

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x

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

For the quarterly period ended March 31, 2006

OR

o

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

For the transition period from _____ to _____

Commission File No. 1-15371

iSTAR FINANCIAL INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

**1114 Avenue of the Americas, 27th Floor
New York, NY**

(Address of principal executive offices)

95-6881527

(I.R.S. Employer
Identification Number)

10036

(Zip code)

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

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 o

Indicate by check mark whether the registrant is a large accelerated filer, or a non-accelerated filer, see definition of "accelerated filer" and "large accelerated filer" in Rule 12-b-2 of the Exchange Act.

Large accelerated filer x

Accelerated filer o

Non-accelerated filer o

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

As of April 30, 2006, there were 113,277,845 shares of common stock of iStar Financial Inc. \$0.001/par value per share outstanding ("Common Stock").

**iStar Financial Inc.
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PART I. CONSOLIDATED FINANCIAL INFORMATION

Item 1. Financial Statements

iStar Financial Inc.
Consolidated Balance Sheets
(In thousands, except per share data)
(unaudited)

	As of March 31, 2006	As of December 31, 2005
ASSETS		
Loans and other lending investments, net	\$ 4,974,891	\$ 4,661,915
Corporate tenant lease assets, net	3,123,970	3,115,361
Other investments	254,506	240,470
Investments in joint ventures	198,990	202,128
Cash and cash equivalents	74,243	115,370
Restricted cash	37,580	28,804
Accrued interest and operating lease income receivable	45,504	32,166
Deferred operating lease income receivable	72,875	76,874
Deferred expenses and other assets	69,112	50,005
Goodwill	9,203	9,203
Total assets	<u>\$ 8,860,874</u>	<u>\$ 8,532,296</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 162,054	\$ 192,522
Debt obligations	6,122,828	5,859,592
Total liabilities	<u>6,284,882</u>	<u>6,052,114</u>
Commitments and contingencies	—	—
Minority interest in consolidated entities	33,606	33,511
Shareholders' equity:		
Series D Preferred Stock, \$0.001 par value, liquidation preference \$25.00 per share, 4,000 shares issued and outstanding at March 31, 2006 and December 31, 2005	4	4
Series E Preferred Stock, \$0.001 par value, liquidation preference \$25.00 per share, 5,600 shares issued and outstanding at March 31, 2006 and December 31, 2005	6	6
Series F Preferred Stock, \$0.001 par value, liquidation preference \$25.00 per share, 4,000 shares issued and outstanding at March 31, 2006 and December 31, 2005	4	4
Series G Preferred Stock, \$0.001 par value, liquidation preference \$25.00 per share, 3,200 shares issued and outstanding at March 31, 2006 and December 31, 2005	3	3
Series I Preferred Stock, \$0.001 par value, liquidation preference \$25.00 per share, 5,000 shares issued and outstanding at March 31, 2006 and December 31, 2005	5	5
High Performance Units	8,806	8,797
Common Stock, \$0.001 par value, 200,000 shares authorized, 113,268 and 113,209 shares issued and outstanding at March 31, 2006 and December 31, 2005, respectively	113	113
Options	6,425	6,450
Additional paid-in capital	2,887,803	2,886,434
Retained earnings (deficit)	(365,352)	(442,758)
Accumulated other comprehensive income (See Note 14)	30,841	13,885
Treasury stock (at cost)	(26,272)	(26,272)
Total shareholders' equity	<u>2,542,386</u>	<u>2,446,671</u>
Total liabilities and shareholders' equity	<u>\$ 8,860,874</u>	<u>\$ 8,532,296</u>

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 March 31,	
	2006	2005
Revenue:		
Interest income	\$ 126,048	\$ 91,618
Operating lease income	84,319	76,125
Other income	14,265	12,604

Total revenue	224,632	180,347
Costs and expenses:		
Interest expense	93,533	68,951
Operating costs—corporate tenant lease assets	5,940	5,647
Depreciation and amortization	19,402	17,625
General and administrative(1)	19,133	16,003
Provision for loan losses	1,000	2,250
Total costs and expenses	139,008	110,476
Income before equity in earnings from joint ventures, minority interest and other items	85,624	69,871
Equity in earnings (loss) from joint ventures	286	(160)
Minority interest in consolidated entities	(248)	(205)
Income from continuing operations	85,662	69,506
Income from discontinued operations	142	813
Gain from discontinued operations	2,182	—
Net income	87,986	70,319
Preferred dividend requirements	(10,580)	(10,580)
Net income allocable to common shareholders and HPU holders(2)	\$ 77,406	\$ 59,739
Basic earnings per common share(3)	\$ 0.67	\$ 0.52
Diluted earnings per common share(4) (5)	\$ 0.66	\$ 0.52

Explanatory Notes:

- (1) General and administrative costs include approximately \$1,204 and \$642 of stock-based compensation expense for the three months ended March 31, 2006 and 2005, respectively.
- (2) HPU holders are Company employees who purchased high performance common stock units under the Company's High Performance Unit Program.
- (3) For the three months ended March 31, 2006 and 2005, excludes \$1,893 and \$1,483 of net income allocable to HPU holders, respectively.
- (4) For the three months ended March 31, 2006 and 2005, excludes \$1,875 and \$1,468 of net income allocable to HPU holders, respectively.
- (5) For the three months ended March 31, 2006 and 2005, includes \$28 and \$0 of joint venture income, respectively.

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

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iStar Financial Inc. Consolidated Statements of Changes in Shareholders' Equity (In thousands) (unaudited)

	Series D Preferred Stock	Series E Preferred Stock	Series F Preferred Stock	Series G Preferred Stock	Series I Preferred Stock	HPU's	Common Stock at Par	Warrants & Options	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2005	\$4	\$6	\$4	\$3	\$5	\$8,797	\$113	\$6,450	\$2,886,434	\$(442,758)	\$13,885	\$(26,272)	\$2,446,671
Exercise of options and warrants	—	—	—	—	—	—	—	(25)	579	—	—	—	554
Dividends declared-preferred	—	—	—	—	—	—	—	—	—	(10,580)	—	—	(10,580)
Restricted stock units granted to employees	—	—	—	—	—	—	—	—	316	—	—	—	316
High performance units sold to employees	—	—	—	—	—	9	—	—	—	—	—	—	9
Issuance of stock-DRIP/ Stock purchase plan	—	—	—	—	—	—	—	—	474	—	—	—	474
Net income for the period	—	—	—	—	—	—	—	—	—	87,986	—	—	87,986
Change in accumulated other comprehensive income	—	—	—	—	—	—	—	—	—	—	16,956	—	16,956
Balance at March 31, 2006	\$4	\$6	\$4	\$3	\$5	\$8,806	\$113	\$6,425	\$2,887,803	\$(365,352)	\$30,841	\$(26,272)	\$2,542,386

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

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

	For the Three Months Ended March 31,	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 87,986	\$ 70,319
Adjustments to reconcile net income to cash flows from operating activities:		
Minority interest in consolidated entities	248	205

Non-cash expense for stock-based compensation	1,326	713
Depreciation, depletion and amortization	21,269	18,033
Depreciation and amortization from discontinued operations	31	250
Amortization of deferred financing costs	6,113	7,526
Amortization of discounts/premiums, deferred interest and costs on lending investments	(17,272)	(18,719)
Discounts, loan fees and deferred interest received	6,076	39,392
Equity in (earnings)/loss from joint ventures	(286)	160
Distributions from operations of joint ventures	3,424	—
Deferred operating lease income receivable	(3,286)	(3,987)
Gain from discontinued operations	(2,182)	—
Provision for loan losses	1,000	2,250
Changes in assets and liabilities:		
Changes in accrued interest and operating lease income receivable	(13,340)	(4,543)
Changes in deferred expenses and other assets	(25,605)	9,912
Changes in accounts payable, accrued expenses and other liabilities	(17,286)	(18,817)
Cash flows from operating activities	<u>48,216</u>	<u>102,694</u>
Cash flows from investing activities:		
New investment originations	(610,819)	(841,647)
Cash paid for acquisition of Falcon Financial	—	(113,696)
Add-on fundings under existing loan commitments	(186,420)	(93,204)
Net proceeds from sale of corporate tenant lease assets	9,043	—
Repayments of and principal collections on loans and other lending investments	474,168	422,086
Distributions from unconsolidated entities, net of contributions	(2,336)	—
Capital improvements for build-to-suit facilities	(17,323)	—
Capital improvement projects on corporate tenant lease assets	(3,369)	(3,854)
Other capital expenditures on corporate tenant lease assets	(1,692)	(2,139)
Cash flows from investing activities	<u>(338,748)</u>	<u>(632,454)</u>
Cash flows from financing activities:		
Borrowings under secured revolving credit facilities	—	510,000
Repayments under secured revolving credit facilities	—	(560,552)
Borrowings under unsecured revolving credit facilities	774,000	1,154,000
Repayments under unsecured revolving credit facilities	(1,559,000)	(1,381,000)
Borrowings under term loans	—	3,814
Repayments under term loans	(17,056)	(2,890)
Borrowings under unsecured bond offerings	991,489	1,090,477
Repayments under secured notes	—	(86,835)
Borrowings under foreign lines of credit	81,035	—
Contribution from minority interest partners	407	1,038
Changes in restricted cash held in connection with debt obligations	(8,776)	(6,134)
Payments for deferred financing costs	(2,564)	(1,132)
Distributions to minority interest partners	(560)	(373)
Preferred dividends paid	(10,580)	(10,580)
HPUs issued	9	946
Proceeds from exercise of options and issuance of DRIP/Stock purchase shares	1,001	1,062
Cash flows from financing activities	<u>249,405</u>	<u>711,841</u>
Changes in cash and cash equivalents	(41,127)	182,081
Cash and cash equivalents at beginning of period	115,370	88,422
Cash and cash equivalents at end of period	<u>\$ 74,243</u>	<u>\$ 270,503</u>

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

iStar Financial Inc.
Notes to Consolidated Financial Statements

Note 1—Business and Organization

Business—iStar Financial Inc. (the “Company”) is the leading publicly-traded finance company focused on the commercial real estate industry. The Company primarily provides custom-tailored financing to high-end private and corporate owners of real estate. The Company, which is taxed as a real estate investment trust (“REIT”), seeks to deliver strong dividends and superior risk-adjusted returns on equity to shareholders by providing the highest quality financing to its customers.

The Company’s two primary lines of business are lending and corporate tenant leasing. The lending business is primarily comprised of senior and mezzanine loans that typically range in size from \$20 million to \$150 million and have maturities generally ranging from three to ten years. These loans may be either fixed rate (based on the U.S. Treasury rate plus a spread) or variable rate (based on LIBOR plus a spread) and are structured to meet the specific financing needs of the borrowers. The Company also provides senior and mezzanine capital to corporations engaged in real estate or real estate-related businesses. These financings may be either secured or unsecured, typically range in size from \$20 million to \$150 million and have maturities generally ranging from five to ten years. As part of the lending business, the Company also acquires whole loans and loan participations which present attractive risk-reward opportunities. Acquired loan positions typically range in size from \$20 million to \$100 million.

The Company’s corporate tenant leasing business provides capital to corporations and other owners who control facilities leased to single creditworthy customers. The Company’s net leased assets are generally mission-critical headquarters or distribution facilities that are subject to long-term leases with public companies, many of which are rated corporate credits. Most leases require the tenant to pay for facility related expenses on a triple net lease basis. Corporate tenant lease, or CTL, transactions have initial terms generally ranging from 15 to 20 years and typically range in size from \$20 million to \$150 million.

The Company’s investment strategy targets specific sectors of the real estate credit markets in which it believes it can deliver the highest quality, 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:

- Focusing on the origination of large, structured mortgage, corporate and lease financings where customers require flexible financial solutions and “one-call” responsiveness post-closing.

- Avoiding commodity businesses in which there is significant direct competition from other providers of capital such as conduit lending and investment in commercial or residential mortgage-backed securities.
- Developing direct relationships with borrowers and corporate customers as opposed to sourcing transactions solely through intermediaries.
- Adding value beyond simply providing capital by offering borrowers and corporate customers specific lending expertise, flexibility, certainty and continuing relationships beyond the closing of a particular financing transaction.
- 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 customers' underlying credit obligations.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 1—Business and Organization (Continued)

Organization—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 assets to the Company's predecessor in exchange for a controlling interest in that company. The Company later acquired its former external advisor in exchange for shares of the Company's common stock ("Common Stock") and converted its organizational form to a Maryland corporation. As part of the conversion to a Maryland corporation, the Company replaced its former 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 on November 4, 1999. Prior to this date, the Company's Common Stock was traded on the American Stock Exchange. Since that time, the Company has grown by originating new lending and leasing transactions, as well as through corporate acquisitions, including the acquisition in 1999 of TriNet Corporate Realty Trust, Inc. ("TriNet").

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 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles in the United States of America ("GAAP") for complete financial statements. The Consolidated Financial Statements include the accounts of the Company, its qualified REIT subsidiaries, its majority-owned and controlled partnerships and other entities that are consolidated under the provisions of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," an interpretation of ARB 51 ("FIN 46R") (see Note 6).

Certain investments in joint ventures or other entities which the Company does not control are accounted for under the equity method (see Note 6). All significant intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying Consolidated Financial Statements contain all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the Company's consolidated financial position at March 31, 2006 and December 31, 2005 and the results of operations, changes in shareholders' equity and its cash flows for the three months ended March 31, 2006 and 2005, respectively. Such operating results may not be indicative of the expected results for any other interim periods or the entire year.

Note 3—Summary of Significant Accounting Policies

Loans and other lending investments, net—As described in Note 4, "Loans and Other Lending Investments," includes the following investments: senior mortgages, subordinate mortgages, corporate/partnership loans and other lending investments-securities. Management considers nearly all of its loans and other lending investments to be held-to-maturity, although a small number of investments may be classified as available-for-sale. Items classified as held-to-maturity are reflected at amortized historical cost. Items classified as available-for-sale are reported at fair values with unrealized gains and losses included in "Accumulated other comprehensive income (losses)" on the Company's Consolidated Balance Sheets and are not included in the Company's net income.

Corporate tenant lease assets and depreciation—CTL assets are generally recorded at cost less accumulated depreciation. Certain improvements and replacements are capitalized when they extend the

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 3—Summary of Significant Accounting Policies (Continued)

useful life, increase capacity or improve the efficiency of the asset. Repairs and maintenance items are expensed as incurred. Depreciation is computed using the straight-line method of cost recovery over the shorter of estimated useful lives or 40 years for facilities, five years for furniture and equipment, the shorter of the remaining lease term or expected life for tenant improvements and the remaining useful life of the facility for facility improvements.

CTL assets to be disposed of are reported at the lower of their carrying amount or estimated fair value less costs to sell and are included in "Assets held for sale" on the Company's Consolidated Balance Sheets. 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.

Regarding the Company's acquisition of facilities, purchase costs are allocated to the tangible and intangible assets and liabilities acquired based on their estimated fair values. The value of the tangible assets, consisting of land, buildings, building improvements and tenant improvements, are determined as if vacant, that is, at replacement cost. Intangible assets including the above-market or below-market value of leases, the value of in-place leases and the value of customer relationships are recorded at their relative fair values.

Above-market and below-market in-place lease values for owned CTL assets are recorded based on the present value (using a discount rate reflecting the risks associated with the leases acquired) of the difference between: (1) the contractual amounts to be paid pursuant to the leases negotiated and in-place at the time of acquisition of the facilities; and (2) management's estimate of fair market lease rates for the facility or equivalent facility, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market (or below-market) lease value is amortized as a reduction of (or, increase to) operating lease income over the remaining non-cancelable term of each lease plus any renewal periods with fixed rental terms that are considered to be below-market. The Company generally engages in sale/leaseback transactions and typically executes leases simultaneously with the purchase of the CTL asset at market-rate rents. Because of this, no above-market or below-market lease value is ascribed to these transactions.

The total amount of other intangible assets are allocated to in-place lease values and customer relationship intangible values based on management's evaluation of the specific characteristics of each customer's lease and the Company's overall relationship with each customer. Characteristics to be considered in allocating these values include the nature and extent of the existing relationship with the customer, prospects for developing new business with the customer, the customer's credit quality and the expectation of lease renewals among other factors. Factors considered by management's analysis include the estimated carrying costs of the facility during a hypothetical expected lease-up period, current market conditions and costs to execute similar leases. Management also considers information obtained about a property in connection with its pre-acquisition due diligence. Estimated carrying costs include real estate taxes, insurance, other property operating costs and estimates of lost operating lease income at market rates during the hypothetical expected lease-up periods, based on management's assessment of specific market conditions. Management estimates costs to execute leases including commissions and legal costs to the extent that such costs are not already incurred with a new lease that has been negotiated in connection with the purchase of the facility. Management's estimates are used to determine these values. These

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 3—Summary of Significant Accounting Policies (Continued)

intangible assets are included in "Other investments" on the Company's Consolidated Balance Sheets (see Note 7).

The value of above-market or below-market in-place leases are amortized as a reduction of (or, increase to) operating lease income over the remaining initial term of each lease. The value of customer relationship intangibles are amortized to expense over the initial and renewal terms of the leases, but no amortization period for intangible assets will exceed the remaining depreciable life of the building. In the event that a customer terminates its lease, the unamortized portion of each intangible, including market rate adjustments, lease origination costs, in-place lease values and customer relationship values, would be charged to expense.

Timber and timberlands—Timber and timberlands, including logging roads, are stated at cost less accumulated depletion for timber previously harvested and accumulated road amortization. The Company capitalizes timber and timberland purchases and reforestation costs and other costs associated with the planting and growing of timber, such as site preparation, growing or purchases of seedlings, planting, silviculture, herbicide application and the thinning of tree stands to improve growth. The cost of timber and timberlands typically is allocated between the timber and the land acquired, based on estimated relative fair values.

Timber carrying costs, such as real estate taxes, insect and wildlife control and timberland management fees, are expensed as incurred. Net carrying value of the timber and timberlands is used to compute the gain or loss in connection with timberland sales. Timber and timberlands are included in "Other investments" on the Company's Consolidated Balance Sheets (see Note 7).

Capitalized interest—The Company capitalizes interest costs incurred during the construction periods for qualified build-to-suit projects for corporate tenants, including investments in joint ventures accounted for under the equity method. Capitalized interest was approximately \$341,000 for the three months ended March 31, 2006 and no interest was capitalized during the three months ended March 31, 2005.

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

Restricted cash—Restricted cash represents amounts required to be maintained in escrow under certain of the Company's debt obligations, leasing and derivative transactions.

Variable interest entities—In accordance with FIN 46R, the Company identifies entities for which control is achieved through means other than through voting rights (a "variable interest entity" or "VIE"), and determines when and which business enterprise, if any, should consolidate the VIE. In addition, the Company discloses information pertaining to such entities wherein the Company is the primary beneficiary or other entities wherein the Company has a significant variable interest.

Identified intangible assets and goodwill—Upon the acquisition of a business, the Company records intangible assets acquired at their estimated fair value separate and apart from goodwill. The Company amortizes identified intangible assets that are determined to have finite lives based on the period over which the assets are expected to contribute directly or indirectly to the future cash flows of the business acquired. Intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 3—Summary of Significant Accounting Policies (Continued)

is recognized if the carrying amount of an intangible asset is not recoverable or its carrying amount exceeds its estimated fair value.

The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is done at a level of reporting referred to as a reporting unit. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value.

Fair values for goodwill and other intangible assets are determined based on discounted cash flows or appraised values, as appropriate.

During the first quarter 2005, the Company acquired Falcon Financial Investment Trust (“Falcon Financial”) in a business combination and identified intangible assets of approximately \$2.0 million and goodwill of \$7.7 million (see Note 4 for further discussion). These identified intangible assets are included in “Deferred expenses and other assets” on the Company’s Consolidated Balance Sheets.

Revenue recognition—The Company’s revenue recognition policies are as follows:

Loans and other lending investments: Management considers nearly all of its loans and other lending investments to be held-to-maturity, although a small number of investments may be classified as available-for-sale. The Company reflects held-to-maturity investments at historical cost adjusted for allowance for loan losses, unamortized acquisition premiums or discounts and unamortized deferred loan fees.

Unrealized gains and losses on available-for-sale investments are included in “Accumulated other comprehensive income (losses)” on the Company’s Consolidated Balance Sheets and are not included in the Company’s net income. On occasion, the Company may acquire loans at generally small 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. 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, if management believes it is probable that such dues will be received. If loans with premiums, discounts, loan origination or exit fees are prepaid, the Company immediately recognizes the unamortized portion as a decrease or increase in the prepayment gain or loss which is included in “Other income” in the Company’s Consolidated Statements of Operations. Interest income is recognized using the effective interest method applied on a loan-by-loan basis.

A small number of the Company’s loans provide for accrual of interest at specified rates that 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

iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

Note 3—Summary of Significant Accounting Policies (Continued)

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 cumulative difference between lease revenue recognized under this method and contractual lease payment terms, is recorded as “Deferred operating lease income receivable” on the Company’s Consolidated Balance Sheets.

Reserve for loan losses—The Company’s accounting policies require that an allowance for estimated loan 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 loan losses. In establishing loan loss reserves, management periodically evaluates and analyzes the Company’s assets, historical and industry loss experience, economic conditions and trends, collateral values and quality, and other relevant factors. 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 under the loan agreement on a timely basis. Management carries these impaired loans at the fair value of the loans’ underlying collateral less estimated disposition costs. Impaired loans may be left on accrual status during the period the Company is pursuing repayment of the loan; however, these loans are placed on non-accrual status at such time as: (1) management determines the borrower is incapable of, or has ceased efforts toward, curing the cause of the impairment; (2) the loans become 90 days delinquent; (3) the loan has a maturity default; or (4) the net realizable value of the loan’s underlying collateral approximates the Company’s carrying value of such loan. 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 loan losses. Charge-offs occur when loans, or a portion thereof, are considered uncollectible and of such little value that further pursuit of collection is not warranted. Management also provides a loan portfolio reserve based upon its periodic evaluation and analysis of the portfolio, historical and industry loss experience, economic conditions and trends, collateral values and quality, and other relevant factors.

The Company’s loans are generally collateralized by real estate assets or are corporate lending arrangements to entities with significant real estate holdings and other corporate assets. While the underlying real estate assets for the corporate lending instruments may not serve as collateral for the Company’s investments in all cases, the Company evaluates the underlying real estate assets when estimating loan loss exposure because the Company’s loans generally have restrictions as to how much senior and/or secured debt the customer may borrow ahead of the Company’s position.

Allowance for doubtful accounts—The Company’s accounting policies require a reserve on the Company’s accrued operating lease income receivable balances and on the deferred operating lease income receivable balances. The reserve covers asset specific problems (e.g., bankruptcy) as they arise, as well as a portfolio reserve based on management’s evaluation of the credit risks associated with these receivables.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 3—Summary of Significant Accounting Policies (Continued)

Derivative instruments and hedging activity—In accordance with Statement of Financial Accounting Standards No. 133 (“SFAS No. 133”), “Accounting for Derivative Instruments and Hedging Activities” as amended by Statement of Financial Accounting Standards No. 137 “Accounting for Derivative Instruments and Hedging Activity—Deferral of the Effective date of FASB 133,” Statement of Financial Accounting Standards No. 138 “Accounting for Certain Derivative Instruments and Certain Hedging Activities—an Amendment of FASB Statement 133” and Statement of Financial Accounting Standards No. 149 “Amendment of Statement 133 on Derivative Instrument and Hedging Activities,” the Company recognizes all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as: (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (2) a hedge of the exposure to variable cash flows of a forecasted transaction; or (3) in certain circumstances, a hedge of a foreign currency exposure.

Stock-based compensation—During the third quarter of 2002, with retroactive application to the beginning of that year, the Company adopted the fair-value method of accounting for options issued to employees or directors. Accordingly, the Company recognizes a charge equal to the fair value of these options at the date of grant multiplied by the number of options issued. This charge is amortized over the related remaining vesting terms to individuals as additional compensation.

For restricted stock awards, the Company measures compensation costs as of the date of grant and expenses such amounts against earnings, either at the grant date (if no vesting period exists) or ratably over the respective vesting/service period.

Impairment or disposal of long-lived assets—In accordance with the Statement of Financial Accounting Standards No. 144 (“SFAS No. 144”), “Accounting for the Impairment or Disposal of Long-Lived Assets” the Company presents current operations prior to the disposition of CTL assets and prior period results of such operations in discontinued operations in the Company’s Consolidated Statements of Operations.

Depletion—Depletion relates to the Company’s investment in timberland assets. Assumptions and estimates are used in the recording of depletion. With the help of foresters and industry-standard computer software, merchantable standing timber inventory is estimated annually. An annual depletion rate for each timberland investment is established by dividing book cost of timber by standing merchantable inventory. Changes in the assumptions and/or estimations used in these calculations may affect the Company’s results, in particular depletion costs. Factors that can impact timber volume include weather changes, losses due to natural causes, differences in actual versus estimated growth rates and changes in the age when timber is considered merchantable.

Income taxes—The Company is subject to federal income taxation at corporate rates on its “REIT taxable income;” however, the Company is allowed a deduction for the amount of dividends paid to its shareholders, thereby subjecting the distributed net income of the Company to taxation at the shareholder level only. In addition, the Company is allowed several other deductions in computing its “REIT taxable income,” including non-cash items such as depreciation expense. These deductions allow the Company to shelter a portion of its operating cash flow from its dividend payout requirement under federal tax laws. The Company intends to operate in a manner consistent with and to elect to be treated as a REIT for tax purposes.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 3—Summary of Significant Accounting Policies (Continued)

The Company can participate in certain activities from which it was previously precluded in order to maintain its qualification as a REIT, as long as these activities are conducted in entities which elect to be treated as taxable subsidiaries under the Code, subject to certain limitations. As such, the Company, through its taxable REIT subsidiaries, is engaged in various real estate related opportunities, including: (i) servicing certain loan portfolios owned by third parties through iStar Asset Services, Inc.; (ii) servicing securitized loans acquired in the acquisition of Falcon Financial through Falcon Financial II, Inc. (“Falcon”); (iii) certain activities related to the purchase and sale of timber and timberlands through TimberStar TRS, Inc. and TRS II, Inc. (collectively, “TimberStar TRS”); and (iv) managing corporate credit-oriented investment strategies through four taxable REIT subsidiaries, iStar Alpha TRS, Inc., iStar Alpha LLC Holding TRS, Inc., iStar Alpha LLC Holdings TRS II, Inc. and iStar OHCOF GP TRS, Inc. (collectively, “iStar Alpha”). The Company will consider other investments through taxable REIT subsidiaries if suitable opportunities arise. iStar Operating, Falcon, TimberStar TRS and iStar Alpha 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, Falcon, TimberStar TRS and iStar Alpha. Such amounts are immaterial. Accordingly, except for the Company’s taxable REIT subsidiaries, no current or deferred federal taxes are provided for in the Consolidated Financial Statements.

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

Reclassification—Certain prior year amounts have been reclassified in the Consolidated Financial Statements and the related notes to conform to the 2006 presentation.

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

New accounting standards—In March 2005, the FASB released Interpretation No. 47 (“FIN 47”), “Accounting for Conditional Asset Retirement Obligations.” FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, “Accounting for Asset Retirement Obligations” (“SFAS No. 143”), as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional

on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Thus, the timing and/or method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred—generally upon acquisition, construction, or development and/or through the

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 3—Summary of Significant Accounting Policies (Continued)

normal operation of the asset. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. SFAS No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The Company adopted FIN 47 during 2005 and it did not have a significant impact on the Company's Consolidated Financial Statements.

In December 2004, the FASB released Statement of Financial Accounting Standards No. 153 ("SFAS No. 153"), "Accounting for Non-monetary Transactions." SFAS No. 153 requires non-monetary exchanges to be accounted for at fair value, recognizing any gain or loss, if the transactions meet a commercial-substance criterion and fair value is determinable. SFAS No. 153 is effective for non-monetary transactions occurring in fiscal years beginning after June 15, 2005. The Company adopted the provisions of this statement, as required, on January 1, 2006, and it did not have a significant impact on the Company's Consolidated Financial Statements.

In June 2005, the Emerging Issues Task Force reached a consensus on EITF 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights." EITF 04-5 states that a sole general partner is presumed to control a limited partnership (or similar entity) and should consolidate the limited partnership unless one of the following two conditions exist: (1) the limited partners possess substantive kick-out rights, or (2) the limited partners possess substantive participating rights. A kick-out right is defined as the substantive ability to remove the sole general partner without cause or otherwise dissolve (liquidate) the limited partnership. Substantive participating rights are when the limited partners have the substantive right to participate in certain financial and operating decisions of the limited partnership that are made in the ordinary course of business. The consensus guidance in EITF 04-5 is effective for all agreements entered into or modified after June 29, 2005. For all pre-existing agreements that are not modified, the consensus is effective as of the beginning of the first fiscal reporting period beginning after December 15, 2005. The Company adopted the provisions of this statement, as required, and it did not have a significant impact on the Company's Consolidated Financial Statements.

In December 2004, the FASB released Statement of Financial Accounting Standards No. 123R ("SFAS No. 123R"), "Share-Based Payment." This standard requires issuers to measure the cost of equity-based service awards based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award or the requisite service period (typically the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. The Company will initially measure the cost of liability-based service awards based on their current fair value. The fair value of that award will be remeasured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation cost over that period. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments. If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. Companies can comply with FASB No. 123R using one of three transition methods: (1) the

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 3—Summary of Significant Accounting Policies (Continued)

modified prospective method; (2) the modified retrospective method; or (3) a variation of the modified retrospective method. The provisions of this statement are effective for annual periods beginning after June 15, 2005. The Company adopted the provisions of SFAS No. 123R, as required, on January 1, 2006, and it did not have a significant financial impact on the Company's Consolidated Financial Statements.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 4—Loans and Other Lending Investments

The following is a summary description of the Company's loans and other lending investments (\$ in thousands)(1):

Type of Investment	Underlying Property Type	# of Borrowers In Class	Principal Balances Outstanding	Carrying Value as of		Effective Maturity Dates	Contractual Interest Payment Rates(2)	Contractual Interest Accrual Rates(2)	Principal Amortization(3)	Participation Features(4)
				March 31, 2006	December 31, 2005					
Senior Mortgages(5)	Office/Residential/Retail/Industrial, R&D/Mixed Use/Hotel/Entertainment, Leisure/Other	94	\$ 3,281,833	\$3,248,695	\$ 3,149,767	2006 to 2026	Fixed: 7.03% to 20.00% Variable: LIBOR + 2.50% to LIBOR + 7.00%	Fixed: 7.03% to 20.00% Variable: LIBOR + 2.50% to LIBOR + 7.00%	Yes	Yes
Subordinate Mortgages	Office/Residential/Retail/Mixed Use/Hotel/Entertainment, Leisure/Other	16	394,854	392,234	413,853	2006 to 2025	Fixed: 7.32% to 18.00% Variable: LIBOR + 1.25% to LIBOR + 5.25%	Fixed: 7.32% to 18.00% Variable: LIBOR + 1.25% to LIBOR + 5.25%	Yes	No
Corporate/Partnership Loans(6)(7)	Office/Residential/Retail/Industrial, R&D/Mixed Use/Hotel/Other	25	664,696	654,619	797,456	2006 to 2021	Fixed: 6.00% to 18.00% Variable: LIBOR + 2.50% to LIBOR + 8.46%	Fixed: 7.62% to 25.00% Variable: LIBOR + 2.50% to LIBOR + 8.46%	Yes	No
Other Lending Investments—Securities(8)	Residential/Retail/Industrial, R&D/Entertainment, Leisure/Other	8	732,881	727,219	347,715	2006 to 2023	Fixed: 6.00% to 9.25% Variable: LIBOR + 0.85% to LIBOR + 5.63%	Fixed: 6.00% to 9.25% Variable: LIBOR + 0.85% to LIBOR + 5.63%	Yes	No
Gross Carrying Value				\$5,022,767	\$ 4,708,791					
Reserve for Loan Losses				(47,876)	(46,876)					
Total, Net				\$4,974,891	\$ 4,661,915					

Explanatory Notes:

- Details (other than carrying values) are for loans outstanding as of March 31, 2006.
- Substantially all variable-rate loans are based on 30-day LIBOR and reprice monthly. The 30-day LIBOR on March 31, 2006 was 4.83%. As of March 31, 2006, three loans with a combined carrying value of \$70.1 million have a stated accrual rate that exceeds the stated pay rate; one of these loans, with a carrying value of \$27.1 million, has been placed on non-accrual status and therefore is considered a non-performing loan (see Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management) and the Company is only recognizing income based on cash received for interest.
- Certain loans require fixed payments of principal resulting in partial principal amortization over the term of the loan with the remaining principal due at maturity.
- Under one of the loans, the Company may receive an additional payment representing a percentage of the loan proceeds from a sale or refinance of the underlying real estate collateral, up to a maximum amount of \$1.3 million.
- Includes one loan with a carrying value of \$39.9 million which the Company has currently ceased accruing the contractual exit fees as of January 1, 2006.
- Includes two unsecured loans with an aggregate carrying value of \$75.0 million as of March 31, 2006.
- Includes one loan with a stated accrual rate of 25.00% per annum, however, no interest is due until its scheduled maturity in 2009.
- Generally consists of senior loans, term preferred stock or debt interests that are specifically originated or structured to meet customer financing requirements and the Company's investment criteria. These investments do not typically consist of securities purchased in the open market or as part of broadly-distributed offerings.

iStar Financial Inc. Notes to Consolidated Financial Statements (Continued)

Note 4—Loans and Other Lending Investments (Continued)

During the three months ended March 31, 2006 and 2005, respectively, the Company and its affiliated ventures originated or acquired an aggregate of approximately \$590.2 million and \$665.8 million (excluding the acquisition of Falcon Financial) in loans and other lending investments, funded \$186.4 million and \$93.2 million under existing loan commitments and received principal repayments of \$474.2 million and \$422.1 million.

As of March 31, 2006, the Company had 37 loans with unfunded commitments. The total unfunded commitment amount was approximately \$1.19 billion, of which \$35.0 million was discretionary and \$1.15 billion was non-discretionary.

The Company has reflected provisions for loan losses of approximately \$1.0 million and \$2.3 million in its results of operations during the three months ended March 31, 2006 and 2005, respectively. These provisions represent loan portfolio reserves based on management's evaluation of general market conditions, the Company's internal risk management policies and credit risk ratings system, industry loss experience, the likelihood of delinquencies or defaults and the credit quality of the underlying collateral.

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

Reserve for loan losses, December 31, 2004	\$ 42,436
Additional provision for loan losses	2,250
Additional provision acquired in acquisition of Falcon Financial	<u>2,190</u>
Reserve for loan losses, December 31, 2005	46,876
Additional provision for loan losses	1,000
Reserve for loan losses, March 31, 2006	<u>\$ 47,876</u>

Acquisition of Falcon Financial Investment Trust—On January 20, 2005, the Company signed a definitive agreement to acquire Falcon Financial, an independent finance company dedicated to providing long-term capital to automotive dealers throughout North America. Falcon Financial was a borrower of the Company at the time of signing the definitive agreement. Under the terms of the agreement, the Company commenced a cash tender offer to acquire all of Falcon Financial's outstanding shares at a price of \$7.50 per share for an aggregate equity purchase price of approximately \$120.0 million. The offer expired on February 28, 2005, and as of the expiration, approximately 15.6 million common shares of beneficial interest, representing approximately 97.70% of Falcon Financial's issued and outstanding shares, had been tendered and not withdrawn. On March 3, 2005, the Company completed the merger of Falcon Financial with an acquisition subsidiary of the Company. As a result of the merger, all outstanding shares of Falcon Financial not purchased by the Company in the tender offer were converted into the right to receive \$7.50 per share, without interest and the Company acquired 100.00% ownership of Falcon Financial.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 4—Loans and Other Lending Investments (Continued)

The following is a summary of the effects of this transaction on the Company's consolidated financial position (in thousands):

Fair value of:	
Assets acquired (loans and other lending investments)	\$ 255,503
Acquired intangible assets and goodwill	9,778
Acquired accrued interest and other assets	3,140
iStar line-of-credit to Falcon Financial plus accrued interest	(151,784)
Other liabilities assumed	(2,941)
Net cash paid for Falcon Financial acquisition	<u>\$ 113,696</u>

The purchase of Falcon Financial was accounted for as a business combination, and therefore the Company applied the principles of SFAS No. 141 and Statement of Financial Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets," to the transaction. There were approximately \$2.0 million of intangibles identified in the business combination that will be amortized over two to 21 years. These intangibles are included in "Deferred expenses and other assets" on the Company's Consolidated Balance Sheets. As of March 31, 2006, the Company had unamortized purchase related intangible assets of approximately \$1.7 million related to the Falcon Financial acquisition. In addition, the acquisition resulted in approximately \$7.7 million of goodwill. The goodwill was adjusted by approximately \$1.5 million subsequent to the acquisition to reflect severance payments to certain individuals and other costs which resulted in an increase of goodwill to \$9.2 million. The goodwill is tested annually for impairment as required by SFAS No. 142. The most recent impairment test was performed by the Company during the fourth quarter of 2005 and no impairment was identified. On May 1, 2005, the assets acquired in the Falcon Financial acquisition were merged with AutoStar Realty Operating Partnership, L.P. (see Note 6 for further description of AutoStar Realty Operating Partnership, L.P.).

Note 5—Corporate Tenant Lease Assets

During the three months ended March 31, 2006 and 2005, respectively, the Company acquired an aggregate of approximately \$10.7 million and \$108.0 million in CTL assets and, for the quarter ended March 31, 2006, disposed of CTL assets for net proceeds of approximately \$9.0 million. The Company did not allocate any of the purchase costs to intangible assets in relation to the CTL assets acquired during the quarter ended March 31, 2006 (see Note 3). As of March 31, 2006 and December 31, 2005, the Company had unamortized purchase related intangible assets of approximately \$41.8 million and \$42.5 million, respectively, and included these in "Other investments" on the Company's Consolidated Balance Sheets.

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

	March 31, 2006	December 31, 2005
Facilities and improvements	\$ 2,676,388	\$ 2,657,306
Land and land improvements	753,859	747,724
Less: accumulated depreciation	(306,277)	(289,669)
Corporate tenant lease assets, net	<u>\$ 3,123,970</u>	<u>\$ 3,115,361</u>

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 5—Corporate Tenant Lease Assets (Continued)

Under certain leases, the Company is entitled to receive additional participating lease payments to the extent gross revenues of the corporate customer exceed a base amount. The Company did not earn any such additional participating lease payments on these leases in the three months ended March 31, 2006 and 2005. In addition, the Company also receives reimbursements from customers for certain facility operating expenses including common area costs, insurance and real estate taxes. Customer expense reimbursements for the three months ended March 31, 2006 and 2005 were approximately \$7.1 million and \$6.2 million, respectively, and are included as a reduction of "Operating costs—corporate tenant lease assets" on the Company's Consolidated Statements of Operations.

The Company is subject to expansion option agreements with three existing customers that could require the Company to fund and to construct up to 171,000 square feet of additional adjacent space on which the Company would receive additional operating lease income under the terms of the option agreements. In addition, upon exercise of such expansion option agreements, the corporate customers would be required to simultaneously extend their existing lease terms for additional periods ranging from six to ten years.

The Company also has \$64.5 million of non-discretionary unfunded commitments related to 12 CTL investments. These commitments generally fall into two categories: (1) pre-approved capital improvement projects; and (2) new or additional construction costs. Upon funding, the Company would receive additional operating lease income from the customers. In addition, the Company has \$10.3 million of non-discretionary unfunded commitments related to 17 existing customers in the form of tenant improvements which were negotiated between the Company and customers at the commencement of the leases.

On March 6, 2006, the Company sold two CTL assets for net proceeds of approximately \$9.0 million and realized a gain of approximately \$2.2 million.

The results of operations from CTL assets sold or held for sale in the current and prior periods are classified as "Income from discontinued operations" on the Company's Consolidated Statements of Operations even though such income was actually recognized by the Company prior to the asset sale. Gains from the sale of CTL assets are classified as "Gain from discontinued operations" on the Company's Consolidated Statements of Operations.

Note 6—Joint Ventures and Minority Interest

Investments in unconsolidated joint ventures—Income or loss generated from the Company’s joint venture investments is included in “Equity in earnings (loss) from joint ventures” on the Company’s Consolidated Statements of Operations.

At March 31, 2006, the Company had a 50% investment in Corporate Technology Centre Associates, LLC (“CTC”), whose external member is Corporate Technology Centre Partners, LLC. This venture was formed for the purpose of operating, acquiring and, in certain cases, developing CTL facilities. At March 31, 2006, the CTC venture held one facility. The Company’s investment in this joint venture at March 31, 2006 was \$5.0 million. The joint venture’s carrying value for the one facility owned at March 31, 2006 was \$17.5 million. The joint venture had total assets of \$19.0 million as of March 31, 2006 and a net loss of \$(122,000) for the three months ended March 31, 2006. The Company accounts for this investment

iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

Note 6—Joint Ventures and Minority Interest (Continued)

under the equity method because the Company’s joint venture partner has certain participating rights giving them shared control over the venture.

In addition, the Company has 47.5% investments in Oak Hill Advisors, L.P. and Oak Hill Credit Alpha MGP, a 47.0% investment in OHSF GP Partners II, LLC and a 45.5% investment in Oak Hill Credit Opportunities MGP, LLC (collectively, “Oak Hill”). The Company has determined that all of these entities are VIE’s (see Note 3) and that an external member is the primary beneficiary. As such, the Company accounts for these investments under the equity method. The Company’s investment in these ventures at March 31, 2006 was \$193.9 million. These ventures engage in investment and asset management services. Upon acquisition of the interests in Oak Hill there was a difference between the Company’s book value of the equity investments and the underlying equity in the net assets of Oak Hill of approximately \$199.8 million. Under the provisions of APB 18, “The Equity Method of Accounting for Investments in Common Stock,” the Company allocated this value to identifiable intangible assets of approximately \$81.8 million and goodwill of \$118.0 million. These intangible assets are amortized based on their determined useful lives through quarterly adjustments to “Equity in earnings (loss) from joint ventures” and “Investments in joint ventures” on the Company’s Consolidated Financial Statements. As of March 31, 2006, the unamortized balance related to intangible assets for these investments was approximately \$71.3 million.

Minority Interest—Income or loss allocable to external partners in consolidated entities is included in “Minority interest in consolidated entities” on the Company’s Consolidated Statements of Operations.

As more fully discussed in Note 7, the Company consolidates the TimberStar Operating Partnership, L.P., created on January 19, 2005, for financial statement purposes and records the minority interest of the external partner in “Minority interest in consolidated entities” on the Company’s Consolidated Balance Sheets.

During 2005, the Company had an investment in iStar Operating, a taxable REIT subsidiary that, through a wholly-owned subsidiary, serviced the Company’s loans and certain loan portfolios owned by third parties. The Company owned all of the non-voting preferred stock and a 95% economic interest in iStar Operating. The Company determined that this entity was a VIE and the Company was the primary beneficiary, and therefore the Company consolidates this entity. On December 31, 2005, the Company acquired all the voting common stock in iStar Operating for a nominal amount and simultaneously merged it into an existing taxable REIT subsidiary of the Company.

On June 8, 2004, AutoStar Realty Operating Partnership, L.P. (the “Operating Partnership”) was created to provide real estate financing solutions to automotive dealerships and related automotive businesses. The Operating Partnership is owned 0.50% by AutoStar Realty GP LLC (the “GP”) and 99.50% by AutoStar Investors Partnership LLP (the “LP”). The GP is funded and owned 93.33% by iStar Automotive Investments, LLC, a wholly-owned subsidiary of the Company, and 6.67% by CP AutoStar, LP, an entity owned and controlled by two entities unrelated to the Company. The LP is funded and owned 93.33% by iStar Automotive Investments, LLC and 6.67% by CP AutoStar Co-Investors, LP, an entity controlled by two entities unrelated to the Company. This joint venture qualifies as a VIE and the Company is the primary beneficiary. Therefore, the Company consolidates this partnership for financial

iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

Note 6—Joint Ventures and Minority Interest (Continued)

statement purposes and records the minority interest of the external partner in “Minority interest in consolidated entities” on the Company’s Consolidated Balance Sheets.

On March 31, 2004, the Company began accounting for its 44.7% interest in TriNet Sunnyvale Partners, L.P. (“Sunnyvale”) as a VIE because the limited partners of Sunnyvale have the option to put their interest to the Company for cash; however, the Company may elect to deliver 297,728 shares of Common Stock in lieu of cash. The Company consolidates this partnership for financial statement purposes as it is the primary beneficiary. Prior to its consolidation, the Company accounted for this joint venture under the equity method for financial statement purposes and it was presented in “Investments in joint ventures,” on the Company’s Consolidated Balance Sheets and earnings from the joint venture were included in “Equity in earnings (loss) from joint ventures” in the Company’s Consolidated Statements of Operations.

In addition, the Company holds a majority interest in four other limited partnerships as of March 31, 2006 that are consolidated for financial statement purposes and records the minority interest of the external partner(s) in “Minority interest in consolidated entities” on the Company’s Consolidated Balance Sheets.

Note 7—Other Investments

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

	March 31, 2006	December 31, 2005
Timber and timberlands, net of accumulated depletion (see Note 3)	\$ 150,717	\$ 152,114
CTL intangibles, net of accumulated amortization (see Note 3)	41,803	42,530
Investments—other	51,510	39,174
Marketable securities	4,934	4,009
Prepaid expenses and other receivables	5,542	2,643
Other investments	<u>\$ 254,506</u>	<u>\$ 240,470</u>

On January 19, 2005, TimberStar Operating Partnership, L.P. (“TimberStar”) was created to acquire and manage a diversified portfolio of timberlands. TimberStar is owned 0.50% by TimberStar Investor GP LLC (“TimberStar GP”) and 99.50% by TimberStar Investors Partnership LLP (“TimberStar LP”). TimberStar GP and TimberStar LP are both funded and owned 96% by iStar Timberland Investments LLC, a wholly-owned subsidiary of the Company, and 4% by T-Star Investor Partners, LLC, an entity unrelated to the Company. The Company consolidates this partnership for financial statement purposes and records the minority interest of the external partner in “Minority interest in consolidated entities” on the Company’s Consolidated Balance Sheets. At March 31, 2006, the venture held approximately 337,000 acres of timberland located in the northeast, the majority of which is subject to a long-term supply agreement. The venture’s net carrying value of the timber and timberlands at March 31, 2006 was \$149.5 million. Net income for the venture is reflected in “Other income” on the Company’s Consolidated Statements of Operations.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 8—Other Assets and Other Liabilities

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

	March 31, 2006	December 31, 2005
Deferred financing fees, net	\$ 13,440	\$ 13,731
Leasing costs, net	10,253	9,960
Corporate furniture, fixtures and equipment	3,697	3,777
Deferred derivative assets	18,368	13,176
Other assets	23,354	9,361
Deferred expenses and other assets	<u>\$ 69,112</u>	<u>\$ 50,005</u>

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

	March 31, 2006	December 31, 2005
Accrued interest payable	\$ 58,226	\$ 57,542
Security deposits from customers	23,311	23,274
Accrued expenses	11,814	27,794
Unearned operating lease income	17,793	20,778
Deferred derivative liabilities	41,335	32,148
Property taxes payable	4,080	4,578
Other liabilities	5,495	26,408
Accounts payable, accrued expenses and other liabilities	<u>\$ 162,054</u>	<u>\$ 192,522</u>

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 9—Debt Obligations

As of March 31, 2006 and December 31, 2005 the Company has debt obligations under various arrangements with financial institutions as follows (in thousands):

	Maximum Amount Available	Carrying Value as of		Stated Interest Rates(1)	Scheduled Maturity Date
		March 31, 2006	December 31, 2005		
Secured revolving credit facility:					
Line of credit(2)	\$ 500,000	\$ —	\$ —	LIBOR + 1.00%—2.00%	January 2009
Unsecured revolving credit					

facilities:					
Line of credit(3)	1,500,000	457,000	1,242,000	LIBOR + 0.70%	April 2008
Line of credit(4)	34,744	34,744	—	UK LIBOR + 0.70%	June 2006
Line of credit(4)	46,291	46,291	—	Euribor + 0.70%	December 2006
Total revolving credit facilities	\$ 2,081,035	538,035	1,242,000		
Secured term loans:					
Secured by CTL asset	131,095	132,246		7.44%	April 2009
Secured by CTL assets	144,328	145,586		6.80%—8.80%	Various through 2026
Secured by investments in corporate bonds and commercial mortgage backed securities	52,784	67,224		LIBOR + 0.25%—1.50%	January/August 2006(5)
Secured by CTL asset	59,223	59,430		6.41%	January 2013
Total term loans	387,430	404,486			
Debt (discount)/premium	6,516	6,658			
Total secured term loans	393,946	411,144			
Unsecured notes:					
LIBOR + 0.39% Senior Notes	400,000	400,000		LIBOR + 0.39%	March 2008
LIBOR + 0.55% Senior Notes	225,000	225,000		LIBOR + 0.55%	March 2009
LIBOR + 1.25% Senior Notes	200,000	200,000		LIBOR + 1.25%	March 2007
4.875% Senior Notes	350,000	350,000		4.875%	January 2009
5.125% Senior Notes	250,000	250,000		5.125%	April 2011
5.15% Senior Notes	700,000	700,000		5.15%	March 2012
5.375% Senior Notes	250,000	250,000		5.375%	April 2010
5.65% Senior Notes(6)	500,000	—		5.65%	September 2011
5.70% Senior Notes	367,022	367,022		5.70%	March 2014
5.80% Senior Notes	250,000	250,000		5.80%	March 2011
5.875% Senior Notes(6)	500,000	—		5.875%	March 2016
6.00% Senior Notes	350,000	350,000		6.00%	December 2010
6.05% Senior Notes	250,000	250,000		6.05%	April 2015
6.50% Senior Notes	150,000	150,000		6.50%	December 2013
7.00% Senior Notes	185,000	185,000		7.00%	March 2008
7.95% Notes(7)	50,000	50,000		7.95%	May 2006
8.75% Notes	240,000	240,000		8.75%	August 2008
Total unsecured notes	5,217,022	4,217,022			
Debt discount	(82,819)	(78,151)			
Impact of pay-floating swap agreements (See Note 11)	(41,335)	(30,394)			
Total unsecured notes	5,092,868	4,108,477			
Other debt obligations	100,000	100,000		LIBOR + 1.50%	October 2035
Debt discount	(2,021)	(2,029)			
Total other debt obligations	97,979	97,971			
Total debt obligations	\$ 6,122,828	\$ 5,859,592			

Explanatory Notes:

- (1) Most variable-rate debt obligations are based on 30-day LIBOR and reprice monthly. The 30-day LIBOR rate on March 31, 2006 was 4.83%. However, some variable-rate debt obligations are based on 90-day LIBOR and reprice every three months. The 90-day LIBOR rate on March 31, 2006 was 5.00%.

iStar Financial Inc. Notes to Consolidated Financial Statements (Continued)

Note 9—Debt Obligations (Continued)

- (2) On January 9, 2006, the Company extended the maturity on its secured revolving credit facility to January 2008, reduced its capacity from \$700 million to \$500 million and lowered its interest rates to LIBOR + 1.00% - 2.00% from LIBOR + 1.40% - 2.15%. Maturity date reflects a one-year “term-out” extension at the Company’s option.
- (3) As of March 31, 2006, the facility bears interest at a rate of LIBOR + 0.70% and has a 15 basis point annual facility fee. It was decreased to this amount from LIBOR + 0.875% and a 17.5 basis point annual facility fee, due to an upgrade in the Company’s senior unsecured debt rating in January 2006.
- (4) In January 2006, the Company completed two new uncommitted lines of credit with leading financial institutions in order to borrow funds in foreign denominations. One line of credit to borrow British Pounds Sterling, matures in June 2006 and has a rate of UK LIBOR + 0.70%. The other line of credit to borrow Euros, matures in December 2006 and has a rate of Euribor + 0.70%.
- (5) On January 13, 2006, the Company extended a portion of this secured financing that is secured by commercial mortgage-backed securities to February 13, 2006 on which day it matured.
- (6) On February 21, 2006, the Company issued \$500.0 million of 5.65% Senior Notes due 2011 and \$500.0 million of 5.875% Senior Notes due 2016.
- (7) This obligation was assumed as part of the acquisition of TriNet. As part of the accounting for the purchase, this fixed-rate obligation was considered to have a stated interest rate that was below the then-prevailing market rate at which TriNet could issue new debt obligations and, accordingly, the Company ascribed a market discount to the obligation. The discount is amortized as an adjustment to interest expense using the effective interest method over the related term of the obligation. As adjusted, the effective annual interest rate on this obligation was 9.04%.

The Company’s primary source of short-term funds is a \$1.50 billion unsecured revolving credit facility. Under the facility the Company is required to meet certain financial covenants. As of March 31, 2006, there is approximately \$1.02 billion available to draw under the facility. In addition, the Company has one secured revolving credit facility of which availability is based on percentage borrowing base calculations. Certain other debt obligations, including the secured lines of credit, contain covenants. These covenants are both financial and non-financial in nature. Significant financial covenants include limitations on the Company’s ability to incur indebtedness beyond specified levels, and a requirement to maintain specified ratios of unsecured indebtedness compared to unencumbered assets. Significant non-financial covenants include a requirement in its publicly-held debt securities that the Company offer to repurchase those securities at a premium if the Company undergoes a change of control. As of March 31, 2006, the Company believes it is in compliance with all financial and non-financial covenants on its debt obligations.

Capital Markets Activity—During the three months ended March 31, 2006, the Company issued \$1.0 billion aggregate principal amount of fixed-rate Senior Notes bearing interest at annual rates ranging from 5.65% to 5.875% and maturing between 2011 and 2016.

During the 12 months ended December 31, 2005, the Company issued \$1.45 billion aggregate principal amount of fixed-rate Senior Notes bearing interest at annual rates ranging from 5.15% to 6.05% and maturing between 2010 and 2015, and \$625.0 million of variable-rate Senior Notes bearing interest at annual rates ranging from three-month LIBOR + 0.39% to 0.55% and maturing between 2008 and 2009. The proceeds from these transactions were used to repay outstanding balances on the Company’s revolving credit facilities.

In addition, on September 14, 2005, the Company completed the issuance of \$100.0 million in unsecured floating rate trust preferred securities through a newly formed statutory trust, iStar Financial Statutory Trust I, that is a wholly owned subsidiary of the Company. The securities are subordinate to the

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 9—Debt Obligations (Continued)

In addition, on March 1, 2005, the Company exchanged its TriNet 7.70% Senior Notes due 2017 for iStar 5.70% Series B Senior Notes due 2014 in accordance with the exchange offer and consent solicitation issued on January 25, 2005. For each \$1,000 principal amount of TriNet Notes tendered, holders received approximately \$1,171 principal amount of iStar Notes. A total of \$117.0 million aggregate principal amount of iStar Notes were issued. The iStar Notes issued in the exchange offer form part of the series of iStar 5.70% Series B Notes due 2014 issued on March 9, 2004. Also, on March 30, 2005, the Company amended certain covenants in the indenture relating to the 7.95% Notes due 2006 as a result of a consent solicitation of the holders of these notes. Following the successful completion of the consent solicitation, the Company merged TriNet into the Company, the Company became the obligor on the Notes and TriNet no longer exists (see Note 1).

The Company primarily used the proceeds from the issuance of securities described above to repay secured indebtedness as it migrated its balance sheet towards more unsecured debt and to refinance higher yielding obligations.

Unsecured/Secured Credit Facilities Activity—On January 9, 2006, the Company extended the maturity on its remaining secured facility to January 2008, reduced its capacity from \$700.0 million to \$500.0 million and lowered its interest rates to LIBOR + 1.00% to 2.00% from LIBOR + 1.40% to 2.15%.

In January 2006, the Company completed two new uncommitted lines of credit with leading financial institutions in order to borrow funds in foreign denominations. One line of credit to borrow British Pounds Sterling, matures in June 2006 and has a rate of UK LIBOR + 0.70%. The other line of credit to borrow Euros matures in December 2006 and has a rate of Euribor + 0.70%.

On March 12, 2005, August 12, 2005, and September 30, 2005, three of the Company's secured revolving credit facilities, with a maximum amount available to draw of \$250.0 million, \$350.0 million and \$500.0 million, respectively, matured.

On September 16, 2005, the commitment on the unsecured facility was increased to \$1.50 billion under the accordion feature of the facility. As of March 31, 2006, the facility bears interest at a rate of LIBOR + 0.70% and a 17.5 basis point annual facility fee. It was decreased to this amount from LIBOR + 0.875% and a 25 basis point annual facility fee, due to an upgrade in the Company's senior unsecured debt rating in January and February 2006.

Other Financing Activity—During the three months ended March 31, 2006, the portion of the \$200.0 million term financing that was secured by certain commercial mortgage-backed securities was extended for one month and then matured on February 13, 2006.

During the 12 months ended December 31, 2005, the Company repaid a \$76.0 million mortgage on 11 CTL investments which was open to prepayment without penalty. The Company also prepaid a \$135.0 million mortgage on a CTL asset with a 0.5% prepayment penalty. In addition, the Company fully repaid the STARs Series 2002-1 and STARs Series 2003-1 Notes which had an aggregate outstanding principal balance of approximately \$620.7 million on the date of repayment. The STARs Notes were originally issued in 2002 and 2003 by special purpose subsidiaries of the Company for the purpose of match funding the Company's assets that collateralized the STARs Notes. For accounting purposes, the issuance of the STARs Notes was treated as a secured on-balance sheet financing. In connection with the

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 9—Debt Obligations (Continued)

redemption of the STARs Notes, no gain on sale was recognized and the Company incurred one-time cash costs, including prepayment and other fees, of approximately \$6.8 million and a non-cash charge of approximately \$37.5 million to write-off deferred financing fees and expenses.

As of March 31, 2006, future expected/scheduled maturities of outstanding long-term debt obligations are as follows (in thousands)(1):

2006 (remaining nine months)	\$ 183,819
2007	202,533
2008	1,282,000
2009	722,922
2010	605,684
2011	1,031,779
Thereafter	2,213,750
Total principal maturities	6,242,487
Net unamortized debt discounts	(78,324)
Impact of pay-floating swap agreements (see Note 11)	(41,335)
Total debt obligations	<u>\$ 6,122,828</u>

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

Note 10—Shareholders' Equity

The Company's charter 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. The Company has 4.0 million shares of 8.00% Series D Cumulative Redeemable Preferred Stock, 5.6 million shares of 7.875% Series E Cumulative Redeemable Preferred Stock, 4.0 million shares of 7.80% Series F Cumulative Redeemable Preferred Stock, 3.2 million shares of 7.65% Series G Cumulative Redeemable Preferred Stock and 5.0 million shares of 7.50% Series I Cumulative Redeemable Preferred Stock outstanding. The Series D, E, F, G, and I Cumulative Redeemable Preferred Stock are redeemable without premium at the option of the Company at their respective liquidation preferences beginning on October 8, 2002, July 18, 2008, September 29, 2008, December 19, 2008 and March 1, 2009, respectively.

In April 2005 and May 2005, the Company issued 989,663 and 174,647 of its treasury shares, respectively, as a part of the purchase of the Company's substantial minority interest in Oak Hill. The shares were issued out of the Company's treasury stock at a weighted average cost of \$18.71 and issued at a price of \$41.35 and \$40.25 in April 2005 and May 2005, respectively. The difference in the weighted average cost and the issuance price is included in "Additional paid-in capital" on the Company's Consolidated Balance Sheets.

DRIP/Stock Purchase Plan—The Company maintains a dividend reinvestment and direct stock purchase plan. Under the dividend reinvestment component of the plan, the Company's shareholders may purchase additional shares of Common Stock without payment of brokerage commissions or service

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iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

Note 10—Shareholders' Equity (Continued)

charges by automatically reinvesting all or a portion of their Common Stock cash dividends. Under the direct stock purchase component of the plan, the Company's shareholders and new investors may purchase shares of Common Stock directly from the Company without payment of brokerage commissions or service charges. All purchases of shares in excess of \$10,000 per month pursuant to the direct purchase component are at the Company's sole discretion. Shares issued under the plan may reflect a discount of up to 3.00% from the prevailing market price of the Company's Common Stock. The Company is authorized to issue up to 8.0 million shares of Common Stock pursuant to the dividend reinvestment and direct stock purchase plan. During the three months ended March 31, 2006 and 2005, the Company issued a total of approximately 12,700 and 11,500 shares of its Common Stock, respectively, through the direct stock purchase component of the plan. Net proceeds during the three months ended March 31, 2006 and 2005, were approximately \$474,000 and \$481,000, respectively. There are approximately 2.7 million shares available for issuance under the plan as of March 31, 2006.

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 or loan repayments 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 March 31, 2006 the Company had repurchased a total of approximately 2.3 million shares at an aggregate cost of approximately \$40.7 million. The Company has not repurchased any shares under the stock repurchase program since November 2000, however the Company issued approximately 1.2 million shares of its treasury stock during 2005 (see above.)

Note 11—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 points in time and potentially at different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's lending investments that results from a property's, borrower's or corporate tenant's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of loans due to changes in interest rates or other market factors, including the rate of prepayments of principal and the value of the collateral underlying loans, the valuation of CTL facilities held by the Company and changes in foreign currency exchange rates.

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 debt issuances. During 2005, the Company also began using derivative instruments to manage its exposure to foreign exchange rate movements. The counterparties to each of these contractual arrangements are major financial institutions with which the Company and its affiliates may also have other financial relationships. The Company is 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

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iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

Note 11—Risk Management and Use of Financial Instruments (Continued)

to meet their obligations. The Company does not use derivative instruments to hedge credit risk or for speculative purposes.

The Company's objective in using derivatives is to add stability to interest expense and foreign exchange gains/losses, and to manage its exposure to interest rate movements, foreign exchange rate movements, or other identified risks. To accomplish this objective, the Company primarily uses interest rate

swaps as part of its cash flow hedging strategy. Interest rate swaps involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. As of March 31, 2006, such derivatives were used to hedge the variable cash flows associated with \$250.0 million of existing variable-rate debt and \$450.0 million of forecasted issuances of debt.

Interest rate swaps used as a fair value hedge involve the receipt of fixed-rate amounts in exchange for variable rate payments over the life of the agreement without exchange of the underlying principal amount. At March 31, 2006, such derivatives were used to hedge the change in fair value associated with \$1.1 billion of existing fixed-rate debt. As of March 31, 2006, no derivatives were designated as hedges of net investments in foreign operations. Additionally, derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements, foreign exchange rate movements, and other identified risks, but do not meet the strict hedge accounting requirements of SFAS 133.

The following table represents the notional principal and fair value amounts of interest rate swaps by class and the corresponding hedged liability positions and the Company's foreign currency derivatives. The Company's foreign currency derivatives do not use hedge accounting, but are marked to market under SFAS 133 (in thousands):

	Notional Amount as of March 31, 2006	Notional Amount as of December 31, 2005	Fair Value as of March 31, 2006	Fair Value as of December 31, 2005
Cash flow hedges				
Interest rate swaps	\$ 250,000	\$ 250,000	\$ 1,259	\$ 2,150
Forward-starting interest rate swaps	450,000	650,000	16,926	8,771
Fair value hedges.	1,100,000	1,100,000	(43,168)	(30,112)
Total interest rate hedges	\$ 1,800,000	\$ 2,000,000	\$ (24,983)	\$ (19,191)
Foreign currency hedges				
Sell Canadian Dollar forward	CAD 11,550	CAD 11,512	\$ 328	\$ 71
Buy Euro forward	€ 500	€ 632	5	(11)
Cross currency Euro swap	€ 3,089	€ 3,740	23	134
Sell GBP forward	£ —	£ 16,077	—	477
Total foreign currency hedges			\$ 356	\$ 671

On February 17, 2006, four forward starting swaps all with notional amounts of \$50.0 million, ten-year terms and rates from 4.610% to 4.483% were settled in connection with the Company's issuance of \$500.0 million of ten-year Senior Notes which were priced on February 16, 2006. The cash settlement amount is being amortized into "Interest expense" on the Company's Consolidated Statements of Operations through the maturity of the Senior Notes.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 11—Risk Management and Use of Financial Instruments (Continued)

At March 31, 2006, derivatives with a fair value of \$18.8 million were included in "Deferred expenses other assets" and derivatives with a fair value of \$43.4 million were included in "Accounts payable, accrued expenses and other liabilities" on the Company's Consolidated Financial Statements.

Credit risk concentrations—Concentrations of credit risks arise when a number of borrowers or customers related to the Company's investments are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. The Company regularly monitors various segments of its portfolio to assess potential concentrations of credit risks. Management believes the current portfolio is reasonably well diversified and does not contain any unusual concentration of credit risks.

Substantially all of the Company's CTL assets (including those held by joint ventures) and loans and other lending investments are collateralized by facilities located in the United States, with California (20.1%) representing the only significant concentration (greater than 10.0%) as of March 31, 2006. The Company's investments also contain significant concentrations in the following asset types as of March 31, 2006: office-CTL (19.0%), industrial (15.5%), retail (14.0%) and entertainment/leisure (10.4%).

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

Note 12—Stock-Based Compensation Plans and Employee Benefits

The Company's 1996 Long-Term Incentive Plan (the "Plan") is designed to provide incentive compensation for officers, other key employees and directors of the Company. The Plan provides for awards of stock options and shares of restricted stock and other performance awards. The maximum number of shares of Common Stock available for awards under the Plan is 9.00% of the outstanding shares of Common Stock, calculated on a fully diluted basis, from time to time, provided that the number of shares of Common Stock reserved for grants of options designated as incentive stock options is 5.0 million, subject to certain antidilution provisions in the Plan. All awards under the Plan, other than automatic awards to non-employee directors, are at the discretion of the Board of Directors or a committee of the Board of Directors. At March 31, 2006, a total of approximately 10.3 million shares of Common Stock were available for awards under the Plan, of which options to purchase approximately 1.2 million shares of Common Stock were outstanding and approximately 491,000 shares of restricted stock were outstanding. A total of approximately 551,000 shares remain available for awards under the Plan as of March 31, 2006.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

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

Changes in options outstanding during three months ended March 31, 2006 are as follows (\$ in thousands, except for weighted average strike price):

	Number of Shares			Weighted Average Strike Price	Aggregate Intrinsic Value
	Employees	Non-Employee Directors	Other		
Options Outstanding, December 31, 2005	850,732	96,894	284,366	\$ 17.86	
Granted in 2006	—	—	—	\$ 0.00	
Exercised in 2006	(11,254)	—	(17,230)	\$ 19.44	
Forfeited in 2006	—	—	—	\$ 0.00	
Options outstanding, March 31, 2006	<u>839,478</u>	<u>96,894</u>	<u>267,136</u>	<u>\$ 17.82</u>	<u>\$ 24,710</u>

The following table summarizes information concerning outstanding and exercisable options as of March 31, 2006:

Exercise Price	Options Outstanding and Exercisable	Remaining Contractual Life
\$14.72	472,686	2.90
\$16.88	396,322	3.76
\$17.38	16,667	3.96
\$19.69	177,147	4.76
\$24.94	40,000	5.13
\$26.09	6,900	0.16
\$26.97	2,000	5.21
\$27.00	25,000	5.24
\$28.54	3,396	2.09
\$29.82	58,296	6.16
\$55.39	5,094	3.17
	<u>1,203,508</u>	

In the third quarter 2002 (with retroactive application to the beginning of the calendar year), the Company adopted the fair value method of accounting for options issued to employees or directors, as allowed under Statement of Financial Accounting Standards No. 123 (“SFAS No. 123”), “Accounting for Stock-Based Compensation,” as amended by Statement of Financial Accounting Standards No. 148 “Accounting for Stock-Based Compensation—Transition and Disclosure” and further amended by SFAS No. 123R. Accordingly, the Company recognizes a charge equal to the fair value of these options at the date of grant multiplied by the number of options issued. This charge is amortized over the related remaining vesting terms to individual employees as additional compensation. There were 15,500 options issued during the year ended December 31, 2003 with a strike price of \$14.72. These options were fully vested as of December 31, 2005. The Company has not issued any options since 2003. Cash received from option exercises during the three months ended March 31, 2006 was approximately \$554,000. The Company issues new shares to satisfy these option exercises.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

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

Changes in non-vested restricted stock units during the three months ended March 31, 2006 (shares and aggregate intrinsic value in thousands):

<u>Non-Vested Shares</u>	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Nonvested at January 1, 2006	94	\$ 39.06	
Granted	429	36.70	
Vested	(30)	36.00	
Forfeited	(2)	42.96	
Nonvested at March 31, 2006	<u>491</u>	<u>\$ 37.03</u>	<u>\$ 18,789</u>

During the three months ended March 31, 2006, the Company granted 428,944 restricted stock units to employees that vest proportionately over three years on the anniversary date of the initial grant of which 427,144 remain outstanding. Dividends are paid on these restricted stock units as dividends are paid on shares of the Company’s Common Stock. These dividends are accounted for in a manner consistent with the Company’s Common Stock dividends, as a reduction to retained earnings.

During the year ended December 31, 2005, the Company granted 68,730 restricted stock units to employees that vest proportionately over three years on the anniversary date of the initial grant of which 52,335 remain outstanding

During the year ended December 31, 2004, the Company granted 36,205 restricted stock units to employees that vest proportionately over three years on the anniversary date of the initial grant of which 11,069 remain outstanding. In addition, in connection with the Chief Executive Officer's employment agreement 236,167 restricted shares were issued on March 31, 2004 (see detailed information below).

During the year ended December 31, 2003, the Company granted 40,600 restricted stock units to employees that vest proportionately over three years on the anniversary date of the initial grant of which 600 remain outstanding.

For accounting purposes, the Company measures compensation costs for these shares, not including any contingently issuable shares, as of the date of the grant and expenses such amounts against earnings, either at the grant date (if no vesting period exists) or ratably over the respective vesting/service period. Such amounts appear on the Company's Consolidated Statements of Operations in "General and administrative." As of March 31, 2006, there was \$15.6 million of total unrecognized compensation cost related to non-vested restricted stock units. That cost is expected to be recognized over a period of 3 years.

During the year ended December 31, 2004, the Company entered into a three-year employment agreement with its President. This initial three-year term, and any subsequent one-year renewal term, will automatically be extended for an additional year, unless earlier terminated by prior notice from the Company or the President. Under the agreement, the President receives an annual base salary of \$350,000, subject to an annual review for upward (but not downward) adjustment. Beginning with the fiscal year ended December 31, 2005, he is eligible to receive a target bonus of \$650,000, subject to annual review for upward adjustment. In addition, the President purchased a 20% interest in both the Company's 2005 and 2006 high performance unit program for senior executive officers and a 25% interest in the Company's 2007 high performance unit program for senior executive officers (see High Performance Unit Program

iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

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

discussion below). This performance program was approved by the Company's shareholders in 2003 and is described in detail in the Company's 2003 and 2005 annual proxy statement. As of March 31, 2006, the purchase price of approximately \$288,000, \$101,000, and \$91,000 for the 2005, 2006 and 2007 plans, respectively, was paid by the President. In addition, the President has agreed to purchase a 30% interest in the Company's 2008 high performance unit program for senior executive officers for approximately \$139,000. Further, the President has the opportunity to purchase a 35% interest in the Company's 2009 high performance unit program for senior executive officers. The purchase price for all plans was based upon a valuation prepared by an independent investment-banking firm. The interests purchased by the President will have no value to him unless the Company achieves total shareholder returns in excess of those achieved by peer group indices, all as more fully described in the Company's 2003 and 2005 annual proxy statement. The President is also entitled to an allocation of 25% of the interests in the Company's proposed New Business Crossed Incentive Compensation Program, or an alternative plan.

During the year ended December 31, 2002, the Company entered into a three-year employment agreement with its Chief Financial Officer. Under the agreement, the Chief Financial Officer receives an annual base salary of \$225,000 and a bonus, which was targeted to be \$325,000, both subject to an annual review for upward, and in respect to the bonus, downward adjustment. In addition, the Company granted the Chief Financial Officer 108,980 contingently vested restricted stock awards that vested on December 31, 2005. Dividends were paid on the restricted shares as dividends are paid on shares of the Company's Common Stock. These dividends were accounted for in a manner consistent with the Company's Common Stock dividends, as a reduction to retained earnings. For accounting purposes, the Company took a total charge of approximately \$3.0 million related to the restricted stock awards, which was amortized over the period from November 6, 2002 through December 31, 2005. This charge is reflected on the Company's Consolidated Statements of Operations in "General and administrative."

Further, the Company granted the Chief Financial Officer 100,000 restricted shares which became fully-vested on January 31, 2004 as a result of the Company achieving a 53.28% total shareholder rate of return (dividends since November 6, 2002 plus share price appreciation from January 2, 2003). The Company incurred a one-time charge to earnings during the three months ended March 31, 2004 of approximately \$4.1 million (the fair market value of the 100,000 shares at \$40.02 per share plus the Company's share of taxes). For accounting purposes, the employment arrangement described above was treated as a contingent, variable plan until January 31, 2004.

On February 11, 2004, the Company entered into a new employment agreement with its Chief Executive Officer which took effect upon the expiration of the old agreement. The new agreement has an initial term of three years and provides for the following compensation:

- an annual salary of \$1.0 million;
- a potential annual cash incentive award of up to \$5.0 million if performance goals set by the Compensation Committee of the Board of Directors in consultation with the Chief Executive Officer are met; and
- a one-time award of Common Stock with a value of \$10.0 million at March 31, 2004 (based upon the trailing 20-day average closing price of the Common Stock); the award was fully vested when granted and dividends will be paid on the shares from the date of grant, but the shares cannot be sold for five years unless the price of the Common Stock during the 12 months ending March 31 of

iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

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

each year increases by at least 15%, in which case the sale restrictions on 25% of the shares awarded will lapse in respect to each 12-month period. In connection with this award the Company recorded a \$10.1 million charge in "General and administrative" on the Company's Consolidated Statements of

Operations. The Chief Executive Officer notified the Company that subsequent to this award he contributed an equivalent number of shares to a newly established charitable foundation.

In addition, the Chief Executive Officer purchased an 80%, 75% and 70% interest in the Company's 2006, 2007 and 2008 high performance unit program for senior executive officers, respectively (see High Performance Unit Program discussion below). This performance program was approved by the Company's shareholders in 2003 and is described in detail in the Company's 2003 and 2005 annual proxy statement. As of March 31, 2006, the purchase price of approximately \$286,000 and \$274,000 for the 2006 and 2007 plan, respectively, was paid by the Chief Executive Officer. Subsequent to quarter end, the Chief Executive Officer paid approximately \$325,000 for his interest in the 2008 plan. The purchase price for all plans was based upon a valuation prepared by an independent investment-banking firm. The interests purchased by the Chief Executive Officer will have no value to him unless the Company achieves total shareholder returns in excess of those achieved by peer group indices, all as more fully described in the Company's 2003 and 2005 annual proxy statement.

High Performance Unit Program

In May 2002, the Company's shareholders approved the iStar Financial High Performance Unit ("HPU") Program. The program, as more fully described in the Company's annual proxy statement dated April 8, 2002, is a performance-based employee compensation plan that only has material value to the participants if the Company provides superior returns to its shareholders. The program entitles the employee participants ("HPU holders") to receive distributions in the nature of Common Stock dividends if the total rate of return on the Company's Common Stock (share price appreciation plus dividends) exceeds certain performance levels.

Four plans within the program completed their valuation periods as of March 31, 2006: the 2002 plan, the 2003 plan, the 2004 plan and the 2005 plan. Each plan has 5,000 shares of High Performance Common Stock associated with it. Each share of High Performance Common Stock carries 0.25 votes per share.

For these plans, the Company's performance was measured over a one-year and two-year valuation period, ending on December 31, 2002 and 2003, respectively and a three-year valuation period ending December 31, 2004 and 2005. The end of the valuation period (i.e., the "valuation date") will be accelerated if there is a change in control of the Company. The High Performance Common Stock has a nominal value unless the total rate of shareholder return for the relevant valuation period exceeds the greater of: (1) 10%, 20%, 30%, or 30% for the 2002 plan, the 2003 plan, the 2004 plan and the 2005 plan, respectively; and (2) a weighted industry index total rate of return consisting of equal weightings of the Russell 1000 Financial Index and the Morgan Stanley REIT Index for the relevant period.

If the total rate of return on the Company's Common Stock exceeds the threshold performance levels for a particular plan, then distributions will be paid on the shares of High Performance Common Stock related to that plan in the same amounts and at the same times as distributions are paid on a number of shares of the Company's Common Stock equal to the following: 7% of the Company's excess total rate of return (over the higher of the two threshold performance levels) multiplied by the weighted average

iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

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

market value of the Company's common equity capitalization during the measurement period, all as divided by the average closing price of a share of the Company's Common Stock for the 20 trading days immediately preceding the applicable valuation date.

If the total rate of return on the Company's Common Stock does not exceed the threshold performance levels for a particular plan, then the shares of High Performance Common Stock related to that plan will have only nominal value. In this event, each of the 5,000 shares will be entitled to dividends equal to 0.01 times the dividend paid on a share of Common Stock, if and when dividends are declared on the Common Stock.

Regardless of how much the Company's total rate of return exceeds the threshold performance levels, the dilutive impact to the Company's shareholders resulting from distributions on High Performance Common Stock in each plan is limited to the equivalent of 1% of the average monthly number of fully diluted shares of the Company's Common Stock outstanding during the valuation period.

The employee participants have purchased their interests in High Performance Common Stock through a limited liability company at purchase prices approved by the Company's Board of Directors. The Company's Board of Directors has established the prices of the High Performance Common Stock based upon, among other things, an independent valuation from a major securities firm. The aggregate initial purchase prices were approximately \$2.7 million, \$1.8 million, \$1.4 million and \$589,000 for the 2002, 2003, 2004 and 2005 plans, respectively. No HPU holder is permitted to exchange his or her interest in the LLC for shares of High Performance Common Stock prior to the applicable valuation date.

The total shareholder return for the valuation period under the 2002 plan was 21.94%, which exceeded both the fixed performance threshold of 10% and the industry index return of (5.83%). As a result of this superior performance, the participants in the 2002 plan are entitled to receive distributions equivalent to the amount of dividends payable on 819,254 shares of the Company's Common Stock, as and when such dividends are paid. Such dividend payments began with the first quarter 2003 dividend. The Company will pay dividends on the 2002 plan shares in the same amount per equivalent share and on the same distribution dates that shares of the Company's Common Stock are paid.

The total shareholder return for the valuation period under the 2003 plan was 78.29%, which exceeded the fixed performance threshold of 20% and the industry index return of 24.66%. The plan was fully funded and was limited to 1% of the average monthly number of fully diluted shares of the Company's Common Stock during the valuation period. As a result of the Company's superior performance, the participants in the 2003 plan are entitled to receive distributions equivalent to the amount of dividends payable on 987,149 shares of the Company's Common Stock, as and when such dividends are paid. Such dividend payments began with the first quarter 2004 dividend. The Company will pay dividends on the 2003 plan shares in the same amount per equivalent share and on the same distribution dates that shares of the Company's Common Stock are paid.

The total shareholder return for the valuation period under the 2004 plan was 115.47%, which exceeded the fixed performance threshold of 30% and the industry index return of 55.05%. The plan was fully funded and was limited to 1% of the average monthly number of fully diluted shares of the Company's Common Stock during the valuation period. As a result of the Company's superior performance, the participants in the 2004 plan are entitled to receive distributions equivalent to the amount of dividends payable on 1,031,875 shares of the Company's Common Stock, as and when such dividends are paid. Such dividend payments began with the first quarter 2005 dividend. The Company pays

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

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

dividends on the 2004 plan shares in the same amount per equivalent share and on the same distribution dates that shares of the Company's Common Stock are paid.

The total shareholder return for the valuation period under the 2005 plan was 63.38%, which exceeded the fixed performance threshold of 30%, but did not exceed the industry index return of 80.80%. As a result, the plan was not funded and on December 31, 2005, the Company redeemed the high performance stock for its fair value and each unit holder received their proportionate share of the nominal fair value of the plan.

New 2006, 2007 and 2008 plans have been established with a three-year valuation period ending December 31, 2006, 2007 and 2008, respectively. Awards under the 2006 plan, the 2007 plan and the 2008 plan were approved in January 2004, 2005 and 2006, respectively. The 2006 plan, 2007 plan and 2008 plan each have 5,000 shares of High Performance Common Stock with an aggregate initial purchase price of \$715,000, \$643,000 and \$781,000, respectively. As of March 31, 2006, the Company had received a net contribution of \$671,000 and \$597,000 under the 2006 plan and 2007 plan, respectively. Subsequent to quarter end, the Company received aggregate net contributions of \$524,000 under the 2008 plan. The purchase price of the High Performance Common Stock was established by the Company's Board of Directors based upon, among other things, an independent valuation from a major securities firm. The provisions of the 2006 plan, the 2007 plan and the 2008 plan are substantially the same as the prior plans.

In addition to these plans, a high performance unit program for senior executive officers has been established with three-year valuation periods ending December 31, 2005, 2006, 2007, 2008 and 2009, respectively. The provisions of these plans are substantially the same as the high performance unit programs for employees except that the plans are limited to 0.05% of the average monthly number of fully diluted shares of the Company's Common Stock during the valuation period.

The total shareholder return for the valuation period under the 2005 high performance unit program for executive officers was 63.38%, which exceeded the fixed performance threshold of 30%, but did not exceed the industry index return of 80.80%. As a result, the plan was not funded and on December 31, 2005, the Company redeemed the high performance stock for its fair value and each unit holder received their proportionate share of the nominal fair value of the plan.

The additional equity from the issuance of the High Performance Common Stock is recorded as a separate class of stock and included within shareholders' equity on the Company's Consolidated Balance Sheets. Net income allocable to common shareholders will be reduced by the HPU holders' share of dividends paid and undistributed earnings, if any.

401(k) Plan

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 three months of continuous service with the Company. Each participant may contribute on a pretax basis up to the maximum percentage of compensation and dollar amount permissible under Section 402(g) of the Internal Revenue Code not to exceed the limits of Code Sections 401(k), 404 and 415. At the discretion of the Board of Directors, the Company may make matching contributions on the participant's behalf of up to 50.00% of the first 10.00% of the participant's annual compensation. The Company made gross contributions of approximately \$439,000 and \$368,000 for the three months ended March 31, 2006 and 2005, respectively.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 13—Earnings Per Share

The following table presents a reconciliation of the numerators and denominators of the basic and diluted EPS calculations for the three months ended March 31, 2006 and 2005, respectively (in thousands, except per share data):

	For the Three Months Ended March 31,	
	2006	2005
Numerator:		
Income from continuing operations	\$ 85,662	\$ 69,506
Preferred dividend requirements	(10,580)	(10,580)
Income allocable to common shareholders and HPU holders before income from discontinued operations and gain from discontinued operations(1)	75,082	58,926
Income from discontinued operations	142	813
Gain from discontinued operations	2,182	—
Net income allocable to common shareholders and HPU holders(1)	<u>\$ 77,406</u>	<u>\$ 59,739</u>
Denominator:		
Weighted average common shares outstanding for basic earnings per common share	113,243	111,469
Add: effect of assumed shares issued under treasury stock method for stock options, restricted shares and warrants	764	907
Add: effect of contingent shares	—	—
Add: effect of joint venture shares	350	298
Weighted average common shares outstanding for diluted earnings per common share	<u>114,357</u>	<u>112,674</u>

	<u>114,357</u>	<u>112,674</u>
Basic earnings per common share:		
Income allocable to common shareholders before income from discontinued operations and gain from discontinued operations(2)	\$ 0.65	\$ 0.52
Income from discontinued operations	0.00	0.00
Gain from discontinued operations	0.02	0.00
Net income allocable to common shareholders(2)	<u>\$ 0.67</u>	<u>\$ 0.52</u>
Diluted earnings per common share:		
Income allocable to common shareholders before income from discontinued operations and gain from discontinued operations(3)(4)	\$ 0.64	\$ 0.51
Income from discontinued operations	0.00	0.01
Gain from discontinued operations	0.02	0.00
Net income allocable to common shareholders(3)(4)	<u>\$ 0.66</u>	<u>\$ 0.52</u>

Explanatory Notes:

- (1) HPU holders are Company employees who purchased high performance common stock units under the Company's High Performance Unit Program.
- (2) For the three months ended March 31, 2006 and 2005, excludes \$1,893 and \$1,483 of net income allocable to HPU holders, respectively.
- (3) For the three months ended March 31, 2006 and 2005, excludes \$1,875 and \$1,468 of net income allocable to HPU holders diluted, respectively.
- (4) For the three months ended March 31, 2006 and 2005, includes \$28 and \$0 of joint venture income, respectively.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 13—Earnings Per Share (Continued)

For the three months ended March 31, 2006 and 2005, the following shares were antidilutive (in thousands):

	For the Three Months Ended March 31,	
	2006	2005
Stock options	5	5
Joint venture shares	52	73

Note 14—Comprehensive Income

Statement of Financial Accounting Standards No. 130 ("SFAS No. 130"), "Reporting Comprehensive Income" 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. Total comprehensive income was \$104.9 million and \$69.1 million for the three months ended March 31, 2006 and 2005, respectively. The primary components of comprehensive income, other than net income, consist of amounts attributable to the adoption and continued application of SFAS No. 133 to the Company's cash flow hedges and changes in the fair value of the Company's available-for-sale investments.

	For the Three Months Ended March 31,	
	2006	2005
	(In thousands)	
Net income	\$ 87,986	\$ 70,319
Other comprehensive income:		
Reclassification of (gains)/losses on securities into earnings upon realization	—	17
Reclassification of (gains)/losses on qualifying cash flow hedges into earnings	(1,204)	(215)
Unrealized gains/(losses) on available-for-sale investments	925	(467)
Unrealized gains/(losses) on cash flow hedges	17,235	(567)
Comprehensive income	<u>\$ 104,942</u>	<u>\$ 69,087</u>

Unrealized gains/(losses) on available-for-sale investments and cash flow hedges are recorded as adjustments to shareholders' equity through "Accumulated other comprehensive income" on the Company's Consolidated Balance Sheets and are not included in net income unless realized.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 14—Comprehensive Income (Continued)

As of March 31, 2006 and December 31, 2005, accumulated other comprehensive income reflected in the Company's shareholders' equity is comprised of the following (in thousands):

	As of March 31, 2006	As of December 31, 2005
Unrealized gains on available-for-sale investments	\$ 3,070	\$ 2,145
Unrealized losses on cash flow hedges	27,771	11,740
Accumulated other comprehensive income	<u>\$ 30,841</u>	<u>\$ 13,885</u>

Over time, the unrealized gains and losses held in other comprehensive income will be reclassified to earnings in the same period(s) in which the hedged items are recognized in earnings. The current balance held in other comprehensive income is expected to be reclassified to earnings over the lives of the current hedging instruments, or for the realized losses on forecasted debt transactions, over the related term of the debt obligation, as applicable.

Note 15—Dividends

In order to maintain its election to qualify as a REIT, the Company must currently distribute, at a minimum, an amount equal to 90% of its taxable income and must distribute 100% of its taxable income to avoid paying corporate federal income taxes. The Company 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 and expenses (such as depreciation), in certain circumstances, the Company may generate operating cash flow in excess of its dividends or, alternatively, may be required to borrow to make sufficient dividend payments.

On April 3, 2006, the Company declared a dividend of approximately \$87.2 million or \$0.77 per common share applicable to the three months ended March 31, 2006 and payable to shareholders of record and holder of certain share equivalents on April 14, 2006. The Company also declared dividends aggregating \$2.0 million, \$2.8 million, \$2.0 million, \$1.5 million and \$2.3 million, respectively, on its Series D, E, F, G and I preferred stock, respectively, for the three months ended March 31, 2006. There are no dividend arrearages on any of the preferred shares currently outstanding.

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% per annum of the \$25.00 liquidation preference, equivalent to a fixed annual rate of \$2.00 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 D preferred stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as of the close of business on the first day of the calendar month in which the applicable dividend payment date falls or on another date designated by the Board of Directors of the Company for the payment of dividends that is not more than 30 nor less than ten days prior to the dividend payment date.

Holders of shares of the Series E 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

iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

Note 15—Dividends (Continued)

cash dividends at the rate of 7.875% per annum of the \$25.00 liquidation preference, equivalent to a fixed annual rate of \$1.97 per share. The remaining terms relating to dividends of the Series E preferred stock are substantially identical to the terms of the Series D preferred stock described above.

Holders of shares of the Series F 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 7.80% per annum of the \$25.00 liquidation preference, equivalent to a fixed annual rate of \$1.95 per share. The remaining terms relating to dividends of the Series F preferred stock are substantially identical to the terms of the Series D preferred stock described above.

Holders of shares of the Series G 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 7.65% per annum of the \$25.00 liquidation preference, equivalent to a fixed annual rate of \$1.91 per share. The remaining terms relating to dividends of the Series G preferred stock are substantially identical to the terms of the Series D preferred stock described above.

Holders of the Series I 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 7.50% per annum of the \$25.00 liquidation preference, equivalent to a fixed annual rate of \$1.88 per share. The remaining terms relating to dividends of the Series I preferred stock are substantially identical to the terms of the Series D preferred stock described above.

The 2002, 2003, 2004 and 2005 High Performance Unit Program reached their valuation dates on December 31, 2002, 2003, 2004 and 2005, respectively. Based on the Company's 2002, 2003 and 2004 total rate of return, the participants are entitled to receive dividends on 819,254 shares, 987,149 shares and 1,031,875 shares, respectively, of the Company's Common Stock. Based on the Company's 2005 total rate of return, the plan did not exceed the industry index return and therefore, the plan was not funded. The Company will pay dividends on these units in the same amount per equivalent share and on the same distribution dates as shares of the Company's Common Stock. Such dividend payments for the 2002 plan began with the first quarter 2003 dividend, such dividends for the 2003 plan began with the first quarter 2004 dividend and such dividends for the 2004 plan began with the first quarter 2005 dividend. All dividends to HPU holders will reduce net income allocable to common shareholders when paid. Additionally, net income allocable to common shareholders will be reduced by the HPU holders' share of undistributed earnings, if any.

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 16—Segment Reporting

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

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 16—Segment Reporting (Continued)

The Company has two reportable segments: Real Estate Lending and Corporate Tenant Leasing. The Company does not have any significant foreign operations. The accounting policies of the segments are the same as those described in Note 3.

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

	Real Estate Lending	Corporate Tenant Leasing	Corporate/ Other(1)	Company Total
Three months ended March 31, 2006:				
Total revenues(2):	\$ 134,538	\$ 85,216	\$ 4,878	\$ 224,632
Equity in earnings from joint ventures	—	(109)	395	286
Total operating and interest expense(3):	1,787	30,662	106,559	139,008
Net operating income(4):	132,751	54,445	(101,286)	85,910
As of March 31, 2006:				
Total long-lived assets(5):	\$ 4,974,891	\$ 3,123,970	\$ 150,691	\$ 8,249,552
Total assets:	5,039,348	3,305,398	516,128	8,860,874
Three months ended March 31, 2005:				
Total revenues(2):	\$ 100,200	\$ 76,476	\$ 3,671	\$ 180,347
Equity in earnings from joint ventures	—	(160)	—	(160)
Total operating and interest expense(3):	8,491	36,278	65,707	110,476
Net operating income(4):	91,709	40,038	(62,036)	69,711
As of December 31, 2005:				
Total long-lived assets(5):	\$ 4,661,915	\$ 3,115,361	\$ 152,114	\$ 7,929,390
Total assets:	4,708,835	3,293,048	530,413	8,532,296

Explanatory Notes:

- (1) 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, and other investments that are not considered material separate segments.
- (2) Total revenues represents all revenues earned during the period from the assets in each segment. Revenue from the Real Estate Lending business primarily represents interest income and revenue from the Corporate Tenant Leasing business primarily represents operating lease income.
- (3) Total operating and interest expense represents provision for loan losses and loss on early extinguishment of debt for the Real Estate Lending business and operating costs on CTL assets for the Corporate Tenant Leasing business, as well as interest expense specifically related to each segment. Interest expense on unsecured notes and the unsecured and secured revolving credit facilities and general and administrative expense is included in Corporate and Other for all periods. Depreciation and amortization of \$19.4 million and \$17.6 million for the three months ended March 31, 2006 and 2005, respectively, are included in the amounts presented above.
- (4) Net operating income represents income before minority interest, income from discontinued operations and gain from discontinued operations.
- (5) Total long-lived assets is comprised of Loans and other lending investments, net and Corporate tenant lease assets, net, for each respective segment and timber investments, net in corporate/other.

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

Introduction

The Company's primary sources of revenues are interest income, which is the interest that borrowers pay on the Company's loans, and operating lease income, which is the rent that corporate customers pay the Company to lease its corporate tenant lease ("CTL") facilities. A smaller and more variable source of revenue is other income, which consists primarily of prepayment penalties and realized gains that occur when borrowers repay the Company's loans before their maturity date. The Company generates income from the differential between the revenues generated from its loans and leases and its interest expense and the cost of its operations, often referred to as the "spread" or "margin." The Company seeks to match-fund its revenue generating assets with either fixed or floating rate debt of a similar maturity so that rising interest rates or changes in the shape of the yield curve will have a minimal impact on the Company's earnings. Initially, the Company funds its new lending and leasing activity with short term debt sources such as lines of credit. The Company then match-funds its assets by raising longer-term unsecured debt, secured debt and equity capital in the public and private capital markets.

Investors in the Company's securities should read the Introduction section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005 for a detailed discussion of the following items:

- Key profitability measures, including annual profitability as measured by adjusted diluted earnings per share, net finance margin and return on average common book equity;
- Key factors that affect the Company's profitability, including asset growth, risk management, cost and availability of funds, expense management and capital management; and
- Key trends that the Company believes may impact its business in the foreseeable future, including that:
 - property level returns in the commercial real estate industry continue to improve;
 - large amounts of competitive capital continue to flow into commercial real estate;
 - although interest rates have risen, they remain at historically low levels which has resulted in continued high prepayment levels on our assets;

- default rates on commercial mortgages remain low; and
- record levels of real estate securitization activity has led to more aggressive pricing of assets and public availability of information regarding real estate assets.

During the period covered by this Report, the Company experienced no material changes in its key annual profitability measures, key factors that affect its profitability or key trends discussed in the Introduction section of Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on 10-K for the fiscal year ended December 31, 2005.

Investors are also encouraged to read the Risk Factors section of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

Results of Operations

The following table summarizes the Company's results of operations for the three months ended March 31, 2006 compared to the three months ended March 31, 2005 (\$ in thousands):

	For the Three Months Ended		\$ Change	% Change	Explanation
	March 31, 2006	March 31, 2005			
Interest income	\$ 126,048	\$ 91,618	\$ 34,430	38%	(1)
Operating lease income	84,319	76,125	8,194	11%	(2)
Other income	14,265	12,604	1,661	13%	(3)
Interest expense	93,533	68,951	24,582	36%	(4)
Operating costs—corporate tenant lease assets	5,940	5,647	293	5%	
Depreciation and amortization	19,402	17,625	1,777	10%	
General and administrative	19,133	16,003	3,130	20%	(5)
Provision for loan losses	1,000	2,250	(1,250)	(56)%	(6)
Equity in earnings (loss) from joint ventures	286	(160)	446	279%	(7)
Income from discontinued operations	142	813	(671)	(83)%	(8)
Gain from discontinued operations	2,182	—	2,182	100%	(8)

Explanatory Notes:

- (1) This increase was primarily due to \$70.2 million of interest income on new originations or additional fundings, offset by a \$38.9 million decrease from the repayment of loans and other lending investments. This increase was also due to an increase in interest income on the Company's variable-rate lending investments as a result of higher average one-month LIBOR rates of 4.6% in 2006, compared to 2.6% in 2005.
- (2) Of this increase, \$5.5 million is attributable to new CTL investments and \$3.7 million of operating lease income from a CTL customer's lease restructure. This increase is partially offset by \$1.3 million of operating lease income from one CTL customer that terminated its lease in May 2005.
- (3) During the three months ended March 31, 2006, other income included income from loan repayments and prepayment penalties of \$8.5 million, income from timber operations of \$2.6 million, asset management, mortgage servicing and other fees of approximately \$1.0 million, and other miscellaneous income of \$2.1 million. During the three months ended March 31, 2005, other income included realized gains on sale of lending investments of \$4.6 million, income from loan repayments and prepayment penalties of \$6.3 million, asset management, mortgage servicing and other fees of approximately \$654,000 and other miscellaneous income such as dividend payments of \$323,000.
- (4) This increase was primarily due to higher average borrowings on the Company's unsecured debt obligations. This increase was also due to higher average one-month LIBOR rates, which averaged 4.6% in 2006 compared to 2.6% in 2005 and higher average three-month LIBOR rates, which averaged 4.8% in 2006 compared to 2.8% in 2005, on the unhedged portion of the Company's variable-rate debt and was partially offset by a \$1.4 million decrease in amortization of deferred financing costs on the Company's debt obligations in 2006 compared to the same period in 2005.
- (5) This increase is primarily due to an increase in payroll related costs resulting from employee growth.
- (6) The Company considers it prudent to reflect provisions for loan losses on a portfolio basis based upon the Company's assessment of general market conditions, the Company's internal risk management policies and credit risk rating system, industry loss experience, the Company's assessment of the likelihood of delinquencies or defaults, and the value of the collateral underlying its investments. Accordingly, the Company recorded \$1.0 million of additional provision for loan losses in the quarter ended March 31, 2006, after review of these items.
- (7) This increase is primarily due to the acquisition of a substantial minority interest in Oak Hill in April 2005 (see Note 6 to the Company's Consolidated Financial Statements).
- (8) The Company disposed of two CTL assets for net proceeds of \$9.0 million and recognized a gain of approximately \$2.2 million. The operating income earned by the Company prior to their sale is classified as "discontinued operations."

Adjusted Earnings

The Company measures its performance using adjusted earnings in addition to net income. Adjusted earnings represent net income allocable to common shareholders and HPU holders computed in accordance with GAAP, before depreciation, depletion, amortization, gain (loss) from discontinued operations, extraordinary items and cumulative effect of change in accounting principle. Adjustments for joint ventures reflect the Company's share of adjusted earnings calculated on the same basis.

The Company believes that adjusted earnings is a helpful measure to consider, in addition to net income, because this measure helps the Company to evaluate how its commercial real estate finance business is performing compared to other commercial finance companies, without the effects of certain GAAP adjustments that are not necessarily indicative of current operating performance. The most significant GAAP adjustments that the Company excludes in determining adjusted earnings are depreciation, depletion and amortization. As a commercial finance company that focuses on real estate lending and corporate tenant leasing, the Company records significant depreciation on its real estate assets and amortization of deferred financing costs associated with its borrowings. The Company also records depletion on its timber assets, although depletion amounts are currently insignificant. Depreciation, depletion and amortization do not affect the Company's daily operations, but they do impact financial results under GAAP. By measuring its performance using adjusted earnings and net income, the Company is able to evaluate how its business is performing both before and after giving effect to recurring GAAP adjustments

such as depreciation, depletion and amortization and, in the case of adjusted earnings, after including earnings from its joint venture interests on the same basis and excluding gains or losses from the sale of assets that will no longer be part of its continuing operations.

Adjusted earnings is not an alternative or substitute for net income in accordance with GAAP as a measure of the Company's performance. Rather, the Company believes that adjusted earnings is an additional measure that helps analyze how its business is performing. This measure is also used to track compliance with covenants in certain of the Company's material borrowing arrangements that have covenants based upon this measure. Adjusted earnings should not be viewed as an alternative measure of either the Company's liquidity or funds available for its cash needs or for distribution to its shareholders. In addition, the Company may not calculate adjusted earnings in the same manner as other companies that use a similarly titled measure.

	For the Three Months Ended March 31,	
	2006	2005
	(in thousands)	
Adjusted earnings:		
Net income allocable to common shareholders and HPU holders	\$ 77,406	\$ 59,739
Add: Joint venture income	30	42
Add: Depreciation, depletion and amortization	21,012	18,150
Add: Joint venture depreciation and amortization	2,724	135
Add: Amortization of deferred financing costs	6,113	7,526
Less: Gains from discontinued operations	(2,182)	—
Adjusted diluted earnings allocable to common shareholders and HPU holder(1)	<u>\$ 105,103</u>	<u>\$ 85,592</u>
Weighted average diluted common shares outstanding(2)	<u>114,357</u>	<u>112,747</u>

Explanatory Notes:

- (1) HPU holders are Company employees who purchased high performance common stock units under the Company's High Performance Unit Program. For the three months ended March 31, 2006 and 2005 adjusted diluted earnings allocable to common shareholders and HPU holders includes \$2,545 and \$2,102 of adjusted earnings allocable to HPU holders, respectively.
- (2) In addition to the GAAP defined weighted average diluted shares outstanding these balances include an additional 73,000 shares for the three months ended March 31, 2005, relating to the additional dilution of joint venture shares.

Risk Management

Loans and Other Lending Investments Credit Statistics—The table below summarizes the Company's loans and other lending investments that are more than 90-days past due in scheduled payments and details the reserve for loan losses associated with the Company's lending investments as of March 31, 2006 and December 31, 2005 as well as charge-offs for the three months ended March 31, 2006 and for the year ended December 31, 2005 (in thousands):

	As of March 31, 2006		As of December 31, 2005	
	\$	%	\$	%
Carrying value of loans past due 90 days or more/				
As a percentage of total assets	\$ 30,971	0.35%	\$ 35,291	0.41%
As a percentage of total loans		0.62%		0.75%
Reserve for loan losses/				
As a percentage of total assets	\$ 47,876	0.54%	\$ 46,876	0.55%
As a percentage of total loans		0.95%		1.00%
Net charge-offs/				
As a percentage of total assets	\$ —	0.00%	\$ —	0.00%
As a percentage of total loans		0.00%		0.00%

Non-Performing Loans—Non-performing loans includes all loans on non-accrual status and repossessed real estate collateral. The Company transfers loans to non-accrual status at such time as: (1) management determines the borrower is incapable of, or has ceased efforts towards, curing the cause of an impairment; (2) the loan becomes 90 days delinquent; (3) the loan has a maturity default; or (4) the net realizable value of the loan's underlying collateral approximates the Company's carrying value of such loan. Interest income is recognized only upon actual cash receipt for loans on non-accrual status. As of March 31, 2006, the Company's non-performing loans included two non-accrual loans with an aggregate carrying value of \$31.0 million, or 0.35% of total assets, compared to 0.41% at December 31, 2005, and no repossessed real estate collateral. Management believes there is adequate collateral to support the book values of the assets.

Watch List Assets—The Company conducts a quarterly comprehensive credit review, resulting in an individual risk rating being assigned to each asset. This review is designed to enable management to evaluate and proactively manage asset-specific credit issues and identify credit trends on a portfolio-wide basis as an "early warning system." As of March 31, 2006, the Company had two assets on its credit watch list, excluding those assets included in non-performing loans above, with an aggregate carrying value of \$62.8 million, or 0.71% of total assets.

Liquidity and Capital Resources

The Company requires significant capital to fund its investment activities and operating expenses. While the distribution requirements under the REIT provisions of the Code limit the Company's ability to retain earnings and thereby replenish or increase capital committed to its operations, the Company believes it has sufficient access to capital resources to fund its existing business plan, which includes the expansion of its real estate lending and corporate tenant leasing businesses. The Company's capital sources include cash flow from operations, borrowings under lines of credit, additional term borrowings, unsecured corporate debt financing, financings secured by the Company's assets, trust preferred debt, 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 Company believes that its existing sources of funds will be adequate for purposes of meeting its short- and long-term liquidity needs. The Company's ability to meet its long-term (i.e., beyond one year)

liquidity requirements is subject to obtaining additional debt and equity financing. Any decision by the Company's lenders and investors to provide the Company with financing will depend upon a number of factors, such as the Company's 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 capital commitments and the relative attractiveness of alternative investment or lending opportunities.

The following table outlines the contractual obligations related to the Company's long-term debt agreements and operating lease obligations as of March 31, 2006. There are no other long-term liabilities of the Company that would constitute a contractual obligation.

	Total	Principal Payments Due By Period(1)				
		Less Than 1 Year	2-3 Years	4-5 Years	6-10 Years	After 10 Years
(In thousands)						
Long-Term Debt Obligations:						
Unsecured notes	\$ 5,217,022	\$ 50,000	\$ 1,600,000	\$ 850,000	\$ 2,717,022	\$ —
Unsecured revolving credit facilities	538,035	81,035	457,000	—	—	—
Secured term loans	387,430	52,784	2,533	169,345	75,262	87,506
Trust Preferred	100,000	—	—	—	—	100,000
Total	6,242,487	183,819	2,059,533	1,019,345	2,792,284	187,506
Operating Lease Obligations:(2)	52,492	6,016	13,404	10,145	12,411	10,516
Total(3)	<u>\$ 6,294,979</u>	<u>\$ 189,835</u>	<u>\$ 2,072,937</u>	<u>\$ 1,029,490</u>	<u>\$ 2,804,695</u>	<u>\$ 198,022</u>

Explanatory Notes:

- (1) Assumes exercise of extensions on the Company's long-term debt obligations to the extent such extensions are at the Company's option.
- (2) The Company also has a \$1.0 million letter of credit outstanding as security for its primary corporate office lease.
- (3) The Company also has letters of credit outstanding totaling \$25.9 million as additional collateral for two of its investments. See "Off-Balance Sheet Transactions" below, for a discussion of certain unfunded commitments related to the Company's lending and CTL business.

The Company's primary credit facility is an unsecured credit facility totaling \$1.50 billion that bears interest at LIBOR + 0.70% per annum and matures in April 2008. At March 31, 2006, the Company had \$457.0 million drawn under this facility (see Note 9 to the Company's Consolidated Financial Statements). The Company also has one LIBOR-based secured revolving credit facility with an aggregate maximum capacity of \$500.0 million, of which there was no balance drawn as of March 31, 2006. Availability under the secured credit facility is based on collateral provided under a borrowing base calculation.

The Company's debt obligations contain covenants that are both financial and non-financial in nature. Significant financial covenants include limitations on the Company's ability to incur indebtedness beyond specified levels and a requirement to maintain specified ratios of unsecured indebtedness compared to unencumbered assets. As a result of the upgrades in January and February 2006, of the Company's senior unsecured debt ratings by S&P, Moody's and Fitch, the financial covenants in some series of the Company's publicly held debt securities are not operative.

Significant non-financial covenants include a requirement in some series of its publicly-held debt securities that the Company offer to repurchase those securities at a premium if the Company undergoes a change of control. As of March 31, 2006, the Company believes it is in compliance with all financial and non-financial covenants on its debt obligations.

Unencumbered Assets/Unsecured Debt—The Company has completed the migration of its balance sheet towards unsecured debt, which generally results in a corresponding reduction of secured debt and an increase in unencumbered assets. The exact timing in which the Company will issue or borrow unsecured debt will be subject to market conditions. The following table shows the ratio of unencumbered assets to unsecured debt at March 31, 2006 and December 31, 2005 (in thousands):

	As of March 31, 2006	As of December 31, 2005
Total Unencumbered Assets	\$ 8,460,448	\$ 8,129,358
Total Unsecured Debt(1)	\$ 5,855,057	\$ 5,559,022
Unencumbered Assets/Unsecured Debt	145%	146%

Explanatory Note:

- (1) See Note 9 to the Company's Consolidated Financial Statements for a more detailed description of the Company's unsecured debt.

Capital Markets Activity—During the three months ended March 31, 2006, the Company issued \$1.0 billion aggregate principal amount of fixed-rate Senior Notes bearing interest at annual rates ranging from 5.65% to 5.875% and maturing between 2011 and 2016. The Company primarily used the proceeds from the issuance of these securities to repay outstanding indebtedness under its unsecured revolving credit facility.

Unsecured/Secured Credit Facilities Activity—On January 9, 2006, the Company extended the maturity on its remaining secured facility to January 2008, reduced its capacity from \$700.0 million to \$500.0 million and lowered its interest rates to LIBOR + 1.00% to 2.00% from LIBOR + 1.40% to 2.15%.

In January 2006, the Company completed two new uncommitted lines of credit with leading financial institutions in order to borrow funds in foreign denominations. One line of credit to borrow British Pounds Sterling, matures in June 2006 and has a rate of UK LIBOR + 0.70%. The other line of credit to borrow Euros, matures in December 2006 and has a rate of Euribor + 0.70%.

As of March 31, 2006, the Company's unsecured facility bears interest at a rate of LIBOR + 0.70% and a 15 basis point annual facility fee. It was decreased to this amount from LIBOR + 0.875% and a 17.5 basis point annual facility fee, due to an upgrade in the Company's senior unsecured debt rating

in February 2006.

Other Financing Activity—During the three months ended March 31, 2006, the portion of the \$200.0 million term financing that was secured by certain commercial mortgage-backed securities was extended for one month and then matured on February 13, 2006.

Hedging Activities—The Company has variable-rate lending assets and variable-rate debt obligations. These assets and liabilities create a natural hedge against changes in variable interest rates. This means that as interest rates increase, the Company earns more on its variable-rate lending assets and pays more on its variable-rate debt obligations and, conversely, as interest rates decrease, the Company earns less on its variable-rate lending assets and pays less on its variable-rate debt obligations. When the amount of the Company's variable-rate debt obligations exceeds the amount of its variable-rate lending assets, the Company utilizes derivative instruments to limit the impact of changing interest rates on its net income. The Company has a policy in place, that is administered by the Audit Committee, which requires the Company to enter into hedging transactions to mitigate the impact of rising interest rates on the Company's earnings. The policy states that a 100 basis point increase in short-term rates cannot have a greater than 2.5% impact on quarterly earnings. The Company does not use derivative instruments for speculative purposes. The derivative instruments the Company uses are typically in the form of interest rate swaps and interest rate caps. Interest rate swaps effectively can either change variable-rate debt obligations to fixed-rate debt obligations or convert fixed-rate debt obligations into variable-rate debt

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obligations. Interest rate caps effectively limit the maximum interest rate on variable-rate debt obligations. In addition, during 2005 the Company also began using derivative instruments to manage its exposure to foreign exchange rate movements.

The primary risks from the Company's use of derivative instruments are the risks that a counterparty to a hedging arrangement could default on its obligation and the risk that the Company may have to pay certain costs, such as transaction fees or breakage costs, if a hedging arrangement is terminated by the Company. As a matter of policy, the Company enters into hedging arrangements with counterparties that are large, creditworthy financial institutions typically rated at least A/A2 by S&P and Moody's, respectively. The Company's hedging strategy is approved and monitored by the Company's Audit Committee on behalf of its Board of Directors and may be changed by the Board of Directors without shareholder approval.

The following table represents the notional principal and fair value amounts of interest rate swaps by class and the corresponding hedged liability positions and the Company's foreign currency derivatives. The Company's foreign currency derivatives do not use hedge accounting, but are marked to market under SFAS 133 (in thousands):

	Notional Amount as of March 31, 2006		Notional Amount as of December 31, 2005		Fair Value as of March 31, 2006		Fair Value as of December 31, 2005	
Cash flow hedges								
Interest rate swaps	\$	250,000	\$	250,000	\$	1,259	\$	2,150
Forward-starting interest rate swaps		450,000		650,000		16,926		8,771
Fair value hedges.		1,100,000		1,100,000		(43,168)		(30,112)
Total interest rate hedges	\$	1,800,000	\$	2,000,000	\$	(24,983)	\$	(19,191)
Foreign currency hedges								
Sell Canadian Dollar forward	CAD	11,550	CAD	11,512	\$	328	\$	71
Buy Euro forward	€	500	€	632		5		(11)
Cross currency Euro swap	€	3,089	€	3,740		23		134
Sell GBP forward	£	—	£	16,077		—		477
Total foreign currency hedges					\$	356	\$	671

On February 17, 2006, four forward starting swaps all with notional amounts of \$50.0 million and ten year terms and rates from 4.610% to 4.483% were settled in connection with the Company's issuance of \$500.0 million of ten-year Senior Notes which were priced on February 16, 2006. The cash settlement amount is being amortized into "Interest expense" on the Company's Consolidated Statements of Operations through the maturity of the Senior Notes.

At March 31, 2006, derivatives with a fair value of \$18.8 million were included in "Deferred expenses and other assets" and derivatives with a fair value of \$43.4 million were included in "Accounts payable, accrued expenses and other liabilities" on the Company's Consolidated Financial Statements.

Off-Balance Sheet Transactions—The Company is not dependent on the use of any off-balance sheet financing arrangements for liquidity. As of March 31, 2006, the Company did not have any CTL joint ventures accounted for under the equity method, which had third-party debt.

The Company's STARs Notes were all on-balance sheet financings. These securitizations were prepaid on September 28, 2005.

The Company has certain discretionary and non-discretionary unfunded commitments related to its loans and other lending investments that it may be required to, or choose to, fund in the future. Discretionary commitments are those under which the Company has sole discretion with respect to future funding. Non-discretionary commitments are those that the Company is generally obligated to fund at the

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request of the borrower or upon the occurrence of events outside of the Company's direct control. As of March 31, 2006, the Company had 37 loans with unfunded commitments totaling \$1.19 billion, of which \$35.0 million was discretionary and \$1.15 billion was non-discretionary. In addition, the Company has \$64.5 million of non-discretionary unfunded commitments related to 12 CTL investments. These commitments generally fall into two categories: (1) pre-approved capital improvement projects; and (2) new or additional construction costs. Upon funding, the Company would receive additional operating lease income from the customers. In addition, the Company has \$10.3 million of non-discretionary unfunded commitments related to 17 existing customers in the form of tenant improvements which were negotiated between the Company and customer at the commencement of the lease. Further, the Company had five equity investments with unfunded non-discretionary commitments of \$56.6 million.

Ratings Triggers—The \$1.50 billion unsecured revolving credit facility that the Company has in place at March 31, 2006 bears interest at LIBOR + 0.70% per annum based on the Company's senior unsecured credit ratings of BBB from S&P, Baa2 from Moody's and BBB from Fitch Ratings.

This rate was reduced from LIBOR + 0.875% due to the Company achieving an investment grade senior unsecured debt rating from S&P and Moody's in February 2006 and from Fitch in January 2006 (see below).

On February 9, 2006, S&P upgraded the Company's senior unsecured debt rating to BBB from BBB- and raised the ratings on its preferred stock to BB+ from BB. On February 7, 2006, Moody's upgraded the Company's senior unsecured debt rating to Baa2 from Baa3 and raised the ratings on its preferred stock to Ba1 from Ba2. On January 19, 2006, Fitch Ratings upgraded the Company's senior unsecured debt rating to BBB from BBB- and raised its preferred stock rating to BB+ from BB, with a stable outlook. The upgrades were primarily a result of the Company's further migration to an unsecured capital structure, including the recent repayment of the STARs Notes.

As a result of the upgrades in 2006 of the Company's senior unsecured debt ratings by S&P, Moody's and Fitch, the financial covenants, including limitations on incurrence of indebtedness and maintenance of unencumbered assets compared to unsecured indebtedness, in some series of the Company's publicly held debt securities are not operative. If the Company were to be downgraded from its current ratings by either S&P or Moody's, these financial covenants would become operative again.

Except as described above, there are no other ratings triggers in any of the Company's debt instruments or other operating or financial agreements at March 31, 2006.

Transactions with Related Parties—During 2005, the Company invested in a substantial minority interest of Oak Hill Advisors, L.P., Oak Hill Credit Alpha MGP, OHSF GP Partners II, LLC and Oak Hill Credit Opportunities MGP, LLC (see Note 6 to the Company's Consolidated Financial Statements for more detail). In relation to the Company's investment in these entities, it appointed to its Board of Directors a member that holds a substantial investment in these same four entities. During 2005, the Company had an investment in iStar Operating Inc. ("iStar Operating"), a taxable subsidiary that, through a wholly-owned subsidiary, services the Company's loans and certain loan portfolios owned by third parties. The Company owned all of the non-voting preferred stock and a 95% economic interest in iStar Operating. An entity controlled by a former director of the Company, owned all of all the voting common stock and a 5% economic interest in iStar Operating. On December 31, 2005, the Company acquired all the voting common stock and the remaining 5% economic interest in iStar Operating for a nominal amount and simultaneously merged it into an existing taxable REIT subsidiary of the Company.

DRIP/Stock Purchase Plan—The Company maintains a dividend reinvestment and direct stock purchase plan. Under the dividend reinvestment component of the plan, the Company's shareholders may purchase additional shares of Common Stock without payment of brokerage commissions or service charges by automatically reinvesting all or a portion of their Common Stock cash dividends. Under the direct stock purchase component of the plan, the Company's shareholders and new investors may purchase shares of Common Stock directly from the Company without payment of brokerage commissions or service charges. All purchases of shares in excess of \$10,000 per month pursuant to the direct purchase component

are at the Company's sole discretion. Shares issued under the plan may reflect a discount of up to 3.00% from the prevailing market price of the Company's Common Stock. The Company is authorized to issue up to 8.0 million shares of Common Stock pursuant to the dividend reinvestment and direct stock purchase plan. During the three months ended March 31, 2006 and 2005, the Company issued a total of approximately 12,700 and 11,500 shares of its Common Stock, respectively, through the direct stock purchase component of the plan. Net proceeds during the three months ended March 31, 2006 and 2005, were approximately \$474,000 and \$481,000, respectively. There are approximately 2.7 million shares available for issuance under the plan as of March 31, 2006.

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 or loan repayments 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 March 31, 2006 the Company had repurchased a total of approximately 2.3 million shares at an aggregate cost of approximately \$40.7 million. The Company has not repurchased any shares under the stock repurchase program since November 2000, however the Company issued approximately 1.2 million shares of its treasury stock during 2005.

Critical Accounting Estimates

The Company's Consolidated Financial Statements include the accounts of the Company, all majority-owned and controlled subsidiaries and all entities consolidated under FASB Interpretation No. 46R. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Company does not believe that there is a great likelihood that materially different amounts would be reported related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

Management has the obligation to ensure that its policies and methodologies are in accordance with GAAP. During the three months ended March 31, 2006, management reviewed and evaluated its critical accounting policies and believes them to be appropriate. The Company's accounting policies are described in Note 3 to the Company's Consolidated Financial Statements. Management believes the more significant of these to be as follows:

Executive Compensation—The Company's accounting policies generally provide cash compensation to be estimated and recognized over the period of service. With respect to stock-based compensation arrangements, as of July 1, 2002 (with retroactive application to the beginning of the calendar year), the Company has adopted the fair value method allowed under SFAS No. 123 as amended by SFAS No. 148 and further amended by SFAS No 123R on a prospective basis which values options on the date of grant and recognizes an expense equal to the fair value of the option multiplied by the number of options granted over the related service period. These arrangements are often complex and generally structured to align the interests of management with those of the Company's shareholders. See Note 12 to the Company's Consolidated Financial Statements for a detailed discussion of such arrangements and the related accounting effects.

The Company is party to an employment agreement with its Chief Executive Officer and President. See Note 12 to the Company's Consolidated Financial Statements for a more detailed description of these employment agreements.

In addition, the Chief Executive Officer purchased an 80%, 75% and 70% interest in the Company's 2006, 2007 and 2008 high performance unit program for senior executive officers, respectively. The

President also purchased a 20%, 20%, 25% and 30% interest in the Company's 2005, 2006, 2007 and 2008 high performance unit program for senior executive officers, respectively. These performance programs were approved by the Company's shareholders in 2003 and 2005 and are described in detail in the Company's 2003 and 2005 annual proxy statement. The purchase price paid by the Chief Executive Officer and President is based upon a valuation prepared by an independent investment banking firm. The interests purchased by the Chief Executive Officer and President will only have nominal value to them unless the Company achieves total shareholder returns in excess of those achieved by peer group indices, all as more fully described in the Company's 2003 and 2005 annual proxy statement.

New Accounting Standards

In March 2005, the FASB released Interpretation No. 47 ("FIN 47"), "Accounting for Conditional Asset Retirement Obligations." FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Thus, the timing and/or method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred—generally upon acquisition, construction, or development and/or through the normal operation of the asset. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. SFAS No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The Company adopted FIN 47 during 2005 and it did not have a significant impact on the Company's Consolidated Financial Statements.

In December 2004, the FASB released Statement of Financial Accounting Standards No. 153 ("SFAS No. 153"), "Accounting for Non-monetary Transactions." SFAS No. 153 requires non-monetary exchanges to be accounted for at fair value, recognizing any gain or loss, if the transactions meet a commercial-substance criterion and fair value is determinable. SFAS No. 153 is effective for non-monetary transactions occurring in fiscal years beginning after June 15, 2005. The Company adopted the provisions of this statement, as required, on January 1, 2006, and it did not have a significant impact on the Company's Consolidated Financial Statements.

In June 2005, the Emerging Issues Task Force reached a consensus on EITF 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights." EITF 04-5 states that a sole general partner is presumed to control a limited partnership (or similar entity) and should consolidate the limited partnership unless one of the following two conditions exist: (1) the limited partners possess substantive kick-out rights, or (2) the limited partners possess substantive participating rights. A kick-out right is defined as the substantive ability to remove the sole general partner without cause or otherwise dissolve (liquidate) the limited partnership. Substantive participating rights are when the limited partners have the substantive right to participate in certain financial and operating decisions of the limited partnership that are made in the ordinary course of business. The consensus guidance in EITF 04-5 is effective for all agreements entered into or modified after June 29, 2005. For all pre-existing agreements that are not modified, the consensus is effective as of the beginning of the first fiscal reporting period beginning after December 15, 2005. The Company adopted the provisions of this statement, as required, and it did not have a significant impact on the Company's Consolidated Financial Statements.

In December 2004, the FASB released Statement of Financial Accounting Standards No. 123R ("SFAS No. 123R"), "Share-Based Payment." This standard requires issuers to measure the cost of equity-based service awards based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award or the requisite service period (typically the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. The Company will initially measure the cost of liability-based service awards based on their current fair value. The fair value of that award will be remeasured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation cost over that period. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments. If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. Companies can comply with FASB No. 123R using one of three transition methods: (1) the modified prospective method; (2) the modified retrospective method; or (3) a variation of the modified retrospective method. The provisions of this statement are effective for annual periods beginning after June 15, 2005. The Company adopted the provisions of SFAS No. 123R, as required, on January 1, 2006, and it did not have a significant financial impact on the Company's Consolidated Financial Statements.

ITEM 4. CONTROLS AND PROCEDURES

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

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the disclosure committee and other members of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to timely alert them to material information relating to the Company (including its consolidated subsidiaries) and are effective to ensure that the information required to be disclosed by the Company in the reports that

it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

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

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 1A. RISK FACTORS

No changes from those disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

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

During the quarter ended March 31, 2006, the Company issued interests in its 2008 High Performance Unit Plan to a group of employees. The 2008 High Performance Unit Plan is part of the High Performance Unit program which was approved by the Company's shareholders at the Company's 2004 annual meeting and is described in detail in the Company's proxy statement related to that meeting. In addition, during the quarter, the Company issued interests in its 2008 Executive and Director High Performance Unit Plan to Jay Sugarman, the Company's Chairman and Chief Executive Officer, and Jay S. Nydick, the Company's President, as more fully described in the Company's proxy statement dated April 25, 2005. The executives paid an aggregate of approximately \$325,000 for their interests, and the employees paid an aggregate of approximately \$524,000 for their interests, in the 2008 HPU Plans, subsequent to quarter-end. The interests have no material value unless and until specified performance thresholds for shareholder return are achieved. The interests were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. Each of the executives and the employee participants has represented that he or she is an accredited investor, as defined in Rule 502 under Regulation D promulgated under that Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

a. Exhibits

- 1.1 Underwriting Agreement, dated February 15, 2006, between iStar Financial Inc. and the underwriters named therein with regard to the 5.875% Senior Notes due 2016 and the 5.650% Senior Notes due 2011 (Incorporated by reference to Form 8-K, dated February 15, 2006).
- 4.1 Form of 5.650% Senior Note due 2011 (Incorporated by reference to Form 8-K, dated February 21, 2006).
- 4.2 Form of 5.875% Senior Note due 2016 (Incorporated by reference to Form 8-K, dated February 21, 2006).
- 4.3 Eleventh Supplemental Indenture, dated as of February 21, 2006 (Incorporated by reference to Form 8-K, dated February 21, 2006).
- 4.4 Twelfth Supplemental Indenture, dated as of February 21, 2006 (Incorporated by reference to Form 8-K, dated February 21, 2006).

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- 10.2 Form of Restricted Stock Award Agreement (Incorporated by reference to Form 8-K, dated March 2, 2006)
 - 31.0 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act.
 - 32.0 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act.

SIGNATURES

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

iSTAR FINANCIAL INC.
Registrant

Date: May 10, 2006

/s/ JAY SUGARMAN

Jay Sugarman
*Chairman of the Board of Directors and
Chief Executive Officer (Principal executive officer)*

Date: May 10, 2006

/s/ CATHERINE D. RICE

Catherine D. Rice
*Chief Financial Officer (Principal financial and
accounting officer)*

CERTIFICATIONS

I, Jay Sugarman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of iStar Financial Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - (d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2006

By: /s/ JAY SUGARMAN

Name: Jay Sugarman

Title: Chief Executive Officer

CERTIFICATION

I, Catherine D. Rice, certify that:

1. I have reviewed this quarterly report on Form 10-Q of iStar Financial Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - (d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2006

By: /s/ CATHERINE D. RICE
Name: Catherine D. Rice
Title: Chief Financial Officer

Certification of Chief Executive Officer
Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

The undersigned, the Chief Executive Officer of iStar Financial Inc. (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. 1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (the "Form 10-Q"), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JAY SUGARMAN
Name: Jay Sugarman
Title: Chief Executive Officer

Certification of Chief Financial Officer
Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

The undersigned, the Chief Financial Officer of iStar Financial Inc. (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. 1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (the "Form 10-Q"), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ CATHERINE D. RICE
Name: Catherine D. Rice
Title: Chief Financial Officer
