or successor provision governing "treasury shares") to vote for the election of members of the board of directors, or corresponding governing person or body, of the issuer of such securities; and PROVIDED, FURTHER, that the following individuals and entities shall be excluded pursuant to the first parenthetical of this Section 7(a)(ii):

(A) any employee benefit plan (or related trust) sponsored or maintained by the Company or by any entity of which the Company is the Beneficial Owner of more than fifty percent (50%) of the Voting Securities (measured both by value and by voting power) (a "SUBSIDIARY");

(B) any Starwood Entity; and

(C) any individual or entity, other than a Starwood Entity, that becomes the Beneficial Owner, directly or indirectly, of Voting Securities of the Company by acquisition from a Starwood Entity, but only with respect to Voting Securities that are acquired directly from a Starwood Entity, and only for so long as a majority of the members of

the Board are clearly and demonstrably independent of, and not affiliated with, any Person that includes any such individual or entity.

(iii) (x) the Company combines with another entity and is the surviving entity, or (y) all or substantially all of the business or assets of the Company is disposed of pursuant to a sale, merger, consolidation or other transaction or series of transactions, UNLESS the holders of Voting Securities of the Company immediately prior to such combination, sale, merger, consolidation or other transaction or series of transactions (each a "TRIGGERING EVENT") immediately after such Triggering Event own, directly or indirectly, by reason of their ownership of Voting Securities of the Company immediately prior to such Triggering Event, more than fifty percent (50%) of the Voting Securities (measured both by value and by voting power) of: (q) in the case of a combination in which the Company is the

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surviving entity, the surviving entity and (r) in any other case, the entity (if any) that succeeds to substantially all of the business and assets of the Company;

(iv) the holders of Voting Securities of the Company approve a plan of complete liquidation or dissolution of the Company;

(v) neither Common Stock of the Company, nor securities into which Common Stock of the Company may by existing contractual right be converted without payment of consideration, or for which Common Stock of the Company may by existing contractual right be exchanged without payment of consideration, are listed for trading on a national securities exchange or national market system in the United States; or

(vi) any other transaction or event occurs that is, or has been, designated by the Board as a Change of Control.

(b) CHANGE OF CONTROL RETENTION PAYMENT. If Executive remains employed with the Company through the first anniversary of any Change of Control that occurs on or before March 30, 2004, or if an Involuntary Termination of Employment occurs in connection with or following such a Change of Control but on or before the first anniversary of such Change of Control (the earlier of (x) such first anniversary and (y) the later of (A) the date of such Involuntary Termination of Employment and (B) the date of such Change of Control being the "RETENTION PAYMENT VESTING DATE"), then the following provisions shall apply:

(i) If none of the Phantom Shares shall have become Contingently Vested on or before the date of such Change of Control pursuant to Section 4(b), the Company shall pay Executive, within seven (7) days following the Retention Payment Vesting Date, an amount equal to the product of (A) the excess, if any, of (x) the Change of Control Price for such Change of Control over (y) \$19.69, multiplied by (B) 2,000,000;

(ii) If only 17.5 percent (17.5%) of the Phantom Shares shall have become Contingently Vested on or before the date of such Change of Control pursuant to Section 4(b), the Company shall pay Executive, within seven (7) days following the Retention Payment Vesting Date, one half (1/2) of the amount specified in Section 7(b)(i); and

(iii) If more than 17.5 percent (17.5%) of the Phantom Shares shall have become Contingently Vested on or before the date of such Change of Control pursuant to Section 4(b), no payment shall be due to Executive pursuant to this Section 7(b).

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(c) ADDITIONAL PAYMENTS BY THE COMPANY.

(i) If it is determined (as hereafter provided) that any payment, benefit or distribution that relates to Executive's employment with the Company or any termination of such employment, or that is made by the Company (or any of its affiliates) to or for the benefit of Executive (or any of his successors, assigns, beneficiaries or family members), whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, including without limitation any stock option, stock appreciation right or similar right, or the lapse or termination of any restriction on or the vesting or exercisability of any of the foregoing (a "PAYMENT"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code (or any successor provision thereto) or to any similar tax imposed by foreign,

state or local law, or any interest or penalties with respect to such excise or similar tax (such tax or taxes, together with any such interest and penalties, hereinafter being collectively referred to as the "EXCISE TAX"), then Executive shall be entitled to receive, prior to the time any such Excise Tax is paid through withholding (pursuant to Section 8 or otherwise) or is due to be paid by Executive, an additional payment or payments (a "GROSS-UP PAYMENT") in an amount such that, after payment by Executive of all income, excise, employment and other taxes (including any interest or penalties imposed with respect to such taxes and taking into account any loss of deductions attributable to any Gross-Up Payment) imposed by any jurisdiction upon or by reason of any Gross-Up Payment (assuming in each case application of the highest applicable marginal tax rates), Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon or by reason of the Payments.

(ii) Subject to the provisions of this Section 7(c), all determinations required to be made under this Section 7(c), including whether an Excise Tax is payable by Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required and the amount of such Gross-Up Payment, shall initially be made by a "Big Five" firm of certified public accountants (the "ACCOUNTING FIRM") selected by the Company reasonably and in good faith, which Accounting Firm may be the Company's regular outside auditors. The Company shall direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and Executive (x) within thirty (30) days after the date of the transaction or event giving rise to a possible Excise Tax liability and (y) at any other time or times as may be requested by the Company or Executive. The Company shall pay any required Gross-Up Payment to Executive no later than five (5) days prior to the date that the corresponding Excise Tax is paid or due to be paid. Any withholding of amounts in respect of Excise Tax, pursuant to Section 8 or otherwise, shall be deemed to be a payment of Excise Tax for purposes of this Section 7(c). If the Accounting Firm determines that no Excise Tax is payable by Executive, it shall, at the same time as it makes such determination, furnish Executive with an opinion that he has substantial authority not to report any Excise Tax on his foreign,

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Federal, state and local income and other tax returns. If the Accounting Firm determines that an Excise Tax is payable by Executive, it shall, at the same time it makes such determination, furnish Executive with a written opinion that he has substantial authority not to report Excise Tax in excess of the amount so determined on his foreign, Federal, state and local income and other tax returns. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable foreign, state or local tax law at the time of any determination by the Accounting Firm hereunder, it is possible that one or more Gross-Up Payments will not have been made by the Company that should have been made (an "UNDERPAYMENT"). In the event that Executive believes that an Underpayment has occurred, Executive shall so notify the Company, which shall then promptly direct the Accounting Firm to determine the amount of the Underpayment (if any) that has occurred and to submit its determination and detailed supporting calculations to both the Company and Executive as promptly as possible, subject to DE NOVO review of such determination and calculations, at Executive's election, through arbitration in accordance with Section 12 below. Any such Underpayment shall be promptly paid by the Company to, or for the benefit of, Executive within seven (7) days after receipt of such determination and calculations.

(iii) The Company and Executive shall (at the Company's sole expense) each provide the Accounting Firm access to, and copies of, any books, records and documents in the possession of the Company or Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate reasonably and in good faith with the Accounting Firm in connection with the preparation and issuance of the determinations and opinions contemplated by Section 7(c)(ii).

(iv) The foreign, Federal, state and local income and other tax returns filed by Executive shall be prepared and filed on a basis consistent with the written opinions of the Accounting Firm with respect to the Excise Tax payable by Executive. Executive shall, upon receipt from the Company of the full Gross-Up Payment relating thereto, make proper payment of the amount of any Excise Tax, and shall at the request of the Company, provide to the Company true and correct copies (with any amendments) of any Federal income tax return reflecting any Excise Tax as filed with the Internal Revenue Service and of corresponding foreign, state and local tax returns, if relevant, as filed with the applicable taxing authorities, together with such other documents evidencing any Excise Tax payment to any taxing authority as the Company may reasonably request. If prior to the earlier of (x) the payment to a tax authority of any Excise Tax to which a Gross-Up Payment previously paid to Executive relates and (y) the filing by Executive of any Federal income tax return, or corresponding

foreign, state or local tax return, reflecting any Excise Tax to which a Gross-Up Payment previously paid to Executive relates, the Accounting Firm determines that the amount

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of such Gross-Up Payment should be reduced and delivers to Executive a reasoned written opinion to that effect, Executive shall within ten (10) days thereafter pay to the Company the amount of such reduction on an after-tax basis.

(v) All fees and expenses of the Accounting Firm, and all legal, accounting, copying and other fees and expenses reasonably incurred by Executive, in connection with any Excise Tax, any Gross-Up Payment, or any determination or calculation contemplated by Section 7(c)(ii) or 7(c)(iv) shall be paid by the Company, with payments of fees and expenses reasonably incurred by Executive being paid on a fully grossed-up after-tax basis. To the extent that any fees or expenses are initially advanced by Executive, the Company shall reimburse Executive, on a fully grossed-up after-tax basis, for the full amount of such fees and expenses within seven (7) days after receipt from Executive of a statement therefor and reasonable evidence of his payment thereof.

(vi) Executive shall notify the Company in writing of any claim by the Internal Revenue Service or any other tax authority, with respect to an Excise Tax or otherwise, that, if successful, would require the payment by the Company of a Gross-Up Payment not previously paid. Such notification shall be given as promptly as practicable but no later than seven (7) days after Executive actually receives notice of such claim and Executive shall further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by Executive). Executive shall not pay such claim prior to the earlier of (x) the expiration of the thirty (30) day period following the date on which he gives such notice to the Company and (y) the date that any payment or amount with respect to such claim is due. If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(A) provide the Company (at the Company's sole expense) with copies of any written records or documents in his possession relating to such claim that the Company reasonably requests;

(B) take such action (at the Company's sole expense) in connection with contesting such claim as the Company shall reasonably request from time to time, including without limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(C) cooperate with the Company reasonably and in good faith (at the Company's sole expense) in order effectively to contest such claim; and

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(D) permit the Company to participate (at the Company's sole expense) in any proceedings relating to such claim; PROVIDED, HOWEVER, that the Company shall bear and pay directly all costs and expenses (including attorneys' and accountants' fees, interest and penalties) incurred by the Company or Executive in connection with such claim and shall indemnify and hold harmless Executive, on a fully grossed-up after-tax basis, for and against any Excise Tax or income or other tax, including interest and penalties with respect thereto, imposed in connection with such claim or in connection with any payment of fees, costs or expenses, or any provision of services, pursuant to this Section 7(c). Subject to the provisions of this Section 7(c), the Company may control the defense and/or prosecution of any claim described in the first sentence of this Section 7(c)(vi) and, in its reasonable good-faith discretion, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, in its reasonable good-faith discretion, either direct Executive to pay the amounts claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest (at the Company's sole expense) to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company may reasonably determine;

PROVIDED, HOWEVER, that if the Company directs Executive to pay any Excise Tax or other amounts claimed and sue for a refund, the Company shall advance the

amount of such payment to Executive on an interest-free basis and shall indemnify and hold Executive harmless, on a fully grossed-up after-tax basis, from any Excise Tax or income or other tax, including interest or penalties with respect thereto, imposed with respect to such advance; and PROVIDED FURTHER, HOWEVER, that any extension of the statute of limitations relating to payment of taxes for a tax year of Executive with respect to which any claim or claims described in the first sentence of this Section 7(c)(vi) is made shall, unless Executive otherwise consents, be limited solely to such claim or claims. Furthermore, the Company's control of any such contested claim shall be limited solely to issues directly relevant to the amount of any Excise Tax or Gross-Up Payment that would be payable hereunder and Executive shall be entitled, in his sole discretion, to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(vii) If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 7(c)(vi), Executive receives any refund with respect to any Excise Tax previously paid with funds provided by the Company, Executive shall (subject to the Company's complying with all of the requirements of this Section 7(c)) promptly pay to the Company, on an after-tax basis, the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by Executive of an

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amount advanced by the Company pursuant to Section 7(c)(vi) in respect of a claim described in the first sentence of Section 7(c)(vi), a determination is made that Executive is not entitled to any refund with respect to such claim and, in the event that such determination is made by a tax authority or a court, the Company does not notify Executive in writing of its intent to contest such determination prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, on a dollar-for-dollar basis, the amount of Gross-Up Payment otherwise required to be paid pursuant to this Section 7(c). For purposes of this Agreement, "AFTER-TAX BASIS" shall each mean (x) when used in respect of a repayment by Executive, that the amount of any such repayment shall be limited to the net after-tax amount or benefit realized by Executive from receipt of any payment or benefit to which such repayment relates, after deducting therefrom all foreign, Federal, state and local taxes thereon and adding back any reduction in any such taxes attributable to any deduction on account of such repayment by Executive, assuming in each case application of the highest applicable marginal tax rates, and (y) when used in respect of a payment or benefit provided by the Company, that the amount of such payment or benefit shall be fully grossed up, assuming application of the highest applicable marginal tax rates, for all foreign, Federal, state and local taxes imposed on or by reason of (A) such payment or benefit or (B) any gross-up thereon.

8. WITHHOLDING. Notwithstanding any other provision of this Agreement, the Company may withhold from amounts payable under this Agreement all Federal, state, local and foreign taxes that are required to be withheld by applicable law or regulation. -

9. CONFIDENTIAL INFORMATION. Executive shall hold all secret or confidential information, knowledge or data relating to the Company or any of its affiliates and their respective businesses that Executive obtains during his employment hereunder and that is not public knowledge (other than as a result of Executive's violation of this Section 9) ("CONFIDENTIAL INFORMATION") in strict confidence. Executive shall not communicate, divulge or disseminate Confidential Information at any time during or after Executive's employment with the Company, except (i) in the course of performing his duties for the Company or its affiliates, (ii) in confidence to any attorney, accountant or other professional for the purpose of securing professional advice, (iii) to the extent reasonably necessary to enforce his rights, (iv) with the prior written consent of the Company or (v) as otherwise required by law, regulation or legal process. If Executive is requested pursuant to, or required by, applicable law, regulation or legal process to disclose any Confidential Information, Executive shall provide the Company, as promptly as the circumstances reasonably permit, with notice of such request or requirement and, unless a protective order or other appropriate relief is previously obtained, the Confidential Information subject to such request may be disclosed pursuant to and in accordance with the terms of such request or requirement, provided that Executive shall use his best reasonable

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efforts, at the Company's reasonable request and sole expense, to limit any such disclosure to the precise terms of such request or requirement.

10. NON-COMPETITION. Executive acknowledges that the services to be rendered by him to the Company (which, as used in this Section 10, shall be deemed to include the Company and each of its Subsidiaries) are of a special and unique character. In consideration of his employment hereunder, Executive agrees, for the benefit of the Company, that he will not (other than in connection with performing his duties for the Company or its affiliates):

(a) during the Term and (PROVIDED that the Company shall not, after the Date of Termination, have remained in material breach of any of its material obligations to Executive, under this Agreement or otherwise, for more than ten (10) days after Executive shall have given the Company written notice requesting cure of such material breach) for twelve (12) months thereafter: (i) engage, directly or indirectly, whether as principal, agent, representative, consultant, employee, partner, stockholder, limited partner or other investor (other than an investment of not more than (x) five percent (5%) of the stock or equity of any corporation the capital stock of which is publicly traded or (y) five percent (5%) of the ownership interest of any limited partnership or other entity) or otherwise, within the United States of America, in any business that competes directly and materially with the business conducted by the Company as of the Date of Termination or (ii) solicit or entice, or attempt to solicit or entice, away from the Company, either for his own account or for any individual, firm or corporation, any person known by him to have been, at any time during the twelve (12) months prior to such solicitation, enticement or attempt, a borrower from, a lender to, or a direct and material participant in a substantial financial transaction with, the Company, or to have been actively solicited by the Company to become a borrower from, a lender to, or a direct and material participant in a substantial financial transaction with, the Company; PROVIDED, however, that the provisions of this Section 10(a)(ii) shall not apply to, and thus shall not be deemed to restrict, any solicitation, enticement or attempt made on behalf of a venture or business that does not compete directly and materially with the Company in investment activities relating to the real estate industry; and PROVIDED, further, that the restrictions set forth in this Section 10(a) shall not apply after the Date of Termination if (x) Executive's employment with the Company is terminated by the Company Without Cause, or by Executive with Good Reason in accordance with this Agreement, AND the Company fails to pay Executive, within seven (7) days following the Date of Termination, a lump-sum amount that--when added to the amount paid to him under Section 6(c)(i) and disregarding any other amount paid to him--results in his receiving an aggregate lump-sum amount of \$5,000,000 within seven (7) days following the Date of Termination or (y) Executive's employment with the Company is terminated by Executive Without Good Reason in accordance with this Agreement on or before the later of (A) March 30, 2000 and (B) the first

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anniversary of the last Change in Control that occurs on or before such date AND the Company shall have failed to timely make the election described in Section 4(d)(iii); or

(b) during the Term and (PROVIDED that the Company shall not, after the Date of Termination, have remained in material breach of any of its material obligations to Executive, under this Agreement or otherwise, for more than ten (10) days after Executive shall have given the Company written notice requesting cure of such material breach) for twelve (12) months thereafter: (i) solicit or entice, or attempt to solicit or entice, away from the Company any individual who is known by Executive to then be an officer or employee of the Company either for his own account or for any individual, firm or corporation, whether or not such individual would commit a breach of a contract of employment by reason of leaving the service of the Company or (ii) employ, directly or indirectly, any person who is known by Executive to have been, during the twelve (12) months prior to employment by Executive, an officer, employee or sales representative of the Company.

Executive understands that the provisions of this Section 10 may limit his ability to earn a livelihood in a business similar to the business of the Company but nevertheless agrees and hereby acknowledges that (A) such provisions do not impose a greater restraint than is necessary to protect the goodwill or other business interests of the Company, (B) such provisions contain reasonable limitations as to time and scope of activity to be restrained, (C) such provisions are not harmful to the general public, (D) such provisions are not unduly burdensome to Executive, and (E) the consideration provided hereunder is sufficient to compensate Executive for the restrictions contained in such provisions. In consideration thereof and in light of Executive's education, skills and abilities, Executive agrees that Executive will not assert in any forum that such provisions prevent Executive from earning a living or otherwise are void or unenforceable or should be held void or unenforceable.

11. INDEMNIFICATION.

(a) The Company shall promptly indemnify and hold harmless Executive, to the fullest extent permitted by law and to the extent that he acted neither in deliberate bad faith nor in a manner that he believed to be opposed to the interests of the Company, against all costs, expenses, liabilities and losses (including, without limitation, attorneys' fees reasonably incurred, reasonable costs of investigation, judgments, fines, penalties, ERISA excise taxes, interest and amounts paid, or to be paid, in settlement) incurred by Executive in connection with any Proceeding or Claim.

(b) The Company shall advance to Executive all costs and expenses (including, without limitation, attorneys' fees) incurred by him in connection with any Proceeding or Claim within 20 days after receipt by the Company of a written request for such

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advance. Such request shall include an itemized list of the costs and expenses and an undertaking by Executive to repay the amount of such advance if it shall ultimately be determined that he is not entitled to be indemnified against such costs and expenses. Upon a request under this subsection (b), Executive shall be deemed to have met any standard of conduct required for indemnification of such costs and expenses unless the contrary shall be established by a court of competent jurisdiction or through arbitration in accordance with Section 12.

(c) For the purposes of this Section 11, (I) the term "PROCEEDING" shall mean any action, suit or proceeding, whether civil, criminal, administrative, investigative or other, in which Executive is made, or is threatened to be made, a party or a witness by reason of the fact that he is or was an officer or employee of the Company or is or was serving as an officer, director, member, employee, trustee or agent of any other entity at the request of, or on behalf of, the Company, whether or not the basis of such Proceeding arises out of or in connection with Executive's alleged action or omission in an official capacity, and (II) the term "CLAIM" shall mean any claim, demand, investigation, discovery request, or request for testimony or information that arises out of or relates to Executive's service as an officer, employer, agent or representative of the Company or service at the Company's request, or on the Company's behalf, as a director, officer, employee, agent, manager, consultant, advisor, or representative of any other entity.

(d) The Company shall not settle any Proceeding or Claim in a manner that would impose on Executive any penalty or limitation without his prior written consent. Executive shall not settle any Proceeding or Claim in a manner that would impose any indemnification obligation on the Company pursuant to this Section 11 without the prior written consent of the Company. Neither the Company nor Executive shall unreasonably delay or withhold its or his consent under this Section 11(d) to any proposed settlement.

(e) The indemnification, and right to advancement of expenses, provided in this Section 11 shall continue as to Executive even if he has ceased to serve in any of the capacities referred to in Section 11(c) and shall inure to the benefit of Executive's heirs, executors and administrators.

(f) The indemnification provided in this Section 11 shall not extend to any claims or disputes arising between the Parties under, pursuant to, or with respect to, this Agreement or any agreement referred to in Section 3 above. In the event of any such claim or dispute, such claim or dispute shall be resolved in accordance with Section 12.

(g) During the Term and for six years thereafter, the Company shall keep in place, or cause to be kept in place, a directors' and officers' liability insurance policy (or

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policies) providing coverage to Executive that is in no respect less favorable than the coverage then provided to any other present or former officer, director or trustee of the Company.

12. ARBITRATION. Any claim or dispute arising out of or relating to this Agreement, any other agreement between Executive and the Company or any of its affiliates, Executive's employment with the Company or the termination thereof (collectively, "Covered Claims") shall be resolved by binding arbitration, to be held in the Borough of Manhattan, in accordance with the Commercial Arbitration Rules (and not the National Rules for the Resolution of Employment Disputes) of the American Arbitration Association and this Section 12. Judgment upon the award rendered by the arbitrator(s) may be entered in any

court having jurisdiction thereof. The Company shall promptly pay all costs and expenses (including without limitation attorneys' fees and other charges of counsel) incurred by Executive or his beneficiaries in resolving any such Covered Claim, subject to receiving a written undertaking from the recipient to repay any such reimbursed costs or expenses to the extent that it is finally determined that such recipient failed to substantially prevail with respect to such Covered Claim. Pending the resolution of any Covered Claim, Executive (and his beneficiaries) shall, consistent with Section 5(h) and except to the extent that the arbitrator(s) otherwise expressly provide, continue to receive all payments and benefits then due under this Agreement or otherwise.

13. SUCCESSORS; BENEFICIARIES.

(a) This Agreement is personal to Executive and, without the prior written consent of the Company, shall not be assignable by Executive; PROVIDED, HOWEVER, that any of Executive's rights to compensation hereunder may be transferred by will or by the laws of descent and distribution or as provided in Section 13(d).

(b) This Agreement shall inure to the benefit of and be binding upon the Parties and their respective successors, heirs (in the case of Executive) and assigns.

(c) No rights of the Company under this Agreement may be assigned or transferred by the Company, other than to a successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company that promptly and expressly agrees to assume and perform this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no such succession had taken place. As used in this Agreement, the term "BOARD" shall include both the "Board" as defined in the first sentence of Section 2(a) and the board of directors, board of trustees, or analogous governing person or body of any successor to all or substantially all of the business or assets of the Company.

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(d) Executive shall be entitled, to the extent permitted under any applicable law, to select and change the beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of his incompetence, references in this Agreement to Executive shall be deemed, where appropriate, to refer to his beneficiary, estate or other legal representative.

(e) Except to the extent otherwise provided in Sections 13(a) and 13(d), the rights and benefits of Executive under this Agreement may not be anticipated, assigned, alienated or subjected to attachment, garnishment, levy, execution or other legal or equitable process. Any attempt by Executive to anticipate, alienate, assign, sell, transfer, pledge, encumber or charge such rights or benefits, except as required by law or court order or as provided in Sections 13(a) and 13(d), shall be void. Payments hereunder shall not be considered assets of Executive in the event of insolvency or bankruptcy unless and until paid, or due to be paid, to Executive.

14. REPRESENTATIONS.

(a) The Company represents and warrants that (i) it is fully and specifically authorized, by action of the Board and/or the Compensation Committee and of any other person or body whose action is required, to enter into this Agreement and to perform its obligations under it; (ii) the execution, delivery and performance of this Agreement by the Company does not violate any applicable law, regulation, order, judgment or decree or any agreement, plan or corporate governance document to which the Company is a party or by which it is bound; (iii) SFA is a predecessor of the Company that has, directly or indirectly, been merged into or consolidated with the Company; and (iv) upon the execution and delivery of this Agreement by the Parties, this Agreement shall be the valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

(b) Executive represents and warrants that, to the best of his knowledge and belief, (i) delivery and performance of this Agreement by him does not violate any applicable law, regulation, order, judgment or decree or any agreement to which he is a party or by which he is bound and (ii) upon the execution and delivery of this Agreement by the Parties, this Agreement shall be the valid and binding obligation of Executive, enforceable against him in

accordance with its terms, except to the extent enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

15. LIMITATION OF STOCK PURCHASES. Executive shall not, on or before the first day on which all Phantom Shares are either Fully Vested pursuant to Section 4(d) or forfeited pursuant to Section 4(e), purchase more than 10,000 shares of the Company's Common Stock on any single day without the prior approval of the Chairman of the Compensation Committee.

16. MISCELLANEOUS.

(a) This Agreement shall be governed, construed, performed and enforced in accordance with its express terms, and otherwise in accordance with the laws of the State of New York, without reference to principles of conflict of laws. No provision of this Agreement may be amended or modified except by a written agreement that is executed by the Parties or their respective successors and legal representatives and that expressly refers to the provision(s) of this Agreement that are being amended or modified. In the event of any inconsistency between any provision of this Agreement and any provision of any plan, employee handbook, personnel manual, program, policy, arrangement or agreement of the Company or any of its affiliates, the provisions of this Agreement shall control unless Executive otherwise agrees in a writing that expressly refers to the provision of this Agreement whose control he is waiving.

(b) All notices, requests, consents and other communications under this Agreement shall be in writing and shall be given (i) by hand delivery or (ii) by registered or certified mail, return receipt requested, postage prepaid, addressed as follows or (iii) by nationally recognized overnight courier, addressed as follows:

IF TO EXECUTIVE:

Jay Sugarman
c/o iStar Financial Inc.
1114 Avenue of the Americas, 27th Floor
New York, NY 10036

with a copy to Executive at the address of his primary residence as it then appears in the records of the Company and a copy to:

Law Offices of Joseph E. Bachelder
780 Third Avenue, 29th Floor
New York, NY 10017
Attn: Robert M. Sedgwick, Esq.

IF TO THE COMPANY:

iStar Financial Inc.
1114 Avenue of the Americas, 27th Floor
New York, NY 10036
Attn: General Counsel

with copy each to:

iStar Financial Inc.
1114 Avenue of the Americas, 27th Floor
New York, NY 10036
Attn: Chairman, Compensation Committee of the Board of Directors

and

Paul, Weiss, Rifkind, Wharton & Garrison
1285 Avenue of the Americas
New York, NY 10019-6064
Attn: Michael J. Segal, Esq.

or to such other address or addresses as either Party furnishes to the other in writing in accordance with this Section 16(b). Notices and other communications

shall be effective when actually received by the addressee.

(c) If any provision of this Agreement, including but not limited to Section 10, or the application of any such provision to any person or circumstances shall be determined by any court or arbitrator of competent jurisdiction to be invalid or unenforceable to any extent, then (i) the remainder of this Agreement, and the application of such provision to such person or circumstances other than those to which it is so determined to be invalid or unenforceable, shall not be affected thereby, and each provision hereof shall be enforced to the fullest extent permitted by law and (ii) such court or arbitrator shall have the power, and is hereby directed, to reduce the scope, duration or area of the provision, to delete specific words or phrases and to replace any invalid or unenforceable provision with a provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable provision, and this Agreement shall be enforced as so modified.

(d) The captions and headings in this Agreement are not part of the provisions hereof and shall have no force or effect.

(e) No waiver by any person or entity of any breach of any condition or provision contained in this Agreement shall be deemed a waiver of any similar or dissimilar condition or provision at the same or any prior or subsequent time. To be effective, any waiver must be set forth in a writing signed by (or on behalf of) the waiving person or entity and must specifically refer to the condition(s) or provision(s) of this Agreement being waived.

(f) The Parties acknowledge that this Agreement supersedes any other agreement between them concerning the specific subject matter hereof (including, without limitation, the Old Agreement) except to the extent necessary to protect existing rights.

(g) The Company shall, upon presentation of appropriate documentation, pay (or reimburse) all legal fees and expenses incurred by Executive in connection with the negotiation and/or preparation of this Agreement up to a maximum of \$75,000.

[Rest of Page Intentionally Left Blank]

This Agreement may be executed in several counterparts, each of which shall be deemed an original, and said counterparts shall constitute one and the same instrument. Signatures delivered by facsimile shall be valid and binding for all purposes.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the day and year first above written.

EXECUTIVE

/s/ Jay Sugarman

Jay Sugarman

iSTAR FINANCIAL INC.

By: /s/ Spencer B. Haber

Name: Spencer B. Haber

Title: Executive Vice President

and Chief Executive Officer

NON-QUALIFIED SHARE OPTION AGREEMENT

THIS AGREEMENT, entered into as of March 31, 2001, by and between Jay Sugarman (the "PARTICIPANT"), and IStar Financial Inc. (together with its successors and assigns, the "COMPANY").

WITNESSETH:

WHEREAS, the Company maintains the Starwood Financial Trust 1996 Long-Term Incentive Plan, as amended and restated as of March 13, 1998 and as subsequently amended effective as of September 29, 1998 (the "PLAN"), for the benefit of officers, key employees, consultants, advisors and directors of the Company and its subsidiaries; and

WHEREAS, the Company has awarded the Participant a Non-Qualified Share Option Award;

WHEREAS, the Non-Qualified Share Option Award is granted under the Plan, and will be administered in accordance with the terms of the Plan except to the extent otherwise expressly provided herein;

NOW, THEREFORE, IT IS AGREED by and between the Company and the Participant as follows:

1. AWARD AND PURCHASE PRICE. Subject to the terms of this Agreement and the Plan, the Participant is hereby granted a non-qualified share option (this "OPTION") to purchase from the Company 750,000 shares of common stock of the Company of the class that is listed on the New York Stock Exchange as of April 1, 2001 (the "SHARES"). The price of each Share subject to this Option shall be \$19.69. This Option is not intended to constitute an "incentive stock option" as that term is used in Code section 422.

2. VESTING. Subject to Section 3, this Option shall become vested and exercisable as follows:

Number
of
Shares
Vesting
Date -

250,000
Shares
January
2,
2002
250,000
Shares
January
2,
2003
250,000
Shares
January
2,
2004

if the Participant's employment with the Company has not terminated before such date; PROVIDED, however, that this Option shall vest and become immediately exercisable if the Participant's employment with the Company terminates by reason of death or "Disability" (as defined below), or if the Company terminates the Participant's employment with the Company

"Without Cause" (as defined below), or if the Participant terminates his employment with the Company with "Good Reason" (as defined below) and a new employment relationship is not established between the Participant and another

iStar Entity immediately thereafter.

3. EXPIRATION DATE. This Option shall expire on the earliest to occur of:

(a) January 2, 2011;

(b) if the Participant's employment with the Company terminates by reason of death, then the six-month anniversary of the date of termination;

(c) if the Participant's employment with the Company terminates by reason of Disability, then the twelve-month anniversary of the date of termination;

(d) if the Participant's employment with the Company is terminated by the Company other than due to death, for Disability, or for "Cause" (as defined below) or if the Participant terminates his employment with the Company for any reason or no reason and, in either case, a new employment relationship is not established between the Participant and another iStar Entity within 30 days after such termination, then the three-month anniversary of the date of termination; or

(e) if the Participant's employment with the Company is terminated by the Company for Cause, then the date of termination.

In the event that rights to purchase all or a portion of the Shares subject to this Option expire or are exercised, canceled, or forfeited, the Participant shall promptly return this Agreement to the Company for full or partial cancellation, as the case may be. Such cancellation shall be effective regardless of whether the Participant returns this Agreement. If the Participant continues to have rights to purchase Shares hereunder, the Company shall, within 10 days of the Participant's delivery of this Agreement to the Company, either mark this Agreement to indicate the extent to which this Option has expired or been exercised, canceled, forfeited or transferred, or issue to the Participant a substitute option agreement applicable to such rights, which agreement shall otherwise be identical to this Agreement in form and substance.

4. DEFINITIONS. For purposes of this Agreement, the following definitions shall apply:

(a) "CAUSE" shall mean "Cause" as defined in, and determined in accordance with, the Employment Agreement.

(b) "DISABILITY" shall mean "Disability" as defined in, and determined in accordance with, the Employment Agreement.

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(c) "EMPLOYMENT AGREEMENT" shall mean the Employment Agreement made as of April 1, 2001 between the Company and the Participant, as from time to time amended in accordance with its terms, or any successor to such Employment Agreement then in effect.

(d) "GOOD REASON" shall mean "Good Reason" as defined in, and determined in accordance with, the Employment Agreement.

(e) "FAIR MARKET VALUE" shall mean "Fair Market Value" as defined in, and determined in accordance with, the Employment Agreement.

(f) "ISTAR ENTITY" shall mean the Company and any entity controlled by, controlling or under common control with the Company.

(g) Capitalized terms not otherwise defined in this Agreement shall have the meanings set forth in the Plan.

5. METHOD OF OPTION EXERCISE. Any portion of this Option that is then exercisable may be exercised in whole or in part by delivering a written notice with the Secretary of the Company at its corporate headquarters, provided that the notice is delivered on or before the expiration date of this Option. Such notice shall specify the number of Shares which the Participant elects to purchase, and shall be accompanied by payment of the purchase price for such Shares indicated by the Participant's election. Payment may be made by cash (including personal check backed by sufficient funds, wire transfer and/or a cashless exercise through a broker) or, with the consent of the Administrator (which consent shall not be unreasonably withheld or delayed), in Shares that have a Fair Market Value equal to the purchase price, or in any combination of the foregoing. Promptly upon receipt by the Company of notice of the Participant's exercise of any portion of this Option and payment therefor, the Company shall issue to the Participant the number of Shares that the Participant

has elected to purchase.

6. TAX WITHHOLDING. Delivery of Shares purchased under this Agreement is subject to withholding of all applicable taxes. At the election of the Participant, and with the consent of the Administrator (which consent shall not be unreasonably withheld or delayed), such withholding obligations may be satisfied through the surrender of Shares which the Participant already owns or by authorizing the Company to withhold Shares being purchased under this Agreement; provided, however, that previously-owned Shares that have been held by the Participant less than six months and Shares being purchased under this Agreement may only be used to satisfy the minimum tax withholding required by applicable law.

7. TRANSFERABILITY. This Option is not transferable except as designated by the Participant by will or by the laws of descent and distribution or, subject to such procedures as the Administrator may establish, to or for the benefit of members of the Participant's family.

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Except to the extent permitted by the Administrator in the case of transfers to or for the benefit of members of the Participant's family, during the Participant's lifetime this Option shall be exercisable only by the Participant or the Participant's legal representative. Except as permitted by the foregoing, this Option may not be sold transferred, assigned, pledged, hypothecated, voluntarily encumbered or otherwise disposed of (whether by operation of law or otherwise) or be subject to execution, attachment or similar process. Any sale, transfer, assignment, pledge, hypothecation, voluntary encumbrance or other disposition of the Option not permitted by the foregoing shall be wholly null and void, and shall transfer no rights in the Option whatsoever to the purported transferee.

8. THE PARTICIPANT'S REPRESENTATIONS. Subject to Section 13, the Participant hereby represents and covenants that (a) any Shares purchased upon exercise of this Option will be purchased for investment and not with a view to the distribution thereof within the meaning of the Securities Act of 1933, as amended (the "SECURITIES ACT"), unless such Shares have been registered under the Securities Act and any applicable state securities laws; (b) any subsequent sale of any such Shares shall be made either pursuant to an effective registration statement under the Securities Act and any applicable state securities laws, or pursuant to an exemption from registration under the Securities Act and such state securities laws; and (c) if reasonably requested by the Company, the Participant shall submit a written statement, in form satisfactory to the Company, to the effect that such representation (x) is true and correct as of the date of purchase of any Shares hereunder or (y) is true and correct as of the date of any sale of any such Shares, as applicable. As a further condition precedent to any exercise of this Option, and subject to Section 13, the Participant shall comply with all regulations and requirements of any regulatory authority having control of or supervision over the issuance or delivery of the Shares and, in connection therewith, shall execute any documents which the Company may reasonably request.

9. NO CHANGE OF CONTROL. The Participant acknowledges and agrees that, since the Effective Date of the Plan and through and including the Grant Date, no Change of Control of the Company has occurred under the Plan.

10. ADJUSTMENT OF OPTION. The number and/or type of securities that are subject to this Option, the purchase price thereof, and/or other terms of this Agreement, shall be promptly adjusted by the Administrator in the circumstances described in Section 6.6 of the Plan so as to neither diminish, nor enlarge, the rights and economic value represented by this Option and this Agreement. In the event of any adjustment pursuant to this Section 10, the Administrator shall promptly deliver to the Participant a notice (a) setting forth in reasonable detail (i) the transactions and/or events that lead to the adjustment and (ii) the method by which the adjustment was calculated or otherwise determined and (b) specifying the adjustment made.

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11. ADMINISTRATION. The authority to administer and interpret this Agreement shall be vested in the Administrator, and the Administrator shall have all the powers with respect to this Agreement as it has with respect to the Plan, subject in each case to DE NOVO review in accordance with Section 18 below.

12. COMPLIANCE WITH APPLICABLE LAW. This Option is subject to the condition that (x) if the listing, registration or qualification of the Shares

subject to this Option upon any securities exchange or under any law, or the consent or approval of any governmental body, or the taking of any other action is reasonably necessary as a condition of, or in connection with, the purchase or delivery of Shares hereunder upon an exercise of this Option, and if (y) the third sentence of Section 13 does not apply to such exercise, then (z) this Option may not be exercised, in whole or in part, unless such listing, registration, qualification, consent or approval shall have been effected or obtained, free of any conditions not acceptable to the Company. The Company agrees to use its best reasonable efforts to promptly effect or obtain any such listing, registration, qualification, consent or approval.

13. DELIVERY OF CERTIFICATES. Upon any exercise of this Option, in whole or in part, the Company shall deliver or cause to be delivered one or more certificates representing the number of Shares purchased against full payment therefor. Any Shares so delivered shall be fully registered, and/or qualified, for sale and resale under all applicable securities laws, and shall be listed for trading on a national securities exchange in the United States, or qualified for trading on a national market system in the United States, in each case to the extent that other securities then subject to being delivered pursuant to the Plan, or pursuant to agreements or awards under the Plan, are so registered, qualified or listed. In the event the Shares subject to this Option are neither listed for trading on a national securities market in the United States, nor qualified for trading on a national market system in the United States, at the time of any exercise of this Option pursuant to the first sentence of Section 5, then in lieu of (x) payment by the Participant of the purchase price in accordance with Section 5, (y) satisfaction of applicable tax withholding obligations in accordance with Section 6, and (z) delivery of certificate(s), in accordance with this Section 13, representing the Shares purchased, the Company shall pay the Participant a cash lump sum, less applicable tax withholding, in an amount equal to the product of (i) the number of Shares with respect to which the Option is being exercised multiplied by (ii) the excess of (A) the Fair Market Value per Share as of the date of exercise over (B) the per Share purchase price.

14. OPTION CONFERS NO RIGHTS AS SHAREHOLDER. The Participant shall not be entitled to any privileges of ownership with respect to Shares subject to this Option unless and until such Shares are purchased and delivered upon an exercise of this Option and the Participant becomes a shareholder of record with respect to such delivered Shares; and the Participant shall

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not be considered a shareholder of the Company with respect to any such Shares not so purchased and delivered.

15. OPTION CONFERS NO RIGHTS TO CONTINUED EMPLOYMENT. In no event shall the granting of this Option or its acceptance by the Participant give or be deemed to give the Participant any rights to continued employment by the Company or any affiliate of the Company.

16. COORDINATION OF PLAN AND AGREEMENT. This Option is granted under the Plan. The terms of the Plan, a copy of which has been delivered to the Participant, are incorporated into and form a part of this Agreement, except to the extent that such terms are inconsistent with the rights of the Participant set forth in this Agreement. In the event of any inconsistency between the terms of the Plan and the terms of this Agreement, the terms of this Agreement shall control.

17. AMENDMENT AND TERMINATION. The Board of Directors may at any time amend or terminate the Plan in accordance with the provisions thereof, which amendment or termination shall be applicable to the Participant and this Agreement, except to the extent adverse to the rights or interests of the Participant under this Agreement.

18. DISPUTE RESOLUTION. Any controversy, dispute or claim arising out of or related to this Agreement shall be resolved by binding arbitration in accordance with the dispute resolution provisions of the Employment Agreement.

19. WAIVER OF RESPONSIBILITY. The Participant understands that the Company has assumed no responsibility for advising the Participant as to the tax consequences to the Participant of the grant of this Option. The Participant should consult with his individual tax advisor concerning the applicability of Federal, state and local tax laws to this Option and to his personal tax circumstances.

20. ADDITIONAL RESTRICTIONS ON TRANSFER.

(a) RESTRICTIVE LEGEND. Unless Shares purchased under this Agreement are covered by an ineffective registration statement under the Securities Act, the

certificates representing such Shares will bear the following legend, which legend shall be promptly removed upon reasonable request by the Participant:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS AND NEITHER THE SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, TRANSFERRED, PLEDGED OR OTHERWISE

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DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR SUCH LAWS OR AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND SUCH LAWS, WHICH, IN THE OPINION OF COUNSEL FOR THE HOLDER, WHICH COUNSEL AND OPINION ARE REASONABLY SATISFACTORY TO COUNSEL FOR THIS CORPORATION, IS AVAILABLE.

(b) OPINION OF COUNSEL. The Participant may not sell, transfer or dispose of any Shares purchased pursuant to this Agreement (except pursuant to an effective registration statement under the Securities Act) without first delivering to the Company an opinion of counsel reasonably acceptable in form and substance to the Company that registration under the Securities Act or any applicable state securities law is not required in connection with such transfer.

21. THE COMPANY'S REPRESENTATIONS. The Company represents and warrants that (i) it is fully and specifically authorized, by action of its board of directors (the "BOARD") and/or the Compensation Committee of the Board, and of any other person or body whose action is required, to enter into, and carry out the terms of, this Agreement; (ii) the execution, delivery and performance of this Agreement by the Company does not violate any applicable law, regulation, order, judgment or decree or any agreement, plan or corporate governance document to which the Company is party or by which it is bound; and (iii) upon the execution and delivery of this Agreement by the Company and the Participant, this Agreement shall be the valid and binding obligation of the Company, enforceable in accordance with its terms, except to the extent enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

22. DEFERRAL OF OPTION GAINS. The Participant shall have the right, by furnishing written notice to the Company at least six months prior to any exercise of this Option, to elect to defer any gains realized upon or in connection with such exercise. Any such deferral, including the manner of exercise of this Option in connection with such deferral, shall be made in such manner as may reasonably be required by the Company, including without limitation such requirements as may apply in order to defer such gains for Federal income tax purposes. At the time the Participant elects to defer such gains, such gains shall be deferred into any non-qualified deferral plan of the Company that accepts such deferrals on terms that satisfy the requirements of the preceding sentence and that are reasonably acceptable to the Participant. If no such plan is available, the Participant may make an irrevocable election to defer such gains into Share Units (with a "SHARE UNIT" representing a Share, including any dividends and other distributions that may be declared or made thereon during the period of the deferral). Amounts deferred under this Section 22 shall be paid out under the terms of the Participant's election to defer.

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23. NOTICES AND OTHER MISCELLANEOUS PROVISIONS. The provisions of Sections 16(a) through 16(e) of the Employment Agreement as in effect when this Agreement is executed shall apply to this Agreement as if fully set forth herein, with references to the "Executive" being deemed to be references to the Participant and with references to the "Parties" being deemed to be references to the Participant and the Company.

24. COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument. Signatures delivered by facsimile shall be valid and binding for all purposes.

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IN WITNESS WHEREOF, the Participant and the Company have executed

this Agreement, as of the date first above written.

PARTICIPANT

Jay Sugarman

iSTAR FINANCIAL INC.

By

Spencer B. Haber
Executive Vice President - Finance and
Chief Financial Officer

REIMBURSEMENT AGREEMENT

This REIMBURSEMENT AGREEMENT, dated as of June 14, 2001 (the "AGREEMENT"), is made by and between iSTAR FINANCIAL INC. ("iSTAR"), SOFI IV Management, L.L.C. ("STARWOOD OPPORTUNITY"), Starwood Mezzanine Holdings, L.P. ("STARWOOD MEZZANINE"), Starwood Capital Group I, L.P. ("SCG" and together with Starwood Opportunity and Starwood Mezzanine, the "CONTRIBUTORS") and Jay Sugarman ("SUGARMAN").

WHEREAS, Starwood Opportunity is the general partner of Starwood Opportunity Fund IV, L.P., a beneficial owner of iStar common stock, and Starwood Mezzanine and SCG are general partners of Starwood Mezzanine Investors, L.P., a shareholder of iStar; and

WHEREAS, pursuant to an Employment Agreement between iStar and Spencer B. Haber (the "EXECUTIVE") made as of April 1, 2001, iStar granted Executive 500,000 shares of iStar common stock (the "AWARD SHARES"), subject to certain restrictions provided in a Restricted Stock Grant made as of April 1, 2001 (the "RESTRICTED GRANT"); and

WHEREAS, the Contributors and Sugarman are willing to share a portion of the risk that the Executive will fully vest in all 500,000 Award Shares.

In consideration of the mutual covenants and agreements set forth herein and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. DEFINITIONS.

"VESTING DATE" shall mean any date on which any Award Share, in excess of the first 350,000 Award Shares, becomes a Fully Vested Restricted Share (as provided and defined in the Restricted Grant).

"REIMBURSABLE VESTED SHARES" shall mean those Award Shares, in excess of the first 350,000 Award Shares, that become Fully Vested Restricted Shares (as provided and defined in the Restricted Grant) on any particular Vesting Date.

"CASH EQUIVALENT" shall mean a dollar amount equal to: (i) the number of shares of iStar common stock at issue multiplied by (ii) the average of the average high and low sales price of a share of iStar common stock for each of the five trading days preceding the Vesting Date at issue and the five trading days thereafter, as reported on the New York Stock Exchange (the "NYSE"). Cash Equivalent shall be equitably adjusted in the event that (x) iStar common stock is not listed on the NYSE at the time of computation or (y) prior to such time there has occurred one or more mergers, consolidations, stock splits, distributions of securities, or similar events affecting iStar common stock.

"TAX BENEFIT" shall mean the aggregate income tax benefit, expressed in dollars, expected to be realized by the Company (including any successor) or by the Company's shareholders on account of compensation expense deductions with respect to Reimbursable Vested Shares as determined by the Company's independent accountants reasonably and in good faith. In making

such determination, the Company's independent accountants: (A) may make reasonable projections or rely on the Company's reasonable projections of (i) the Company's taxable income, (ii) the Company's dividend distributions, (iii) the proportion of the Company's shareholders who or which are taxable persons and (B) may use an assumed 45% effective aggregate tax rate for the Company's shareholders who or which are taxable persons.

2. UNDERTAKINGS.

a. As of any Vesting Date, the Contributors in the aggregate shall become obligated to pay to iStar, as a capital contribution, (x) cash equal to, or that whole number of shares of iStar common stock that is most nearly the Cash Equivalent of, 87.5% of the excess of (x) the Cash Equivalent of the Award Shares that become Reimbursable Vested Shares on such Vesting Date over (y) the Tax Benefits in respect of such Reimbursable Vested Shares. Such payment shall, except as otherwise provided in Section 2(b), be made within five business days after the amount of such payment has been determined by the Company's independent accountants. The individual and several obligations of each of the Contributors with respect to such payment obligation shall be as follows: Starwood Opportunity, 79.24%; Starwood Mezzanine, 20.55% and SCG, 0.21%.

b. It is understood that SCG, Starwood Opportunity and Starwood Mezzanine are entitled to receive iStar common stock or cash distributions from the limited partnerships of which they are general partners on account of such limited partnership's investment in iStar ("iStar GP Distributions"). In the event that, on any Vesting Date, any of SCG, Starwood Opportunity or Starwood Mezzanine do not have in its possession iStar GP Distributions sufficient to meet its obligations hereunder, such entity shall have the right to defer such obligation until such time as it shall have received such iStar GP Distributions from its respective limited partnership; provided, however, such deferral shall not extend beyond the date which is the later of (i) six (6) months after such Vesting Date and (ii) the last day of the calendar year in which such Vesting Date occurs. In furtherance thereof, if any such deposit of shares or payment of cash is deferred as set forth herein, the deferring Contributor shall direct the limited partnership of which it is general partner to deliver directly to iStar, until such deferring Contributor's obligations hereunder are satisfied in full, all iStar GP Distributions to which such deferring Contributor would be otherwise entitled.

c. None of the "Phantom Shares" referred to in the last sentence of Section 4(d) of the Employment Agreement made between Sugarman and iStar as of March 31, 2001 (such Agreement being the "SUGARMAN EMPLOYMENT AGREEMENT" and such "Phantom Shares" being the "AT-RISK PHANTOM SHARES") shall become "Fully Vested" except as provided in this Section 2(c). As of any Vesting Date, that whole number of the At-Risk Phantom Shares shall be forfeited to iStar whose "Fair Market Value" (as defined below) most nearly equals 12.5% of the excess of (x) the Cash Equivalent of the Award Shares that become Reimbursable Vested Shares on such Vesting Date over (y) the Tax Benefits in respect of such Reimbursable Vested Shares. Sugarman shall become "Fully Vested" in all of the At-Risk Phantom Shares that have not previously been forfeited pursuant to this Section 2(c) on the first day on which BOTH of the following criteria have been satisfied: (x) such At-Risk Phantom Shares have become "Fully Vested" pursuant to any of clauses (i) through (viii) of Section 4(d) of the Sugarman Employment Agreement AND (y) it is no longer possible for any additional Award Shares to

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become Fully Vested Restricted Shares (as provided and defined in the Restricted Grant). Any disputes arising under or relating to this Section 2(c) shall be resolved by arbitration in accordance with Section 12 of the Sugarman Employment Agreement. All quoted terms used in this Section 2(c) and not otherwise defined in this Section 2(c) shall have the meanings ascribed to them in the Sugarman Employment Agreement, and "FAIR MARKET VALUE" shall mean "Sixty-Day Average Closing Price", as defined in Section 4(c)(i) of the Sugarman Employment Agreement, except based (in the case of securities that are publicly traded in the United States) on the average of the high and low prices on the five trading days immediately preceding the Vesting Date in question, rather than on a 60-calendar-day closing price average.

3. REPRESENTATIONS OF CONTRIBUTORS. Starwood Opportunity, SCG and Starwood Mezzanine represent and warrant that:

a. they are duly organized, validly existing and in good standing under the laws of their respective states of formation;

b. they have all power and authority necessary to enable them to enter into this Agreement and carry out the transactions contemplated by this Agreement. All actions necessary to authorize the Contributors to enter into this Agreement and carry out the transactions contemplated by them have been taken. This Agreement has been duly executed by each Contributor and is a valid and binding agreement of each Contributor, enforceable against them in accordance with its terms; and

c. neither the execution or delivery of this Agreement or of any document to be delivered in accordance with this Agreement nor the consummation of the transactions contemplated by this Agreement or by any document to be delivered in accordance with this Agreement will violate, result in a breach of, or constitute a default (or an event which, with notice or lapse of time or both would constitute a default) under, the partnership agreements of the Contributors, or any agreement or instrument to which the Contributors or their respective partners are a party or by which any of them is bound, any law, or any order, rule or regulation of any court or governmental agency or other regulatory organization having jurisdiction over the Contributors or any of their respective partners.

4. THIRD PARTY BENEFICIARIES. This Agreement shall inure to the benefit of, and shall be binding upon, the successor and assigns of the parties permitted under this Agreement. Nothing herein expressed or implied shall confer upon any person or entity other than the parties hereto any right or remedy of any nature or kind whatsoever or any third party beneficiary rights.

5. SUCCESSORS AND ASSIGNS; ENTIRE AGREEMENT. No party may assign its rights or delegate its obligations under this Agreement without the consent of all other parties. Subject to the foregoing, this Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. This Agreement and the other agreements referred to herein together set forth the entire agreement and understanding between the parties as to the subject matter hereof and merges and supersedes all prior discussions, agreements and understandings of any and every nature among them.

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6. SEPARABILITY. In the event that any provision of this Agreement or the application of any provision hereof is declared to be illegal, invalid or otherwise enforceable by a court of competent jurisdiction, the remainder of this Agreement shall not be affected.

7. GOVERNING LAW. The validity, performance, construction and effect of this Agreement is governed by and shall be construed in accordance with the internal laws of the State of New York, without giving effect to principles of conflicts of law.

8. HEADINGS AND COUNTERPARTS. The headings in this Agreement are for convenience of reference only and shall not constitute a part of this Agreement nor shall they affect its meaning, construction or effect. This Agreement may be executed in two or more counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original, and all of which taken together shall constitute one and the same instrument.

9. FURTHER ASSURANCES. Each party shall take such action, subject to such terms and conditions as such party may reasonably establish, as may be reasonably requested by any other party (including, but not limited to, the delivery of documents) in order to carry out the provisions and purposes of this Agreement and the transactions contemplated hereby.

10. REMEDIES. The obligations of the Contributors and of Sugarman under this Agreement shall be several, Sugarman and each of the Contributors being liable to iStar for its own obligation hereunder, and not that of any other party. In the event of any material breach of this Agreement by any party hereto, each such breaching party agrees to indemnify the persons to whom a representation and warranty is given or an obligation is owed under this Agreement for all damages, costs and expenses (including reasonable attorneys' fees) actually incurred as a result of any such breach.

11. PRONOUNS. Whenever the context may require, any pronouns used herein shall be deemed also to include the corresponding single, plural, neuter, masculine or feminine forms.

12. AMENDMENTS. Any amendment to this Agreement shall be in writing, signed by all parties hereto and no amendment hereto shall be effective unless such amendment shall have been approved by a majority of those members of the Board of Directors of iStar which are not affiliated with any of the Contributors.

13. SUBSTITUTE CONSIDERATION. Any provision of this Agreement to the contrary notwithstanding, upon request of any Contributor, partner or constituent entity thereof (a "CONTRIBUTOR PARTY"), iStar shall not unreasonably withhold or delay its approval, from time to time, to proposals by a Contributor Party to satisfy a portion of a Contributor's obligation hereunder (equal to such Contributor Party's obligation borne indirectly through its interest in a Contributor) by substituting direct alternative arrangements between such Contributor Party and iStar, provided that any such substitution does not result in a reduction of the benefits iStar would have received hereunder, but for such substitution.

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IN WITNESS WHEREOF, the undersigned, intending to be legally bound hereby, have duly executed this Agreement as of the date first written above.

iSTAR FINANCIAL INC.

By:

Name:

Title:

STARWOOD MEZZANINE HOLDINGS, L.P.
By: Starwood Capital Group I, L.P.,
it general partner

By: BSS Capital Partners, L.P.,
its general partner

By: Sternlicht Holdings II,
Inc., its general partner

By: -----
Name: Barry S. Sternlicht
Title:

SOFI IV MANAGEMENT, L.L.C.
By: Starwood Capital Group, L.L.C.,
its managing member

By: -----
Name: Barry S. Sternlicht
Title: General Manager

STARWOOD CAPITAL GROUP I, L.P.
By: BSS Capital Partners, L.P., its
general partner
By: Sternlicht Holdings II, Inc.,
its general partner

By: -----
Name: Barry S. Sternlicht
Title:

JAY SUGARMAN
By: -----
Jay Sugarman