UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2000

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 10036 (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 August 8, 2000, there were 85,716,354 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)

	AS OF JUNE 30, 2000	AS OF DECEMBER 31, 1999
	(UNAUDITED)	
ASSETS		
Loans and other lending investments, net	$2,253,339	$2,003,506
Real estate subject to operating leases, net	1,653,512	1,714,284
Cash and cash equivalents	32,718	34,408
Restricted cash	16,138	10,195
Marketable securities	95	4,344
Accrued interest and operating lease income receivable	18,392	16,211
Deferred operating lease income receivable	5,637	1,147
Deferred expenses and other assets	61,264	29,074
Investment in IStar Operating	174	383
Total assets	$4,041,269	$3,813,552
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 52,536	$ 54,773
Dividends payable	5,225	53,667
Debt obligations	2,138,060	1,901,204
Total liabilities	2,195,821	2,009,644
Commitments and contingencies	--	--
Minority interest in consolidated entities	2,565	2,565
Shareholders' equity:		
Series A Preferred Shares, $0.001 par value, liquidation preference $220,000, 4,400,000 shares authorized and outstanding at June 30, 2000 and December 31, 1999	4	4
Series B Preferred Shares, $0.001 par value, liquidation preference $50,000, 2,000,000 shares issued and outstanding at June 30, 2000 and December 31, 1999	2	2
Series C Preferred Shares, $0.001 par value, liquidation preference $32,500, 1,300,000 shares issued and outstanding at June 30, 2000 and December 31, 1999	1	1
Series D Preferred Shares, $0.001 par value, liquidation preference $100,000, 4,000,000 shares issued and outstanding at June 30, 2000 and December 31, 1999	4	4
Common Stock, $0.001 par value, 200,000,000 shares authorized, 85,284,909 and 84,985,236 shares issued and outstanding at June 30, 2000 and December 31, 1999, respectively	85	85
Warrants and options	17,922	17,935
Accumulated other comprehensive income (losses)	--	(229)
Additional paid in capital	1,959,207	1,953,972
Retained earnings (deficit)	(93,797)	(129,992)
Treasury stock (at cost)	(40,545)	(40,439)
Total shareholders' equity	1,842,883	1,801,343
Total liabilities and shareholders' equity	$4,041,269	$3,813,552

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

ISTAR FINANCIAL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
REVENUE:				
Interest income	$ 66,864	$52,007	$126,947	$101,926
Operating lease income	47,223	3,723	93,495	7,450
Other income	3,827	3,525	8,360	5,303
Total revenue	117,914	59,255	228,802	114,679
COSTS AND EXPENSES:				
Interest expense	42,770	20,556	80,559	40,249
Property operating costs	2,959	--	6,284	--
Depreciation and amortization	8,862	1,365	17,871	2,730
General and administrative	7,808	1,185	14,711	1,669
Provision for possible credit losses	1,500	1,250	3,000	2,250
Stock option compensation expense	586	--	1,134	--
Advisory fees	--	5,016	--	9,681
Total costs and expenses	64,485	29,372	123,559	56,579
Net income before minority interest, gain on sale of net lease assets and extraordinary loss	53,429	29,883	105,243	58,100
Minority interest in consolidated entities	(41)	--	(82)	--
Gain on sale of net lease assets	441	--	974	--
Net income before extraordinary loss	53,829	29,883	106,135	58,100
Extraordinary loss on early extinguishment of debt	--	--	(317)	--
Net income	$ 53,829	$29,883	$105,818	$ 58,100
Preferred dividend requirements	$ (9,227)	$(5,308)	$(18,454)	$(10,615)
Net income allocable to common shareholders	$ 44,602	$24,575	$ 87,364	$ 47,485
Basic earnings per common share(1)	$ 0.52	$ 0.46	$ 1.03	$ 0.90
Diluted earnings per common share	$ 0.52	$ 0.43	$ 1.02	$ 0.84

EXPLANATORY NOTE:

(1) Net income per basic common share excludes 1% of net income allocable to the Company's class B shares prior to November 4, 1999. These shares were exchanged for Common Stock concurrently with the closing of the Company's acquisition of TriNet and related transactions on November 4, 1999. As a result, the Company now has a single class of Common Stock outstanding.

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

ISTAR FINANCIAL INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2000
(IN THOUSANDS)
(UNAUDITED)

	SERIES A PREFERRED STOCK	SERIES B PREFERRED STOCK	SERIES C PREFERRED STOCK	SERIES D PREFERRED STOCK	COMMON STOCK AT PAR	WARRANTS AND OPTIONS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK
Balance at December 31, 1999	$ 4	$ 2	$ 1	$ 4	$ 85	$17,935	$(229)	$(40,439)
Exercise of options	--	--	--	--	--	(13)	--	--
Dividends declared--preferred stock	--	--	--	--	--	--	--	--
Dividends declared--common stock	--	--	--	--	--	--	--	--
Acquisition of ACRE Partners	--	--	--	--	--	--	--	--
Restricted stock units issued to employees in lieu of cash bonuses	--	--	--	--	--	--	--	--
Restricted stock units granted to employees	--	--	--	--	--	--	--	--
Treasury stock	--	--	--	--	--	--	--	(106)
Net income for the period	--	--	--	--	--	--	--	--
Change in accumulated other comprehensive income	--	--	--	--	--	--	229	--
Balance at June 30, 2000	$ 4	$ 2	$ 1	$ 4	$ 85	$17,922	$ --	$(40,545)

	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNING (DEFICIT)	TOTAL
Balance at December 31, 1999	$1,953,972	$(129,992)	$1,801,343
Exercise of options	96	--	83
Dividends declared--preferred stock	165	(18,453)	(18,288)
Dividends declared--common stock	--	(51,170)	(51,170)
Acquisition of ACRE Partners	3,637	--	3,637
Restricted stock units issued to employees in lieu of cash bonuses	1,125	--	1,125
Restricted stock units granted to employees	212	--	212
Treasury stock	--	--	(106)
Net income for the period	--	105,818	105,818
Change in accumulated other comprehensive income	--	--	229
Balance at June 30, 2000	$1,959,207	$ (93,797)	$1,842,883

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

ISTAR FINANCIAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(UNAUDITED)

	FOR THE THREE MONTHS ENDED JUNE 30, 2000	FOR THE THREE MONTHS ENDED JUNE 30, 1999	FOR THE SIX MONTHS ENDED JUNE 30, 2000	FOR THE SIX MONTHS ENDED JUNE 30, 1999
Cash flows from operating activities:				
Net income	$ 53,829	$ 29,883	$ 105,818	$ 58,100
Adjustments to reconcile net income to cash flows provided by operating activities:				
Minority interest	41	--	82	--
Equity in (earnings) loss of unconsolidated joint ventures and subsidiaries	(2,087)	8	(2,411)	113
Depreciation and amortization	11,846	2,745	22,980	5,650
Amortization of discounts/premiums, deferred interest and costs on lending investments	(4,683)	(5,428)	(11,750)	(12,730)
Distributions from operating joint ventures	1,426	--	2,378	--
Straight-line operating lease income adjustments	(2,249)	--	(4,531)	--
Realized (gains) losses on sales of securities	--	--	229	--
Gain on sale of net lease assets	(441)	--	(974)	--
Extraordinary loss on early extinguishment of debt	--	--	317	--
Provision for possible credit losses	1,500	1,250	3,000	2,250
Changes in assets and liabilities:				
(Increase) decrease in restricted cash	(4,882)	649	(5,943)	2,202
(Increase) decrease in accrued interest and operating lease income receivable	(768)	633	(2,181)	789
Increase in deferred expenses and other assets	(5,940)	(623)	(8,833)	(1,034)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	421	1,743	(4,336)	(1,964)
Cash flows provided by operating activities	48,013	30,860	93,845	53,376
Cash flows from investing activities:				
New investment originations/acquisitions	(231,248)	(182,932)	(443,173)	(337,250)
Principal fundings on existing loan commitments	(21,267)	(15,597)	(37,809)	(22,724)
Net proceeds from sale of net lease assets	100,974	--	146,265	--
Repayments of and principal collections from loans and other lending investments	41,429	207,737	163,232	264,310
Net investments in and advances to unconsolidated joint ventures	(11,305)	765	(11,973)	860
Capital expenditures on real estate subject to operating leases	(1,224)	--	(3,082)	--
Cash flows provided by (used in) investing activities	(122,641)	9,973	(186,540)	(94,804)
Cash flows from financing activities:				
Net borrowings (repayments) under revolving credit facilities	(562,304)	(41,689)	(497,127)	45,459
Borrowings under term loans	60,000	209,400	90,000	364,800
Repayments under term loans	(230,629)	(172,919)	(240,355)	(298,602)
Borrowings under repurchase agreements	27,981	--	27,981	--
Repayments under repurchase agreements	(2,273)	(6,038)	(2,392)	(6,491)
Borrowings under bond offerings	857,015	--	857,015	--
Common dividends paid	(51,170)	(22,261)	(99,611)	(43,967)
Preferred dividends paid	(9,144)	(5,225)	(18,288)	(6,152)
Minority interest	(41)	--	(82)	--
Extraordinary loss on early extinguishment of debt	--	--	(317)	--
Payments for deferred financing costs	(23,858)	(345)	(25,771)	(5,158)
Increase in loan costs	(25)	--	(131)	--
Purchase of treasury stock	--	--	--	--
Proceeds from exercise of options	83	225	83	947
Cash flows provided by (used in) financing activities	65,635	(38,852)	91,005	50,836
Increase (decrease) in cash and cash equivalents	(8,993)	1,981	(1,690)	9,408
Cash and cash equivalents at beginning of period	41,711	17,537	34,408	10,110
Cash and cash equivalents at end of period	$ 32,718	$ 19,518	$ 32,718	$ 19,518
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest	$ 34,595	$ 19,562	$ 71,445	$ 38,359

The accompanying notes are an integral part of the financial statements

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. 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"), 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.

BUSINESS--The Company believes it is the largest publicly traded finance company in the United States focused exclusively on the commercial real estate industry. The Company, which is taxed as a real estate investment trust ("REIT"), provides structured mortgage, mezzanine and lease financing through its nationwide origination, acquisition and servicing platform. The Company's investment strategy targets specific sectors of the real estate credit markets in which it can deliver value-added, flexible financial solutions to its customers, thereby differentiating its financial products from those offered by other capital providers.

The Company has implemented its investment strategy by: (i) focusing on the origination of large, highly structured mortgage, mezzanine 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; (ii) developing direct relationships with borrowers and corporate tenants as opposed to sourcing transactions through intermediaries; (iii) adding value beyond simply providing capital by offering borrowers and corporate tenants specific lending expertise, flexibility, speed, certainty and continuing relationships beyond the closing of a particular financing transaction; and (iv) 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 positioning.

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") for complete financial statements. The Consolidated Financial Statements include the accounts of the Company, its qualified REIT subsidiaries, and its majority-owned

NOTE 2--BASIS OF PRESENTATION (CONTINUED)

and controlled partnership. 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 preferred stock and a 95% economic interest in IStar Operating, which is accounted for under the equity method for financial reporting purposes. In addition, the Company has an investment in TriNet Management Operating Company, Inc. ("TMOC"), 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 and recurring accruals, necessary for a fair presentation of the Company's financial condition at June 30, 2000 and December 31, 1999 and the results of its operations, changes in shareholders' equity and its cash flows for the three- and six-month periods ended June 30, 2000 and 1999, 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 5 "Loans and Other Lending Investments," includes the following investments: senior mortgages, subordinate mortgages, partnership loans/ unsecured notes, loan participations and other lending 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, seven 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.

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.

MARKETABLE SECURITIES--From time to time, the Company invests excess working capital in 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

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

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. 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.

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 difference between lease revenue recognized under this method and actual cash receipts 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

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

placed on non-accrual status at such time that the loans either: (i) become 90 days delinquent; or (ii) 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's periodic evaluation of the allowance for possible credit losses is based upon an 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 stockholders, 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.

NET INCOME ALLOCABLE TO COMMON SHARES--Net income allocable to common shares excludes 1% of net income allocable to the class B shares prior to November 4, 1999. The class A and class B shares were exchanged for Common Stock in connection with the TriNet Acquisition, as more fully described in Note 4.

EARNINGS (LOSS) PER COMMON SHARES--In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128") effective for periods ending after December 15, 1997. SFAS No. 128 simplifies the standard for computing earnings per share and makes them comparable with international earnings per share standards. The statement replaces primary earnings per share with basic earnings per share ("Basic EPS") and fully-diluted earnings per share with diluted earnings per share ("Diluted EPS").

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

NEW ACCOUNTING STANDARDS--In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information" ("SFAS No. 131") effective for financial statements issued for periods beginning after December 15, 1997. SFAS No. 131 requires disclosures about segments of an enterprise and related information regarding the different types of business activities in which an enterprise engages and the different economic environments in which it operates. The Company adopted the requirements of this pronouncement in its financial statements beginning with its reporting for fiscal 1999. As of June 30, 2000, the Company maintains two basic business segments for reporting purposes: real estate lending and credit tenant leasing.

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

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

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: (i) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (ii) a hedge of the exposure to variable cash flows of a forecasted transaction; or (iii) in certain circumstances a hedge of a foreign currency exposure. The Company currently plans to adopt 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," as required effective January 1, 2001. The adoption of SFAS No. 133 is not expected to have a material financial impact on the financial position or results of operations of the Company.

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 will be required to adopt SAB 101 by the fourth quarter of fiscal 2001. The Company has not completed its determination of the impact of the adoption of SAB 101 on its consolidated financial position or results of operations.

In March 2000, the FASB issued FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation." The Company will be 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 Company does not expect the application of FIN 44 to have a material impact on its consolidated financial position or results of operations.

NOTE 4--CAPITAL TRANSACTIONS

PRIOR TRANSACTIONS WITH AFFILIATES--Through a series of transactions beginning in November 1993 and through March 18, 1998, the date of the Recapitalization Transactions described in the following section, Starwood Mezzanine Investors, L.P. ("Starwood Mezzanine") and certain other affiliates (collectively, the "Starwood Investors") had acquired controlling interests in the Company represented by an aggregate of 874,016 class A shares, or 69.46% of the then total class A shares outstanding, and 629,167 class B shares, representing 100% of the then total class B shares outstanding. Together, the class A and class B shares held by the Starwood Investors represented 79.64% of the voting interests of the Company.

During the quarter ended March 31, 1998, the Company consummated certain transactions and entered into agreements which significantly recapitalized and expanded its capital resources, as well as modified future operations, including those described herein below in "Recapitalization Transactions" and "Advisor Transaction."

RECAPITALIZATION TRANSACTIONS--As more fully discussed above, pursuant to a series of transactions beginning in March 1994 and including the exercise of the class A and class B warrants in January 1997, the Starwood Investors acquired joint ownership of 69.46% and 100% of the outstanding class A shares and

NOTE 4--CAPITAL TRANSACTIONS (CONTINUED)
class B shares of the Company, respectively, through which they controlled approximately 79.64% of the voting interests in the Company as of December 31, 1997. Prior to the consummation of these transactions on March 18, 1998 (collectively, the "Recapitalization Transactions"), Starwood Mezzanine also owned 761,491 units which represented the remaining 91.95% of APMT Limited Partnership not held by the Company. Those units were convertible into cash, an additional 761,491 class A shares of the Company, or a combination of the two, as determined by the Company.

On March 18, 1998, each outstanding unit held by Starwood Mezzanine was exchanged for one class A share of the Company and, concurrently, the partnership was liquidated through a distribution of its net assets to the Company, its then sole partner.

Simultaneously, Starwood Mezzanine contributed various real estate loan investments to the Company in exchange for 9,191,333 class A shares and $25.5 million in cash, as adjusted. Starwood Opportunity Fund IV, L.P., one of the Starwood Investors ("SOF IV"), contributed loans and other lending investments, $17.9 million in cash and certain letters of intent in exchange for 41,179,133 class A shares of the Company and a cash payment of $324.3 million. Concurrently, the holders of the class B shares who were affiliates of the Starwood Investors acquired 25,565,979 additional class B shares sufficient to maintain existing voting preferences pursuant to the Company's Amended and Restated Declaration of Trust. Immediately after these transactions, the Starwood Investors owned approximately 99.27% of the outstanding class A shares of the Company and 100% of the class B shares. Assets acquired from Starwood Mezzanine have been reflected using step acquisition accounting at predecessor basis adjusted to fair value to the extent of post-transaction third-party ownership. Assets acquired from SOF IV have been reflected at their fair market value.

ADVISORY AGREEMENT--In connection with the Recapitalization Transactions, the Company and its former external advisor (the "Advisor"), an affiliate of the Starwood Investors, entered into an Advisory Agreement (the "Advisory Agreement") pursuant to which the Advisor managed the affairs of the Company, subject to the Company's purpose and investment policy, the investment restrictions and the directives of the Board of Directors. The services provided by the Advisor included the following: (i) identifying investment opportunities for the Company; (ii) advising the Company with respect to and effecting acquisitions and dispositions of the Company's investments; (iii) monitoring, managing and servicing the Company's loan portfolio; and (iv) arranging debt financing for the Company. The Advisor was prohibited from acting in a manner inconsistent with the express direction of the Board of Directors, and reported to the Board of Directors and the officers of the Company with respect to its activities.

The Company paid the Advisor a quarterly base management fee of 0.3125% (1.25% per annum) of the "Book Equity Value" of the Company determined as of the last day of each quarter but estimated and paid in advance subject to recomputation. "Book Equity Value" was generally defined as the excess of the book value of the assets of the Company over all liabilities of the Company.

In addition, the Company paid the Advisor a quarterly incentive fee of 5.00% of the Company's "Adjusted Net Income" during each quarter that the Adjusted Net Income for such quarter (restated and annualized as a rate of return on the Company's Book Equity Value for such quarter) equaled or exceeded the "Benchmark BB Rate." "Adjusted Net Income" was generally defined as the Company's gross income less the Company's expenses for the applicable quarter (including the base fee for such quarter but not the incentive fee for such quarter). In calculating both Book Equity Value and Adjusted Net Income, real estate-related depreciation and amortization (other than amortization of financing costs and other prepaid

NOTE 4--CAPITAL TRANSACTIONS (CONTINUED)

expenses to the extent such costs and prepaid expenses have previously been booked as an asset of the Company) were not deducted. The Advisor was also reimbursed for certain expenses it incured on behalf of the Company.

The Advisory Agreement had an initial term of three years subject to an automatic renewal for one-year periods unless the Company had been liquidated or a Termination Event (as defined in the Advisory Agreement and which generally included violations of the Advisory Agreement by the Advisor, a bankruptcy event of the Advisor or the imposition of a material liability on the Company as a result of the Advisor's bad faith, willful misconduct, gross negligence or reckless disregard of duties) had occurred and was continuing. In addition, the Advisor could have terminated the Advisory Agreement on 60 days' written notice to the Company and the Company could have terminated the Advisory Agreement upon 60 days' written notice if a Termination Event had occurred or if the decision to terminate were based on affirmative vote of the holders of two thirds or more of the voting shares of the Company at the time outstanding.

Prior to the transactions described below through which, among other things, the Company became internally-managed, the Company was dependent on the services of the Advisor and its officers and employees for the successful execution of its business strategy.

1999 TRANSACTIONS--On November 3, 1999, consistent with previously announced terms, the Company's shareholders approved a series of transactions including: (i) the acquisition, through a merger, of TriNet; (ii) the acquisition, through a merger and a contribution of interests, of 100% of the ownership interests in the Advisor; and (iii) the change in form, through a merger, of the Company's organization into a Maryland corporation. TriNet stockholders also approved the TriNet Acquisition on November 3, 1999. These transactions were consummated on November 4, 1999. As part of these transactions, the Company also replaced its dual class common share structure with a single class of Common Stock.

TRINET ACQUISITION--TriNet merged with and into a subsidiary of the Company, with TriNet surviving as a wholly-owned subsidiary of the Company (the "Leasing Subsidiary"). In the TriNet Acquisition, each share of TriNet common stock was converted into 1.15 shares of Common Stock, resulting in an aggregate issuance of 28.9 million shares of Common Stock. Each share of TriNet Series A, Series B and Series C Cumulative Redeemable Preferred Stock was converted into a share of Series B, Series C or Series D (respectively) Cumulative Redeemable Preferred Stock of the Company. The Company's preferred stock issued to the former TriNet preferred stockholders has substantially the same terms as the TriNet preferred stock, except that the new Series B, C, and D preferred stock has additional voting rights not associated with the TriNet preferred stock. The holders of the Company's Series A preferred stock will retain the same rights and preferences as existed prior to the TriNet Acquisition.

The TriNet Acquisition was accounted for as a purchase. Because the Company's stock prior to the transaction was largely held by the Starwood Investors, and, as a result, the stock was not widely traded relative to the amount of shares outstanding, the pro forma financial information presented below was prepared utilizing a stock price of $28.14 per TriNet share, which was the average stock price of TriNet during the five-day period before and after the TriNet Acquisition was agreed to and announced.

ADVISOR TRANSACTION--Contemporaneously with the consummation of the TriNet Acquisition, the Company acquired 100% of the interests in the Advisor in exchange for total consideration of four million shares of Common Stock. For accounting purposes, the Advisor Transaction was not considered the

NOTE 4--CAPITAL TRANSACTIONS (CONTINUED)

acquisition of a "business" in applying Accounting Principles Board Opinion No. 16, "Business Combinations" and, therefore, the market value of the Common Stock issued in excess of the fair value of the net tangible assets acquired of approximately $94.5 million was charged to operating income as a one-time item in the fourth quarter of 1999, rather than capitalized as goodwill.

INCORPORATION MERGER--Prior to the consummation of the TriNet Acquisition and the Advisor Transaction, the Company changed its form from a Maryland trust to a Maryland corporation in the Incorporation Merger, which technically involved a merger of the Company with a wholly-owned subsidiary formed solely to effect such merger. 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. The Incorporation Merger was treated as a transfer of assets and liabilities under common control. Accordingly, the assets and liabilities transferred from Starwood Financial Trust to Starwood Financial Inc. were reflected at their predecessor basis and no gain or loss was recognized.

The Company declared and paid a special dividend of one million shares of its Common Stock payable pro rata to all holders of record of its Common Stock following completion of the Incorporation Merger, but prior to the effective time of the TriNet Acquisition and the Advisor Transaction.

PRO FORMA INFORMATION--The summary unaudited pro forma consolidated statement of operations for the six-month period ended June 30, 1999 is presented as if the following transactions, consummated in November 1999, had occurred on January 1, 1999: (i) the TriNet Acquisition; (ii) the Advisor Transaction; and (iii) the borrowing necessary to consummate the aforementioned transactions. The unaudited pro forma information is based upon the historical consolidated results of operations of the Company and TriNet for the six-month period ended June 30, 1999, after giving effect to the events described above.

NOTE 4--CAPITAL TRANSACTIONS (CONTINUED)

PRO FORMA
CONSOLIDATED STATEMENT OF OPERATIONS
(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)

	FOR THE SIX MONTHS ENDED JUNE 30, 1999 (UNAUDITED)
REVENUE:	
Interest income	$105,969
Operating lease income	94,765
Other income	6,236
Total revenue	206,970
EXPENSES:	
Interest expense	66,239
Property operating costs	7,760
Depreciation and amortization	17,911
General and administrative	10,280
Provision for possible credit losses	2,250
Stock option compensation expense	1,134
Total expenses	105,574
Income before minority interest	101,396
Minority interest in consolidated entities	(81)
Net income from continuing operations	$101,315
Preferred dividend requirements	(18,453)
Net income from continuing operations allocable to common shareholders	$ 82,862
BASIC EARNINGS PER SHARE:	
Basic earnings per common share	$ 0.95
Weighted average number of common shares outstanding	87,257

Investments and dispositions are assumed to have taken place as of January 1, 1999; however, loan originations and acquisitions are not reflected in these pro forma numbers until the actual origination or acquisition date by the Company. General and administrative costs represent estimated expense levels as an internally-managed Company.

The pro forma financial information is not necessarily indicative of what the consolidated results of operations of the Company would have been as of and for the period indicated, nor does it purport to represent the results of operations for future periods.

NOTE 5--LOANS AND OTHER LENDING INVESTMENTS

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

TYPE OF INVESTMENT	UNDERLYING PROPERTY TYPE	# OF BORROWERS IN CLASS	ORIGINAL COMMITMENT AMOUNT	PRINCIPAL BALANCES OUTSTANDING	CARRYING VALUE AS OF JUNE 30, 2000 (UNAUDITED)	CARRYING VALUE AS OF DECEMBER 31, 1999	EFFECTIVE MATURITY DATES
Senior Mortgages	Office/Hotel/Mixed Use/Apartment/Retail/ Resort	19	$1,068,066	$1,007,057	$1,007,277	$ 938,040	2000 to 2009
Subordinated Mortgages (4)	Office/Hotel/Mixed Use/Retail/Conference Center	18	580,835	547,730	530,954	540,441	2000 to 2007
Partnership Loans/ Unsecured Notes	Office/Hotel/Residential/ Land	14	408,273	408,162	406,793	309,768	2000 to 2028
Loan Participations	Office/Retail	4	127,497	128,039	127,897	152,782	2000 to 2005
Other Lending Investments	Real Estate-Related Securities/Ventures	11	N/A	N/A	190,918	69,975	2002 to 2007
Gross Carrying Value					$2,263,839	$2,011,006	
Provision for Possible Credit Losses					(10,500)	(7,500)	
Total, Net					$2,253,339	$2,003,506	

TYPE OF INVESTMENT	CONTRACTUAL INTEREST PAYMENT RATES(1)	CONTRACTUAL INTEREST ACCRUAL RATES(3)	PRINCIPAL AMORTIZ-ATION	PARTICIPATION FEATURES
Senior Mortgages	Fixed: 7.28% to 20.00% Variable: LIBOR + 1.25% to 5.00%	Fixed: 7.28% to 24.00% Variable: LIBOR + 1.25% to 5.00%	Yes(2)	Yes(3)
Subordinated Mortgages (4)	Fixed: 9.53% to 15.25% Variable: LIBOR + 4.50% to 5.80%	Fixed: 9.53% to 17.00% Variable: LIBOR + 4.00% to 5.80%	Yes(2)	Yes(3)
Partnership Loans/ Unsecured Notes	Fixed: 8.00% to 15.00% Variable: LIBOR + 5.37% to 7.50%	Fixed: 8.50% to 17.50% Variable: LIBOR + 5.37% to 7.50%	Yes	Yes(3)
Loan Participations	Fixed: 10.00% to 13.60% Variable: LIBOR + 4.00% to 6.00%	Fixed: 10.00% to 13.60% Variable: LIBOR + 4.00% to 6.00%	No	Yes(3)
Other Lending Investments	Fixed: 10.00% to 12.75%	Fixed: 10.00% to 12.75%	No	No
Gross Carrying Value				
Provision for Possibl				
Total, Net				

EXPLANATORY NOTES:

(1) Substantially all variable-rate loans are based on 30-day LIBOR and reprice monthly.

(2) 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.

(3) Under some of these loans, the Company receives additional payments representing additional contingent 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.

(4) The unfunded commitment amount on one of the Company's construction loans, included in subordinated mortgages, was $2.6 million and $16.2 million as of June 30, 2000 and December 31, 1999, respectively.

NOTE 5--LOANS AND OTHER LENDING INVESTMENTS (CONTINUED)

During the six-month periods ended June 30, 2000 and 1999, respectively, the Company and its affiliated ventures originated or acquired an aggregate of approximately $361.0 million and $337.3 million in loans and other lending investments, funded $37.8 million and $22.7 million under existing loan commitments and received principal repayments of $163.2 million and $264.3 million.

The Company has reflected additional provisions for possible credit losses of approximately $1.5 million and $1.3 million in its results of operations during the three months ended June 30, 2000 and 1999, respectively, and $3.0 million and $2.3 million during the six months ended June 30, 2000 and 1999, respectively. There was no other activity in the Company's reserve balances during these periods. These provisions represent portfolio reserves based on management's evaluation of general market conditions, the Company's and industry loss experience, 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 6--REAL ESTATE SUBJECT TO OPERATING LEASES

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

	JUNE 30, 2000 (UNAUDITED)	DECEMBER 31, 1999
Buildings and improvements	$1,250,545	$1,390,933
Land and land improvements	354,877	277,872
Less accumulated depreciation	(30,907)	(14,627)
	1,574,515	1,654,178
Investments in unconsolidated joint ventures	78,997	60,106
Real estate subject to operating leases, net	$1,653,512	$1,714,284

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- or six-month periods ended June 30, 2000 and 1999.

At June 30, 2000, the Company had investments in seven joint ventures: (i) TriNet Sunnyvale Partners L.P. ("Sunnyvale"), whose external partners are John D. O'Donnell, Trustee, John W. Hopkins, and Donald S. Grant; (ii) Corporate Technology Associates LLC ("CTC I"), whose external member is Corporate Technology Centre Partners LLC; (iii) Sierra Land Ventures ("Sierra"), whose external joint venture partner is Sierra-LC Land, Ltd.; (iv) Corporate Technology Centre Associates II LLC ("CTC II"), whose external joint venture member is Corporate Technology Centre Partners II LLC; (v) TriNet Milpitas Associates, LLC ("Milpitas"), whose external member is The Prudential Insurance Company of America; (vi) TN-CP Venture One ("TN-CP"), whose external partner is Sierra Office Venture Three, Ltd.; and (vii) ACRE Simon, L.L.C. ("ACRE"), whose external partner is William R. Simon & Sons Realty Investments, L.L.C. These ventures were formed for the purpose of operating, acquiring and in certain cases, developing corporate net lease facilities. Effective November 22, 1999, the joint venture partners, who are affiliates of Whitehall Street Real Estate Limted Partnership, IX and The Goldman Sachs Group L.P. (collectively, the "Whitehall Group") in W9/TriNet Poydras, LLC ("Poydras") elected to exercise their right under the partnership agreement, which was accelerated as a result of the TriNet Acquisition, to exchange all of their membership units for 350,746 shares of Common Stock of the Company and a $767,000 distribution of available cash. The Whitehall Group's membership units were valued at $33.32, after consideration for the 1.15 exchange ratio, (see Note 4) and converted into shares of Common Stock on a one-for-one basis. As a consequence, Poydras is now wholly owned and is reflected on a consolidated basis in these financial statements.

At June 30, 2000, the ventures comprised 29 facilities totaling 3.1 million square feet, six of which are under development totalling 1.0 million square feet. Additionally, 17.7 acres of land are held for sale. The Company's combined investment in these joint ventures at June 30, 2000 was $79.0 million. The joint ventures' purchase price for the 29 facilities owned at June 30, 2000 was $348.8 million. The purchase price of the land held for sale was $6.8 million. In the aggregate, the joint ventures had total assets of $417.8 million, total liabilities of $322.8 million,

NOTE 6--REAL ESTATE SUBJECT TO OPERATING LEASES (CONTINUED)

and net income of $3.9 million. The Company accounts for these investments under the equity method because its 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 pro rata share of third-party debt as of June 30, 2000 are presented below (in thousands):

UNCONSOLIDATED JOINT VENTURES	OWNERSHIP %	EQUITY INVESTMENT	NOTES RECEIVABLE	ACCRUED INTEREST INCOME	TOTAL INVESTMENT	JOINT VENTURE INCOME	INTEREST RECEIVABLE
Operating:							
Sunnyvale	44.7%	$$13,547	$ --	$ --	$ 13,547	$ 732	$ --
CTC II	50.0%	4,177	21,561	5,070	30,808	(417)	2,669
Milpitas	50.0%	20,762	--	--	20,762	1,383	--
TN-CP	50.0%	7,595	--	--	7,595	263	--
ACRE Simon	20.0%	5,111	--	--	5,111	(3)	--
Development:							
Sierra	50.0%	5,890	--	--	5,890	166	--
CTC I	50.0%	21,915	--	--	21,915	493	--
Total		$78,997	$21,561	$ 5,070	$105,628	$ 2,617	$ 2,669

UNCONSOLIDATED JOINT VENTURES	TOTAL INCOME	PRO RATA SHARE OF THIRD-PARTY DEBT
Operating:		
Sunnyvale	$ 732	$ 7,385
CTC II	2,252	8,190
Milpitas	1,383	40,889
TN-CP	263	18,982
ACRE Simon	(3)	4,133
Development:		
Sierra	166	724
CTC I	493	36,550
Total	$ 5,286	$116,853

At June 30, 2000 the Company was the guarantor for 50% of CTC I's $73.1 million construction loan. CTC I has commenced the development of phase II of the project. As a result, the Company has an additional commitment to fund further development costs in the amount of approximately $6.0 million. This amount will vary depending upon the amount of senior third-party financing obtained.

Currently, the limited partners of the Sunnyvale partnership 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, partnership units held by certain partners of Milpitas may be converted into 984,476 shares of Common Stock.

NOTE 7--DEBT OBLIGATIONS

As of June 30, 2000 and December 31, 1999, the Company had debt obligations under various arrangements with financial institutions as follows (in thousands):

	MAXIMUM AMOUNT AVAILABLE	CARRYING VALUE AS OF JUNE 30, 2000 (UNAUDITED)	CARRYING VALUE AS OF DECEMBER 31, 1999	STATED INTEREST RATES
SECURED REVOLVING CREDIT FACILITIES:				
Line of credit	$ 675,000	$ 216,024	$ 592,984	LIBOR + 1.50%
Line of credit	500,000	114,785	169,952	LIBOR + 1.50% - 1.75%(1)
Total secured revolving credit facilities	1,175,000	330,809	762,936	
UNSECURED REVOLVING CREDIT FACILITIES:				
Line of credit	350,000	121,700	186,700	LIBOR + 1.55%
Line of credit(2)	100,000	--	--	LIBOR + 2.00% - 2.25%
Total revolving credit facilities	$1,625,000	452,509	949,636	
SECURED TERM LOANS:				
Secured by real estate under operating leases		152,155	153,618	7.44%
Secured by senior and subordinate mortgage investments		--	109,398	LIBOR + 1.00%
Secured by senior mortgage investment		--	90,902	LIBOR + 1.00%
Secured by corporate lending investment		60,000	--	LIBOR + 2.50%
Secured by real estate under operating leases		78,610	78,610	LIBOR + 1.38%
Secured by real estate under operating leases		64,689	73,279	Fixed: 6.00% - 11.38% Variable: LIBOR + 1.00%
Secured by senior mortgage investment		54,000	54,000	LIBOR + 1.75%(6)
Total term loans		409,454	559,807	
Less debt discounts		(250)	(521)	
Total secured term loans		409,204	559,286	
ISTAR ASSET RECEIVABLES SECURED NOTES:				
Class A		480,795	--	LIBOR + 0.30%
Class B		94,055	--	LIBOR + 0.50%
Class C		105,813	--	LIBOR + 1.00%
Class D		52,906	--	LIBOR + 1.45%
Class E		123,447	--	LIBOR + 2.75%
Total IStar Asset Receivables secured notes		857,016	--	
UNSECURED NOTES:				
6.75% Dealer Remarketable Securities(8)		125,000	125,000	6.75%
7.30% Notes		100,000	100,000	7.30%
7.70% Notes		100,000	100,000	7.70%
7.95% Notes		50,000	50,000	7.95%
Total unsecured notes		375,000	375,000	
Less debt discount(9)		(20,017)	(21,481)	
Total unsecured notes		354,983	353,519	
OTHER DEBT OBLIGATIONS		64,348	38,763	Various
TOTAL DEBT OBLIGATIONS		$2,138,060	$1,901,204	

	EXPECTED/ SCHEDULED MATURITY DATE
SECURED REVOLVING CREDIT FACILITIES:	
Line of credit	March 2001
Line of credit	August 2002(1)
Total secured revolving credit facilities	
UNSECURED REVOLVING CREDIT FACILITIES:	
Line of credit	May 2001
Line of credit(2)	January 2002
Total revolving credit facilities	

SECURED TERM LOANS:	
Secured by real estate under oper leases.........................	March 2009
Secured by senior and subordinate investments....................	August 2000(3)
Secured by senior mortgage invest	August 2000(3)
Secured by corporate lending inve	June 2003(4)
Secured by real estate under oper leases.........................	June 2001
Secured by real estate under oper leases.........................	(5)
Secured by senior mortgage invest	November 2000(6)
Total term loans.................	
Less debt discounts..............	
Total secured term loans.........	
ISTAR ASSET RECEIVABLES SECURED NOTES:	
Class A..........................	August 2003(7)
Class B..........................	October 2003(7)
Class C..........................	January 2004(7)
Class D..........................	June 2004(7)
Class E..........................	January 2005(7)
Total IStar Asset Receivables sec	
UNSECURED NOTES:	
6.75% Dealer Remarketable Securit	March 2013
7.30% Notes......................	March 2001
7.70% Notes......................	July 2017
7.95% Notes......................	May 2006
Total unsecured notes............	
Less debt discount(9)............	
Total unsecured notes............	
OTHER DEBT OBLIGATIONS.............	Various
TOTAL DEBT OBLIGATIONS.............	

EXPLANATORY NOTES:

- ---------------------------------

(1) On February 4, 2000, the Company extended the term of its $500.0 million facility to August 2002 and increased pricing under the facility to LIBOR + 1.50% to 1.75%.

(2) As effected for the July 7, 2000 increase from $50.0 million to $100.0 million through syndication.

(3) On May 17, 2000, the Company repaid these secured term loan obligations.

(4) The Company has a one-year extension option in June 2003.

(5) Other mortgage loans mature at various dates through 2010.

(6) Currently based on a one-month LIBOR contract, which was repriced from a 12-month LIBOR contract in May 2000. In addition, the Company extended its $54.0 million term loan to November 2000.

(7) Payments on these bonds are dependent on 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, and E is September 25, 2022.

(8) Subject to mandatory tender on March 31, 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.

(9) 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.

NOTE 7--DEBT OBLIGATIONS (CONTINUED)

Availability of amounts under the secured revolving credit facilities are based on percentage borrowing base calculations. Except as indicated above, all debt obligations are based on 30-day LIBOR and reprice monthly.

Certain of the Leasing Subsidiary's debt obligations contain financial covenants pertaining to the subsidiary. Such obligations also establish restrictions on certain intercompany transactions between the Leasing Subsidiary and other Company affiliates. Further, such obligations also provide for a limit on distributions from the Leasing Subsidiary at 85% of cash flow from operations on a rolling four-quarter basis.

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 2.00% to 2.25%, depending upon certain conditions.

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, which is included in other debt obligations in the preceding table. 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 replaces 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%.

During the six-month period ended June 30, 2000, the Company incurred an extraordinary loss of approximately $0.3 million as a result of the early retirement of certain secured debt obligations of its Leasing Subsidiary.

NOTE 7--DEBT OBLIGATIONS (CONTINUED)

Future expected/scheduled maturities of outstanding long-term debt obligations are as follows (in thousands):

2000 (remaining six months)	$ 69,236
2001	631,120
2002	15,170
2003	634,850
2004	195,015
Thereafter	612,936
Total principal maturities	2,158,327
Net unamortized debt (discounts)/premiums	(20,267)
Total debt obligations	$2,138,060

NOTE 8--STOCKHOLDERS' EQUITY

Prior to November 4, 1999, the Company was authorized to issue 105.0 million shares, representing 70.0 million class A shares and 35.0 million class B shares, with a par value of $1.00 and $0.01 per share, respectively. Class B shares were required to be issued by the Company in an amount equal to one half of the number of class A shares outstanding. Class A and class B shares were each entitled to one vote per share with respect to the election of directors and other matters. Pursuant to the Declaration of Trust, the class B shares were convertible at the option of the class B shareholders into class A shares on the basis of 49 class B shares for one class A share. However, the holder of class B shares had agreed with the Company that it would not convert the class B shares into class A shares without the approval of a majority of directors that were not affiliated with such holder. All distributions of cash were made 99% to the holders of class A shares and 1% to the holders of class B shares.

On December 15, 1998, for an aggregate purchase price of $220.0 million, the Company issued 4.4 million shares of Series A Preferred Stock and warrants to acquire 6.1 million common shares of Common Stock, as adjusted for dilution, at $34.35 per share. The warrants are exercisable on or after December 15, 1999 at a price of $34.35 per share and expire on December 15, 2005. The proceeds were allocated between the two securities issued based on estimated relative fair values.

As more fully described in Note 4, 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 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.

NOTE 8--STOCKHOLDERS' EQUITY (CONTINUED)

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 June 30, 2000 and December 31, 1999, the Company had repurchased approximately 2.3 million shares, at an aggregate cost of approximately $40.4 million.

NOTE 9--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, securities available for sale and purchased mortgage servicing rights 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 net 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.

The Company has entered into LIBOR interest rate caps struck at 9.00%, 7.50% and 7.50% in notional amounts of $300.0 million, $40.4 million and $38.3 million, respectively, which expire in March 2001, January 2001 and June 2001, respectively. In addition, in connection with the TriNet Acquisition, the Company acquired LIBOR interest rate caps currently struck at 7.75%, 7.75% and 7.50% in notional amounts of $75.0 million, $35.0 million, and $75.0 million, respectively, which expire in December 2004, December 2004 and August 2001, respectively.

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. At June 30, 2000 and December 31, 1999, the net fair value of the Company's interest rate caps were $1.1 million and $2.2 million, respectively.

NOTE 9--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS (CONTINUED)

The Company has entered into $342.0 million of interest rate swaps to 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 agreement 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 June 2000, an interest rate swap with a notional amount of approximately $112.0 million matured. At June 30, 2000 and December 31, 1999, the fair value of the Company's interest rate swaps were $3.4 million and $3.4 million, respectively.

The Company was pursuing and/or recently consummated certain anticipated long-term fixed rate borrowings and had entered into certain derivative instruments based on U.S. Treasury securities to hedge the potential effects of interest rate movements on these transactions. Under these agreements, the Company would 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 the remaining 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 of the underlying derivative contract.

During the year ended December 31, 1999, the Company settled an aggregate notional amount of approximately $63.0 million that was outstanding under such agreements, resulting 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 actually was 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 three- and six-month periods ended June 30, 2000 in connection with the closing of STARS, Series 2000-1.

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 the related interest rate hedges has been deferred and will be amortized as an increase to the effective financing cost of the new term loan over its effective 10-year term.

CREDIT RISK CONCENTRATIONS--Concentrations of credit risks arise when a number of borrowers or tenants 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 potential concentrations of

NOTE 9--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS (CONTINUED)

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), loans and other lending investments are collateralized by facilities located in the United States, with significant concentrations (i.e., greater than 10%) as of June 30, 2000 in California (27.6%) and Texas (14.2%). As of June 30, 2000, the Company's investments also contain significant concentrations in the following asset/collateral types: office (49.4%), hotel/resorts (16.6%), retail (7.3%) and industrial (6.6%).

The Company underwrites the credit of prospective borrowers and tenants 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 net lease assets are geographically diverse and the borrowers and tenants 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 tenant, the inability of that borrower or tenant to make its payment could have an adverse effect on the Company. As of June 30, 2000, the Company's five largest borrowers or tenants collectively accounted for approximately 13.2% of the Company's annualized interest and operating lease revenue.

NOTE 10--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 Internal Revenue Service (the "IRS") obtained in March 1998, the Company was eligible and elected to be taxed as a REIT 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.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and income tax purposes, as well as operating loss and tax credit carry forwards. A valuation allowance is recorded if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax asset will not be realized. Given the limited nature of the Company's operations and assets and liabilities from 1993 through 1997, the only deferred tax assets were net operating loss carry forwards ("NOL's") of approximately $4.0 million, which arose during such periods. Since the Company has elected to be treated as a REIT for its tax years beginning January 1, 1998, the NOL's have expired unutilized. Accordingly, no net deferred tax asset value, after consideration of a 100% valuation allowance, has been reflected in these financial statements as of June 30, 2000 or December 31, 1999 nor a net tax provision for the three- and six-month periods ended June 30, 2000 and 1999.

NOTE 11--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 restricted stock and other performance awards. The maximum number of shares of Common Stock available for awards under the Plan is 9% 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

NOTE 11--STOCK OPTION PLANS AND EMPLOYEE BENEFITS (CONTINUED)
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, 2000, a total of approximately 7.7 million shares of Common Stock were available for awards under the Plan, of which options to purchase approximately 4.0 million shares of Common 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 (as adjusted) per share to the Advisor with a term of ten years. The Advisor granted a portion of these options to its employees and the remainder allocated to an affiliate. In general, the grants to the Advisor's employees provided for scheduled vesting over a predefined service period of three to five years and, in some cases, provided for accelerated vesting based on a change in control of the Advisor or completion of certain liquidity transactions. These options expire concurrently with the original option grant to the Advisor. Upon consummation of the Advisor Transaction these individuals became employees of the Company.

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 directors of TriNet and certain executive officers became fully vested as a result of the transaction.

The TriNet directors received a number of options of the Company to purchase Common Stock on a fully vested basis on substantially the same terms as the TriNet options, in each case giving effect to the 1.15 exchange ratio for their options.

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% or more of the voting common stock. 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, 2000 was as follows:

	NUMBER OF SHARES			AVERAGE STRIKE PRICE
	EMPLOYEES	NON-EMPLOYEE DIRECTORS	OTHER	
OPTIONS OUTSTANDING, DECEMBER 31, 1999	3,001,270	183,177	764,146	$19.08
Granted in 2000	1,697,746	80,000	50,000	$17.01
Exercised in 2000	(5,821)	--	--	$14.72
Forfeited in 2000	(669,906)	--	--	$21.59
OPTIONS OUTSTANDING, JUNE 30, 2000	4,023,289	263,177	814,146	

NOTE 11--STOCK OPTION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

The following table summarizes information concerning outstanding and exercisable options as of June 30, 2000:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICE RANGE	OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	CURRENTLY EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$14.72	2,222,055	7.70	$14.72	1,242,253(1)	$14.72
$16.69-$16.88	1,220,803	9.54	$16.86	--	$ --
$17.00-$17.56	550,500	9.72	$17.39	--	$ --
$19.50-$19.63	5,250	9.75	$19.51	--	$ --
$21.09	86,250	2.93	$21.09	86,250	$21.09
$22.45	149,500	0.86	$22.45	149,500	$ --
$23.32	167,325	1.75	$23.32	167,325	$ --
$23.64	67,707	3.90	$23.64	30,800	$ --
$24.13-$24.57	213,162	3.78	$24.40	204,582	$24.39
$24.67	56,322	0.40	$25.33	56,322	$25.33
$27.88-$28.37	110,710	1.20	$28.35	106,089	$28.35
$29.08	10,185	8.89	$30.18	10,185	$29.08
$30.33	225,401	1.79	$30.33	200,769	$30.33
$33.15-$33.70	10,350	4.69	$33.39	7,476	$33.49
$56.44	5,092	9.09	$58.58	5,092	$56.44
	5,100,612	7.24	$18.15	2,266,643	$19.60

EXPLANATORY NOTE:

(1) Includes approximately 764,000 options which were granted, on a fully exercisable basis, in connection with the Recapitalization Transactions to an entity related to Starwood Capital Group, and which were subsequently regranted by that entity to employees of Starwood Capital Group subject to vesting and exercisability requirements. As a result of those 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 such entity, which 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, 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

NOTE 11--STOCK OPTION PLANS AND EMPLOYEE BENEFITS (CONTINUED)
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 to the Advisor, the Company utilized the option value method as required by SFAS No. 123 to account for the initial grant of options to the Advisor. An independent financial 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 had been 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 three- and six-month periods ended June 30, 2000, the Company granted 61,352 and 15,500 restricted stock units ("RSU's"), respectively. The RSU's vest over a three-year period, with the exception of 12,500 RSU's, which were immediately vested on the date of grant.

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 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 $45,000 and $175,000 to the 401 (k) Plan for the three- and six-month periods ended June 30, 2000.

NOTE 12--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 more fully described in Note 4, 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

NOTE 12--EARNINGS PER SHARE (CONTINUED)

diluted earnings per share are based upon the following weighted average shares outstanding during the three- and six-month periods ended June 30, 2000 and 1999, respectively (in thousands):

	THREE-MONTH PERIODS ENDED JUNE 30,		SIX-MONTH PERIODS ENDED JUNE 30,	
	2000	1999	2000	1999
	(UNAUDITED)			
Weighted average common shares outstanding for basic earnings per common share	85,281	52,471	85,184	52,459
Add effect of assumed shares issued under treasury stock method for stock options and restricted stock units	709	1,706	541	1,712
Add effects of conversion of class B shares (49-for-one)	--	560	--	560
Add effects of assumed warrants exercised under treasury stock method for stock options	--	1,865	--	1,857
Weighted average common shares outstanding for diluted earnings per common share	85,990	56,602	85,725	56,588

NOTE 13--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 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 $105.8 million and $58.4 million for the six-month periods ended June 30, 2000 and 1999, respectively, and $53.8 million and $30.3 million for the three-month periods ended June 30, 2000 and 1999, respectively. The primary component of comprehensive income other than net income was the change in value of certain investments in marketable securities classified as available-for-sale.

NOTE 14--DIVIDENDS

In order to maintain its election to qualify as a REIT, the Company must distribute, at a minimum, an amount equal to 95% of its taxable income and must distribute 100% of its taxable income to avoid paying corporate federal income taxes. Accordingly, 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. Total dividends declared by the Company aggregated $116.1 million, or $1.86 per common share, for the year ended December 31, 1999. Total common dividends declared by the Company

NOTE 14--DIVIDENDS (CONTINUED)

aggregated $51.2 million or $0.60 per share of Common Stock for the three-and six-months ended June 30, 2000. On July 1, 2000, the Company declared a dividend of approximately $51.2 million, or $0.60 per share of Common Stock, applicable to the second quarter and payable to shareholders of record on July 17, 2000. 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, 2000 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, 2000. There are no dividend arrearages on any of the preferred shares currently outstanding.

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.

The Series A preferred stock has a liquidation preference of $50.00 per share and carry 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.

Holders 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 10 days prior to the dividend payment date.

Holders 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% of the $25.00 liquidation preference per year, equivalent to a fixed annual rate of $2.30 per share.

Holders 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% of the $25.00 liquidation preference per year, equivalent to a fixed annual rate of $2.00 per share.

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 15--SEGMENT REPORTING

Statement of Financial Accounting Standard No. 131 ("SFAS No. 131") establishes standards for the way 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 stockholders.

NOTE 15--SEGMENT REPORTING (CONTINUED)

The Company has two reportable segments: real estate lending and credit 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 9 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, 2000 and 1999 and selected asset information as of June 30, 2000 and December 31, 1999 regarding the Company's operating segments are as follows (in thousands):

	REAL ESTATE LENDING	CREDIT TENANT LEASING (1)	CORPORATE/ OTHER (2)	COMPANY TOTAL
		(UNAUDITED)		
Total revenues(3):				
Three months ended:				
June 30, 2000	$ 69,468	$ 47,930	$ 516	$ 117,914
June 30, 1999	55,540	3,723	(8)	59,255
Six months ended:				
June 30, 2000	$ 134,225	$ 94,330	$ 247	$ 228,802
June 30, 1999	107,341	7,450	(112)	114,679
Total operating and interest expense(4):				
Three months ended:				
June 30, 2000	$ 28,295	$ 18,933	$ 17,257	$ 64,485
June 30, 1999	18,773	3,031	7,568	29,372
Six months ended:				
June 30, 2000	$ 50,813	$ 39,004	$ 33,742	$ 123,559
June 30, 1999	36,816	5,683	14,080	56,579
Net operating income before minority interest and gain on sale of net lease assets(5):				
Three months ended:				
June 30, 2000	$ 41,173	$ 28,997	$ (16,741)	$ 53,429
June 30, 1999	36,767	692	(7,576)	29,883
Six months ended:				
June 30, 2000	$ 83,412	$ 55,326	$ (33,495)	$ 105,243
June 30, 1999	70,525	1,767	(14,192)	58,100
Total long-lived assets(6):				
June 30, 2000	$2,253,339	$1,653,512	N/A	$3,906,851
December 31, 1999	2,003,506	1,714,284	N/A	3,717,790
Total assets:				
June 30, 2000	N/A	N/A	$4,041,269	$4,041,269
December 31, 1999	N/A	N/A	3,813,552	3,813,552

NOTE 15--SEGMENT REPORTING (CONTINUED)

EXPLANATORY NOTES:

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

(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 Credit 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 property operating costs (including real estate taxes) for the Credit Tenant Leasing business and interest expense specifically related to each segment. General and administrative, advisory fees (prior to November 4, 1999) and stock option compensation expense is included in Corporate and Other for all periods. Depreciation and amortization of $8,862 and $1,365 for the three-month periods ended June 30, 2000 and 1999, respectively, and $17,871 and $2,730 for the six-month periods ended June 30, 2000 and 1999, respectively, are included in the amounts presented above.

(5) Net operating income before minority interests represents total revenues, as defined in note (3) above, less total operating and interest expense, as defined in note (4) above, for each period.

(6) 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 16--SUBSEQUENT EVENTS

On July 7, 2000, the Company increased its existing $50.0 million unsecured revolving credit facility to $100.0 million by syndicating $50.0 million to a major commercial bank. All other terms of the facility remain the same.

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 1999 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

As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, on March 18, 1998, the Company completed the Recapitalization Transactions which, among other things, substantially recapitalized the Company and modified its investment policy. Effective June 18, 1998, the Company (which was organized under California law) changed its domicile to Maryland by merging with a newly-formed subsidiary organized under Maryland law, and issued new shares of the subsidiary to the Company's shareholders in exchange for their shares in the Company. Concurrently, the Company consummated a one-for-six reverse stock split.

Immediately prior to the consummation of the Recapitalization Transactions, the Company's assets primarily consisted of approximately $11.0 million in short-term, liquid real estate investments, cash and cash equivalents.

On December 15, 1998, the Company sold $220.0 million of preferred shares and warrants to purchase class A shares to a group of investors affiliated with Lazard Freres. Concurrent with the sale of the preferred shares and warrants, the Company purchased $280.3 million in real estate loans and participation interests from a group of investors also affiliated with Lazard Freres. These transactions are referred to collectively as the "Lazard Transaction."

As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, on November 3, 1999, the Company's shareholders approved a series of transactions including: (i) the acquisition of TriNet; (ii) the acquisition of the Company's external advisor; and (iii) the reorganization of the Company from a trust to a corporation and the exchange of the class A and class B shares for Common Stock. Pursuant to the TriNet Acquisition, TriNet merged with and into a subsidiary of the Company, with TriNet surviving as a wholly-owned subsidiary of the Company. In the acquisition, each share of common stock of TriNet was converted into 1.15 shares of Common Stock. Each share of TriNet Series A, Series B and Series C Cumulative Redeemable Preferred Stock was converted into a share of Series B, Series C or Series D (respectively) Cumulative Redeemable Preferred Stock of the Company. The Company's preferred stock issued to the former TriNet preferred stockholders has substantially the same terms as the TriNet preferred stock, except that the new Series B, C, and D preferred stock have additional voting rights not associated with the TriNet preferred stock. The Company's Series A Preferred Stock remained outstanding with the same rights and preferences as existed prior to the TriNet Acquisition. As a consequence of the acquisition of its external advisor, the Company is now internally-managed and no longer pays external advisory fees.

The transactions described above and other related transactions have materially impacted the historical operations of the Company and will continue to impact the Company's future operations. Accordingly, the reported historical financial information for periods prior to these transactions is not believed to be fully indicative of the Company's future operating results or financial condition.

RESULTS OF OPERATIONS

THREE-MONTH PERIOD ENDED JUNE 30, 2000 COMPARED TO THE THREE-MONTH PERIOD ENDED JUNE 30, 1999

INTEREST INCOME--Interest income increased to $66.9 million for the three months ended June 30, 2000 from $52.0 million for the same period in 1999. This increase is a result of the interest generated by

$149.1 million of new loan investments originated or acquired by the Company during the late first quarter and the second quarter of 2000 and an additional $21.3 million funded under existing loan commitments. The increase was partially offset by a reduction in interest earned as a result of principal repayments of approximately $41.4 million made to the Company on its loan investments during the three months ended June 30, 2000.

OPERATING LEASE INCOME--Operating lease income increased to $47.2 million for the three months ended June 30, 2000 from $3.7 million for the same period in 1999. Approximately $43.5 million of this increase is attributable to operating lease income generated from net lease assets acquired in the TriNet Acquisition.

OTHER INCOME--Included in other income for the three months ended June 30, 2000 is a prepayment penalty of approximately $2.1 million resulting from a partial repayment of a senior mortgage.

INTEREST EXPENSE--The Company's interest expense increased by $22.2 million for the three-month period ended June 30, 2000 over the same period in the prior year. This was in part due to higher interest rates and higher average borrowings by the Company on its credit facilities and other term loans, the proceeds of which were used to fund additional loan origination and acquisition activities. Further, interest expense in fiscal 2000 includes approximately $13.0 million of interest expense incurred by the Leasing Subsidiary subsequent to its acquisition.

PROPERTY OPERATING COSTS--For the three months ended June 30, 2000, property operating costs, net of recoveries from tenants, increased to approximately $3.0 million.

Property operating costs represent unreimbursed property operating expenses incurred by the Leasing Subsidiary subsequent to its acquisition. All costs of this kind were borne directly by the tenant on the Company's pre-existing credit tenant leasing portfolio prior to the TriNet Acquisition.

DEPRECIATION AND AMORTIZATION--Depreciation and amortization increased approximately $7.5 million for the three-month period ended June 30, 2000 over the same period in the prior year, primarily as a result of depreciation and amortization on the Leasing Subsidiary's net leased assets subsequent to its acquisition.

GENERAL AND ADMINISTRATIVE--The Company's general and administrative expenses during the three-month period ended June 30, 2000 increased by approximately $6.6 million compared to the same period in 1999. These increases were generally the result of the increased scope of the Company's operations as a result of costs associated with additional lending operations, the TriNet Acquisition and as a result of additional costs incurred subsequent to the acquisition of the Company's external advisor.

PROVISION FOR POSSIBLE CREDIT LOSSES--The Company's charge for provision for possible credit losses increased to $1.5 million from $1.3 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 5 to the Company's Consolidated Financial Statements, the Company has not realized any actual losses on any of its loan investments to date.

STOCK OPTION COMPENSATION EXPENSE--Stock compensation expense increased by approximately $586,000 as a result of charges relating to grants of stock options to the Company's employees which includes amortization of the deferred charge incurred in connection with the Advisor Transaction.

ADVISORY FEES--There were no advisory fees during the three-month period ended June 30, 2000 because, subsequent to the acquisition of the Company's external advisor, the Company is now internally-managed. No further advisory fees will be incurred.

MINORITY INTEREST--Minority interest expense of $41,000 for the three months ended June 30, 2000 represents the limited partners' share of net income from TriNet Property Partners, L.P., a partnership interest acquired by the Company as part of the TriNet Acquisition. The Company has a 96.5% interest in TriNet Property Partners, L.P. and is the sole general partner.

GAIN ON SALE OF NET LEASE ASSETS--On April 25, 2000, the Company sold a 251,850 square foot industrial building located in Conroe, Texas for $5.5 million and recognized a gain of $11,000. On May 22, 2000, the Company sold a 442,000 square foot industrial property located in North Reading, Massachusetts for $47.0 million and recognized a gain of $222,000. On June 1, 2000, the Company sold a 420,000 square foot office building located in Parsippany, New Jersey for $49.8 million and recognized a gain of $207,000.

SIX-MONTH PERIOD ENDED JUNE 30, 2000 COMPARED TO THE SIX-MONTH PERIOD ENDED JUNE 30, 1999

INTEREST INCOME--Interest income increased to $126.9 million for the six months ended June 30, 2000 from $101.9 million for the same period in 1999. This increase is a result of the interest generated by $361.0 million of loan investments newly-originated or acquired by the Company during the fiscal 2000, an additional $37.8 million funded under existing loan commitments. The increase was partially offset by a reduction in interest earned as a result of principal repayments of approximately $163.2 million made to the Company on its loan investments during the six months ended June 30, 2000.

OPERATING LEASE INCOME--Operating lease income increased to $93.5 million for the six months ended June 30, 2000 from $7.5 million for the same period in 1999. Approximately $86.0 million of this increase is attributable to operating lease income generated from net lease assets acquired in the TriNet Acquisition.

OTHER INCOME--Included in other income for fiscal year 2000 are prepayment fees of approximately $5.4 million resulting from the full or partial repayments of three loans and a forbearance fee of $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 $40.3 million for the six-month period ended June 30, 2000 over the same period in the prior year. This was in part due to higher interest rates and higher average borrowings by the Company on its credit facilities and other term loans, the proceeds of which were used to fund additional loan origination and acquisition activities. Further, interest expense in fiscal 2000 includes approximately $26.8 million of interest expense incurred by the Leasing Subsidiary subsequent to its acquisition.

PROPERTY OPERATING COSTS--For the six months ended June 30, 2000, property operating costs increased to approximately $6.3 million, net of recoveries from tenants.

Property operating costs represent unreimbursed property operating expenses incurred by the Leasing Subsidiary subsequent to its acquisition. All costs of this kind were borne directly by the tenant on the Company's pre-existing credit tenant leasing portfolio prior to the TriNet Acquisition.

DEPRECIATION AND AMORTIZATION--Depreciation and amortization increased approximately $15.1 million for the six-month period ended June 30, 2000 over the same period in the prior year, primarily as a result of depreciation and amortization on the Leasing Subsidiary's net leased assets subsequent to its acquisition.

GENERAL AND ADMINISTRATIVE--The Company's general and administrative expenses during the six-month period ended June 30, 2000 increased by approximately $13.0 million compared to the same period in 1999. These increases were generally the result of the increased scope of the Company's operations as a result of costs associated with additional lending operations, the TriNet Acquisition, and as a result of additional costs incurred subsequent to the acquisition of the Company's external advisor.

PROVISION FOR POSSIBLE CREDIT LOSSES--The Company's charge for provision for possible credit losses increased to $3.0 million from $2.3 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 5 to the Company's

Consolidated Financial Statements, the Company has not realized any actual losses on any of its loan investments to date.

STOCK OPTION COMPENSATION EXPENSE--Stock compensation expense increased by approximately $1.1 million as a result of charges relating to grants of stock options to the Company's employees, which includes amortization of the deferred charge incurred in connection with the Advisor Transaction.

ADVISORY FEES--There were no advisory fees during the six-month period ended June 30, 2000 because, subsequent to the acquisition of the Company's external advisor, the Company is now internally-managed. No further advisory fees will be incurred.

MINORITY INTEREST--Minority interest expense of $82,000 for the first six months of 2000 represents the limited partners' share of net income from TriNet Property Partners, L.P., a partnership acquired by the Company as part of the TriNet Acquisition. The Company has a 96.5% interest in TriNet Property Partners, L.P. and is the sole general partner.

GAIN ON SALE OF NET LEASE ASSETS-- The Company did not sell any credit tenant lease assets in 1999. During the first six months of 2000, the Company disposed of five assets. On March 1, 2000, the Company sold a 174,600 square foot industrial building located in Sunnyvale, California for $13.4 million and recognized a gain of $238,000. On March 2, 2000, the Company sold a 370,562 square foot office property located in Paoli, Pennsylvania for $32.6 million and recognized a gain of $295,000. On April 25, 2000, the Company sold a 251,850 square foot industrial building located in Conroe, Texas for $5.5 million and recognized a gain of $11,000. On May 22, 2000, the Company sold a 442,000 square foot industrial property located in North Reading, Massachusetts for $47.0 million and recognized a gain of $222,000. On June 1, 2000, the Company sold a 420,000 square foot office building located in Parsippany, New Jersey for $49.8 million and recognized a gain of $207,000.

EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT--Certain of the proceeds from an asset disposition were used to partially repay $8.1 million of the 1994 Mortgage Loan. In connection with this partial paydown, the Company incurred prepayment penalties, which resulted in an extraordinary loss of $317,000 during the first quarter of 2000.

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 expected election to qualify as a REIT, 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: (i) variable-rate loans based on LIBOR, originated or acquired at par, which would not result in any gain or loss upon repayment; and (ii) 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, delinquencies or defaults, 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 9 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 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 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 origination and acquisition 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 credit 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.

The distribution requirements under the REIT provisions of the Code restrict 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'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.

Based on its monthly interest and other expenses, monthly cash receipts, existing investment commitments and funding plans, the Company believes that its existing sources of funds will be adequate for purposes of meeting its short- and long-term liquidity needs. Material increases in monthly interest expense or material decreases in monthly cash receipts would negatively impact the Company's liquidity. On the other hand, material decreases in monthly interest expense would positively affect the Company's liquidity.

As more fully discussed in Note 7 to the Company's Consolidated Financial Statements, at June 30, 2000, the Company had existing fixed-rate borrowings of approximately $152.2 million secured by real estate under operating leases which mature in 2009, an aggregate of approximately $221.0 million in

LIBOR-based, variable-rate loans secured by various senior and subordinate mortgage investments and real estate under operating leases which mature between fiscal 2000 and 2003, fixed-rate corporate debt obligations aggregating approximately $355.0 million which mature between 2001 and 2017, and other variable- and fixed-rate secured debt obligations aggregating approximately $100.6 million which mature at various dates through 2010.

In addition, the Company has entered into LIBOR-based secured revolving credit facilities of $675.0 and $500.0 million which expire in fiscal 2001 and 2002 respectively. As of June 30, 2000, the Company had drawn approximately $216.0 million and $114.8 million under these facilities. Availability under these facilities is based on collateral provided under a borrowing base calculation. The Company has also increased the size of its unsecured revolving credit facility from $50.0 million to $100.0 million. In addition, the Leasing Subsidiary has an agreement with a group of 13 banks led by Bank of America, N.A. which provides it with a $350.0 million unsecured revolving credit facility. This facility matures on May 31, 2001 and has a one-year extension period at the Company's option. Interest incurred on the facility is LIBOR-based with a margin dependent on the Company's credit ratings. Facility fees under the credit facility are also tied to its credit ratings. All of the available commitment under the facility may be borrowed for general corporate and working capital needs of the Leasing Subsidiary, as well as for investments. Under the terms of this facility, the Leasing Subsidiary is generally permitted to make cash distributions to the Company in an amount equal to 85% of cash flow from operations in any rolling four-quarter period. The facility requires interest-only payments until maturity, at which time outstanding borrowings are due and payable. As of June 30, 2000, the Company had $121.7 million drawn and $228.3 million available under this facility.

The Company has entered into LIBOR interest rate caps struck at 9.00%, 7.50% and 7.50% in notional amounts of $300.0 million, $40.4 million and $38.3 million, respectively, which expire in March 2001, January 2001 and June 2001, respectively. In addition, in connection with the TriNet Acquisition, the Company acquired LIBOR interest rate caps currently struck at 7.75%, 7.75% and 7.50% in notional amounts of $75.0 million, $35.0 million, and $75.0 million, respectively, which expire in December 2004, December 2004 and August 2001, respectively.

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 any revaluation of these two instruments are expected to substantially offset one another. At June 30, 2000, the net fair value of the Company's interest rate caps was $1.1 million.

The Company has originated or acquired certain assets using proceeds from LIBOR-based borrowings. In connection with such borrowings, the Company entered into $342.0 million of interest rate swaps to effectively fix the interest rate on such 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 June 2000, an interest rate swap with a notional amount of approximately $112.0 million matured. At June 30, 2000, the fair value of the Company's interest rate swaps was $3.4 million.

The Company was pursuing and/or has consummated certain anticipated long-term fixed-rate borrowings and had entered into certain derivative instruments based on U.S. Treasury securities to hedge the potential effects of interest rate movements on these transactions. Under these agreements, the Company would 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.

During the year ended December 31, 1999, the Company settled derivative instruments with an aggregate notional amount of approximately $63.0 million, resulting in the receipt of approximately $0.6 million which had been deferred pending completion of the related planned fixed-rate financing transaction. Since the transaction was subsequently modified and consummated as a variable-rate financing transaction, the previously deferred receipt no longer qualified for hedge accounting treatment. Therefore, the $0.6 million was recognized as a gain included in other income in the consolidated statement of operations for the three- and six-month periods ended June 30, 2000 in connection with the closing of STARS, Series 2000-1.

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 will be amortized as an increase to the effective financing costs of the new term loan over its 10-year term.

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. 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.

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 June 30, 2000 and December 31, 1999, the Company had repurchased approximately 2.3 million shares, at an aggregate cost of approximately $40.4 million.

ADJUSTED EARNINGS

Adjusted earnings represents net income computed in accordance with GAAP, before gains (losses) on sales of net 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 will be 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 JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
Adjusted earnings:				
Income before gains/losses on sales of net lease assets and extraordinary items..............	$ 53,388	$29,883	$105,160	$ 58,100
Real estate depreciation...........	8,862	1,365	17,871	2,730
Joint venture depreciation.........	832	169	1,442	338
Amortization.......................	3,054	1,379	5,288	2,920
Preferred dividend requirement.....	(9,227)	(5,308)	(18,454)	(10,615)
Net income allocable to class B shares(1)........................	--	(275)	--	(535)
Adjusted earnings allocable to common shareholders:				
Basic..............................	$ 56,909	$27,213	$111,307	$ 52,938
Diluted............................	$ 57,144	$27,488	$111,779	$ 53,473
Adjusted earnings per common share:				
Basic..............................	$ 0.67	$ 0.52	$ 1.31	$ 1.01
Diluted............................	$ 0.66	$ 0.49	$ 1.30	$ 0.94

EXPLANATORY NOTE:

(1) For the quarter ended June 30, 1999, net income allocable to class B shares represents 1% of net income allocable to the Company's class B shares. On November 4, 1999, the class B shares were exchanged for common shares in connection with the Company's acquisition of TriNet and related transactions. As a result, the Company now has a single class of common shares outstanding.

NEW ACCOUNTING STANDARDS

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information" ("SFAS No. 131") effective for financial statements issued for periods beginning after December 15, 1997. SFAS No. 131 requires disclosures about segments of an enterprise and related information regarding the different types of business activities in which an enterprise engages and the different economic environments in which it operates. The Company adopted the requirements of this pronouncement in its financial statements beginning with its reporting for fiscal 1999. As of December 31, 1999, the Company is currently segmented between its lending and credit tenant lease businesses.

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 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: (i) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (ii) a hedge of the exposure to variable cash flows of a forecasted transaction; or (iii) in certain circumstances a hedge of a foreign currency exposure. The Company currently plans to adopt 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," as required effective January 1, 2001. The adoption of SFAS No. 133 is not expected to have a material financial impact on the financial position or results of operations of the Company.

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 will be required to adopt SAB 101 by the fourth quarter of fiscal 2001. The Company has not completed its determination of the impact of the adoption of SAB 101 on its consolidated financial position or results of operation.

In March 2000, the FASB issued FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation." The Company will be 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 Company does not expect the application of FIN 44 to 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, 2000, 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.

PART II. OTHER INFORMATION

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 23, 2000, the Company held its 2000 annual meeting of shareholders to vote on various proposals described in the following summary:

ELECTION OF BOARD OF DIRECTORS:

The eight directors elected as a result of the meeting to hold office until their respective successors are elected are Robert W. Holman, Robin Josephs, Merrick R. Kleeman, Jeffrey G. Dishner, Jonathan D. Eilian, Madison Grose, Michael G. Medzigian, and George R. Puskar. Jay Sugarman, Spencer B. Haber, Willis Andersen, Jr., William M. Matthes, John G. McDonald, Stephen B. Oresman, Barry S. Sternlicht, and Kneeland C. Youngblood are members of the Board of Directors whose office did not expire in 2000 and who continue as directors.

DIRECTOR	ELIGIBLE VOTES	FOR	WITHHELD
Robert W. Holman	82,824,947	82,232,967	591,980
Robin Josephs	82,824,947	82,355,903	469,044
Merrick R. Kleeman	82,824,947	82,331,239	493,708
Jeffrey G. Dishner	82,824,947	82,326,415	498,532
Jonathan D. Eilian	82,824,947	82,326,524	498,423
Madison Grose	82,824,947	82,333,426	491,521
Michael G. Medzigian	82,824,947	82,349,631	475,316
George R. Puskar	82,824,947	82,258,818	566,129

OTHER PROPOSALS:

Proposal:	ELIGIBLE VOTES	FOR	AGAINST	ABSTAIN
1. To ratify the appointment of PricewaterhouseCoopers LLP as the Independent Auditors for the fiscal year ended December 31, 2000	82,824,947	82,606,509	140,546	77,892

ITEM 5. OTHER INFORMATION

None.

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

A. EXHIBITS

3.1 Amended By-Laws of the Company

27.1 Financial Data Schedule.

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 14, 2000

/s/ Jay Sugarman

CHAIRMAN OF THE BOARD OF DIRECTORS,
CHIEF EXECUTIVE OFFICER AND PRESIDENT

Date: August 14, 2000

/s/ Spencer B. Haber

EXECUTIVE VICE PRESIDENT--FINANCE,
CHIEF FINANCIAL OFFICER, DIRECTOR AND SECRETARY

Exhibit 3.1

iSTAR FINANCIAL INC.

BYLAWS

ARTICLE I

OFFICES

Section 1. PRINCIPAL EXECUTIVE OFFICE. The principal executive office of iStar Financial Inc. (the "Company") shall be located at such place or places as the Board of Directors may designate.

Section 2. ADDITIONAL OFFICES. The Company may have additional offices at such places as the Board of Directors may from time to time determine or the business of the Company may require.

ARTICLE II

MEETINGS OF SHAREHOLDERS

Section 1. PLACE. All meetings of shareholders shall be held at the principal office of the Company or at such other place within the United States as sha ll be stated in the notice of the meeting.

Section 2. ANNUAL MEETING. An annual meeting of the shareholders for the election of directors and the transaction of any business within the powers of the Company shall be held on such date as shall be set by the Board of Directors. Except as the Amended and Restated Charter of the Company, as further amended (the "Charter") or statute provides otherwise, any business may be considered at an annual meeting without the purpose of the meeting having been specified in the notice. Failure to hold an annual meeting does not invalidate the Company's existence or affect any otherwise valid corporate acts.

Section 3. SPECIAL MEETINGS. The president, chief executive officer or Board of Directors may call special meetings of the shareholders. Special meetings of shareholders shall also be called by the secretary of the Company upon the written request of the holders of shares entitled to cast not less than a majority of all the votes entitled to be cast at such meeting. Such request shall state the purpose of such meeting and the matters proposed to be acted on at such meeting. The secretary shall inform such shareholders of the reasonably estimated cost of preparing and mailing notice of the meeting and, upon payment to the Company by such shareholders of such costs, the secretary shall give notice to each shareholder entitled to notice of the meeting.

Section 4. NOTICE OF MEETINGS; WAIVER OF NOTICE. Not less than ten nor more than 90 days before each shareholders' meeting, the Secretary shall give notice of the meeting to each shareholder entitled to vote at the meeting and each other shareholder entitled to notice of the meeting in any manner permitted under Maryland General Corporation

Law now or hereafter enforced. The notice shall state the time and place of the meeting and, if the meeting is a special meeting or notice of the purpose is required by statute, the purpose of the meeting. Notice is given to a shareholder when it is personally delivered to him or her, left at his or her residence or usual place of business, mailed to him or her at his or her address as it appears on the records of the Company, or electronically delivered in accordance with Maryland General Corporation Law now or hereafter enforced. Notwithstanding the foregoing provisions, each person who is entitled to notice waives notice if he or she before or after the meeting signs a waiver of the notice which is filed with the records of shareholders' meetings, or is present at the meeting in person or by proxy.

Section 5. ORGANIZATION. At every meeting of shareholders, the Chairman of the Board, if there be one, shall conduct the meeting or, in the case of vacancy in office or absence of the Chairman of the Board, one of the following officers present shall conduct the meeting in the order stated: the Vice Chairman of the Board, if there be one, the President, the Vice Presidents in their order of rank and seniority, or a Chairman chosen by the shareholders entitled to cast a majority of the votes which all shareholders present in person or by proxy are entitled to cast, shall act as Chairman, and the secretary of the Company, or, in his absence, an assistant secretary of the Company, or in the absence of both the Secretary and assistant secretaries, a person appointed by the Chairman shall act as Secretary.

Section 6. QUORUM; ADJOURNMENTS. At any meeting of shareholders, the presence in person or by proxy of shareholders entitled to cast a majority of all the votes entitled to be cast at such meeting shall constitute a quorum; but this section shall not affect any requirement under any statute or the Charter of the Company for the vote necessary for the adoption of any measure. If, however, such quorum shall not be present at any meeting of the shareholders, the shareholders entitled to vote at such meeting, present in person or by proxy, shall have the power to adjourn the meeting from time to time to a date not more than 120 days after the original record date without notice other than announcement at the meeting. At such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 7. VOTING. A plurality of all the votes cast at a meeting of shareholders duly called and at which a quorum is present shall be sufficient to elect a director. Each share may be voted for as many individuals as there are directors to be elected and for whose election the share is entitled to be voted. A majority of the votes cast at a meeting of shareholders duly called and at which a quorum is present shall be sufficient to approve any other matter which may properly come before the meeting, unless more than a majority of the votes cast is required by statute or by the Charter. Unless otherwise provided in the Charter, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders.

Section 8. PROXIES. A shareholder may authorize another person to act as proxy by transmitting, or authorizing the transmission of, a telegram, cablegram, datagram, or other means of electronic transmission to the person authorized to act as proxy or to a proxy solicitation firm, proxy support service organization, or other person authorized by the person who will act as proxy to receive the transmission. Unless a proxy provides otherwise, it is not valid more than 11 months after its date. A proxy is revocable by a shareholder at any time without condition or qualification unless the proxy states that it is irrevocable and the proxy is coupled with an interest. A proxy may be made irrevocable for so long as it is coupled with an interest. The interest with which a proxy may be coupled includes an interest in the stock to be voted under the proxy or another general interest in the Company or its assets or liabilities.

Section 9. VOTING OF STOCK BY CERTAIN HOLDERS. Stock of the Company registered in the name of a corporation, partnership, trust or other entity, if entitled to be voted, may be voted by the president or a vice president, a general partner or trustee thereof, as the case may be, or a proxy appointed by any of the foregoing individuals, unless some other person who has been appointed to vote such stock pursuant to a bylaw or a resolution of the governing body of such corporation or other entity or agreement of the partners of a partnership presents a certified copy of such bylaw, resolution or agreement, in which case such person may vote such stock. Any director or other fiduciary may vote stock registered in his name as such fiduciary, either in person or by proxy.

Shares of stock of the Company directly or indirectly owned by it shall not be voted at any meeting and shall not be counted in determining the total number of outstanding shares entitled to be voted at any given time, unless they are held by it in a fiduciary capacity, in which case they may be voted and shall be counted in determining the total number of outstanding shares at any given time.

The Board of Directors may adopt by resolution a procedure by which a shareholder may certify in writing to the Company that any shares of stock registered in the name of the shareholder are held for the account of a specified person other than the shareholder. The resolution shall set forth the class of shareholders who may make the certification, the purpose for which the certification may be made, the form of certification and the information to be contained in it; if the certification is with respect to a record date or closing of the stock transfer books, the time after the record date or closing of the stock transfer books within which the certification must be received by the Company; and any other provisions with respect to the procedure which the Board of Directors considers necessary or desirable. On receipt of such certification, the person specified in the certification shall be regarded as, for the purposes set forth in the certification, the shareholder of record of the specified stock in place of the shareholder who makes the certification.

Section 10. INSPECTORS. At any meeting of shareholders, the chairman of the meeting may, or upon the request of any shareholder shall, appoint one or more persons as inspectors for such meeting. Such inspectors shall ascertain and report the number of shares represented at the meeting based upon their determination of the validity and effect of proxies, count all votes, report the results and perform such other acts as are proper to conduct the election and voting with impartiality and fairness to all the shareholders.

Each report of an inspector shall be in writing and signed by him or by a majority of them if there is more than one inspector acting at such meeting. If there is more than one inspector, the report of a majority shall be the report of the inspectors. The report of the inspector or inspectors on the number of shares represented at the meeting and the results of the voting shall be PRIMA FACIE evidence thereof.

Section 11. NOMINATIONS AND SHAREHOLDER BUSINESS

(a) ANNUAL MEETINGS OF SHAREHOLDERS. Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the shareholders may be made at an annual meeting of shareholders (i) pursuant to the Company's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) by any shareholder of the Company who was a shareholder of record at the time notice of such meeting was sent.

(b) SPECIAL MEETINGS OF SHAREHOLDERS. Only such business shall be conducted at a special meeting of shareholders as shall have been brought before the meeting pursuant to the Company's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of shareholders at which directors are to be elected (i) pursuant to the Company's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) provided that the Board of Directors has determined that directors shall be elected at such special meeting, by any shareholder of the Company who is a shareholder of record at the time of giving of notice provided for in this Section 11(b), who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section 11(b). In the event the Company calls a special meeting of shareholders for the purpose of electing one or more directors to the Board of Directors, any such shareholder may nominate a person or persons (as the case may be) for election to such position as specified in the Company's notice of meeting.

(c) GENERAL. (1) Only such persons who are nominated in accordance with the procedures set forth in this Section 11 shall be eligible to serve as directors and only such business shall be conducted at a meeting of shareholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 11. The presiding officer of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Section 11 and, if any proposed nomination or business is not in compliance with this Section 11, to declare that such defective nomination or proposal be disregarded.

(2) Notwithstanding the foregoing provisions of this Section 11, a shareholder shall also comply with all applicable requirements of state law with respect to the matters set forth in this Section 11.

Section 12. VOTING BY BALLOT. Voting on any question or in any election may be VIVA VOCE unless the presiding officer shall order or any shareholder shall demand that voting be by ballot.

Section 13. LIST OF SHAREHOLDERS. At each meeting of shareholders, a full, true and complete list of all shareholders entitled to vote at such meeting, showing the number and class of shares held by each and certified by the transfer agent for such class or by the secretary of the Company, shall be furnished by the secretary of the Company.

Section 14. INFORMAL ACTION BY SHAREHOLDERS. Any action required or permitted to be taken at a meeting of shareholders may be taken without a meeting if there is filed with the records of shareholders meetings a unanimous written consent which sets forth the action and is signed by each shareholder entitled to vote on the matter and a written waiver of any right to dissent signed by each shareholder entitled to notice of the meeting but not entitled to vote at it.

Section 15. MEETING BY CONFERENCE TELEPHONE. Shareholders may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means constitutes presence in person at a meeting.

ARTICLE III

DIRECTORS

Section 1. GENERAL POWERS; QUALIFICATIONS. The business and affairs of the Company shall be managed under the direction of its Board of Directors. All powers of the Company may be exercised by or under authority of the Board of Directors, except as conferred on or reserved to the shareholders by statute or by the Charter or Bylaws.

Section 2. NUMBER, TENURE AND QUALIFICATIONS. At any regular meeting or at any special meeting called for that purpose, a majority of the entire Board of Directors may establish, increase or decrease the number of directors, provided that the number thereof shall never be less than 7 nor more than 18, and shall never be less than the minimum number required by the Maryland General Corporation Law now or hereafter enforced, and further provided that the tenure of office of a director shall not be affected by any decrease in the number of directors. The directors shall be divided into two classes as nearly equal in number as possible. At each successive annual meeting of shareholders, the holders of stock present in person or by proxy at such meeting and entitled to vote thereat shall elect members of such successive class to serve for two year terms and until their successors are elected and qualify. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class shall, subject to Section 13, hold office for a term that shall coincide with the remaining term of that class, but in no case shall a decrease in the number of directors shorten the term of any incumbent director.

Section 3. RESIGNATION. Any director may resign at any time by sending a written notice of such resignation to the principal executive office of the Company addressed to the Chairman of the Board or the President. Unless otherwise specified therein such resignation shall take effect upon receipt thereof by the Chairman of the Board or the President.

Section 4. REMOVAL OF DIRECTOR. Any director or the entire Board of Directors may be removed only in accordance with the provisions of the Charter.

Section 5. ANNUAL AND REGULAR MEETINGS. An annual meeting of the Board of Directors shall be held immediately after and at the same place as the annual meeting of shareholders, no notice other than this Bylaw being necessary. The Board of Directors may provide, by resolution, the time and place, either within or without the State of Maryland, for the holding of regular meetings of the Board of Directors without other notice than such resolution.

Section 6. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by or at the request of the chairman of the board (or any co-chairman of the board if more than one), president or by a majority of the directors then in office. The person or persons authorized to call special meetings of the Board of Directors may fix any place, either within or without the State of Maryland, as the place for holding any special meeting of the Board of Directors called by them.

Section 7. NOTICE. Except as provided in Sections 5 and 6, the Secretary shall give notice to each director of each regular and special meeting of the Board of Directors. The notice shall state the time and place of the meeting. Notice is given to a director when it is delivered personally to him or her, left at his or her residence or usual place of business, or sent by telegraph, facsimile transmission, electronic transmission (in accordance with Maryland General Corporation Law now or hereafter enforced) or telephone, at least 24 hours before the time of the meeting or, in the alternative by mail to his or her address as it shall appear on the records of the Company, at least 72 hours before the time of the meeting. Unless these Bylaws or a resolution of the Board of Directors provides otherwise, the notice need not state the business to be transacted at or the purposes of any regular or special meeting of the Board of Directors. No notice of any meeting of the Board of Directors need be given to any director who attends except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened, or to any director who, in writing executed and filed with the records of the meeting either before or after the holding thereof, waives such notice. Any meeting of the Board of Directors, regular or special, may adjourn from time to time to reconvene at the same or some other place, and no notice need be given of any such adjourned meeting other than by announcement.

Section 8. QUORUM. A majority of the directors shall constitute a quorum for transaction of business at any meeting of the Board of Directors, provided that, if less than a majority of such directors are present at said meeting, a majority of the directors present may adjourn the meeting from time to time without further notice, and provided further that if, pursuant to the Charter of the Company or these Bylaws, the vote of a majority of a particular group of directors is required for action, a quorum must also include a majority of such group.

The Board of Directors present at a meeting which has been duly called and convened may continue to transact business until adjournment, notwithstanding the withdrawal of enough directors to leave less than a quorum.

Section 9. VOTING. The action of the majority of the directors present at a meeting at which a quorum is present shall be the action of the Board of Directors, unless the concurrence of a greater proportion is required for such action by applicable statute.

Section 10. PRESUMPTION OF ASSENT. A director of the Company who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his or her dissent or abstention shall be entered in the minutes of the meeting or unless he or she shall file his or her written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Company immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who votes in favor of such action.

Section 11. TELEPHONE MEETINGS. Directors may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

Section 12. INFORMAL ACTION BY DIRECTORS. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting, if a consent in writing to such action is signed by each director and such written consent is filed with the minutes of proceedings of the Board of Directors.

Section 13. VACANCIES. If for any reason any or all the directors cease to be directors, such event shall not terminate the Company or affect these Bylaws or the powers of the remaining directors hereunder (even if fewer than three directors remain). Any vacancy on the Board of Directors for any cause other than an increase in the number of directors shall be filled by a majority of the remaining directors, although such majority is less than a quorum. Any vacancy in the number of directors created by an increase in the number of directors may be filled by a majority vote of the entire Board of Directors. Any individual so elected as director shall hold office for the unexpired term of the director he is replacing.

Section 14. COMPENSATION. Directors shall not receive any stated salary for their services as directors but, by resolution of the Board of Directors, may receive fixed sums per year and/or per meeting and/or per visit to real property owned or to be acquired by the Company and for any service or activity they performed or engaged in as directors. Directors may be reimbursed for expenses of attendance, if any, at each annual, regular or special meeting of the Board of Directors or of any committee thereof and for their expenses, if any, in connection with each property visit and any other service or activity they performed or engaged in as directors; but nothing herein contained shall be construed to preclude any directors from serving the Company in any other capacity and receiving compensation therefor.

Section 15. LOSS OF DEPOSITS. No director shall be liable for any loss which may occur by reason of the failure of the bank, trust company, savings and loan association, or other institution with whom moneys or stock have been deposited.

Section 16. SURETY BONDS. Unless required by law, no director shall be obligated to give any bond or surety or other security for the performance of any of his duties.

Section 17. RELIANCE. Each director, officer, employee and agent of the Company shall, in the performance of his duties with respect to the Company, be fully justified and protected with regard to any act or failure to act in reliance in good faith upon the books of account or other records of the Company, upon an opinion of counsel or upon reports made to the Company by any of its officers or employees or by the adviser, accountants, appraisers or other experts or consultants selected by the Board of Directors or officers of the Company, regardless of whether such counsel or expert may also be a director.

Section 18. CERTAIN RIGHTS OF DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS. The directors shall have no responsibility to devote their full time to the affairs of the Company. Any director or officer, employee or agent of the Company, in his personal capacity or in a capacity as an affiliate, employee, or agent of any other person, or otherwise, may have business interests and engage in business activities similar to or in addition to or in competition with those of or relating to the Company.

ARTICLE IV

COMMITTEES

Section 1. NUMBER, TENURE AND QUALIFICATIONS. The Board of Directors may appoint from among its members an Executive Committee, an Audit Committee, a Compensation Committee and other committees, composed of one or more directors, to serve at the pleasure of the Board of Directors; provided, however, that the Audit Committee, if formed, shall consist only of independent directors and the Compensation Committee, if formed, shall consist of two or more Independent Directors. For purposes of this section, an "Independent Director" shall mean any person if, in the opinion of the Board of Directors such person will exercise independent judgment and will materially assist in the function of the committee, except that such person shall not be an officer or employee of the Company, or a director who represents a close relative of a person who would not qualify as an Independent Director.

Section 2. POWERS. The Board of Directors may delegate to committees appointed under Section 1 of this Article any of the powers of the Board of Directors, except the power to authorize dividends on stock, elect directors, issue stock other than as provided in the next sentence, recommend to the shareholders any action which requires shareholder approval, amend these Bylaws, or approve any merger or share exchange which does not require shareholder approval. If the Board of Directors has given general authorization for the issuance of stock providing for or establishing a method or procedure for determining the maximum number or shares to be issued, a committee of the Board of Directors, in accordance with that general authorization or any stock option or other plan or program adopted by the Board of Directors, may authorize or fix the terms of stock subject to classification or reclassification and the terms on which any stock may be issued, including all terms and conditions required or permitted to be established or authorized by the Board of Directors.

Section 3. MEETINGS. Notice of committee meetings shall be given in the same manner as notice for special meetings of the Board of Directors. A majority of the members of the committee shall constitute a quorum for the transaction of business at any meeting of the committee. The act of a majority of the committee members present at a meeting shall be the act of such committee. The Board of Directors may designate a chairman of any committee, and such chairman or any two members of any committee may fix the time and place of its meeting unless the Board shall otherwise provide. In the absence of any member of any such committee, the members thereof present at any meeting, whether or not they constitute a quorum, may appoint another director to act in the place of such absent member. Each committee shall keep minutes of its proceedings.

Section 4. TELEPHONE MEETINGS. Members of a committee of the Board of Directors may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

Section 5. INFORMAL ACTION BY COMMITTEES. Any action required or permitted to be taken at any meeting of a committee of the Board of Directors may be taken without a meeting, if a consent in writing to such action is signed by each member of the committee and such written consent is filed with the minutes of proceedings of such committee.

Section 6. VACANCIES. Subject to the provisions hereof, the Board of Directors shall have the power at any time to change the membership of any committee, to fill all vacancies, to designate alternate members to replace any absent or disqualified member or to dissolve any such committee.

ARTICLE V

OFFICERS

Section 1. GENERAL PROVISIONS. The officers of the Company shall include a chief executive officer, a president, a secretary and a chief financial officer and may include a chairman of the board (or one or more co-chairmen of the board), a vice chairman of the board, one or more executive vice presidents, one or more senior vice presidents, one or more vice presidents, a chief operating officer, a treasurer, one or more assistant secretaries and one or more assistant treasurers. In addition, the Board of Directors may from time to time appoint such other officers with such powers and duties as they shall deem necessary or desirable or authorize any committee or officer to appoint assistant or subordinate officers. The officers of the Company shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of shareholders, except that the chief executive officer may appoint one or more vice presidents, assistant secretaries and assistant treasurers. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as may be convenient. Each officer shall hold office at the pleasure of the Board of Directors or until his death, resignation or removal in the manner hereinafter provided. Any two or more offices except president and vice president may be held by the same person. In its discretion, the Board of Directors may leave unfilled any office except that of president, treasurer and secretary. Election of an officer or agent shall not of itself create contract rights between the Company and such officer or agent.

Section 2. REMOVAL AND RESIGNATION. Any officer or agent of the Company may be removed by the Board of Directors if in its judgment the best interests of the Company would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Any officer of the Company may resign at any time by giving written notice of his resignation to the Board of Directors, the chairman of the board (or any co-chairman of the board if more than one), the president or the secretary. Any resignation shall take effect at any time subsequent to the time specified therein or, if the time when it shall become effective is not specified therein, immediately upon its receipt. The acceptance of a resignation shall not be necessary to make it effective unless otherwise stated in the resignation. Such resignation shall be without prejudice to the contract rights, if any, of the Company.

Section 3. CHIEF EXECUTIVE OFFICER. The Board of Directors may designate a chief executive officer. In the absence of such designation, the chairman of the board (or, if more than one, the co-chairmen of the board in the order designated at the time of their election or, in the absence of any designation, then in the order of their election) shall be the chief executive officer of the Company. The chief executive officer shall have general responsibility for implementation of the policies of the Company, as determined by the Board of Directors, and for the management of the business and affairs of the Company.

Section 4. CHIEF OPERATING OFFICER. The Board of Directors may designate a chief operating officer. The chief operating officer shall have the responsibilities and duties as set forth by the Board of Directors or the chief executive officer.

Section 5. CHIEF FINANCIAL OFFICER. The Board of Directors may designate a chief financial officer. The chief financial officer shall have the responsibilities and duties as set forth by the Board of Directors or the chief executive officer.

Section 6. CHAIRMAN OF THE BOARD. The Board of Directors shall designate a chairman of the board (or one or more co-chairmen of the board). The chairman of the board shall preside over the meetings of the Board of Directors and of the shareholders at which he shall be present. If there be more than one, the co-chairmen designated by the Board of Directors will perform such duties. The chairman of the board shall perform such other duties as may be assigned to him or them by the Board of Directors.

Section 7. CHAIRMAN OF THE BOARD EMERITUS. The directors may elect by a majority vote, from time to time, a chairman of the board emeritus (or one or more co-chairmen of the board emeritus). The chairman of the board emeritus shall be an honorary position and shall have no vote on any matter considered by the directors. The chairman of the board emeritus shall serve for such term as determined by the Board of Directors and may be removed by a majority role of directors with or without cause.

Section 8. PRESIDENT. The president or chief executive officer, as the case may be, shall in general supervise and control all of the business and affairs of the Company. In the absence of a designation of a chief operating officer by the Board of Directors, the president shall be the chief operating officer. He may execute any deed, mortgage, bond, contract or other instrument, except in cases where the execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Company or shall be required by law to be otherwise executed; and in general shall perform all duties incident to the office of president and such other duties as may be prescribed by the Board of Directors from time to time.

Section 9. VICE PRESIDENTS. In the absence of the president or in the event of a vacancy in such office, the vice president (or in the event there be more than one vice president, the vice presidents in the order designated at the time of their election or, in the absence of any designation, then in the order of their election) shall perform the duties of the president and when so acting shall have all the powers of and be subject to all the restrictions upon the president; and shall perform such other duties as from time to time may be assigned to him by the president or by the Board of Directors. The Board of Directors may designate one or more vice presidents as executive vice president or as vice president for particular areas of responsibility.

Section 10. SECRETARY. The secretary shall (a) keep the minutes of the proceedings of the shareholders, the Board of Directors and committees of the Board of Directors in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; (c) be custodian of the corporate records and of the seal of the Company; (d) keep a register of the post office address of each shareholder which shall be furnished to the secretary by such shareholder; (e) have general charge of the share transfer books of the Company; and (f) in general perform such other duties as from time to time may be assigned to him by the chief executive officer, the president or by the Board of Directors.

Section 11. TREASURER. The treasurer shall have the custody of the funds and securities of the Company and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Company and shall deposit all moneys and other valuable effects in the name and to the credit of the Company in such depositories as may be designated by the Board of Directors. In the absence of a designation of a chief financial officer by the Board of Directors, the treasurer shall be the chief financial officer of the Company.

The treasurer shall disburse the funds of the Company as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the president and Board of Directors, at the regular meetings of the Board of Directors or whenever it may so require, an account of all his transactions as treasurer and of the financial condition of the Company.

If required by the Board of Directors, the treasurer shall give the Company a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Company, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, moneys and other property of whatever kind in his possession or under his control belonging to the Company.

Section 12. ASSISTANT SECRETARIES AND ASSISTANT TREASURERS. The assistant secretaries and assistant treasurers, in general, shall perform such duties as shall be assigned to them by the secretary or treasurer, respectively, or by the president or the Board of Directors. The assistant treasurers shall, if required by the Board of Directors, give bonds for the faithful performance of their duties in such sums and with such surety or sureties as shall be satisfactory to the Board of Directors.

Section 13. SALARIES. The salaries and other compensation of the officers shall be fixed from time to time by the Board of Directors and no officer shall be prevented from receiving such salary or other compensation by reason of the fact that he is also a director.

ARTICLE VI

CONTRACTS, LOANS, CHECKS AND DEPOSITS

Section 1. CONTRACTS. The Board of Directors may authorize any officer or agent to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Company and such authority may be general or confined to specific instances. Any agreement, deed, mortgage, lease or other document executed by one or more of the directors or by an authorized person shall be valid and binding upon the Board of Directors and upon the Company when authorized or ratified by action of the Board of Directors.

Section 2. CHECKS AND DRAFTS. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Company shall be signed by such officer or agent of the Company in such manner as shall from time to time be determined by the Board of Directors.

Section 3. DEPOSITS. All funds of the Company not otherwise employed shall be deposited from time to time to the credit of the Company in such banks, trust companies or other depositories as the Board of Directors may designate.

ARTICLE VII

STOCK

Section 1. CERTIFICATES. The Board of Directors may determine to issue certificated or uncertificated shares of capital stock and other securities of the Company.

Section 2. TRANSFERS. Upon surrender to the Company or the transfer agent of the Company of a stock certificate duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, the Company shall issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

The Company shall be entitled to treat the holder of record of any share of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Maryland.

Notwithstanding the foregoing, transfers of shares of any class of stock will be subject in all respects to the Charter of the Company and all of the terms and conditions contained therein. Notwithstanding any other provision of the Charter or these Bylaws, Title 3, Subtitle 7 of the Maryland General Corporation Law (or any successor statute) shall not apply to any acquisition by any person of shares of stock of the Company. This section may be repealed, in whole or in part, at any time, whether before or after an acquisition of control shares and, upon such repeal, may, to the extent provided by any successor or bylaw, apply to any prior or subsequent control share acquisition.

Section 3. REPLACEMENT CERTIFICATE. Any officer designated by the Board of Directors may direct a new certificate to be issued in place of any certificate previously issued by the Company alleged to have been lost, stolen or destroyed upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen or destroyed. When authorizing the issuance of a new certificate, an officer designated by the Board of Directors may, in his discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or the owner's legal representative to advertise the same in such manner as he shall require and/or to give bond, with sufficient surety, to the Company to indemnify it against any loss or claim which may arise as a result of the issuance of a new certificate.

Section 4. CLOSING OF TRANSFER BOOKS OR FIXING OF RECORD DATE. The Board of Directors may set, in advance, a record date for the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or determining shareholders entitled to receive payment of any dividend or the allotment of any other rights, or in order to make a determination of shareholders for any other proper purpose. Such date, in any case, shall not be prior to the close of business on the day the record date is fixed and shall be not more than 90 days and, in the case of a meeting of shareholders, not less than ten days, before the date on which the meeting or particular action requiring such determination of shareholders of record is to be held or taken.

In lieu of fixing a record date, the Board of Directors may provide that the stock transfer books shall be closed for a stated period but not longer than 20 days. If the stock transfer books are closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, such books shall be closed for at least ten days before the date of such meeting.

If no record date is fixed and the stock transfer books are not closed for the determination of shareholders, (a) the record date for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day on which the notice of meeting is mailed or transmitted or the 30th day before the meeting, whichever is the closer date to the meeting; and (b) the record date for the determination of shareholders entitled to receive payment of a dividend or an allotment of any other rights shall be the close of business on the day on which the resolution of the directors, declaring the dividend or allotment of rights, is adopted.

When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof, except when (i) the determination has been made through the closing of the transfer books and the stated period of closing has expired or (ii) the meeting is adjourned to a date more than 120 days after the record date fixed for the original meeting, in either of which case a new record date shall be determined as set forth herein.

Section 5. STOCK LEDGER. The Company shall maintain at its principal executive office or at the office of its counsel, accountants or transfer agent, an original or duplicate share ledger containing the name and address of each shareholder and the number of shares of each class held by such shareholder.

Section 6. CERTIFICATION OF BENEFICIAL OWNERS. The Board of Directors may adopt by resolution a procedure by which a shareholder of the Company may certify in writing to the Company that any shares of stock registered in the name of the shareholder are held for the account of a specified person other than the shareholder. The resolution shall set forth the class of shareholders who may certify; the purpose for which the certification may be made; the form of certification and the information to be contained in it; if the certification is with respect to a record date or closing of the stock transfer books, the time after the record date or closing of the stock transfer books within which the certification must be received by the Company; and any other provisions with respect to the procedure which the Board of Directors considers necessary or desirable. On receipt of a certification which complies with the procedure adopted by the Board of Directors in accordance with this Section, the person specified in the certification is, for the purpose set forth in the certification, the holder of record of the specified stock in place of the shareholder who makes the certification.

Section 7. FRACTIONAL STOCK; ISSUANCE OF UNITS. The Board of Directors may issue fractional stock or provide for the issuance of scrip, all on such terms and under such conditions as they may determine. Notwithstanding any other provision of the Charter or these Bylaws, the Board of Directors may issue units consisting of different securities of the Company. Any security issued in a unit shall have the same characteristics as any identical securities issued by the Company, except that the Board of Directors may provide that for a specified period securities of the Company issued in such unit may be transferred on the books of the Company only in such unit.

ARTICLE VIII

ACCOUNTING YEAR

The Board of Directors shall have the power, from time to time, to fix the fiscal year of the Company by a duly adopted resolution.

ARTICLE IX

DISTRIBUTIONS

Section 1. AUTHORIZATION. Dividends and other distributions upon the stock of the Company may be authorized and declared by the Board of Directors, subject to the provisions of law and the Charter of the Company. Dividends and other distributions may be paid in cash, property or stock of the Company, subject to the provisions of law and the Charter.

Section 2. CONTINGENCIES. Before payment of any dividends or other distributions, there may be set aside out of any assets of the Company available for dividends or other distributions such sum or sums as the Board of Directors may from time to time, in its absolute discretion, think proper as a reserve fund for contingencies, for equalizing dividends or other distributions, for repairing or maintaining any property of the Company or for such other purpose as the Board of Directors shall determine to be in the best interest of the Company, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

ARTICLE X

INVESTMENT POLICY

Subject to the provisions of the Charter of the Company, the Board of Directors may from time to time adopt, amend, revise or terminate any policy or policies with respect to investments by the Company as it shall deem appropriate in its sole discretion.

ARTICLE XI

SEAL

Section 1. SEAL. The Board of Directors may authorize the adoption of a seal by the Company. The seal shall contain the name of the Company and the year of its incorporation. The Board of Directors may authorize one or more duplicate seals and provide for the custody thereof.

Section 2. AFFIXING SEAL. Whenever the Company is permitted or required to affix its seal to a document, it shall be sufficient to meet the requirements of any law, rule or regulation relating to a seal to place the word "(SEAL)" adjacent to the signature of the person authorized to execute the document on behalf of the Company.

ARTICLE XII

INDEMNIFICATION AND ADVANCES FOR EXPENSES

Section 1. PROCEDURE. Any indemnification, or payment of expenses in advance of the final disposition of any proceeding, shall be made promptly, and in any event within 60 days, upon the written request of the director or officer entitled to seek indemnification (the "Indemnified Party"). The right to indemnification and advances hereunder shall be enforceable by the Indemnified Party in any court of competent jurisdiction, if (i) the Company denies such request, in whole or in part, or (ii) no disposition thereof is made within 60 days. The Indemnified Party's costs and expenses incurred in connection with successfully establishing his or her right to indemnification, in whole or in part, in any such action shall also be reimbursed by the Company. It shall be a defense to any action for advance for expenses that (a) a determination has been made that the facts then known to those making the determination would preclude indemnification or (b) the Company has not received both (i) an undertaking as required by law to repay such advance sin the event it shall ultimately be determined that the standard of conduct has not been met and (ii) a written affirmation by the Indemnified Party of such Indemnified Party's good faith belief that the standard of conduct necessary for indemnification by the Company has been met.

Section 2. EXCLUSIVITY, ETC. The indemnification and advance of expenses provided by the Charter and these Bylaws shall not be deemed exclusive of any other rights to which a person seeking indemnification or advance of expenses may be entitled under any law (common or statutory), or any agreement, vote of shareholders or disinterested directors or other provision that is consistent with law, both as to action in his or her official capacity and as to action in another capacity while holding office or while employed by or acting as agent for the Company, shall continue in respect of all events occurring while a person was as director or officer after such person has ceased to be a director or officer, and shall inure to the benefit of the estate, heirs, executors and administrators of such person. The Company shall not be liable for any payment under this Bylaw in connection with a claim made by a director or officer to the extent such director or officer has otherwise actually received payment under insurance policy, agreement, vote or otherwise, of the amounts otherwise indemnifiable hereunder. All rights to indemnification and advance of expenses under the Charter of the Company and hereunder shall be deemed to be a contract between the Company and each director or officer of the Company who serves or served in such capacity at any time while this Bylaw is in effect. Nothing herein shall prevent the amendment of this Bylaw, provided that no such amendment shall diminish the rights of any person hereunder with respect to events occurring or claims made before its adoption or as to claims made after its adoption in respect of events occurring before its adoption. Any repeal or modification of this Bylaw shall not in any way diminish any rights to indemnification or advance of expenses of such director or officer or the obligations of the Company arising hereunder with respect to events occurring, or claims made, while this Bylaw or any provision hereof is in force.

Section 3. SEVERABILITY; DEFINITIONS. The invalidity or unenforceability of any provision of this Article XII shall not affect the validity or enforceability of any other provision hereof. The phrase "this Bylaw" in this Article XII means this Article XII in its entirety.

ARTICLE XIII

WAIVER OF NOTICE

Whenever any notice is required to be given pursuant to the Charter of the Company or these Bylaws or pursuant to applicable law, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at nor the purpose of any meeting need be set forth in the waiver of notice, unless specifically required by statute. The attendance of any person at any meeting shall constitute a waiver of notice of such meeting, except where such person attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

ARTICLE XIV

AMENDMENT OF BYLAWS

In accordance with the Charter, these Bylaws may be repealed, altered, amended or rescinded (a) by the shareholders of the Company but only by the affirmative vote of not less than 80% of all the votes entitled to be cast by the outstanding shares of capital stock of the Company entitled to vote generally in the election of directors (considered for this purpose as one class) cast at a meeting of the shareholders called for that purpose (provided that notice of such proposed repeal, alteration, amendment or rescission is included in the notice of such meeting) or (b) by affirmative vote of not less than two-thirds of the Board of Directors at a meeting held in accordance with the provisions of these Bylaws.

ARTICLE XV

MISCELLANEOUS

Section 1. BOOKS AND RECORDS. The Company shall keep correct and complete books and records of its accounts and transactions and minutes of the proceedings of its shareholders and Board of Directors and of any executive or other committee when exercising any of the powers of the Board of Directors. The books and records of the Company may be in written form or in any other form which can be converted within a reasonable time into written form for visual inspection. Minutes shall be recorded in written form but may be maintained in the form of a reproduction. The original or a certified copy of these Bylaws shall be kept at the principal office of the Company.

Section 2. VOTING STOCK IN OTHER COMPANIES. Stock of other corporations or associations, registered in the name of the Company, may be voted by the President, a Vice-President, or a proxy appointed by either of them. The Board of Directors, however, may by resolution appoint some other person to vote such shares, in which case such person shall be entitled to vote such shares upon the production of a certified copy of such resolution.

Section 3. MAIL. Any notice or other document which is required by these Bylaws to be mailed shall be deposited in the United States mails, postage prepaid.

Section 4. ELECTRONIC NOTICES. Any notice provided by the Company as required by these Bylaws may be delivered electronically when permitted under, and in accordance with, Maryland General Corporation Law now or hereafter enforced.

Section 4. EXECUTION OF DOCUMENTS. A person who holds more than one office in the Company may not act in more than one capacity to execute, acknowledge, or verify an instrument required by law to be executed, acknowledged, or verified by more than one officer.

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