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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2005**

**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**<br>(State or other jurisdiction of incorporation or organization) | **95-6881527**<br>(I.R.S. Employer Identification Number) |
| **1114 Avenue of the Americas, 27th Floor**<br>**New York, NY**<br>(Address of principal executive offices) | **10036**<br>(Zip code) |

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

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

| Title of each class: | Name of Exchange on which registered: |
|---|---|
| **Common Stock, $0.001 par value** | **New York Stock Exchange** |
| **8.000% Series D Cumulative Redeemable Preferred Stock, $0.001 par value** | **New York Stock Exchange** |
| **7.875% Series E Cumulative Redeemable Preferred Stock, $0.001 par value** | **New York Stock Exchange** |
| **7.800% Series F Cumulative Redeemable Preferred Stock, $0.001 par value** | **New York Stock Exchange** |
| **7.650% Series G Cumulative Redeemable Preferred Stock, $0.001 par value** | **New York Stock Exchange** |
| **7.500% Series I Cumulative Redeemable Preferred Stock, $0.001 par value** | **New York Stock Exchange** |

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12-b-2). Yes ☒ No o

As of May 3, 2005, there were 112,492,439 shares of common stock of iStar Financial Inc. $0.001/par value per share outstanding ("Common Stock").

**iStar Financial Inc.**
**Index to Form 10-Q**


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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, 2005 | As of December 31, 2004* |
|---|---|---|
| **ASSETS** | | |
| Loans and other lending investments, net | $ 4,311,033 | $ 3,946,189 |
| Corporate tenant lease assets, net | 2,974,638 | 2,877,042 |
| Other investments | 192,267 | 75,092 |
| Investments in joint ventures | 5,504 | 5,663 |
| Cash and cash equivalents | 270,503 | 88,422 |
| Restricted cash | 45,702 | 39,568 |
| Accrued interest and operating lease income receivable | 32,058 | 25,633 |
| Deferred operating lease income receivable | 66,177 | 62,092 |
| Deferred expenses and other assets | 91,959 | 100,536 |
| Goodwill | 7,746 | — |
| Total assets | $ 7,997,587 | $ 7,220,237 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Liabilities: | | |
| Accounts payable, accrued expenses and other liabilities | $ 144,127 | $ 140,075 |
| Debt obligations | 5,316,627 | 4,605,674 |
| Total liabilities | 5,460,754 | 4,745,749 |
| Commitments and contingencies | — | — |
| Minority interest in consolidated entities | 20,117 | 19,246 |
| 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, 2005 and December 31, 2004, respectively | 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, 2005 and December 31, 2004, respectively | 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, 2005 and December 31, 2004, respectively | 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, 2005 and December 31, 2004, respectively | 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, 2005 and December 31, 2004, respectively | 5 | 5 |
| High Performance Units | 8,774 | 7,828 |
| Common Stock, $0.001 par value, 200,000 shares authorized, 111,494 and 111,432 shares issued and outstanding at March 31, 2005 and December 31, 2004, respectively | 111 | 111 |
| Warrants and options | 6,458 | 6,458 |
| Additional paid-in capital | 2,842,083 | 2,840,062 |
| Retained earnings (deficit) | (289,358) | (349,097) |
| Accumulated other comprehensive income (losses) (See Note 14) | (3,318) | (2,086) |
| Treasury stock (at cost) | (48,056) | (48,056) |
| Total shareholders' equity | 2,516,716 | 2,455,242 |
| Total liabilities and shareholders' equity | $ 7,997,587 | $ 7,220,237 |

* *Reclassified to conform to 2005 presentation.*

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, | |
|---|---|---|
| | **2005** | **2004** |
| **Revenue:** | | |
| Interest income | $ 92,360 | $ 83,057 |
| Operating lease income | 77,125 | 66,026 |
| Other income | 12,013 | 11,941 |
| Total revenue | 181,498 | 161,024 |
| **Costs and expenses:** | | |
| Interest expense | 68,951 | 52,486 |
| Operating costs—corporate tenant lease assets | 5,735 | 4,713 |
| Depreciation and amortization | 17,875 | 14,859 |
| General and administrative | 15,361 | 13,359 |
| General and administrative—stock-based compensation expense | 642 | 107,541 |
| Provision for loan losses | 2,250 | 3,000 |
| Loss on early extinguishment of debt | — | 12,172 |
| Total costs and expenses | 110,814 | 208,130 |
| Income (loss) before equity in earnings from joint ventures, minority interest and other items | 70,684 | (47,106) |
| Equity in earnings (loss) from joint ventures | (160) | 6,248 |
| Minority interest in consolidated entities | (205) | (133) |
| Income (loss) from continuing operations | 70,319 | (40,991) |
| Income from discontinued operations | — | 5,739 |
| Gain from discontinued operations | — | 136 |
| Net income (loss) | 70,319 | (35,116) |
| Preferred dividend requirements | (10,580) | (19,600) |
| Net income (loss) allocable to common shareholders and HPU holders(1) | $ 59,739 | $ (54,716) |
| Basic earnings per common share(2) | $ 0.52 | $ (0.50) |
| Diluted earnings per common share(3) | $ 0.52 | $ (0.50) |

**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, 2005 and 2004, excludes $1,483 and $(905) of net income (loss) allocable to HPU holders, respectively.

(3) For the three months ended March 31, 2005 and 2004, excludes $1,468 and $(905) of net income (loss) allocable to HPU holders, respectively.

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

**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 (Losses) | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2004 | $ 4 | $ 6 | $ 4 | $ 3 | $ 5 | $ 7,828 | $ 111 | $ 6,458 | $ 2,840,062 | $ (349,097) | $ (2,086) | $ (48,056) | $ 2,455,242 |
| Exercise of options and warrants | — | — | — | — | — | — | — | — | 605 | — | — | — | 605 |
| Dividends declared-preferred | — | — | — | — | — | — | — | — | — | (10,580) | — | — | (10,580) |
| Restricted stock units granted to employees | — | — | — | — | — | — | — | — | 935 | — | — | — | 935 |
| High performance units sold to employees | — | — | — | — | — | 946 | — | — | — | — | — | — | 946 |
| Issuance of stock-DRIP/Stock purchase plan | — | — | — | — | — | — | — | — | 481 | — | — | — | 481 |
| Net income for the period | — | — | — | — | — | — | — | — | — | 70,319 | — | — | 70,319 |
| Change in accumulated other comprehensive income (losses) | — | — | — | — | — | — | — | — | — | — | (1,232) | — | (1,232) |
| Balance at March 31, 2005 | $ 4 | $ 6 | $ 4 | $ 3 | $ 5 | $ 8,774 | $ 111 | $ 6,458 | $ 2,842,083 | $ (289,358) | $ (3,318) | $ (48,056) | $ 2,516,716 |

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

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2005** | **2004** |
| Cash flows from operating activities: | | |
| Net income (loss) | $ 70,319 | $ (35,116) |
| Adjustments to reconcile net income (loss) to cash flows provided by operating activities: | | |
| Minority interest in consolidated entities | 205 | 133 |
| Non-cash expense for stock-based compensation | 713 | 51,438 |
| Depreciation and amortization | 18,283 | 14,859 |
| Depreciation and amortization from discontinued operations | — | 1,191 |
| Amortization of deferred financing costs | 7,526 | 7,765 |
| Amortization of discounts/premiums, deferred interest and costs on lending investments | (18,719) | (15,865) |
| Discounts, loan fees and deferred interest received | 39,392 | 10,640 |
| Equity in earnings (loss) from joint ventures | 160 | (6,248) |
| Distributions from operations of joint ventures | — | 74 |
| Loss on early extinguishment of debt | — | 12,172 |
| Deferred operating lease income receivable | (3,987) | (5,465) |
| Gain from discontinued operations | — | (136) |
| Provision for loan losses | 2,250 | 3,000 |
| Changes in assets and liabilities: | | |
| Changes in accrued interest and operating lease income receivable | (4,543) | 228 |
| Changes in deferred expenses and other assets | 9,912 | 8,012 |
| Changes in accounts payable, accrued expenses and other liabilities | (18,859) | 42,747 |
| Cash flows from operating activities | 102,652 | 89,429 |
| Cash flows from investing activities: | | |
| New investment originations | (841,647) | (710,835) |
| Cash paid for acquisition of Falcon Financial | (113,696) | — |
| Add-on fundings under existing loan commitments | (93,204) | (16,647) |
| Net proceeds from sale of corporate tenant lease assets | — | 2,822 |
| Repayments of and principal collections on loans and other lending investments | 422,128 | 144,880 |
| Capital improvement projects on corporate tenant lease assets | (3,854) | (1,373) |
| Other capital expenditures on corporate tenant lease assets | (2,139) | (2,554) |
| Cash flows from investing activities | (632,412) | (583,707) |
| Cash flows from financing activities: | | |
| Borrowings under secured revolving credit facilities | 510,000 | 1,031,335 |
| Repayments under secured revolving credit facilities | (560,552) | (1,197,070) |
| Borrowings under unsecured revolving credit facilities | 1,154,000 | — |
| Repayments under unsecured revolving credit facilities | (1,381,000) | (130,000) |
| Borrowings under term loans | 3,814 | 198,771 |
| Repayments under term loans | (2,890) | (255,082) |
| Borrowings under unsecured bond offerings | 1,090,477 | 1,007,575 |
| Repayments under unsecured notes | — | (110,000) |
| Repayments under secured bond offerings | (86,835) | (70,514) |
| Repayments under other debt obligations | — | (10,148) |
| Contribution from minority interest partner | 1,038 | — |
| Changes in restricted cash held in connection with debt obligations | (6,134) | (9,708) |
| Prepayment penalty on early extinguishment of debt | — | (9,625) |
| Payments for deferred financing costs | (1,132) | (1,246) |
| Distributions to minority interest in consolidated entities | (373) | (208) |
| Net proceeds from preferred offering/exchange | — | 203,048 |
| Redemption of preferred stock | — | (165,000) |
| Preferred dividends paid | (10,580) | (9,778) |
| HPUs issued | 946 | 2,252 |
| Contribution from significant shareholder | — | 1,935 |
| Proceeds from exercise of options and issuance of DRIP/Stock purchase shares | 1,062 | 25,283 |
| Cash flows from financing activities | 711,841 | 501,820 |
| Increase in cash and cash equivalents | 182,081 | 7,542 |
| Cash and cash equivalents at beginning of period | 88,422 | 80,090 |
| Cash and cash equivalents at end of period | $ 270,503 | $ 87,632 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for interest, net of amount capitalized | $ 64,935 | $ 45,965 |

The accompanying notes are an integral part of the 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 provides custom-tailored financing to high-end private and corporate owners of real estate, including senior and junior mortgage debt, senior and mezzanine corporate capital, and corporate net lease financing. 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 primary product lines include:

- *Structured Finance.* The Company provides senior and subordinated loans that typically range in size from $20 million to $100 million. These loans may be either fixed or variable rate and are structured to meet the specific financing needs of the borrowers, including the acquisition or financing of large, quality real estate. The Company offers borrowers a wide range of structured finance options, including first mortgages, second mortgages, partnership loans, participating debt and interim facilities. The Company's structured finance transactions have maturities generally ranging from three to ten years. As of March 31, 2005, based on gross carrying values, the Company's structured finance assets represented 28.6% of its assets.

- *Portfolio Finance.* The Company provides funding to regional and national borrowers who own multiple facilities in geographically diverse portfolios. Loans are cross-collateralized to give the Company the benefit of all available collateral and underwritten to recognize inherent portfolio diversification. Property types include multifamily, suburban office, hotels and other property types where individual property values are less than $20 million on average. Loan terms are structured to meet the specific requirements of the borrower and typically range in size from $25 million to $150 million. The Company's portfolio finance transactions have maturities generally ranging from three to ten years. As of March 31, 2005, based on gross carrying values, the Company's portfolio finance assets represented 11.5% of its assets.

- *Corporate Finance.* The Company provides senior and subordinated capital to corporations engaged in real estate or real estate-related businesses. Financings may be either secured or unsecured and typically range in size from $20 million to $150 million. The Company's corporate finance transactions have maturities generally ranging from five to ten years. As of March 31, 2005, based on gross carrying values, the Company's corporate finance assets represented 9.2% of its assets.

- *Loan Acquisition.* The Company acquires whole loans and loan participations which present attractive risk-reward opportunities. Loans are generally acquired at a small discount to the principal balance outstanding. Loan acquisitions typically range in size from $5 million to $100 million and are collateralized by all major property types. The Company's loan acquisition transactions have maturities generally ranging from three to ten years. As of March 31, 2005, based on gross carrying values, the Company's loan acquisition assets represented 5.2% of its assets.

- *Corporate Tenant Leasing.* The Company provides capital to corporations and borrowers 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 and which provide for all expenses at the facility to be paid by the corporate customer on a triple net lease basis. Corporate tenant lease ("CTL") transactions have terms generally ranging from ten to 20 years and typically

range in size from $20 million to $150 million. As of March 31, 2005, based on gross carrying values, the Company's CTL assets (including investments in joint ventures) represented 40.9% of its assets.

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 in addition to sourcing transactions through intermediaries.

- Adding value beyond simply providing capital by offering borrowers and corporate customers expertise in multiple markets, flexibility, certainty and long-term relationships.

- Taking advantage of market anomalies in the real estate and corporate financing markets when the Company believes credit is mispriced by other providers of capital.

**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 approximately $1.1 billion of assets to the Company's predecessor in exchange for a controlling interest in that company. Since that time, the Company has grown by originating new lending and leasing transactions, as well as through corporate acquisitions.

Specifically, in September 1998, the Company acquired the loan origination and servicing business of a major insurance company, and in December 1998, the Company acquired the mortgage and mezzanine loan portfolio of its largest private competitor. Additionally, in November 1999, the Company acquired TriNet Corporate Realty Trust, Inc. ("TriNet"), then the largest publicly-traded company specializing in corporate sale/leaseback transactions for office and industrial facilities (the "TriNet Acquisition"). The TriNet Acquisition was structured as a stock-for-stock merger of TriNet with a subsidiary of the Company.

In March 2005, in connection with the amendment of certain covenants in the 7.95% TriNet Notes due 2006, the Company merged TriNet into the Company. As of March 31, 2005, TriNet no longer exists.

**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 ("FIN 46")(see Note 6).

Certain other investments in partnerships or joint ventures 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, 2005 and December 31, 2004 and the results of its operations, changes in shareholders' equity and its cash flows for the three months ended March 31, 2005 and 2004, 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**—As described in Note 4, "Loans and Other Lending Investments" includes the following investments: senior mortgages, subordinate mortgages, corporate/partnership loans, other lending investments-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 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 40.0 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 life of the facility for facility improvements.

CTL assets to be disposed of are reported at the lower of their carrying amount or 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. In management's opinion, CTL assets to be held and used are not carried at amounts in excess of their estimated recoverable amounts.

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 in 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 intangible assets are included in "Other investments" on the Company's Consolidated Balance Sheets (see Note 5).

The value of above-market or below-market in-place leases are amortized to expense 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. No interest was capitalized during the three months ended March 31, 2005 and 2004.

**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 FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," an interpretation of ARB 51 ("FIN 46"), 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 should consolidate the VIE. In addition, the Company discloses information pertaining to both the primary beneficiary and all other enterprises with a significant variable interest in a VIE. Beginning January 31, 2003, the Company consolidated all VIEs entered into or modified after February 1, 2003 in which the Company is deemed the primary beneficiary. Beginning January 1, 2004, the Company consolidated all VIEs entered into prior to February 1, 2003. FIN 46 applies when either: (1) the equity investors (if any) lack one or more of the essential characteristics of controlling financial interest; (2) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support; or (3) the equity investors have voting rights that are not proportionate to their economic 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 is recognized if the carrying amount of an intangible asset is not recoverable and 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). The 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 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 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.

**Provision 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 provisions, 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 according to the contractual terms of 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 secured by real estate assets or are corporate lending arrangements to entities with significant real estate holdings. 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.

**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 2002, with retroactive application to the beginning of the 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, not including contingently issuable shares, 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**—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.

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 the Company's loans and certain loan portfolios owned by third parties through a wholly-owned subsidiary of the taxable REIT subsidiary, iStar Operating, Inc. ("iStar Operating"); (ii) servicing securitized loans acquired in the acquisition of Falcon Financial through a wholly-owned taxable REIT subsidiary, Falcon Financial II, Inc, ("Falcon"); and (iii) certain activities related to the purchase and sale of timber and timberlands through a taxable REIT subsidiary, TimberStar TRS, Inc.("TimberStar TRS"). The Company will consider other investments through taxable REIT subsidiaries if suitable opportunities arise. iStar Operating, Falcon and TimberStar TRS 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, TimberStar TRS and Falcon. Accordingly, except for the Company's taxable REIT subsidiaries, no current or deferred 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"), "Earning 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.

**Reclassifications**—Certain prior year amounts have been reclassified in the Consolidated Financial Statements and the related notes to conform to the 2005 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 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) a variation of the modified prospective method; or (3) the modified retrospective method. The provisions of this statement are effective for annual periods beginning after June 15, 2005, however, in the third quarter 2002, in anticipation of this new literature, the Company adopted the second transition method (with retroactive application of fair-value accounting to the beginning of the calendar year), which did not have a significant financial impact on the Company's Consolidated Financial Statements.

In September 2004, the Emerging Issues Task Force issued FASB Topic No. D-108 ("EITF D-108), "Use of the Residual Method to Value Acquired Assets Other than Goodwill" which requires that a direct value method be used to value intangible assets acquired in business combinations completed after September 29, 2004. EITF D-108 also requires that an impairment test using a direct value method on all intangible assets that were previously evaluated using the residual method be performed no later than the beginning of the first fiscal year beginning after December 15, 2004. Any impairments arising from the initial application of a direct value method would be reported as a cumulative effect of accounting change. The Company adopted the provisions of this statement, as required, on October 1, 2004, and it did not have a significant financial impact on the Company's Consolidated Financial Statements.

In December 2003, the SEC issued Staff Accounting Bulletin No. 104 ("SAB 104"), "Revenue Recognition" which supercedes SAB 101, "Revenue Recognition in Financial Statements." SAB 104's primary purpose is to rescind the accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superceded as a result of the issuance of EITF 00-21. The Company adopted the provisions of this statement immediately, as required, and it did not have a significant impact on the Company's Consolidated Financial Statements.

In December 2003, the Accounting Standards Executive Committee of the American Institute of Certified Accountants issued Statement of Position 03-3 ("SOP 03-3"), "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." SOP 03-3 addresses the accounting for acquired loans that show

evidence of having deteriorated in terms of credit quality since their origination (i.e., impaired loans). Because of their deteriorated credit quality, the loans are generally acquired at a discount (i.e., below their par value). Loans that are subject to SOP 03-3 acquired in a business combination that are accounted for as purchase business combinations should be recorded, as a result of the allocation of the acquisition price pursuant to SFAS No. 141, at their fair value. The Company adopted the provisions of this statement, as required, on January 1, 2005, and it did not have a significant financial impact on the Company's Consolidated Financial Statements.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS No. 150"), "Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity." This standard requires issuers to classify as liabilities the following three types of freestanding financial instruments: (1) mandatorily redeemable financial instruments; (2) obligations to repurchase the issuer's equity shares by transferring assets; and (3) certain obligations to issue a variable number of shares. The FASB issued FASB Staff Position ("FSP") 150-3, which defers the provisions of paragraphs 9 and 10 of SFAS No. 150 indefinitely as they apply to mandatorily redeemable noncontrolling interests associated with finite-lived entities. The Company adopted the provisions of this statement, as required, on July 1, 2003, and it did not have a significant financial impact on the Company's Consolidated Financial Statements.

## 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 March 31, 2005 | Carrying Value as of December 31, 2004 | Effective Maturity Dates | Contractual Interest Payment Rates(2)(3) | Contractual Interest Accrual Rates(2)(3) | Principal Amortization | Participation Features |
|---|---|---|---|---|---|---|---|---|---|---|
| Senior Mortgages(4) | Office/Residential/Retail/Industrial, R&D/Mixed Use/Hotel/Entertainment, Leisure/Other | 78 | $ 2,797,250 | $ 2,765,385 | $ 2,334,662 | 2005 to 2024 | Fixed: 5.64% to 18.20% Variable: LIBOR + 3.00% to LIBOR + 7.50% | Fixed: 5.64% to 18.20% Variable: LIBOR + 3.00% to LIBOR + 7.50% | Yes(5) | Yes(6) |
| Subordinate Mortgages | Office/Residential/Retail/Mixed Use/Hotel | 18 | 504,149 | 501,665 | 579,322 | 2005 to 2013 | Fixed: 7.00% to 18.00% Variable: LIBOR + 4.00% to LIBOR + 7.02% | Fixed: 7.32% to 18.00% Variable: LIBOR + 4.00% to LIBOR + 7.02% | Yes(5) | No |
| Corporate/Partnership Loans | Office/Residential/Retail/Industrial, R&D/Mixed Use/Hotel/Entertainment, Leisure/Other | 26 | 947,838 | 922,662 | 912,756 | 2005 to 2015 | Fixed: 6.00% to 15.00% Variable: LIBOR + 2.50% to LIBOR + 10.00% | Fixed: 7.33% to 17.50% Variable: LIBOR + 2.50% to LIBOR + 10.00% | Yes(5) | Yes(6) |
| Other Lending Investments—Loans | Office/Mixed Use | 2 | 4,261 | 4,261 | 4,036 | 2007 to 2008 | N/A | N/A | No | Yes(6) |
| Other Lending Investments—Securities(7) | Retail/Industrial, R&D/Entertainment, Leisure/Other | 8 | 164,436 | 163,936 | 157,849 | 2005 to 2023 | Fixed: 6.00% to 10.00% Variable: LIBOR + 2.82% to LIBOR + 5.00% | Fixed: 6.00% to 10.00% Variable: LIBOR + 2.82% to LIBOR + 5..00% | Yes(5) | No |
| Gross Carrying Value | | | | $ 4,357,909 | $ 3,988,625 | | | | | |
| Provision for Loan Losses | | | | (46,876) | (42,436) | | | | | |
| Total, Net | | | | $ 4,311,033 | $ 3,946,189 | | | | | |

**Explanatory Notes:**

(1) Details (other than carrying values) are for loans outstanding as of March 31, 2005.

(2) Substantially all variable-rate loans are based on 30-day LIBOR and reprice monthly. The 30-day LIBOR on March 31, 2005 was 2.87%. As of March 31, 2005, four loans with a combined carrying value of $73.0 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.

(3) As of March 31, 2005, the Company has 46 loans and other lending investments with LIBOR floors ranging from 1.00% to 3.00%.

(4) Includes a participation interest in a first mortgage.

(5) The loans require fixed payments of principal and interest resulting in partial principal amortization over the term of the loan with the remaining principal due at maturity.

(6) Under some of the loans, the Company may receive additional payments representing additional interest from participation in available cash flow from operations of the underlying real estate collateral.

(7) Generally consists of 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.

During the three months ended March 31, 2005 and 2004, respectively, the Company and its affiliated ventures originated or acquired an aggregate of approximately $665.8 million (excluding the acquisition of Falcon Financial) and $408.3 million in loans and other lending investments, funded $93.2 million and $16.6 million under existing loan commitments, and received principal repayments of $422.1 million and $144.9 million.

As of March 31, 2005, the Company had 20 loans with unfunded commitments. The total unfunded commitment amount was approximately $514.2 million, of which $26.6 million was discretionary and $487.6 million was non-discretionary.

A portion of the Company's loans and other lending investments are pledged as collateral under either the iStar Asset Receivables secured notes, the secured revolving credit facilities or secured term loans (see Note 9 for a description of the Company's secured and unsecured debt).

The Company has reflected provisions for loan losses of approximately $2.3 million and $3.0 million in its results of operations during the three months ended March 31, 2005 and 2004, 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 provision for loan losses were as follows (in thousands):

| | | |
|---|---|---|
| **Provision for loan losses, December 31, 2003** | $ | 33,436 |
| Additional provision for loan losses | | 9,000 |
| **Provision for loan losses, December 31, 2004** | | 42,436 |
| Additional provision for loan losses | | 2,250 |
| Additional provision acquired in acquisition of Falcon Financial | | 2,190 |
| **Provision for loan losses, March 31, 2005** | $ | 46,876 |

*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 a 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 were converted into the right to receive $7.50 per share, without interest and the Company acquired 100.00% ownership of Falcon Financial.

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 | $ | 113,696 |

The purchase of Falcon Financial was accounted for as a business combination, and therefore the Company applied the principles of SFAS No. 141 and SFAS No. 142 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. In addition, the acquisition resulted in approximately $7.7 million of goodwill that will be valued annually for impairment as required by SFAS No. 142.

**Note 5—Corporate Tenant Lease Assets**

During the three months ended March 31, 2005 and 2004, respectively, the Company acquired an aggregate of approximately $108.0 million and $302.5 million in CTL assets and, for the quarter ended March 31, 2004, the Company sold one CTL asset for net proceeds of approximately $2.8 million. As of March 31, 2005 and December 31, 2004, the Company had unamortized purchase related intangible assets of approximately $40.6 million and $41.2 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, 2005 | | December 31, 2004 |
|---|---|---|---|---|
| Facilities and improvements | $ | 2,534,765 | $ | 2,431,649 |
| Land and land improvements | | 683,128 | | 672,238 |
| Less: accumulated depreciation | | (243,255) | | (226,845) |
| Corporate tenant lease assets, net | $ | 2,974,638 | $ | 2,877,042 |

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, 2005 and 2004. 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, 2005 and 2004 were approximately $6.4 million, and $7.3 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 two existing customers which could require the Company to fund and to construct up to 161,000 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.

In addition, the Company has $32.8 million of non-discretionary unfunded commitments related to two existing customers. These commitments generally fall into two categories: (1) pre-approved capital improvement projects; and (2) new or additional construction costs. Currently, the Company has committed $18.1 million in pre-approved capital improvement projects and $14.7 million in new construction costs. Upon funding, the Company would receive additional operating lease income from the customer.

On February 25, 2004, the Company sold one CTL asset for net proceeds of approximately $2.8 million and realized a gain of approximately $136,000.

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 one joint venture investment is included in "Equity in earnings (loss) from joint ventures" on the Company's Consolidated Statements of Operations.

At March 31, 2005, the Company had a 50.00% 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, 2005, the venture held one facility. The Company's investment in this joint venture at March 31, 2005 was $5.5 million. The joint venture's carrying value for the one facility owned at March 31, 2005 was $17.8 million. The joint venture had total assets of $19.6 million and total liabilities of $5,700 as of March 31, 2005 and a net loss of $(127,000) for the three months ended March 31, 2005. The Company accounts for this investment under the equity method because the Company's joint venture partner has certain participating rights giving them shared control over the venture.

On November 23, 2004, the Company acquired the remaining 80.00% share of its joint venture partner's interest in the ACRE Simon, LLC ("ACRE") joint venture. The total net purchase price was $40.1 million of which $14.6 million was paid in cash and $25.5 million reflected the assumption of the joint venture partner's share of the debt of the partnership. The Company now owns 100.00% of this joint venture and therefore, as of November 23, 2004, consolidates it for financial statement purposes.

On September 27, 2004, CTC Associates I L.P., a wholly-owned subsidiary of the Company's CTC joint venture, sold its interest in five buildings to a third party investor and the mortgage lender accepted the proceeds in full satisfaction of the obligation. This transaction resulted in a net loss of approximately $950,000 allocable to the Company.

On March 31, 2004, the Company began accounting for its 44.70% interest in TriNet Sunnyvale Partners, L.P. ("Sunnyvale") as a VIE (see Note 3) 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. Therefore, the Company consolidates this partnership for financial statement reporting purposes. Prior to its consolidation, the Company accounted for this joint venture under the equity method for financial statement reporting 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.

On March 30, 2004, CTC Associates II L.P., a wholly-owned subsidiary of the Company's CTC joint venture, conveyed its interest in two buildings and the related property to the mortgage lender in exchange for satisfaction of the entity's obligations of the related loan. Prior to the conveyance of the buildings, early lease terminations resulted in one-time income allocable to the Company of approximately $3.5 million during the first quarter of 2004.

**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.

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

As discussed above, on March 31, 2004, the Company began accounting for its 44.70% interest in the Sunnyvale joint venture as a VIE and therefore 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.

On September 29, 2003 the Company acquired a 96.00% interest in iStar Harborside LLC, an infinite life partnership, with the external partner holding the remaining 4.00% interest. 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.

The Company also holds a 98.00% interest in TriNet Property Partners, L.P with the external partners holding the remaining 2.00% interest. As of August 1999, the external partners have the option to convert

their partnership interest into cash; however, the Company may elect to deliver 72,819 shares of Common Stock in lieu of cash. 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.

**Note 7—Other Investments**

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

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| Timber and timberlands, net of accumulated depletion | $ 115,687 | $ — |
| CTL intangibles, net of accumulated amortization (see Note 3) | 40,565 | 41,247 |
| Investments—other | 21,693 | 18,446 |
| Marketable securities | 8,223 | 9,494 |
| Prepaid expenses and other receivables | 6,099 | 5,905 |
| Other investments | $ 192,267 | $ 75,092 |

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 98.63% by iStar Timberland Investments LLC, a wholly-owned subsidiary of the Company, and 1.37% by T-Star Investor Partners, LLC, an entity owned and controlled by two individuals 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, 2005, the venture held approximately 234,000 acres of timberland located in the northeast subject to a long-term supply agreement with the seller. The venture's carrying value of the timber and timberlands at March 31, 2005 was $115.7 million. Net income for the venture is reflected in "Other income" on the Company's Consolidated Statements of Operations.

**Note 8—Other Assets and Other Liabilities**

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

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| Deferred financing fees, net of amortization | $ 58,820 | $ 63,169 |
| Leasing costs, net of amortization | 9,992 | 9,946 |
| Deposits | 5,318 | 7,332 |
| Corporate furniture, fixtures and equipment | 3,951 | 3,523 |
| Interest rate protection agreements | 2,827 | 3,168 |
| Other assets | 11,051 | 13,398 |
| Deferred expenses and other assets | $ 91,959 | $ 100,536 |

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

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| Accrued interest payable | $ 34,199 | $ 37,709 |
| Security deposits from customers | 23,027 | 22,919 |
| Accrued expenses | 12,152 | 21,317 |
| Unearned operating lease income | 19,220 | 19,776 |
| Interest rate protection agreements | 39,081 | 19,458 |
| Property taxes payable | 5,090 | 5,415 |
| Other liabilities | 11,358 | 13,481 |
| Accounts payable, accrued expenses and other liabilities | $ 144,127 | $ 140,075 |

### Note 9—Debt Obligations

As of March 31, 2005 and December 31, 2004, the Company has debt obligations under various arrangements with financial institutions as follows (in thousands):

| | Maximum Amount Available | Carrying Value as of March 31, 2005 | Carrying Value as of December 31, 2004 | Stated Interest Rates(1) | Scheduled Maturity Date |
|---|---|---|---|---|---|
| **Secured revolving credit facilities:** | | | | | |
| Line of credit | $ — | $ — | $ — | LIBOR + 1.50% — 2.05% | March 2005(2) |
| Line of credit | 700,000 | 17,224 | 67,775 | LIBOR + 1.40% — 2.15% | January 2007(3) |
| Line of credit | 350,000 | 10,811 | 10,811 | LIBOR + 1.50% — 2.25% | August 2006(3) |
| Line of credit | 500,000 | — | — | LIBOR + 1.50% — 2.25% | September 2005 |
| **Unsecured revolving credit facilities:** | | | | | |
| Line of credit | 1,250,000 | 613,000 | 840,000 | LIBOR + 0.875% | April 2008(4) |
| Total revolving credit facilities | $ 2,800,000 | $ 641,035 | $ 918,586 | | |
| **Secured term loans:** | | | | | |
| Secured by CTL asset | | 59,983 | 60,180 | 6.41% | January 2013 |
| Secured by CTL asset | | 76,339 | 76,670 | 6.55% | December 2005 |
| Secured by CTL asset | | 135,441 | 136,512 | 7.44% | April 2009 |
| Secured by CTL asset | | 135,000 | 135,000 | LIBOR + 1.75% | October 2008 |
| Secured by CTL assets | | 147,852 | 148,600 | 6.80% — 8.80% | Various through 2026 |
| Secured by corporate bond investments | | 132,717 | 129,446 | LIBOR + 1.05% — 1.50% | January 2006 |
| Total term loans | | 687,332 | 686,408 | | |
| Less: net debt premium | | 6,969 | 7,065 | | |
| Total secured term loans | | 694,301 | 693,473 | | |
| **iStar Asset Receivables secured notes:** | | | | | |
| STARs Series 2002-1: | | | | | |
| Class A2 | | 121,633 | 202,052 | LIBOR + 0.38% | December 2009(5) |
| Class B | | 39,955 | 39,955 | LIBOR + 0.65% | April 2011(5) |
| Class C | | 26,637 | 26,637 | LIBOR + 0.75% | May 2011(5) |
| Class D | | 21,310 | 21,310 | LIBOR + 0.85% | January 2012(5) |
| Class E | | 42,619 | 42,619 | LIBOR + 1.235% | January 2012(5) |
| Class F | | 26,637 | 26,637 | LIBOR + 1.335% | January 2012(5) |
| Class G | | 21,309 | 21,309 | LIBOR + 1.435% | January 2012(5) |
| Class H | | 26,637 | 26,637 | 6.35% | January 2012(5) |
| Class J | | 26,637 | 26,637 | 6.35% | May 2012(5) |
| Class K | | 26,637 | 26,637 | 6.35% | May 2012(5) |
| Total STARs Series 2002-1 | | 380,011 | 460,430 | | |
| Less: debt discount | | (3,609) | (3,734) | | |
| STARs Series 2003-1: | | | | | |
| Class A1 | | 106,893 | 113,309 | LIBOR + 0.25% | October 2005(6) |
| Class A2 | | 225,227 | 225,227 | LIBOR +0.35% | August 2010(6) |
| Class B | | 16,744 | 16,744 | LIBOR + 0.55% | July 2011(6) |
| Class C | | 18,418 | 18,418 | LIBOR + 0.65% | April 2012(6) |
| Class D | | 11,720 | 11,720 | LIBOR + 0.75% | October 2012(6) |
| Class E | | 13,395 | 13,395 | LIBOR + 1.05% | May 2013(6) |
| Class F | | 13,395 | 13,395 | LIBOR + 1.10% | June 2013(6) |
| Class G | | 11,720 | 11,720 | LIBOR + 1.25% | June 2013(6) |
| Class H | | 11,721 | 11,721 | 4.97% | June 2013(6) |
| Class J | | 13,394 | 13,394 | 5.07% | June 2013(6) |
| Class K | | 23,441 | 23,441 | 5.56% | June 2013(6) |
| Total STARS Series 2003-1 | | 466,068 | 472,484 | | |
| Total iStar Asset Receivables secured notes | | 842,470 | 929,180 | | |

| | | | | |
|---|---|---|---|---|
| **Unsecured notes:** | | | | |
| LIBOR + 0.39% Senior Notes(7) | 400,000 | — | LIBOR + 0.39% | March 2008 |
| 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(7) | 700,000 | — | 5.15% | March 2012 |
| 5.70% Senior Notes(8) | 367,022 | 250,000 | 5.70% | March 2014 |
| 6.00% Senior Notes | 350,000 | 350,000 | 6.00% | December 2010 |
| 6.50% Senior Notes | 150,000 | 150,000 | 6.50% | December 2013 |
| 7.00% Senior Notes | 185,000 | 185,000 | 7.00% | March 2008 |
| 7.70% Notes(8)(9) | 47 | 100,000 | 7.70% | July 2017 |
| 7.95% Notes(8)(9) | 50,000 | 50,000 | 7.95% | May 2006 |
| 8.75% Notes | 240,000 | 240,000 | 8.75% | August 2008 |
| Total unsecured notes | 3,242,069 | 2,125,000 | | |
| Less: debt discount | (79,874) | (56,913) | | |
| Plus: impact of pay-floating swap agreements(see Note 11) | (23,374) | (3,652) | | |
| Total unsecured notes | 3,138,821 | 2,064,435 | | |
| **Total debt obligations** | $ 5,316,627 | $ 4,605,674 | | |

**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, 2005 was 2.87%. However, some variable-rate debt obligations are based on 90-day LIBOR and reprice every 3 months. The 90-day LIBOR rate on March 31, 2005 was 3.12%.

(2) On March 12, 2005, this line matured.

(3) Maturity date reflects a one-year "term-out" extension at the Company's option.

(4) Maturity date reflects a one-year extension at the Company's option.

(5) Principal payments on these bonds are a function of the principal repayments on loan or CTL assets which collateralize these obligations. The dates indicated above represent the expected date on which the final payment would occur for such class based on the assumptions that the loans which collateralize the obligations are not voluntarily prepaid, the loans are paid on their effective maturity dates and no extensions of the effective maturity dates of any of the loans are granted. The final maturity date for the underlying indentures is May 28, 2020.

(6) Principal payments on these bonds are a function of the principal repayments on loan or CTL assets which collateralize these obligations. The dates indicated above represent the expected date on which the final payment would occur for such class based on the assumptions that the loans which collateralize the obligations are not voluntarily prepaid, the loans are paid on their effective maturity dates and no extensions of the effective maturity dates of any of the loans are granted. The final maturity date for the underlying indentures is August 28, 2022.

(7) On March 1, 2005, the Company issued $700.0 million of 5.15% Senior Notes due 2012 and $400.0 million of Senior Floating Rate Notes due 2008. The Senior Floating Rate Notes will bear interest at three-month LIBOR + 0.39%.

(8) On March 1, 2005, the 7.70% Notes were exchanged for 5.70% Series B Senior Notes due 2014. 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 existing 5.70% Series B Senior Notes due 2014 issued on March 9, 2004. 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 TriNet. As a result of the amendment, the Company merged TriNet into the Company and the Company became the obligor on the Notes (see Note 1).

(9) These obligations were assumed as part of the acquisition of TriNet. As part of the accounting for the purchase, these fixed-rate obligations were considered to have stated interest rates which were below the then-prevailing market rates at which TriNet could issue new debt obligations and, accordingly, the Company ascribed a market discount to each obligation. Such discounts are amortized as an adjustment to interest expense using the effective interest method over the related term of the obligations. As adjusted, the effective annual interest rates on these obligations were 9.51% and 9.04% for the 7.70% Notes and 7.95% Notes, respectively.

The Company's primary source of short-term funds is a $1,250.0 million unsecured revolving credit facility. As of March 31, 2005, there is approximately $629.4 million available to draw under the facility. In addition, the Company has three secured revolving credit facilities of which availability is based on percentage borrowing base calculations. Certain debt obligations, including the unsecured revolving credit facility, the secured lines of credit and the Company's publicly-held debt securities, 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 some 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, 2005, 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, 2005, the Company issued $700.0 million aggregate principal amount of fixed-rate Senior Notes bearing interest at an annual rate of 5.15% and maturing in 2012 and $400.0 million of variable-rate Senior Notes bearing interest at an annual rate of three-month LIBOR + 0.39% and maturing in 2008. The proceeds from these transactions were used to repay outstanding balances on the Company's revolving credit facilities.

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 TriNet. As a result of the amendment, the Company merged TriNet into the Company, the Company became the obligor on the Notes and TriNet no longer exists (see Note 1).

During the 12 months ended December 31, 2004, the Company issued $850.0 million aggregate principal amount of fixed-rate Senior Notes bearing interest at annual rates ranging from 4.875% to 5.70% and maturing between 2009 and 2014, and $200.0 million of variable-rate Senior Notes bearing interest at an annual rate of three-month LIBOR + 1.25% and maturing in 2007. The Company primarily used the proceeds from the issuances of securities described above to repay secured indebtedness as it migrates its balance sheet towards more unsecured debt and to refinance higher yielding obligations.

During the 12 months ended December 31, 2004, the Company redeemed approximately $110.0 million aggregate principal amount of its outstanding 8.75% Senior Notes due 2008 at a price of 108.75% of par. In connection with this redemption, the Company recognized a charge to income of $11.5 million included in "Loss on early extinguishment of debt" on the Company's Consolidated Statements of Operations.

*Unsecured/Secured Credit Facilities Activity*—On March 12, 2005 one of the Company's secured revolving credit facilities with a maximum amount available to draw of $250.0 million matured.

On July 20, 2004, one of the Company's $500.0 million secured facilities was amended to reduce the maximum amount available to $350.0 million, to extend the final maturity to August 2005 and to reduce the stated interest rate on first mortgage collateral to LIBOR + 1.50%.

On April 19, 2004, the Company completed a new $850.0 million unsecured revolving credit facility with 19 banks and financial institutions. The new facility has a three-year initial term with a one-year extension at the Company's option. The facility bears interest, based upon the Company's current credit ratings, at a rate of LIBOR + 0.875% and a 17.5 basis point annual facility fee decreased from LIBOR + 1.00% and 25 basis points, respectively, due to an upgrade in the Company's senior unsecured debt rating to investment grade by S&P. On December 17, 2004, the commitment on this facility was increased to $1,250.0 million and the accordion feature was amended to permit an increase in the facility to $1.5 billion in the future if necessary. This new facility replaced a $300.0 million unsecured credit facility with a scheduled maturity of July 2004.

On March 12, 2004 one of the Company's $700.0 million secured facilities was amended to reduce the maximum amount available to $250.0 million, to shorten the maturity to March 2005 and to reduce the stated interest rate on first mortgages and CTL assets to LIBOR + 1.50% and on subordinate and mezzanine lending investments to LIBOR + 2.05%

On January 13, 2004 the Company closed $200.0 million of term financing that is secured by certain corporate bond investments and other lending securities. A number of these investments were previously financed under existing credit facilities. The new facility bears interest at LIBOR + 1.05% — 1.50% and has a final maturity date of January 2006.

*Other Financing Activity*—During the 12 months ended December 31, 2004, the Company purchased the remaining interest in the ACRE Simon joint venture from the former ACRE Simon external member for $40.1 million. Upon purchase of the interest, the ACRE Simon joint venture became fully consolidated for accounting purposes and approximately $31.8 million of secured term debt is reflected on the Company's Consolidated Balance Sheets. The term loans bear interest at rates of 7.61% to 8.43% and mature between 2005 and 2011. In addition, the Company repaid a total of $314.6 million in term loan financing, $9.8 million of which was part of the ACRE Simon acquisition.

During the three months ended March 31, 2005 and 2004 the Company incurred an aggregate net loss on early extinguishment of debt of approximately $0 and $12.2 million, respectively, as a result of the early retirement of certain debt obligations.

As of March 31, 2005, future expected/scheduled maturities of outstanding long-term debt obligations are as follows (in thousands)(1):

| | | |
|---|---|---|
| 2005 (remaining nine months) | $ | 183,231 |
| 2006 | | 193,528 |
| 2007 | | 219,906 |
| 2008 | | 1,573,000 |
| 2009 | | 624,679 |
| Thereafter | | 2,622,171 |
| Total principal maturities | | 5,416,515 |
| Net unamortized debt discounts | | (76,514) |
| Impact of pay-floating swap agreement | | (23,374) |
| Total debt obligations | $ | 5,316,627 |

**Explanatory Note:**

(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 February 2004, the Company redeemed 2.0 million outstanding shares of its 9.375% Series B Cumulative Redeemable Preferred Stock and 1.3 million outstanding shares of its 9.20% Series C Cumulative Redeemable Preferred Stock. The redemption price was $25.00 per share, plus accrued and unpaid dividends to the redemption date of $0.46 and $0.45 for the Series B and C Preferred Stock, respectively. In connection with this redemption, the Company recognized a charge to net income allocable to common shareholders and HPU holders of approximately $9.0 million included in "Preferred dividend requirements" on the Company's Consolidated Statements of Operations.

In February 2004, the Company completed an underwritten public offering of 5.0 million shares of its 7.50% Series I Cumulative Redeemable Preferred Stock, having a liquidation preference of $25.00 per share and a redemption date beginning March 1, 2009. The Company used the net proceeds from the offering of $121.0 million to redeem approximately $110.0 million aggregate principal amount of its outstanding 8.75% Senior Notes due 2008 at a price of 108.75% of their principal amount plus accrued interest to the redemption date.

In January 2004, the Company completed a private placement of 3.3 million shares of its Series H Variable Rate Cumulative Redeemable Preferred Stock, having a liquidation preference of $25.00 per share and redeemable at par at any time from the purchase date through the first four months. The Company specifically used the proceeds from this offering to redeem the Series B and C Cumulative Redeemable Preferred Stock on February 23, 2004. On January 27, 2004, the Company redeemed all Series H Preferred Stock using excess liquidity from its secured credit facilities.

On December 15, 1998, the Company issued warrants to acquire 6.1 million shares of Common Stock, as adjusted for dilution, at $34.35 per share. The warrants were exercisable on or after December 15, 1999 at a price of $34.35 per share with an expiration date of December 15, 2005. On April 8, 2004, all 6.1 million warrants were exercised on a net basis and the Company subsequently issued approximately 1.1 million shares.

*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, 2005 and 2004, the Company issued a total of

approximately 11,500 and 376,000 shares of its Common Stock, respectively, through the direct stock purchase component of the plan. Net proceeds during the three months ended March 31, 2005 and 2004, were approximately $481,000 and $15.5 million, respectively. There are approximately 3.1 million shares available for issuance under the plan as of March 31, 2005.

*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, 2005, 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.

**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 speeds, or 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 and the valuation of CTL facilities held by the Company.

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

The Company has entered into the following cash flow and fair value hedges that are outstanding as of March 31, 2005. All hedges are currently effective and no ineffectiveness exists. The net value (liability) associated with these hedges is reflected on the Company's Consolidated Balance Sheets (in thousands).

| Type of Hedge | Notional Amount | Strike Price or Swap Rate | Trade Date | Maturity Date | Estimated Value at March 31, 2005 |
|---|---|---|---|---|---|
| Pay-Fixed Swap | $ 125,000 | 2.885% | 1/23/03 | 6/25/06 | $ 1,393 |
| Pay-Fixed Swap | 125,000 | 2.838% | 2/11/03 | 6/25/06 | 1,466 |
| Pay-Floating Swap | 200,000 | 4.381% | 12/17/03 | 12/15/10 | (4,375) |
| Pay-Floating Swap | 105,000 | 3.678% | 1/15/04 | 1/15/09 | (3,805) |
| Pay-Floating Swap | 100,000 | 4.345% | 12/17/03 | 12/15/10 | (2,377) |
| Pay-Floating Swap | 100,000 | 3.878% | 11/27/02 | 8/15/08 | (1,603) |
| Pay-Floating Swap | 100,000 | 3.713% | 1/15/04 | 1/15/09 | (3,495) |
| Pay-Floating Swap | 100,000 | 3.686% | 1/15/04 | 1/15/09 | (3,592) |
| Pay-Floating Swap | 50,000 | 3.810% | 11/27/02 | 8/15/08 | (911) |
| Pay-Floating Swap | 50,000 | 4.290% | 12/17/03 | 12/15/10 | (1,334) |
| Pay-Floating Swap | 45,000 | 3.684% | 1/15/04 | 1/15/09 | (1,621) |
| LIBOR Cap | 345,000 | 8.000% | 5/22/02 | 5/28/14 | 2,589 |
| LIBOR Cap | 135,000 | 6.000% | 9/29/03 | 10/15/06 | 19 |
| Total Estimated Value | | | | | $ (17,646) |

Between January 1, 2004 and March 31, 2005, the Company also had outstanding the following cash flow hedges that have expired or been settled (in thousands):

| Type of Hedge | Notional Amount | Strike Price or Swap Rate | Trade Date | Maturity Date |
|---|---|---|---|---|
| Pay-Fixed Swap | $ 235,000 | 1.135% | 3/11/04 | 9/15/04 |
| Pay-Fixed Swap | 200,000 | 1.144% | 3/11/04 | 9/15/04 |
| Pay-Fixed Swap | 200,000 | 1.144% | 3/11/04 | 9/15/04 |
| Pay-Fixed Swap | 100,000 | 4.484% | 1/16/04 | 5/1/14 |
| Pay-Fixed Swap | 67,000 | 4.659% | 12/09/04 | 3/31/15 |
| Pay-Fixed Swap | 67,000 | 4.659% | 12/09/04 | 3/31/15 |
| Pay-Fixed Swap | 66,000 | 4.660% | 12/09/04 | 3/31/15 |
| Pay-Fixed Swap | 75,000 | 5.580% | 11/4/99(1) | 12/1/04 |
| Pay-Fixed Swap | 50,000 | 4.502% | 1/16/04 | 5/1/14 |
| Pay-Fixed Swap | 50,000 | 4.500% | 1/16/04 | 5/1/14 |
| LIBOR Cap | 75,000 | 7.750% | 11/4/99(1) | 12/1/04 |
| LIBOR Cap | 35,000 | 7.750% | 11/4/99(1) | 12/1/04 |

**Explanatory Note:**

(1) Acquired in connection with the TriNet Acquisition (see Note 1).

On December 9, 2004, the Company entered into three forward starting swaps all with ten-year terms and rates of 4.659%, 4.659% and 4.660% and notional amounts of $67.0 million, $67.0 million and $66.0 million, respectively, and were used to lock-in swap rates related to a portion of planned future corporate unsecured fixed-rate bond issuances. These three swaps were settled on February 28, 2005 in

connection with the Company's issuance of $700.0 million of seven-year Senior Notes which were priced on February 23, 2005. The proceeds of $1.6 million from the settlement were deemed "ineffective" in accordance with the provisions of SFAS No. 133 and recorded as "Other income" on the Company's Consolidated Statements of Operations.

On March 11, 2004, the Company entered into three pay-fixed interest rate swaps all with six-month terms, rates of 1.135%, 1.144% and 1.144% and notional amounts of $235.0 million, $200.0 million and $200.0 million, respectively. These three swaps matured on September 15, 2004.

On January 16, 2004, the Company entered into three forward starting swaps all with ten-year terms and rates of 4.484%, 4.502% and 4.500% and notional amounts of $100.0 million, $50.0 million and $50.0 million, respectively, and were used to lock-in swap rates related to a portion of planned future corporate unsecured fixed-rate bond issuances. These three swaps were settled in connection with the Company's issuance of $250.0 million of ten-year Senior Notes in March 2004.

On January 15, 2004, in connection with the Company's fixed-rate corporate bonds, the Company entered into four pay-floating interest rate swaps struck at 3.678%, 3.713%, 3.686% and 3.684% with notional amounts of $105.0 million, $100.0 million, $100.0 million and $45.0 million, respectively, and maturing on January 15, 2009. The Company pays six-month LIBOR and receives the stated fixed rate in return. These swaps mitigate the risk of changes in the fair value of $350.0 million of five-year Senior Notes attributable to changes in LIBOR. For accounting purposes, the difference between the fixed rate received and the LIBOR rate paid on the notional amount of the swap is recorded as "Interest expense" on the Company's Consolidated Statements of Operations. In addition, the Company adjusts the value of the swap to its fair value and adjusts the carrying amount of the hedged liability by an offsetting amount on a quarterly basis.

In September 2003, the Company entered into a $135.0 million cap with a rate of 6.00% to hedge the Company's current outstanding floating-rate debt. This cap has a three-year term. Further, the Company entered into two $125.0 million forward starting swaps in the first quarter 2003 that became effective in June 2003. These forward starting swaps replaced the two $125.0 million pay-fixed swaps that expired in June 2003. The two new pay-fixed swaps have a three-year term and expire on June 25, 2006.

In addition, in connection with a portion of the Company's fixed-rate corporate bonds, the Company entered into three pay-floating interest rate swaps in December 2003 struck at 4.381%, 4.345% and 4.290% with notional amounts of $200.0 million, $100.0 million and $50.0 million, respectively, and maturing on December 15, 2010 and also entered into two pay-floating interest rate swaps in November 2002 struck at 3.8775% and 3.810% with notional amounts of $100.0 million and $50.0 million, respectively, and maturing on August 15, 2008. The Company pays six-month LIBOR on the swaps entered into in December 2003 and one-month LIBOR on the swaps entered into in November 2002 and receives the stated fixed rate in return. These swaps mitigate the risk of changes in the fair value of $350.0 million of seven-year Senior Notes and $150.0 million of ten-year Senior Notes attributable to changes in LIBOR. For accounting purposes, the difference between the fixed rate received and the LIBOR rate paid on the notional amount of the swap is recorded as "Interest expense" on the Company's Consolidated Statements of Operations. In addition, the Company adjusts the value of the swap to its fair value and adjusts the carrying amount of the hedged liability by an offsetting amount on a quarterly basis.

In connection with STARs, Series 2003-1 in May 2003, the Company entered into a LIBOR interest rate cap struck at 6.95% in the notional amount of $270.6 million, and simultaneously sold a LIBOR interest rate cap with the same terms. Since these instruments do not change the Company's net interest

rate risk exposure, they do not qualify as hedges and changes in their respective values are charged to earnings. As the terms of these arrangements are substantially the same, the effects of a revaluation of these two instruments substantially offset one another.

In connection with STARs, Series 2002-1 in May 2002, the Company entered into a LIBOR interest rate cap struck at 8.00% in the notional amount of $345.0 million. The Company utilizes the provisions of SFAS No. 133 with respect to such instruments. SFAS No. 133 provides that the up-front fees paid on option-based products such as caps should be expensed into earnings based on the allocation of the premium to the affected periods as if the agreement were a series of "caplets." These allocated premiums are then reflected as a charge to income (as part of interest expense) in the affected period. On May 28, 2002, in connection with the STARs, Series 2002-1 transaction, the Company paid a premium of $13.7 million for this interest rate cap. Using the "caplet" methodology discussed above, amortization of the cap premium is dependent upon the actual value of the caplets at inception.

**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 significant concentrations (i.e., greater than 10.00%) as of March 31, 2005 in California (17.93%). As of March 31, 2005, the Company's investments also contain greater than 10.00% concentrations in the following asset types: office-CTL (21.28%), industrial/R&D (15.18%), office–lending (13.51%) and entertainment/leisure (10.21%).

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, 2005, a total of approximately 10.1 million shares of Common Stock were available for awards under the Plan, of which options to purchase approximately 1.3 million shares of

Common Stock were outstanding, 69,749 shares of restricted stock units were outstanding, 236,167 shares subject to transfer restrictions were outstanding and 108,980 restricted share awards were outstanding. A total of approximately 950,000 shares remain available for awards under the Plan as of March 31, 2005.

Changes in options outstanding during three months ended March 31, 2005 are as follows:

| | Number of Shares | | | Weighted Average Strike Price |
|---|---|---|---|---|
| | Employees | Non-Employee Directors | Other | |
| **Options Outstanding, December 31, 2004** | 909,253 | 103,794 | 307,564 | $ 17.99 |
| Granted in 2005 | — | — | — | $ 0.00 |
| Exercised in 2005 | (29,261) | — | — | $ 20.70 |
| Forfeited in 2005 | (350) | — | — | $ 18.88 |
| **Options outstanding, March 31, 2005** | 879,642 | 103,794 | 307,564 | $ 17.93 |

The following table summarizes information concerning outstanding and exercisable options as of March 31, 2005:

| | OPTIONS OUTSTANDING | | OPTIONS EXERCISABLE |
|---|---|---|---|
| Exercise Price | Options Outstanding | Remaining Contractual Life | Currently Exercisable |
| $ 14.72 | 486,214 | 3.87 | 481,048 |
| $ 16.88 | 405,766 | 4.76 | 405,766 |
| $ 17.38 | 16,667 | 4.96 | 16,667 |
| $ 19.69 | 227,867 | 5.76 | 227,867 |
| $ 24.13 | 6,900 | 0.17 | 6,900 |
| $ 24.94 | 40,000 | 6.13 | 40,000 |
| $ 26.09 | 13,800 | 1.16 | 13,800 |
| $ 26.97 | 2,000 | 6.21 | 2,000 |
| $ 27.00 | 25,000 | 6.24 | 25,000 |
| $ 28.54 | 3,396 | 3.09 | 3,396 |
| $ 29.82 | 58,296 | 7.16 | 58,296 |
| $ 55.39 | 5,094 | 4.17 | 5,094 |
| | 1,291,000 | 4.72 | 1,285,834 |

In the third quarter 2002 (with retroactive application to the beginning of the calendar year), the Company adopted the fair value method for 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" and revised by SFAS No. 123R, "Share-Based Payment." 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.

If the Company's compensation costs had been determined using the fair value method of accounting for stock options issued under the Plan to employees and directors prescribed by SFAS No. 123R prior to

2002, the Company's net income for the fiscal years ended March 31, 2005 and 2004, would have been reduced on a pro forma basis by approximately $0 and $0, respectively.

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

During the three months ended March 31, 2005, the Company granted 35,330 restricted stock units to employees that vest proportionately over three years on the anniversary date of the initial grant of which 34,555 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 23,638 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 11,390 remain outstanding.

During the year ended December 31, 2002, the Company granted 199,350 restricted stock units to employees. Of these, 44,350 will vest proportionately over three years on the anniversary date of the initial grant. Of the 44,350 units granted, 166 remain outstanding as of March 31, 2005. The balance of 155,000 restricted stock units granted to several employees vested on March 31, 2004 due to the satisfaction of the following circumstances: (1) the employee remained employed until that date; and (2) the 60-day average closing price of the Company's Common Stock equaled or exceeded a set floor price as of such date. The market price of the stock was $42.30 on March 31, 2004; therefore, the Company incurred a one-time charge to earnings of approximately $6.7 million (the fair market value of the 155,000 shares at $42.30 per share plus the Company's share of taxes). During the year ended December 31, 2002, the Company also granted 208,980 restricted shares to its Chief Financial Officer (see detailed information below).

For accounting purposes, the Company measures compensation costs for these shares, not including the 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—stock-based compensation expense."

During the year ended December 31, 2004, the Company entered into a three-year employment agreement with its new 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 ending December 31, 2005, he will receive a target bonus of $650,000, subject to annual review for upward adjustment. For the year ended 2004, the President received a target bonus of $650,000, but prorated to reflect the portion of the year during which he was employed. In addition, the President purchased a 20.00% interest in both the Company's 2005 and 2006 high performance unit programs for directors and executive officers. The President will also have the option to buy 25.00%, 30.00% and 35.00% in the Company's 2007, 2008, and 2009 high performance unit programs for directors and executive officers. As of March 31, 2005, the President contributed approximately $288,000, $101,000 and $91,000 to the 2005, 2006 and 2007 high performance unit programs for directors and officers. The President shall also receive an allocation of 25.00% of the interests in the Company's proposed New Business Crossed Incentive

Compensation Program, which is a program that is intended to provide incentive compensation based upon the performance of new business lines to be identified by the Company.

During the year ended December 31, 2002, the Company entered into a three-year employment agreement with its new Chief Financial Officer. Under the agreement, the Chief Financial Officer receives an annual base salary of $225,000. She may also receive a bonus, which is targeted to be $325,000, subject to an annual review for upward or downward adjustment. In addition, the Company granted the Chief Financial Officer 108,980 contingently vested restricted stock awards. These awards become vested on December 31, 2005 if the executive's employment with the Company has not terminated before such date. Dividends are paid on the restricted shares 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. For accounting purposes, the Company is currently taking a total charge of approximately $3.0 million related to the restricted stock awards, which is being 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—stock-based compensation."

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 are 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 each year increases by at least 15.00%, in which case the sale restrictions on 25.00% 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—stock-based compensation expense" 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 80.00% and 75.00% interest in the Company's 2006 and 2007 high performance unit programs for directors and executive officers, respectively. These performance programs were approved by the Company's shareholders in 2003 and 2004 and are described in detail in the Company's 2003 and 2004 annual proxy statement. The purchase price of $286,000 and

$274,000 for the 2006 and 2007 plan, respectively, was paid by the Chief Executive Officer and 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 annual proxy statement.

The February 2004 employment agreement with the Company's Chief Executive Officer replaced a prior employment agreement dated March 30, 2001 that expired at the end of its term. The compensation awarded to the Company's Chief Executive Officer under this prior agreement included a grant of 2.0 million unvested phantom shares. The phantom shares vested on a contingent basis in installments of 350,000 shares, 650,000 shares, 600,000 shares and 400,000 shares when the average closing price of the Company's Common Stock achieved performance targets of $25.00, $30.00, $34.00 and $37.00, respectively, which were set at the commencement of the agreement in March 2001. The phantom shares became fully vested at the expiration of the term of the agreement on March 30, 2004. The market price of the Common Stock on March 30, 2004 was $42.40 and the Company incurred a one-time charge to earnings during the three months ended March 31, 2004 of approximately $86.0 million (the fair market value of the 2.0 million shares at $42.40 per share plus the Company's share of taxes).

Upon the phantom share units becoming fully vested, the Company delivered to the executive 728,552 shares of Common Stock and $53.9 million of cash, the total of which is equal to the fair market value of the 2.0 million shares of Common Stock multiplied by the closing stock price of $42.40 on March 30, 2004. Prior to March 30, 2004, the executive received dividends on shares that were contingently vested and were not forfeited under the terms of the agreement, when the Company declared and paid dividends on its Common Stock. Because no shares had been issued prior to March 30, 2004, dividends received on these phantom shares were reflected as compensation expense by the Company. For accounting purposes, this arrangement was treated as a contingent, variable plan and no additional compensation expense was recognized until the shares became irrevocably vested on March 30, 2004, at which time the Company reflected a charge equal to the fair value of the shares irrevocably vested.

Certain affiliates of Starwood Opportunity Fund IV, LP ("SOFI IV") and the Company's Chief Executive Officer previously agreed to reimburse the Company for the value of restricted shares awarded to the former President in excess of 350,000 shares, net of tax benefits realized by the Company or its shareholders on account of compensation expense deductions. The reimbursement obligation arose once the restricted share award became fully vested on September 30, 2002. The Company's Chief Executive Officer fulfilled his reimbursement obligation through the delivery of shares of the Company's Common Stock owned by him. As of March 31, 2004, the SOFI IV affiliates fulfilled their obligation through the payment of approximately $2.4 million in cash. These reimbursement payments are reflected as "Additional paid-in capital" on the Company's Consolidated Balance Sheets, and not as an offset to the charge referenced above.

**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.

Initially, there were three plans within the program: the 2002 plan, the 2003 plan, and the 2004 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 three plans, the Company's performance is measured over a one-, two-, or three-year valuation period, beginning on January 1, 2002 and ending on December 31, 2002, December 31, 2003 and December 31, 2004, respectively. 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 nominal value unless the total rate of shareholder return for the relevant valuation period exceeds the greater of: (1) 10.00%, 20.00%, or 30.00% for the 2002 plan, the 2003 plan and the 2004 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: 7.50% of the Company's excess total rate of return (over the higher of the two threshold performance levels) multiplied by the weighted average 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 1.00% 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 set on June 25, 2002 and were approximately $2.8 million, $1.8 million and $1.4 million for the 2002, 2003 and 2004 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 10.00% 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 pays 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 Company had the right, but not the obligation, to repurchase at cost 50.00% of the interests earned by an employee in the 2002 plan if the employee breached certain non-competition, non-solicitation and confidentiality covenants through January 1, 2005.

The total shareholder return for the valuation period under the 2003 plan was 78.29%, which exceeded the fixed performance threshold of 20.00% and the industry index return of 24.66%. The plan was fully funded and was limited to 1.00% 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 pays 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 30.00% and the industry index return of 55.05%. The plan was fully funded and was limited to 1.00% 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 will begin with the first quarter 2005 dividend. The Company will pay 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.

A new 2005 plan has been established with a three-year valuation period ending December 31, 2005. Awards under the 2005 plan were approved on January 14, 2003. The 2005 plan has 5,000 shares of High Performance Common Stock with an aggregate initial purchase price of $617,000. As of March 31, 2005 the Company has received a net contribution of $586,000 under this 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 2005 plan are substantially the same as the prior plans.

A new 2006 plan has been established with a three-year valuation period ending December 31, 2006. Awards under the 2006 plan were approved on January 23, 2004. The 2006 plan had 5,000 shares of High Performance Common Stock with an aggregate initial purchase price of $715,000. As of March 31, 2005 the Company has received a net contribution of $687,000 under this 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 are substantially the same as the prior plans.

A new 2007 plan has been established with a three-year valuation period ending December 31, 2007. Awards under the 2007 plan were approved in January 2005. The 2007 plan had 5,000 shares of High Performance Common Stock with an aggregate initial purchase price of $643,000. As of March 31, 2005 the Company has received a net contribution of $580,000 under this 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 2007 plan are substantially the same as the prior plans.

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 $368,000 and $279,000 for the three months ended March 31, 2005 and 2004, respectively.

**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, 2005 and 2004, respectively (in thousands, except per share data):

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2005** | **2004** |
| Numerator: | | |
| Income (loss) from continuing operations | $ 70,319 | $ (40,991) |
| Preferred dividend requirements | (10,580) | (19,600) |
| Income (loss) allocable to common shareholders and HPU holders before income from discontinued operations and gain from discontinued operations(1) | 59,739 | (60,591) |
| Income from discontinued operations | — | 5,739 |
| Gain from discontinued operations | — | 136 |
| Net income (loss) allocable to common shareholders and HPU holders(1) | $ 59,739 | $ (54,716) |
| Denominator: | | |
| Weighted average common shares outstanding for basic earnings per common share | 111,469 | 107,468 |
| Add: effect of assumed shares issued under treasury stock method for stock options, restricted shares and warrants | 907 | — |
| Add: effect of contingent shares | — | — |
| Add: effect of joint venture shares | 298 | — |
| Weighted average common shares outstanding for diluted earnings per common share | 112,674 | 107,468 |

| | 2005 | 2004 |
|---|---|---|
| Basic earnings per common share: | | |
| Income (loss) allocable to common shareholders before income from discontinued operations and gain from discontinued operations(2) | $ 0.52 | $ (0.56) |
| Income from discontinued operations | 0.00 | 0.06 |
| Gain from discontinued operations | 0.00 | 0.00 |
| Net income (loss) allocable to common shareholders(2) | $ 0.52 | $ (0.50) |
| Diluted earnings per common share: | | |
| Income (loss) allocable to common shareholders before income from discontinued operations and gain from discontinued operations(3) | $ 0.52 | $ (0.56) |
| Income from discontinued operations | 0.00 | 0.06 |
| Gain from discontinued operations | 0.00 | 0.00 |
| Net income (loss) allocable to common shareholders(3) | $ 0.52 | $ (0.50) |

**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, 2005 and 2004, excludes $1,483 and $(905) of net income (loss) allocable to HPU holders, respectively.

(3) For the three months ended March 31, 2005 and 2004, excludes $1,468 and $(905) of net income (loss) allocable to HPU holders diluted, respectively.

For the three months ended March 31, 2005 and 2004, the following shares were antidilutive (in thousands):

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2005 | 2004 |
| Stock options | 5 | 2,200 |
| Restricted shares | — | 84 |
| Contingent shares | — | 2,000 |
| Warrants | — | 6,100 |
| Joint venure shares | 73 | 371 |

**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 (loss) was $69.1 million and $(40.6) million for the three months ended March 31, 2005 and 2004, 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, | |
|---|---|---|
| | 2005 | 2004 |
| | (In thousands) | |
| Net income (loss) | $ 70,319 | $ (35,116) |
| Other comprehensive income (loss): | | |
| Reclassification of gains/(losses) on securities into earnings upon realization | 17 | (3,897) |
| Reclassification of losses on qualifying cash flow hedges into earnings | (215) | (1,980) |
| Unrealized gains/(losses) on available-for-sale investments | (467) | 2,587 |
| Unrealized losses on cash flow hedges | (567) | (2,174) |
| Comprehensive income (loss) | $ 69,087 | $ (40,580) |

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

As of March 31, 2005 and December 31, 2004, accumulated other comprehensive income (losses) reflected in the Company's shareholders' equity is comprised of the following (in thousands):

| | As of March 31, 2005 | As of December 31, 2004 |
|---|---|---|
| Unrealized gains on available-for-sale investments | $ 4,244 | $ 4,694 |
| Unrealized losses on cash flow hedges | (7,562) | (6,780) |
| Accumulated other comprehensive income (losses) | $ (3,318) | $ (2,086) |

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 90.00% of its taxable income and must distribute 100.00% 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 1, 2005, the Company declared a dividend of approximately $82.5 million or $0.7325 per common share applicable to the three-month period ended March 31, 2005 and payable to shareholders of record and holder of certain share equivalents on April 15, 2005. 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, 2005. There are no dividend arrearages on any of the preferred shares currently outstanding.

In connection with the redemption of the Series H preferred stock on January 27, 2004 the Company paid a dividend of $87,656 representing unpaid dividends of $0.49 per share for the 5 days the preferred stock was outstanding.

In connection with the redemption of the Series B preferred stock on February 23, 2004 the Company paid a final dividend of $920,000 representing unpaid dividends of $0.46 per share for the 70 days from the prior dividend payment on December 15, 2003. Upon redemption, the Company recognized a charge to net income allocable to common shareholders and HPU holders of $5.5 million included in "Preferred dividend requirements" on the Company's Consolidated Statements of Operations.

In connection with the redemption of the Series C preferred stock on February 23, 2004 the Company paid a final dividend of $585,000 representing unpaid dividends of $0.45 per share for the 70 days from the prior dividend payment on December 15, 2003. Upon redemption, the Company recognized a charge to net income allocable to common shareholders and HPU holders of $3.5 million included in "Preferred dividend requirements" on the Company's Consolidated Statements of Operations.

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 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 and 2004 High Performance Unit Program reached their valuation dates on December 31, 2002, 2003 and 2004, 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. 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 will begin 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.

The Company has two reportable segments: Real Estate Lending and Corporate Tenant Leasing. The Company does not have any 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:

| | Real Estate Lending | Corporate Tenant Leasing | Corporate/ Other(1) | Company Total |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Three months ended March 31, 2005:** | | | | |
| Total revenues(2): | $ 100,942 | $ 77,476 | $ 3,080 | $ 181,498 |
| Equity in earnings (loss) from joint ventures | — | (160) | — | (160) |
| Total operating and interest expense(3): | 8,491 | 36,616 | 65,707 | 110,814 |
| Net operating income (loss)(4): | 92,451 | 40,700 | (62,627) | 70,524 |
| **As of March 31, 2005:** | | | | |
| Total long-lived assets(5): | $ 4,311,033 | $ 2,974,638 | N/A | $ 7,285,671 |
| Total assets: | 4,394,167 | 3,169,176 | 434,244 | 7,997,587 |
| **Three months ended March 31, 2004:** | | | | |
| Total revenues(2): | $ 94,213 | $ 66,496 | $ 315 | $ 161,024 |
| Equity in earnings (loss) from joint ventures | — | 6,248 | — | 6,248 |
| Total operating and interest expense(3): | 15,822 | 36,902 | 155,406 | 208,130 |
| Net operating income (loss)(4): | 78,391 | 35,842 | (155,091) | (40,858) |
| **As of December 31, 2004:** | | | | |
| Total long-lived assets(5): | $ 3,946,189 | $ 2,877,042 | N/A | $ 6,823,231 |
| Total assets: | 4,022,729 | 3,068,242 | 129,266 | 7,220,237 |

**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, which is not considered a material separate segment.

(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, general and administrative expense and general and administrative-stock-based compensation is included in Corporate and Other for all periods. Depreciation and amortization of $17.9 million and $14.9 million for the three months ended March 31, 2005 and 2004, respectively, are included in the amounts presented above.

(4) Net operating income (loss) represents income before minority interest, income (loss) 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.

**Note 17—Subsequent Events**

*Capital Transactions*—On April 21, 2005, the Company issued $250.0 million 5.35% Senior Notes due 2010 and $250.0 million 6.50% Senior Notes due 2015. The Company used the proceeds to repay secured and unsecured indebtedness.

*Hedging Transactions*—On April 21, 2005, the Company entered into $250.0 million of pay-floating interest rate swaps at a weighted average rate of 4.44% and maturing in April 2010.

*Acquistion of Substantial Minority Interest in Oak Hill Advisors*—On May 2, 2005, the Company completed its closing on the substantial minority investment in Oak Hill Advisors, a premier asset management firm that focuses on corporate credit-oriented investment strategies for institutional investors. The Company issued $49.0 million of its shares of Common Stock to the selling partners as part of the consideration for this investment.

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

**General**

The Company is in the business of providing custom-tailored financing solutions to high-end private and corporate owners of real estate. Depending upon market conditions and the Company's views about the economy generally and real estate markets specifically, the Company will adjust its investment focus from time to time and emphasize certain products, industries and geographic markets over others.

The Company began its business in 1993 through private investment funds formed to take advantage of the underserved segments of the commercial real estate financing markets and what it felt were a lack of well-capitalized lenders capable of servicing the needs of customers in its markets. In March 1998, these private investment funds contributed their approximately $1.1 billion of assets to the Company's predecessor in exchange for a controlling interest in that public company. In November 1999, the Company acquired TriNet Corporate Realty Trust, Inc. ("TriNet"), which was then the largest publicly-traded company specializing in corporate sale/leaseback financing for office and industrial facilities (the "TriNet Acquisition"). Concurrent with the TriNet Acquisition, the Company also acquired its former external advisor in exchange for shares of its Common Stock and converted its organizational form to a Maryland corporation. The Company's Common Stock began trading on the New York Stock Exchange under the symbol "SFI" in November 1999. In March 2005, in connection with the amendment of certain covenants in the 7.95% TriNet Notes due 2006, the Company merged TriNet into the Company. As of March 31, 2005, TriNet no longer exists.

The Company has experienced significant growth since becoming a public company in 1998, having made a number of strategic acquisitions to complement its organic growth and extending its business franchise. Transaction volume for the fiscal year ended December 31, 2004 was $2.8 billion, compared to $2.2 billion in 2003 and $1.7 billion in 2002. The Company completed 53 financing commitments in 2004, compared to 60 in 2003 and 41 in 2002. During the three months ended March 31, 2005, the Company had $1.2 billion of transaction volume representing 16 financing commitments. Repeat customer business has become a key source of transaction volume for the Company, accounting for approximately 58% of the Company's cumulative volume through March 31, 2005. Based upon feedback from its customers, the Company believes that greater recognition of the Company and its reputation for completing highly structured transactions in an efficient manner, have contributed to increases in its transaction volume. The benefits of higher investment volumes were mitigated to an extent by the extremely low interest rate environment in 2002, 2003 and 2004. Low interest rates benefit the Company in that its borrowing costs decrease, but similarly, earnings on its variable-rate lending investments also decrease.

During the difficult economic and real estate market conditions of 2002 and 2003 the Company focused its investment activity on lower risk investments such as first mortgages and CTL transactions that met its risk adjusted return standards. The Company has experienced minimal losses on its lending investments. In 2004, the Company also focused on re-leasing space at its CTL facilities under longer-term leases in an effort to reduce the impact of lease expirations on the Company's earnings. As of March 31, 2005, the weighted average lease term on the Company's CTL portfolio was 11.5 years and the portfolio was 95% leased.

The Company has continued to broaden its sources of capital and was particularly active in the capital markets over the past two years. The Company's strong performance and the low interest rate environment enabled the Company to issue preferred equity and debt securities on attractive pricing terms. The Company used the proceeds from the issuances to repay secured indebtedness, to refinance higher cost capital and to fund additional investments. In 2004, the Company continued to make progress on migrating its debt obligations from secured debt towards unsecured debt. While the Company considers it prudent to have a broad array of sources of capital, including secured financing arrangements, the Company will continue to seek to reduce its use of secured debt and increase its use of unsecured debt. As a result of its shift to unsecured debt and its strong credit and operating history, in October of 2004 the Company's

senior unsecured debt rating was upgraded to investment grade by Standard & Poor's ("S&P") and Moody's Investors Service ("Moody's"). As an investment grade issuer, the Company believes that it will have greater access to the unsecured debt markets and a reduced cost of debt capital.

Beginning in 2003, and throughout 2004, the commercial real estate industry attracted large amounts of investment capital. The Company intends to maintain its disciplined approach to underwriting its investments and will adjust its focus away from markets and products where the Company believes that the available pricing terms do not fairly reflect the risks of the investments. As a result of increased investment activity in both the public and private commercial real estate markets, many of the Company's borrowers were able to prepay loans with proceeds from initial public offerings, asset sales or refinancings. As a consequence, the Company experienced a higher level of prepayments in 2004 than in previous years. If significant amounts of investment capital continue to be allocated to commercial real estate and interest rates remain low in 2005, the Company expects to continue to see high levels of prepayments. The Company's loans generally have some form of call protection, so many of the prepayments generate significant prepayment penalties. Increased prepayment penalties will result in higher current "Other income" on the Company's Consolidated Statements of Operations, which will be offset by reduced "Interest income" on the Company's Consolidated Statement of Operations. In 2004, the Company took advantage of the strong real estate sales market by selectively selling certain non-core CTL assets. Sales of assets will result in a reduction in "Operating lease income" on the Company's Consolidated Statements of Operations and will also result in "Gains from discontinued operations" on the Company's Consolidated Statements of Operations.

The Company continues to see strong capital inflows into the real estate sector as interest rates remain at historically low levels and as most markets continue to show improved underlying fundamentals. This increased capital has resulted in a highly competitive real estate financing environment with reduced financing spreads. Despite this trend, the Company will continue to maintain its disciplined investment strategy and deploy its capital to those opportunities that demonstrate the most attractive returns. The Company's lower cost of funds, due to its senior unsecured debt rating upgrade to investment grade by S&P and Moody's in October 2004, should enable the Company to increase the velocity of its originations by making attractive investments that the Company was previously unable to compete effectively for due to its higher cost of capital. In response to these market trends and as part of the continued expansion of its existing real estate, corporate credit and capital markets capabilities, the Company is investing in several new acquisitions and strategic business relationships which should enable it to bring its custom-tailored financing approach to several new markets.

**Results of Operations**

***Three Months Ended March 31, 2005 Compared to the Three Months Ended March 31, 2004***

**Interest income**—Interest income increased by $9.3 million to $92.4 million for the three months ended March 31, 2005 from $83.1 million for the same period in 2004. This increase was primarily due to $34.3 million of interest income on new originations or additional fundings, offset by a $26.0 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 2.64% in 2005, compared to 1.10% in 2004.

**Operating lease income**—Operating lease income increased by $11.1 million to $77.1 million for the three months ended March 31, 2005 from $66.0 million for the same period in 2004. Of this increase, $11.9 million is attributable to new CTL investments and the consolidation of Sunnyvale in March 2004 and ACRE in November 2004 and an additional $1.2 million of operating lease income from one CTL customer that is terminating their lease. This increase is partially offset by approximately $2.1 million of lower operating lease income due to vacancies and lower rental rates on certain CTL assets.

**Other income**—Other income generally consists of prepayment penalties and realized gains from the early repayment of loans and other lending investments, financial advisory and asset management fees, lease termination fees, mortgage servicing fees, loan participation payments and dividends on certain investments. During the three months ended March 31, 2005, other income included realized gains on sale of marketable securities of $318,000, income from loan repayments and prepayment penalties of $8.6 million, lease termination, asset management, mortgage servicing and other fees of approximately $518,000 and other miscellaneous income such as interest rate swap termination fees of $2.5 million.

During the three months ended March 31, 2004, 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.

**Interest expense**—For the three months ended March 31, 2005, interest expense increased by $16.5 million to $69.0 million from $52.5 million for the same period in 2004. 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 2.64% in 2005 compared to 1.10% in 2004 and higher average three-month LIBOR rates, which averaged 2.84% in 2005 compared to 1.12% in 2004, on the unhedged portion of the Company's variable-rate debt and was partially offset by a $300,000 decrease in amortization of deferred financing costs on the Company's debt obligations in 2005 compared to the same period in 2004.

**Operating costs**—**corporate tenant lease assets**—For the three months ended March 31, 2005, operating costs increased by approximately $1.0 million to $5.7 million from $4.7 million for the same period in 2004. This increase is primarily related to new CTL investments, higher unrecoverable operating costs due to vacancies and lease modifications on certain CTL assets and the consolidation of Sunnyvale (see Note 6 to the Company's Consolidated Financial Statements).

**Depreciation and amortization**—Depreciation and amortization increased by $3.0 million to $17.9 million for the three months ended March 31, 2005 from $14.9 million for the same period in 2004. This increase is primarily due to depreciation on new CTL investments and the consolidated of Sunnyvale and ACRE (see Note 6 to the Company's Consolidated Financial Statements).

**General and administrative**—For the three months ended March 31, 2005, general and administrative expenses increased by $2.0 million to $15.4 million, compared to $13.4 million for the same period in 2004. This increase is primarily due to an increase in payroll related costs resulting from employee growth and an underestimation of 2004 state taxes.

**General and administrative**—**stock-based compensation**—General and administrative—stock-based compensation decreased by $106.9 million to $642,000 for the three months ended March 31, 2005 compared to $107.5 million for the same period in 2004. In 2004, the Company recognized a charge of approximately $106.9 million composed of $4.1 million for the performance-based vesting of 100,000 restricted shares granted under the Company's long-term incentive plan to the Chief Financial Officer, $86.0 million for the vesting of 2.0 million phantom shares on March 30, 2004 granted to the Chief Executive Officer, $10.1 million for the one-time award of Common Stock to the Chief Executive Officer and $6.7 million for the vesting of 155,000 restricted shares granted to several employees.

**Provision for loan losses**—The Company's charge for provision for loan losses decreased to $2.3 million for the three months ended March 31, 2005 compared to $3.0 million in the same period in 2004. As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, the Company has experienced minimal actual losses on its loan investments to date. 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, since its first full quarter operating its current business as a public company (the quarter ended June 30, 1998), management has reflected quarterly provisions for loan losses in its operating results.

**Loss on early extinguishment of debt**—During the three months ended March 31, 2005, the Company had no losses on early extinguishment of debt.

During the three months ended March 31, 2004, the Company had $11.5 million of losses on early extinguishment of debt associated with the prepayment penalties and amortization of deferred financing costs related to the redemption of $110.0 million of the Company's 8.75% Senior Notes due 2008. In addition, the Company incurred $428,000 of losses associated with the amortization of deferred financing costs related to the early repayment of the Company's $60.0 million term loan which had an original maturity of June 2004. The Company also incurred a loss of $287,000 associated with amortization of deferred financing costs related to the early repayment of the Company's $193.0 million term loan which had an original maturity of July 2004. All of these activities are related to the Company's strategy of migrating its borrowings toward more unsecured debt and taking advantage of lower cost refinancing opportunities.

**Equity in earnings (loss) from joint ventures**—For the three months ended March 31, 2005, equity in earnings (loss) from joint ventures decreased by $6.4 million to approximately $(160,000) from $6.2 million for the same period in 2004. This decrease is primarily due to certain lease terminations in 2003 and the conveyance by one of the Company's CTL joint ventures of its interest in two buildings and the related property to the mortgage lender in exchange for satisfaction of its obligations of the related loan in the first quarter of 2004. In addition, this decrease is due to the consolidation of Sunnyvale in March 2004 and the consolidation of ACRE in November 2004 but is partially offset by the sale of one of the Company's CTL joint venture interests in five buildings in September 2004 (see Note 6 to the Company's Consolidated Financial Statements).

**Income from discontinued operations**—For the three months ended March 31, 2005 and 2004, operating income earned by the Company on CTL assets sold (prior to their sale) and assets held for sale of approximately $0 and $5.7 million, respectively, is classified as "discontinued operations," even though such income was recognized by the Company prior to the asset dispositions or classification as "Assets held for sale" on the Company's Consolidated Balance Sheets.

**Gain from discontinued operations**—During the three months ended March 31, 2005, the Company did not sell any CTL assets.

During the three months ended 2004, the Company disposed of one CTL asset for net proceeds of $2.8 million, and recognized a gain of approximately $136,000.

**Adjusted Earnings**

The Company measures its performance using adjusted earnings in addition to net income. Adjusted earnings represents net income (loss) 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 unconsolidated partnerships and 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 the Company's borrowing arrangements because several of its material borrowing arrangements 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, | |
|---|---|---|
| | 2005 | 2004 |
| | (In thousands) (Unaudited) | |
| Adjusted earnings: | | |
| Net income (loss) allocable to common shareholders and HPU holders | $ 59,739 | $ (54,716) |
| Add: Joint venture income | 42 | — |
| Add: Depreciation, depletion and amortization | 18,150 | 15,938 |
| Add: Joint venture depreciation and amortization | 135 | 1,532 |
| Add: Amortization of deferred financing costs | 7,526 | 10,312 |
| Less: Gains from discontinued operations | — | (136) |
| Adjusted diluted earnings allocable to common shareholders and HPU holders(1)(2) | $ 85,592 | $ (27,070) |
| Weighted average diluted common shares outstanding(3) | 112,747 | 107,468 |

**Explanatory Notes:**

(1) For the three months ended March 31, 2005 and 2004, adjusted diluted earnings allocable to common shareholders and HPU holders includes $2,102 and $(447) of net income (loss) allocable to HPU holders, respectively.

(2) For three months ended March 31, 2004, adjusted diluted earnings allocable to common shareholders includes a $106.9 million charge related to performance-based vesting of 100,000 restricted shares granted under the Company's long-term incentive plan to the Chief Financial Officer, the vesting of 2.0 million phantom shares on March 30, 2004 granted to the Chief Executive Officer, the one-time award of Common Stock with a value of $10.0 million to the Chief Executive Officer, the vesting of 155,000 restricted shares granted to several employees and the Company's share of taxes associated with all transactions.

(3) For the three months ended March 31, 2005, in addition to the GAAP defined weighted average diluted shares outstanding this balance includes an additional 72,819 shares related 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 provision for loan losses associated with the Company's lending investments for the three months ended March 31, 2005 and the year ended December 31, 2004 (in thousands):

| | As of March 31, 2005 | | | As of December 31, 2004 | | |
|---|---|---|---|---|---|---|
| | | $ | % | | $ | % |
| Carrying value of loans past due 90 days or more/ | | | | | | |
| As a percentage of total assets | $ | 27,526 | 0.34% | $ | 27,526 | 0.38% |
| As a percentage of total loans | | | 0.63% | | | 0.69% |
| Provision for loan losses/ | | | | | | |
| As a percentage of total assets | | 46,876 | 0.59% | | 42,436 | 0.59% |
| As a percentage of total loans | | | 1.08% | | | 1.06% |
| 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) the loan becomes 90 days delinquent; (2) the loan has a maturity default; or (3) 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, 2005, the Company's non-performing loans included three non-accrual loans with an aggregate carrying value of $102.7 million, or 1.28% of total assets, compared to 0.38% at December 31, 2004, 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, 2005, the Company had one asset on its credit watch list, excluding those assets included in non-performing loans above, with an aggregate carrying value of $5.2 million, or 0.06% of total assets.

**Liquidity and Capital Resources**

The Company requires significant capital to fund its investment activities and operating expenses. The Company 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, and the issuance of common, convertible and/or preferred equity securities. Further, the Company may acquire other businesses or assets using its capital stock, cash or a combination thereof.

The distribution requirements under the REIT provisions of the Code limit the Company's ability to retain earnings and thereby replenish or increase capital committed to its operations. However, the Company believes that its access to significant capital resources and financing will enable the Company to meet current and anticipated capital requirements.

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, 2005. There are no other long-term liabilities of the Company that would constitute a contractual obligation.

| | | Principal Payments Due By Period(1) | | | | |
|---|---|---|---|---|---|---|
| | Total | Less Than 1 Year | 2-3 Years | 4-5 Years | 6-10 Years | After 10 Years |
| | (In thousands) | | | | | |
| **Long-Term Debt Obligations:** | | | | | | |
| Unsecured notes | $ 3,242,069 | $ — | $ 835,000 | $ 590,000 | $ 1,817,022 | $ 47 |
| iStar Asset Receivables secured notes(2) | 846,079 | 106,892 | — | 121,633 | 617,554 | — |
| Unsecured revolving credit facilities | 613,000 | — | — | 613,000 | — | — |
| Secured term loans(3) | 687,332 | 209,056 | 2,683 | 288,045 | 97,974 | 89,574 |
| Secured revolving credit facilities | 28,035 | — | 28,035 | — | — | — |
| Total | 5,416,515 | 315,948 | 865,718 | 1,612,678 | 2,532,550 | 89,621 |
| **Operating Lease Obligations:(4)** | 14,329 | 3,079 | 6,134 | 4,269 | 847 | — |
| Total | $ 5,430,844 | $ 319,027 | $ 871,852 | $ 1,616,947 | $ 2,533,397 | $ 89,621 |

**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) Based on expected proceeds from principal payments received on loan assets collateralizing such notes.

(3) The Company also has a $6.6 million letter of credit outstanding as additional collateral for one of its secured term loans.

(4) The Company also has a $1.0 million letter of credit outstanding as security for its primary corporate office lease.

The Company's primary credit facility is an unsecured credit facility totaling $1,250.0 million which bears interest at LIBOR + 0.875% per annum and matures in April 2008. At March 31, 2005, the Company had $613.0 million drawn under this facility (see Note 9 to the Company's Consolidated Financial Statements). The Company also has three LIBOR-based secured revolving credit facilities with an aggregate maximum capacity of $1,550.0 million, of which $28.0 million was drawn as of March 31, 2005. Availability under these facilities 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.

Significant non-financial covenants include a requirement in some 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, 2005, 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 made and will continue to make progress in migrating its balance sheet towards more 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, 2005 and December 31, 2004 (in thousands):

| | As of March 31, 2005 | As of December 31 2004 |
|---|---|---|
| Total Unencumbered Assets | $ 5,685,455 | $ 4,687,044 |
| Total Unsecured Debt(1) | $ 3,855,069 | $ 2,965,000 |
| Unencumbered Assets/Unsecured Debt | 148% | 158% |

**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 Financings*—The Company was an active issuer in the capital markets in the year ended December 31, 2004 and during the first quarter 2005. The continued strength of the Company's operating performance and the low interest rate environment provided the Company with the opportunity to issue preferred equity and unsecured debt securities on attractive pricing terms. During the three months ended March 31, 2005, the Company issued $700.0 million aggregate principal amount of fixed-rate Senior Notes bearing interest at an annual rate of 5.15% and maturing in 2012 and $400.0 million of variable-rate Senior Notes bearing interest at an annual rate of three-month LIBOR + 0.39% and maturing 2008. The proceeds from these transactions were used to repay outstanding balances on the Company's revolving credit facilities.

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 TriNet. As a result of the amendment, the Company merged TriNet into the Company, the Company became the obligor on the Notes and TriNet no longer exists (see Note 1 of the Company's Consolidated Financial Statements).

During the 12 months ended December 31, 2004, the Company issued $850.0 million aggregate principal amount of fixed-rate Senior Notes bearing interest at annual rates ranging from 4.875% to 5.700% and maturing between 2009 and 2014, and $200.0 million of variable-rate Senior Notes bearing interest at an annual rate of three-month LIBOR + 1.25% and maturing in 2007. The Company issued 8.3 million shares of preferred stock in two series with cumulative annual dividend rates of 7.50%.

The Company primarily used the proceeds from the issuances of securities described above to repay secured indebtedness as it migrates its balance sheet towards more unsecured debt and to refinance higher yielding obligations. During the 12 months ended December 31, 2004, the Company redeemed approximately $110.0 million aggregate principal amount of its outstanding 8.75% Senior Notes due 2008 at a price of 108.75% of par. In connection with this redemption, the Company recognized a charge to income of $11.5 million included in "Loss on early extinguishment of debt" on the Company's Consolidated Statements of Operations.

*Unsecured/Secured Credit Facilities Activity*—On March 12, 2005 one of the Company's secured revolving credit facilities with a maximum amount available to draw of $250.0 million matured.

On July 20, 2004, one of the Company's $500.0 million secured facilities was amended to reduce the maximum amount available to $350.0 million, to extend the final maturity to August 2004 and to reduce the stated interest rate on first mortgage collateral to LIBOR + 1.50%.

On April 19, 2004, the Company completed a new $850.0 million unsecured revolving credit facility with 19 banks and financial institutions. The new facility has a three-year initial term with a one-year extension at the Company's option. The facility bears interest, based upon the Company's current credit ratings, at a rate of LIBOR + 0.875% and a 17.5 basis point annual facility fee decreased from LIBOR + 1.00% and 25 basis points, respectively, due to an upgrade in the Company's senior unsecured debt rating to investment grade by S&P. On December 17, 2004, the commitment on this facility was increased to $1,250.0 million and the accordion feature was amended to permit an increase in the facility to $1.5 billion in the future if necessary. This new facility replaced a $300.0 million unsecured credit facility with a scheduled maturity of July 2005.

On March 12, 2004, one of the Company's $700.0 million secured facilities was amended to reduce the maximum amount available to $250.0 million, to shorten the maturity to March 2004 and to reduce the stated interest rate on first mortgages and CTL assets to LIBOR + 1.50% and on subordinate and mezzanine lending investments to LIBOR + 2.05%

On January 13, 2004, the Company closed $200.0 million of term financing that is secured by certain corporate bond investments and other lending securities. A number of these investments were previously financed under existing credit facilities. The new facility bears interest at LIBOR + 1.05%—1.50% and has a final maturity date of January 2006.

On January 27, 2004, the Company extended the maturity on one of its $700.0 million secured facilities to January 2007, which includes a one-year "term-out" at the Company's option.

*Other Financing Activity*—During the twelve months ended December 31, 2004, the Company purchased the remaining interest in the ACRE Simon joint venture from the former ACRE Simon external member for $40.1 million. Upon purchase of the interest, the ACRE Simon joint venture became fully consolidated for accounting purposes and approximately $31.8 million of secured term debt is reflected on the Company's Consolidated Balance Sheets. The term loans bear interest at rates of 7.61% to 8.43% and mature between 2005 and 2011. In addition, the Company repaid a total of $314.6 million in term loan financing, $9.8 million of which was part of the ACRE Simon acquisition.

*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 2.50% impact on quarterly earnings. The Company does not use derivative instruments to hedge assets or 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 change variable-rate debt obligations to fixed-rate debt obligations or convert fixed-rate debt to variable rate in order to mitigate the risk of changes in fair value of the fixed-rate debt obligations. Interest rate caps effectively limit the maximum interest rate on variable-rate debt obligations.

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" by S&P and "A2" by Moody's. 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 Company has entered into the following cash flow and fair value hedges that are outstanding as of March 31, 2005. All hedges are currently effective and no ineffectiveness exists. The net value (liability) associated with these hedges is reflected on the Company's Consolidated Balance Sheets (in thousands).

| Type of Hedge | Notional Amount | Strike Price or Swap Rate | Trade Date | Maturity Date | Estimated Value at March 31, 2005 |
|---|---|---|---|---|---|
| Pay-Fixed Swap | $ 125,000 | 2.885% | 1/23/03 | 6/25/06 | $ 1,393 |
| Pay-Fixed Swap | 125,000 | 2.838% | 2/11/03 | 6/25/06 | 1,466 |
| Pay-Floating Swap | 200,000 | 4.381% | 12/17/03 | 12/15/10 | (4,375) |
| Pay-Floating Swap | 105,000 | 3.678% | 1/15/04 | 1/15/09 | (3,805) |
| Pay-Floating Swap | 100,000 | 4.345% | 12/17/03 | 12/15/10 | (2,377) |
| Pay-Floating Swap | 100,000 | 3.878% | 11/27/02 | 8/15/08 | (1,603) |
| Pay-Floating Swap | 100,000 | 3.713% | 1/15/04 | 1/15/09 | (3,495) |
| Pay-Floating Swap | 100,000 | 3.686% | 1/15/04 | 1/15/09 | (3,592) |
| Pay-Floating Swap | 50,000 | 3.810% | 11/27/02 | 8/15/08 | (911) |
| Pay-Floating Swap | 50,000 | 4.290% | 12/17/03 | 12/15/10 | (1,334) |
| Pay-Floating Swap | 45,000 | 3.684% | 1/15/04 | 1/15/09 | (1,621) |
| LIBOR Cap | 345,000 | 8.000% | 5/22/02 | 5/28/14 | 2,589 |
| LIBOR Cap | 135,000 | 6.000% | 9/29/03 | 10/15/06 | 19 |
| Total Estimated Value | | | | | $ (17,646) |

Between January 1, 2004 and March 31, 2005, the Company also had outstanding the following cash flow hedges that have expired or been settled (in thousands):

| Type of Hedge | Notional Amount | Strike Price or Swap Rate | Trade Date | Maturity Date |
|---|---|---|---|---|
| Pay-Fixed Swap | $ 235,000 | 1.135% | 3/11/04 | 9/15/04 |
| Pay-Fixed Swap | 200,000 | 1.144% | 3/11/04 | 9/15/04 |
| Pay-Fixed Swap | 200,000 | 1.144% | 3/11/04 | 9/15/04 |
| Pay-Fixed Swap | 100,000 | 4.484% | 1/16/04 | 5/1/14 |
| Pay-Fixed Swap | 67,000 | 4.659% | 12/09/04 | 3/31/15 |
| Pay-Fixed Swap | 67,000 | 4.659% | 12/09/04 | 3/31/15 |
| Pay-Fixed Swap | 66,000 | 4.660% | 12/09/04 | 3/31/15 |
| Pay-Fixed Swap | 75,000 | 5.580% | 11/4/99(1) | 12/1/04 |
| Pay-Fixed Swap | 50,000 | 4.502% | 1/16/04 | 5/1/14 |
| Pay-Fixed Swap | 50,000 | 4.500% | 1/16/04 | 5/1/14 |
| LIBOR Cap | 75,000 | 7.750% | 11/4/99(1) | 12/1/04 |
| LIBOR Cap | 35,000 | 7.750% | 11/4/99(1) | 12/1/04 |

**Explanatory Note:**

(1) Acquired in connection with the TriNet Acquisition (see Note 1 to the Company's Consolidated Financial Statements).

On December 9, 2004, the Company entered into three forward starting swaps all with ten-year terms and rates of 4.659%, 4.659% and 4.660% and notional amounts of $67.0 million, $67.0 million and $66.0 million, respectively, and are being used to lock-in swap rates related to a portion of planned future corporate unsecured fixed-rate bond issuances. These three swaps were settled on February 28, 2005 in connection with the Company's issuance of $700.0 million of seven-year Senior Notes which were priced on February 23, 2005. The proceeds of $1.6 million from the settlement were deemed "ineffective" in accordance with the provisions of SFAS No. 133 and recorded as "Other income" on the Company's Consolidated Statements of Operations.

On March 11, 2004, the Company entered into three pay-fixed interest rate swaps all with six-month terms, rates of 1.135%, 1.144% and 1.144% and notional amounts of $235.0 million, $200.0 million and $200.0 million, respectively. These three swaps matured on September 15, 2004.

On January 16, 2004, the Company entered into three forward starting swaps all with ten-year terms and rates of 4.484%, 4.502% and 4.500% and notional amounts of $100.0 million, $50.0 million and $50.0 million, respectively, and were used to lock-in swap rates related to a portion of planned future corporate unsecured fixed-rate bond issuances. These three swaps were settled in connection with the Company's issuance of $250.0 million of ten-year Senior Notes in March 2004.

On January 15, 2004, in connection with the Company's fixed-rate corporate bonds, the Company entered into four pay-floating interest rate swaps struck at 3.678%, 3.713%, 3.686% and 3.684% with notional amounts of $105.0 million, $100.0 million, $100.0 million and $45.0 million, respectively, and maturing on January 15, 2009. The Company pays six-month LIBOR and receives the stated fixed rate in return. These swaps mitigate the risk of changes in the fair value of $350.0 million of five-year Senior Notes attributable to changes in LIBOR. For accounting purposes, the difference between the fixed rate received and the LIBOR rate paid on the notional amount of the swap is recorded as "Interest expense" on the Company's Consolidated Statements of Operations. In addition, the Company adjusts the value of the swap to its fair value and adjusts the carrying amount of the hedged liability by an offsetting amount on a quarterly basis.

In September 2003, the Company entered into a $135.0 million cap with a rate of 6.00% to hedge the Company's current outstanding floating-rate debt. This cap has a three-year term. Further, the Company entered into two $125.0 million forward starting swaps in the first quarter 2004 that became effective in June 2003. These forward starting swaps replaced the two $125.0 million pay-fixed swaps that expired in June 2003. The two new pay-fixed swaps have a three-year term and expire on June 25, 2006.

In addition, in connection with a portion of the Company's fixed-rate corporate bonds, the Company entered into three pay-floating interest rate swaps in December 2004 struck at 4.381%, 4.345% and 4.29% with notional amounts of $200.0 million, $100.0 million and $50.0 million, respectively, and maturing on December 15, 2010 and also entered into two pay-floating interest rate swaps in November 2002 struck at 3.8775% and 3.81% with notional amounts of $100.0 million and $50.0 million, respectively, and maturing on August 15, 2008. The Company pays six-month LIBOR on the swaps entered into in December 2004 and one-month LIBOR on the swaps entered into in November 2002 and receives the stated fixed rate in return. These swaps mitigate the risk of changes in the fair value of $350.0 million of seven-year Senior Notes and $150.0 million of ten-year Senior Notes attributable to changes in LIBOR. For accounting purposes, the difference between the fixed rate received and the LIBOR rate paid on the notional amount of the swap is recorded as "Interest expense" on the Company's Consolidated Statements of Operations.

In addition, the Company adjusts the value of the swap to its fair value and adjusts the carrying amount of the hedged liability by an offsetting amount on a quarterly basis.

In connection with STARs, Series 2003-1 in May 2003, the Company entered into a LIBOR interest rate cap struck at 6.95% in the notional amount of $270.6 million, and simultaneously sold a LIBOR interest rate cap with the same terms. Since these instruments do not change the Company's net interest

rate risk exposure, they do not qualify as hedges and changes in their respective values are charged to earnings. As the terms of these arrangements are substantially the same, the effects of a revaluation of these two instruments substantially offset one another.

In connection with STARs, Series 2002-1 in May 2002, the Company entered into a LIBOR interest rate cap struck at 8.00% in the notional amount of $345.0 million. The Company utilizes the provisions of SFAS No. 133 with respect to such instruments. SFAS No. 133 provides that the up-front fees paid on option-based products such as caps should be expensed into earnings based on the allocation of the premium to the affected periods as if the agreement were a series of "caplets." These allocated premiums are then reflected as a charge to income (as part of interest expense) in the affected period. On May 28, 2002, in connection with the STARs, Series 2002-1 transaction, the Company paid a premium of $13.7 million for this interest rate cap. Using the "caplet" methodology discussed above, amortization of the cap premium is dependent upon the actual value of the caplets at inception.

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

*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, 2005, the Company did not have any CTL joint ventures accounted for under the equity method, which had third-party debt.

The Company's STARs securitizations are all on-balance sheet financings.

The Company has certain discretionary and non-discretionary unfunded commitments related to its loans and other lending investments that it may need 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 request of the borrower or upon the occurrence of events outside of the Company's direct control. As of March 31, 2005, the Company had 20 loans with unfunded commitments totaling $514.2 million, of which $26.6 million was discretionary and $487.6 million was non-discretionary. In addition, the Company has $32.8 million of non-discretionary unfunded commitments related to two existing customers. These commitments generally fall into two categories: (1) pre-approved capital improvement projects; and (2) new or additional construction costs. Currently, the Company has committed $18.1 million in pre-approved capital improvement projects and $14.7 million in new construction costs. Further, the Company had one equity investment with unfunded non-discretionary commitments of $4.4 million.

*Ratings Triggers*—The $1,250.0 million unsecured revolving credit facility that the Company has in place at March 31, 2005, bears interest at LIBOR + 0.875% per annum based on the Company's senior unsecured credit ratings of BBB- from S&P, Baa3 from Moody's and BBB- from Fitch Ratings. This rate was reduced from LIBOR + 1.00% due to the Company achieving an investment grade senior unsecured debt rating from S&P in October 2004. There are no other ratings triggers in any of the Company's debt instruments or other operating or financial agreements at March 31, 2005.

On October 6, 2004, Moody's upgraded the Company's senior unsecured debt ratings to Baa3, with a stable outlook, up from Ba1. The upgraded rating reflects the shift towards unsecured debt and the resulting increase in unencumbered assets, the continued profitable growth in iStar's business franchise, the strong quality of both the structured finance and CTL business and the active management of those businesses.

On October 5, 2004, the Company's senior unsecured credit rating was upgraded to an investment grade rating of BBB- from BB+ by S&P as a result of the Company's positive track record of improving performance through a slightly difficult real estate cycle, its strong underwriting and servicing capabilities, the increase in capital base, the shift towards unsecured debt to free up assets and the staggering of maturities on secured debt.

On July 30, 2002, the Company's senior unsecured credit rating was upgraded to an investment grade rating of BBB- from BB+ by Fitch Ratings.

*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, 2005 and 2004, the Company issued a total of approximately 11,500 and 376,000 shares of its Common Stock, respectively, through the direct stock purchase component of the plan. Net proceeds during the three months ended March 31, 2005 and 2004, were approximately $481,000 and $15.5 million, respectively. There are approximately 3.1 million shares available for issuance under the plan as of March 31, 2005.

*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, 2005, 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.

**Critical Accounting Policies**

The Company's Consolidated Financial Statements include the accounts of the Company and all majority-owned and controlled subsidiaries. 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, 2005, 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. 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. Prior to the third quarter 2002, the Company elected to use APB 25 accounting, which measured the compensation charges based on the intrinsic value of such securities when they become fixed and determinable, and recognized such expense 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.

During 2004 the Company entered into a new three-year employment agreement with its Chief Executive Officer and a three-year employment agreement with its President. See Note 12 to the Company's Consolidated Financial Statements for a more detailed description of these employment agreements.

**New Accounting Standards**

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) a variation of the modified prospective method; or (3) the modified retrospective method. The provisions of this statement are effective for annual periods beginning after June 15, 2005, however, in the third quarter 2002, in anticipation of this new literature, the Company adopted the second transition method (with retroactive application of fair-value accounting to the beginning of the calendar year), which did not have a significant financial impact on the Company's Consolidated Financial Statements.

In September 2004, the Emerging Issues Task Force issued FASB Topic No. D-108 ("EITF D-108), "Use of the Residual Method to Value Acquired Assets Other than Goodwill" which requires that a direct value method be used to value intangible assets acquired in business combinations completed after September 29, 2004. EITF D-108 also requires that an impairment test using a direct value method on all intangible assets that were previously evaluated using the residual method be performed no later than the beginning of the first fiscal year beginning after December 15, 2004. Any impairments arising from the initial application of a direct value method would be reported as a cumulative effect of accounting change. The Company adopted the provisions of this statement, as required, on October 1, 2004, and it did not have a significant financial impact on the Company's Consolidated Financial Statements.

In December 2003, the SEC issued Staff Accounting Bulletin No. 104 ("SAB 104"), "Revenue Recognition" which supercedes SAB 101, "Revenue Recognition in Financial Statements." SAB 104's primary purpose is to rescind the accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superceded as a result of the issuance of EITF 00-21. The Company adopted the

provisions of this statement immediately, as required, and it did not have a significant impact on the Company's Consolidated Financial Statements.

In December 2003, the Accounting Standards Executive Committee of the American Institute of Certified Accountants issued Statement of Position 03-3 ("SOP 03-3"), "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." SOP 03-3 addresses the accounting for acquired loans that show evidence of having deteriorated in terms of credit quality since their origination (i.e., impaired loans). Because of their deteriorated credit quality, the loans are generally acquired at a discount (i.e., below their par value). Loans that are subject to SOP 03-3 acquired in a business combination that are accounted for as purchase business combinations should be recorded, as a result of the allocation of the acquisition price pursuant to SFAS No. 141, at their fair value. The Company adopted the provisions of this statement, as required, on January 1, 2005, and it did not have a significant financial impact on the Company's Consolidated Financial Statements.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS No. 150"), "Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity." This standard requires issuers to classify as liabilities the following three types of freestanding financial instruments: (1) mandatorily redeemable financial instruments; (2) obligations to repurchase the issuer's equity shares by transferring assets; and (3) certain obligations to issue a variable number of shares. The FASB issued FASB Staff Position ("FSP") 150-3, which defers the provisions of paragraphs 9 and 10 of SFAS No. 150 indefinitely as they apply to mandatorily redeemable noncontrolling interests associated with finite-lived entities. The Company adopted the provisions of this statement, as required, on July 1, 2003, 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.

## Part II. Other Information

### ITEM 1. LEGAL PROCEEDINGS

None

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

During the quarter ended March 31, 2005, the Company issued interests in its 2007 High Performance Unit Plan to a group of employees. The 2007 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 2007 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 $365,000 for their interests, and the employees paid an aggregate of approximately $580,000 for their interests, in the 2007 HPU Plans. 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.

Except as disclosed above and in the Company's Current Report on Form 8-K dated February 14, 2005, no unregistered sales of equity securities of the Company were made during the period covered by this Report.

### 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 23, 2005, between iStar Financial Inc. and the underwriters named therein with regard to Senior Floating Rate Notes due 2008 and 5.15% Senior Notes due 2012 (Incorporated by reference to Form 8-K, dated February 23, 2005). |
| 4.1 | Form of 5.15% Senior Note due 2012 (Incorporated by reference to Form 8-K, dated February 23, 2005). |
| 4.2 | Form of Senior Floating Rate Note due 2008 (Incorporated by reference to Form 8-K, dated February 23, 2005). |
| 4.3 | Fifth Supplemental Indenture dated March 1, 2005 (Incorporated by reference to Form 8-K, dated February 23, 2005). |

| | |
|---|---|
| 4.4 | Sixth Supplemental Indenture dated March 1, 2005 (Incorporated by reference to Form 8-K, dated February 23, 2005). |
| 10.1 | Agreement and Plan of Merger, dated as of January 19, 2005, among iStar Financial Inc., Flash Acquisition Company LLC and Falcon Financial Trust (Incorporated by reference to Form 8-K, dated January 20, 2005). |
| 10.2 | Purchase Agreement, dated February 14, 2005, among iStar Financial Inc., Oak Hill Advisors, L.P. and the other parties named therein. |
| 10.3 | Form of Shareholder Agreement, signed on January 19, 2005 by Vernon B. Schwartz, David A. Karp, Thomas F. Gilman, James K. Hunt, and Maryann N. Keller (Incorporated by reference to Form 8-K, dated January 20, 2005). |
| 10.4 | Form of Shareholder Agreement, signed on January 19, 2005 by George G. Lowrance and Thomas R. Gibson (Incorporated by reference to Form 8-K, dated January 20, 2005). |
| 10.5 | Share Option Agreement, dated as of January 19, 2005, among iStar Financial Inc., Flash Acquisition Company LLC and Falcon Financial Investment Trust (Incorporated by reference to Form 8-K, dated January 20, 2005). |
| 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 Section 13 or 15(d) 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, 2005

/s/ JAY SUGARMAN

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

Date: May 10, 2005

/s/ CATHERINE D. RICE

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

QuickLinks

[iStar Financial Inc. Index to Form 10-Q]
[iStar Financial Inc. Consolidated Balance Sheets (In thousands, except per share data) (unaudited)]
[iStar Financial Inc. Consolidated Statements of Operations (In thousands, except per share data) (unaudited)]
[iStar Financial Inc. Consolidated Statements of Cash Flows (In thousands) (unaudited)]
[iStar Financial Inc. Notes to Consolidated Financial Statements]
[SIGNATURES]

**Exhibit 10.2**

**EXECUTION COPY**

**PURCHASE AGREEMENT**

**Dated February 14, 2005**

**among**

**iSTAR FINANCIAL INC.,**

**iSTAR ALPHA TRS INC.,**

**OAK HILL ADVISORS, L.P.,**

**OAK HILL SECURITIES GENPAR II, L.P.,**

**OAK HILL CREDIT ALPHA GENPAR, L.P.,**

**OAK HILL ADVISORS MGP, INC.,**

**WHB, INC.,**

**KRASE, INC.,**

**RBO, INC.,**

**CSW, INC.,**

**GA LLC,**

**OAK HILL ASSET MANAGEMENT, INC.,**

**OHSF GP PARTNERS II, LLC,**

**OAK HILL CREDIT ALPHA MGP, LLC,**

**GLENN R. AUGUST,**

**WILLIAM H. BOHNSACK, JR.,**

**SCOTT D. KRASE,**

**ROBERT OKUN,**

**and**

**CARL L. WERNICKE**

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**PURCHASE AGREEMENT**

**PURCHASE AGREEMENT** (this "Agreement"), dated February 14, 2005, among iSTAR FINANCIAL INC., a Maryland corporation (the "Parent"), iSTAR ALPHA TRS INC., a Delaware corporation and wholly-owned subsidiary of the Parent (the "Purchaser"), on the one hand, OAK HILL ADVISORS, L.P., a Delaware limited partnership ("OHA"), OAK HILL SECURITIES GENPAR II, L.P., a Delaware limited partnership ("GenPar II"), OAK HILL CREDIT ALPHA GENPAR, L.P., a Delaware limited partnership ("GenPar Alpha"), GA LLC, a Delaware limited liability company ("GA LLC"), OAK HILL ASSET MANAGEMENT, INC., a Delaware corporation ("OHAMI"), OAK HILL ADVISORS MGP, INC., a Delaware corporation (the "GRA Seller"), WHB, INC., a Delaware corporation (the "WHB Seller"), KRASE, INC., a Delaware corporation (the "Krase Seller"), RBO, INC., a Delaware corporation (the "RBO Seller"), CSW, INC., a Delaware corporation (the "CSW Seller" and, together with GA LLC, OHAMI the GRA Seller, the WHB Seller, the Krase Seller and the RBO Seller, the "Oak Hill Sellers"), OHSF GP PARTNERS II, LLC, a Delaware limited liability company ("GenPar II LLC"), OAK HILL CREDIT ALPHA MGP, LLC, a Delaware limited liability company ("GenPar Alpha LLC" and, together with GenPar II LLC, OHA, GenPar II and GenPar Alpha, the "Oak Hill Entities"), GLENN R. AUGUST ("August"), WILLIAM H. BOHNSACK, JR. ("Bohnsack"), SCOTT D. KRASE ("Krase"), ROBERT OKUN ("Okun") and CARL L. WERNICKE ("Wernicke" and, together with August, Bohnsack, Krase and Okun, the "Seller Principals" and, together with the Oak Hill Sellers and the Oak Hill Entities, the "Oak Hill Parties"), on the other hand.

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

**WHEREAS**, OHA and certain of its Affiliates are engaged in investment and asset management and other advisory services, and OHA serves as the direct or indirect manager or advisor of certain investment vehicles, including the Funds;

**WHEREAS**, the Parent is in the business of providing custom-tailored financing solutions to private and corporate owners of real estate;

**WHEREAS**, the Purchaser desires to purchase and acquire from the Oak Hill Sellers and the Seller Principals, and the Oak Hill Sellers and the Seller Principals desire to sell and transfer to the Purchaser, certain interests more fully described herein and in the Amended and Restated LP Agreements and Amended and Restated Operating Agreements;

**WHEREAS**, the Seller Principals, directly or indirectly, own all of the equity interests in the Oak Hill Sellers as more fully described herein;

**WHEREAS,** the Oak Hill Sellers (other than OHAMI) collectively own 100% of the issued and outstanding partnership interests of OHA (the "OHA Partnership Interests");

**WHEREAS,** at or prior to the Initial Closing the OHA Partnership Interests will be reclassified pursuant to the Amended and Restated OHA LP Agreement into Class A Interests and Class B Interests (the "Reclassification") and OHAMI, in connection with the OHAMI Contribution, will receive Class A Interests in OHA;

**WHEREAS,** the Purchaser desires to purchase and acquire from each Oak Hill Seller, and each Oak Hill Seller desires to sell and transfer to the Purchaser, all of its Class A Interests,

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which represent in the aggregate, after giving effect to the OHAI Contribution, 47.5% of the OHA Partnership Interests (the "Purchaser Partnership Interests") on the terms and subject to the conditions hereinafter set forth and subject to the terms of the Amended and Restated OHA LP Agreement;

**WHEREAS**, August, Bohnsack, Krase and Wernicke collectively own 87.635239% of the issued and outstanding membership interests of GenPar II LLC (the "GenPar II LLC Interests"), and the Purchaser or a Purchaser Designee desires to purchase and acquire from the Seller Principals, and the Seller Principals desire to sell and transfer to the Purchaser, an interest in GenPar II LLC which shall entitle Purchaser or a Purchaser Designee to 38% of the aggregate carried interest distributions from GenPar II which amount represents 46.986090% of the Class B Interests of GenPar II LLC (the "Purchaser GenPar II LLC Interest") on the terms and subject to the conditions hereinafter set forth and subject to the terms of the Amended and Restated GenPar II LLC Operating Agreement;

**WHEREAS,** the Seller Principals collectively own all of the issued and outstanding membership interests of GenPar Alpha LLC (the "GenPar Alpha LLC Interests" and, together with the GenPar II LLC Interests, the "LLC Interests") and the Purchaser desires to purchase and acquire from the Seller Principals, and the Seller Principals desire to sell and transfer to the Purchaser, an interest in GenPar Alpha LLC which shall entitle Purchaser or a Purchaser Designee to 42.75% of the aggregate incentive allocations from GenPar Alpha, which amount represents 47.5% of the incentive allocation interests in GenPar Alpha LLC (the "Purchaser GenPar Alpha LLC Interest" and, together with the Purchaser GenPar II LLC Interest, the "Purchaser LLC Interests") on the terms and subject to the conditions hereinafter set forth and subject to the terms of the Amended and Restated GenPar Alpha LLC Operating Agreement;

**WHEREAS**, in connection with the transactions contemplated hereby and by the Related Agreements, the Oak Hill Sellers and the Seller Principals will cause the Reclassification and Reorganization to occur prior to the Initial Closing Time; and

**WHEREAS**, terms used in this Agreement and not otherwise defined in this Agreement are defined in Appendix A hereto.

**NOW, THEREFORE**, the parties hereto hereby agree as follows:

ARTICLE I

CLOSINGS; SALE AND PURCHASE

1.1 The Closings. The closing (the "Initial Closing") of the purchase and sale of the Purchaser Partnership Interests and the Purchaser LLC Interests owned by OHAMI, GA LLC, the GRA Seller, the WHB Seller, the Krase Seller, August, Bohnsack and Krase, as the case may be, shall take place at 10:00 a.m., Eastern Time, on April 1, 2005 as long as all of the conditions contained in Sections 7.1 and 8.1 have been satisfied or waived (other than those conditions which will be satisfied at the Initial Closing Time). (Hereinafter, such date is referred to as the "Initial Closing Date" and such time on the Initial Closing Date is referred to as the "Initial Closing Time".) The closing (the "Subsequent Closing" and, together with the Initial Closing, the "Closings") of the purchase and sale of the Purchaser Partnership Interests and the Purchaser

LLC Interests owned by the RBO Seller, the CSW Seller, Okun and Wernicke, as the case may be, shall take place at 10:00 a.m., Eastern Time, on May 2, 2005 as long as all of the conditions contained in Sections 7.2 and 8.2 have been satisfied. (Hereinafter, such date is referred to as the "Subsequent Closing Date" and such time on the Subsequent Closing Date is referred to as the "Subsequent Closing Time".) The Closings shall take place at the offices of Katten Muchin Zavis Rosenman, 575 Madison Avenue, New York, New York.

1.2 Purchase and Sale at the Initial Closing. Upon the terms and subject to the conditions set forth herein, at the Initial Closing (a) each of OHAMI, GA LLC, the GRA Seller, the WHB Seller and the Krase Seller agrees to sell, convey, transfer, assign and deliver to the Purchaser certificates (or such other appropriate evidences of ownership) representing such Oak Hill Seller's Purchaser Partnership Interests and (b) each of August, Bohnsack and Krase agrees to sell, convey, transfer, assign and deliver to the Purchaser or a Purchaser Designee certificates (or such other appropriate evidences of ownership) representing such Seller Principal's Purchaser LLC Interests, in each case (if certificated) duly endorsed in blank or accompanied by appropriate powers in blank with all appropriate transfer stamps affixed thereto, and the Purchaser agrees (and the Parent shall cause the Purchaser and the Purchaser Designees) to purchase from such Oak Hill Sellers and from such Seller Principals such Oak Hill Seller's Purchaser Partnership Interests and such Seller Principal's Purchaser LLC Interests, respectively, for an aggregate purchase price consisting of (i) $128,729,257.81 in cash (the "Initial Cash Purchase Price") and (ii) such number of shares of iStar Common Stock equal to the quotient of (x) $41,650,000 over (y) the iStar Common Stock Price (the "Initial iStar Shares" and, together with the Initial Cash Purchase Price, the "Initial Purchase Price").

1.3 Purchase and Sale at the Subsequent Closing. Upon the terms and subject to the conditions set forth herein, at the Subsequent Closing (a) each of the RBO Seller and the CSW Seller agrees to sell, convey, transfer, assign and deliver to the Purchaser or a Purchaser Designee certificates (or such other appropriate evidences of ownership) representing such Oak Hill Seller's Purchaser Partnership Interests and (b) each of Okun and Wernicke agrees to sell, convey, transfer, assign and deliver to the Purchaser or a Purchaser Designee certificates (or such other appropriate evidences of ownership) representing such Seller Principal's Purchaser LLC Interests, in each case (if certificated) duly endorsed in blank or accompanied by appropriate powers in blank with all appropriate transfer stamps affixed thereto, and the Purchaser agrees (and the Parent shall cause the Purchaser and the Purchaser Designees) to purchase from such Oak Hill Sellers and from such Seller Principals such Oak Hill Seller's Purchaser Partnership Interests and such Seller Principal's Purchaser LLC Interests, respectively, for an aggregate purchase price consisting of (i) $22,270,742.19 in cash, adjusted upward (as it relates to such Oak Hill Seller or such Seller Principal) by an amount equal to the amount by which such Oak Hill Sellers' or such Seller Principals' pro rata share (based on its or his partnership/membership interest in an Oak Hill Entity as set forth in Section 1.3 of the Disclosure Letter, such share referred to as its or his "Pro Rata Share") of base management fees accrued by the Oak Hill Entities exceeds its or his Pro Rata Share of expenses incurred or accrued by the Oak Hill Entities for the period between the Initial Closing Date and the Business Day prior to the Subsequent Closing Date, or adjusted downward by an amount equal to the amount by which such Oak Hill Sellers' or such Seller Principals' Pro Rata Share of expenses incurred or accrued by the Oak Hill Entities exceeds its or his Pro Rata Share of base management fees accrued by the Oak Hill Entities for the period between the Initial Closing Date and the Business Day prior



to the Subsequent Closing Date (as adjusted, the "Subsequent Cash Purchase Price") and (ii) such number of shares of iStar Common Stock equal to the quotient of (x) $7,350,000 over (y) the iStar Common Stock Closing Price (the "Subsequent iStar Shares" and, together with the Subsequent Cash Purchase Price, the "Subsequent Purchase Price").

1.4 Delivery of Initial Purchase Price and Certificates. At the Initial Closing (i) the Initial Cash Purchase Price shall be paid by the Purchaser, and the Parent shall cause the Purchaser and the Purchaser Designees to pay, to OHAMI, GA LLC, the GRA Seller, the WHB Seller, the Krase Seller, August, Bohnsack and Krase, as the case may be, by wire transfer of immediately available funds to accounts designated in writing by such Oak Hill Sellers and such Seller Principals, as the case may be, at least two Business Days prior to the Initial Closing Date, (ii) the Initial iStar Shares shall be delivered by the Parent to such Oak Hill Sellers and such Seller Principals, and (iii) the certificates (or such other appropriate evidences of ownership) representing such Oak Hill Seller's Purchaser Partnership Interests and such Seller Principal's Purchaser LLC Interests shall be delivered by such Oak Hill Sellers and such Seller Principals, as the case may be, to the Purchaser and the Purchaser Designees, and in the case of (i) and (ii) in the proportions as set forth in Section 1.4 of the Disclosure Letter.

1.5 Delivery of Subsequent Purchase Price and Certificates. At the Subsequent Closing (i) the Subsequent Cash Purchase Price shall be paid by the Purchaser, and the Parent shall cause the Purchaser and the Purchaser Designees to pay, to the RBO Seller, the CSW Seller, Okun and Wernicke, as the case may be, by wire transfer of immediately available funds to accounts designated in writing by such Oak Hill Sellers and such Seller Principals, as the case may be, at least two Business Days prior to the Subsequent Closing Date, (ii) the Subsequent iStar Shares shall be delivered by the Parent to such Oak Hill Sellers and such Seller Principals, and (iii) the certificates (or such other appropriate evidences of ownership) representing such Oak Hill Seller's Purchaser Partnership Interests and such Seller Principal's Purchaser LLC Interests shall be delivered by such Oak Hill Sellers and such Seller Principals, as the case may be, to the Purchaser and Purchaser Designees, and in the case of (i) and (ii) in the proportions as set forth in Section 1.5 of the Disclosure Letter.

1.6 Pre-Closing Fees and Expenses; Discharge of OHA Liabilities; Delivery of Closing Statement. Notwithstanding anything contained herein, (i) all base management fees and expenses incurred or accrued by the Oak Hill Entities prior to the Business Day prior to the Initial Closing Date shall be for the account of the Oak Hill Sellers and (ii) the OHA Liabilities shall be paid and discharged in full by the Oak Hill Sellers at or prior to the Initial Closing Date. The proceeds of such accrued base management fees, net of accrued expenses (which expenses shall include the pro rata portion of any projected bonuses to be paid to the employees of the Oak Hill Entities in respect of such accrued management fees) will be distributed by the Oak Hill Entities to the Oak Hill Sellers immediately upon the receipt thereof by the Oak Hill Entities. Prior to the Initial Closing Date, the Oak Hill Entities shall distribute to the Oak Hill Sellers all cash and cash equivalents on hand. At or prior to the Initial Closing Date, each Oak Hill Entity will have in place a revolving line of credit sufficient to fund the operation of its business in the ordinary course, which line of credit shall be on commercially reasonable terms and if such line of credit is provided by one or more of the Seller Principals or any of their respective Affiliates, such line of credit shall have an interest rate of no greater than LIBOR plus 150 basis points. Within 30 days after the Initial Closing Date, the Seller Principals shall cause the Oak Hill Entities to deliver to the iStar Parties a closing statement reflecting the base management fees,



expenses and OHA Liabilities incurred or accrued by each Oak Hill Entity as of the Business Day prior to the Initial Closing Date (the "Closing Statement"). The Closing Statement shall be prepared in accordance with GAAP and consistent with the books and records of each Oak Hill Entity.

1.7 Excluded Assets. Subject to Section 6.11, the transactions contemplated hereby and by the Related Agreements shall not include the sale, conveyance, transfer, assignment or delivery to the iStar Parties of the Excluded Assets.

1.8 FIRPTA Affidavits. In order to establish that withholding under Section 1445 of the Code does not apply, each of the Oak Hill Sellers anticipates that he or it will timely provide (or cause to be provided) to the Purchaser the certification described in Treasury Regulation Section 1.1445-11T(d)(2)(i) or the certification described in Treasury Regulation Section 1.1445-2(b)(2). Any Oak Hill Seller that does not timely provide such certification shall be subject to withholding on (and out of the cash portion of) the Purchase Price payable to such Oak Hill Seller as provided under Section 1445 of the Code and the Treasury Regulations.

1.9 Actions Simultaneous. Except with respect to the OHAI Contribution and the OHAMI Contribution, all actions to be taken and all documents to be executed and delivered by the parties at the Initial Closing and the Subsequent Closing, respectively, shall be deemed to have been taken and executed and delivered simultaneously at such Closing and no actions shall be deemed to have been taken nor shall any documents be deemed to have been executed and delivered until all actions have been taken and all documents have been executed and delivered at such Closing.

## ARTICLE II

## REPRESENTATIONS AND WARRANTIES WITH RESPECT TO THE PURCHASER PARTNERSHIP INTERESTS AND THE PURCHASER LLC INTERESTS

Each Oak Hill Seller, individually as to such Oak Hill Seller, and each Seller Principal, jointly and severally only with respect to such Seller Principal and any Oak Hill Seller in which such Seller Principal owns equity interests, hereby represents and warrants to the iStar Parties as follows, subject to such exceptions or qualifications as are disclosed in writing in the Disclosure Letter, which is arranged in paragraphs corresponding to the numbered and lettered paragraphs contained in this Agreement and the disclosures in any paragraph of the Disclosure Letter shall also constitute disclosure under, and shall also qualify, the other paragraphs in this Agreement to the extent that the relevance of such disclosures is apparent on its face. The inclusion of any information in any section of the Disclosure Letter or other document delivered pursuant to this Agreement shall not be deemed to be an admission or evidence of the materiality of such item, nor shall it establish a standard of materiality for any purpose whatsoever.

2.1 Authority; Execution and Delivery; Enforceability.

(a) Such Oak Hill Seller is duly incorporated, validly existing and in good standing under the Laws of its jurisdiction of incorporation.



(b) Such Oak Hill Seller and such Seller Principal has full power, authority and, if applicable, capacity to execute and deliver this Agreement and, to the extent a party thereto, the Related Agreements, to perform its or his respective obligations hereunder and under such Related Agreements and to consummate the transactions contemplated hereby and by such Related Agreements. The sale, conveyance, transfer, assignment and delivery of the Purchaser Partnership Interests to the Purchaser has been duly authorized by all requisite action of such Oak Hill Seller. The sale, conveyance, transfer, assignment and delivery of the Purchaser LLC Interests to the Purchaser has been duly authorized by all requisite action of such Seller Principal.

(c) Each of this Agreement and (when executed) the Related Agreements has been (or will be) duly executed and delivered by such Oak Hill Seller and such Seller Principal (to the extent a party thereto), and constitutes (or will, when executed, constitute) the legal, valid and binding obligation of such Oak Hill Seller and such Seller Principal (to the extent a party thereto), enforceable against such Oak Hill Seller and such Seller Principal in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, moratorium and other similar Laws of general applicability relating to or affecting creditors' rights and to general equity principles.

2.2 Title to Purchaser Partnership Interests. Except as set forth in Section 2.2 of the Disclosure Letter, such Oak Hill Seller has good and valid title to the Purchaser Partnership Interests owned by such Oak Hill Seller as set forth in Section 2.2 of the Disclosure Letter, free and clear of all Liens. Other than rights to purchase granted under the OHA Partnership Agreement, such Oak Hill Seller has not entered into any contract, agreement, arrangement, commitment or understanding with, or granted any option or right to, any party other than the iStar Parties with respect to the acquisition of any of such Oak Hill Seller's OHA Partnership Interests.

2.3 Title to Purchaser LLC Interests. Except as set forth in Section 2.3 of the Disclosure Letter, such Seller Principal has good and valid title to the Purchaser LLC Interests owned by such Seller Principal as set forth in Section 2.3 of the Disclosure Letter, free and clear of all Liens. Other than rights to purchase granted under the LLC Operating Agreements, such Seller Principal has not entered into any contract, agreement, arrangement, commitment or understanding with, or granted any option or right to, any party other than the iStar Parties with respect to the acquisition of any of such Seller Principal's LLC Interests.

2.4 Non-Contravention. Assuming the Notices have been delivered in the manner specified in Section 5.8 of the Disclosure Letter, the execution and delivery of this Agreement and the Related Agreements by such Oak Hill Seller and such Seller Principal (to the extent a party thereto) do not and will not, and the consummation of the transactions contemplated at the Closings hereby and by such Related Agreements and compliance with the terms hereof and of such Related Agreements, will not:

(i) constitute a violation or breach of the Organizational Documents of such Oak Hill Seller;

(ii) constitute a default under or a violation or breach of, or result in the acceleration of any obligation under, or require the consent of any Person under, any



provision of any contract or other instrument to which such Oak Hill Seller or such Seller Principal is a party;

(iii) violate any Order or any Law affecting such Oak Hill Seller or such Seller Principal; or

(iv) result in the creation of any Lien on such Oak Hill Seller's Purchaser Partnership Interests or such Seller Principal's Purchaser LLC Interests, other than restrictions under the Amended and Restated OHA LP Agreement, in the case of such Purchaser Partnership Interests, and the Amended and Restated Operating Agreements, in the case of such Purchaser LLC Interests.

2.5 Governmental Consents and Approvals. No consent, approval, license, permit, order or authorization of, or registration, declaration or filing with, any Governmental Authority is required to be obtained by or on behalf of such Oak Hill Seller or such Seller Principal in connection with the execution, delivery and performance of this Agreement or the Related Agreements (to the extent a party thereto) or the consummation of the transactions contemplated at the Closings hereby and by such Related Agreements.

2.6 Litigation and Claims. There is no Action pending or, to the knowledge of such Oak Hill Seller or such Seller Principal, threatened, against such Oak Hill Seller or such Seller Principal or to which such Oak Hill Seller or such Seller Principal is reasonably likely to become a party that would reasonably be expected to materially adversely affect such Oak Hill Seller's or such Seller Principal's ability to consummate the transactions contemplated hereby or by the Related Agreements (to the extent a party thereto).

2.7 Investment Representations. Such Oak Hill Seller and Seller Principal understand that the Initial iStar Shares and Subsequent iStar Shares (collectively, the "iStar Shares") delivered pursuant to Sections 1.2 and 1.3, respectively, will not have been registered under the Securities Act. Such Oak Hill Seller and such Seller Principal also understand that the iStar Shares are being offered and sold pursuant to an exemption from registration contained in the Securities Act based in part upon the representations of such Oak Hill Seller or Seller Principal contained in this Agreement. Such Oak Hill Seller and such Seller Principal hereby represents and warrants to the iStar Parties as follows:

(i) Such Oak Hill Seller or such Seller Principal is capable of evaluating the merits and risks of the investment in the Parent and has the capacity to protect its or his own interests. Such Oak Hill Seller or such Seller Principal must bear the economic risk of this investment indefinitely unless the iStar Shares are registered pursuant to the Securities Act, or an exemption from registration is available. Such Oak Hill Seller or such Seller Principal also understands that there is no assurance that any exemption from registration under the Securities Act will be available and that, even if available, such exemption may not allow such Oak Hill Seller or such Seller Principal to transfer all or any portion of its iStar Shares under the circumstances, in the amounts or at the times such Oak Hill Seller or such Seller Principal might propose.



(ii) Such Oak Hill Seller or such Seller Principal is acquiring the iStar Shares for its or his own account for investment only, and not with a view towards their distribution.

(iii) Such Oak Hill Seller or such Seller Principal represents that it or he is an "accredited investor" within the meaning of Regulation D under the Securities Act.

2.8 Competition; Conflicts. Except as set forth in Section 2.8 of the Disclosure Letter, no Seller Principal or any member of the Immediate Family of such Seller Principal (other than siblings of such Seller Principal) serves as an officer, director, employee, consultant, partner, member or in similar capacity of any competitor of any of the Oak Hill Entities or the Subsidiaries or owns directly or indirectly (other than in or through beneficial ownership of less than 5% of the outstanding securities of a publicly traded company) any interests in any competitor or any Person that has a material contract or agreement (other than intercompany contracts or agreements between or among two or more of the Oak Hill Entities or the Subsidiaries) with any of the Oak Hill Entities or the Subsidiaries.

2.9 No Finder. Except for the engagement of Morgan Stanley & Co., Inc., neither such Oak Hill Seller or such Seller Principal nor any party acting on such Oak Hill Seller's or such Seller Principal's behalf has paid or become obligated to pay any fee or commission to any broker, finder or intermediary for or on account of the transactions contemplated hereby or by the Related Agreements.

## ARTICLE III

## REPRESENTATIONS AND WARRANTIES WITH RESPECT TO THE OAK HILL ENTITIES

Each Oak Hill Party, jointly and severally (but subject to the limitations set forth in Sections 9.5(g) and (h) and Section 10.2), hereby represents and warrants to the iStar Parties as follows, subject to such exceptions or qualifications as are disclosed in writing in the Disclosure Letter, which is arranged in paragraphs corresponding to the numbered and lettered paragraphs contained in this Agreement and the disclosures in any paragraph of the Disclosure Letter shall also constitute disclosure under, and shall also qualify, the other paragraphs in this Agreement to the extent that the relevance of such disclosures is apparent on its face. The inclusion of any information in any section of the Disclosure Letter or other document delivered pursuant to this Agreement shall not be deemed to be an admission or evidence of the materiality of such item, nor shall it establish a standard of materiality for any purpose whatsoever.

3.1 Organization; Good Standing.

(a) Each Oak Hill Entity and each Subsidiary is duly organized, validly existing and in good standing under the Laws of its jurisdiction of organization.

(b) Each Oak Hill Entity and each Subsidiary has full power and authority to conduct all of the business and activities conducted by it, and to own or lease all of the assets owned or leased by it; and is duly licensed or qualified to do business and is in good standing as a foreign entity in all jurisdictions in which the nature of the business and activities conducted by it, and/or

the character of the assets owned or leased by it, makes such qualification or license necessary, except for those jurisdictions in which the failure to be so qualified or licensed, individually or in the aggregate, would not limit its ability to consummate the transactions contemplated hereby and by the Related Agreements or would not reasonably be expected to have an Oak Hill Material Adverse Effect.

3.2 Authority; Execution and Delivery; Enforceability.

(a) Each Oak Hill Entity has full power and authority to execute and deliver this Agreement and, to the extent a party thereto, the Related Agreements, to perform its respective obligations hereunder and under such Related Agreements and to consummate the transactions contemplated hereby and by such Related Agreements.

(b) All requisite acts and other proceedings required to be taken by each Oak Hill Entity to authorize the execution, delivery and performance of this Agreement and such Related Agreements have been duly and properly taken.

(c) Each of this Agreement and (when executed) the Related Agreements has been (or will be) duly executed and delivered by each Oak Hill Entity (to the extent a party thereto), and constitutes (or will, when executed, constitute) the legal, valid and binding obligation of each Oak Hill Entity (to the extent a party thereto), enforceable against each Oak Hill Entity in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, moratorium and other similar Laws of general applicability relating to or affecting creditors' rights and to general equity principles.

3.3 Capitalization.

(a) Except as set forth in Section 3.3(a) of the Disclosure Letter (i) the Oak Hill Sellers collectively own all of the outstanding OHA Partnership Interests, (ii) GenPar II LLC owns 80.875% of the outstanding carried interest distributions of GenPar II (the "GenPar II Interests") and (iii) GenPar Alpha LLC owns 90% of the outstanding incentive allocation interest in GenPar Alpha (the "GenPar Alpha Interests" and, together with the GenPar II Interests, the "GenPar Interests"). Except as set forth in Section 3.3(a) of the Disclosure Letter, all outstanding OHA Partnership Interests and GenPar Interests have been duly authorized and validly issued and are fully paid and nonassessable, and are free and clear of all Liens.

(b) August, Bohnsack, Krase and Wernicke collectively own 87.635239% of the outstanding GenPar II LLC Interests and (iii) the Seller Principals collectively own all of the outstanding GenPar Alpha LLC Interests. Except as set forth in Section 3.3(b) of the Disclosure Letter, all outstanding LLC Interests have been duly authorized and validly issued and are fully paid and nonassessable, and are free and clear of all Liens.

(c) There are no outstanding warrants, options, contracts, rights (preemptive or otherwise), calls or commitments of any character relating to any issued or unissued equity interests in any Oak Hill Entity or other instruments binding on any Oak Hill Entity convertible into or exchangeable for any equity interests in any Oak Hill Entity, or which obligate any Oak Hill Entity to seek authorization to issue additional equity interests, nor will any be created by



virtue of this Agreement or the Related Agreements or the transactions contemplated hereby or by the Related Agreements.

(d) Set forth in Section 3.3(d) of the Disclosure Letter is a complete and correct chart setting forth all of the Oak Hill Entities and Subsidiaries and ownership percentages with respect thereto (and the ownership of each of the Selling Principals with respect thereto) and Persons that are parties to Investment Advisory Contracts with any of the Oak Hill Entities and Subsidiaries. In addition, Section 3.3(d) of the Disclosure Letter sets forth ownership percentages giving effect to the transactions contemplated by this Agreement.

3.4 Subsidiaries. Except as set forth in Section 3.4 of the Disclosure Letter, all outstanding equity interests of each Subsidiary are beneficially owned by an Oak Hill Entity. Except as set forth in Section 3.4 of the Disclosure Letter, all outstanding equity interests in the Subsidiaries have been duly authorized and validly issued and are fully paid and nonassessable, and are free and clear of all Liens. There are no outstanding warrants, options, contracts, rights (preemptive or otherwise), calls or commitments of any character relating to any issued or unissued equity interests in the Subsidiaries or other instruments binding on a Subsidiary convertible into or exchangeable for equity interests in the Subsidiaries, or which obligate a Subsidiary to seek authorization to issue additional interests, nor will any be created by virtue of this Agreement or the Related Agreements or the transactions contemplated hereby or by the Related Agreements. Section 3.4 of the Disclosure Letter contains a complete and correct list of the Subsidiaries and the current ownership of each Subsidiary. Neither any Oak Hill Entity nor any Subsidiary owns (directly or indirectly) any equity interests in, any Person or any interest convertible into or exercisable or exchangeable for any such equity interests, other than the Oak Hill Entities' ownership of the Subsidiaries and its and their interests in the Funds.

3.5 Non-Contravention. Assuming the Notices have been delivered in the manner specified in Section 5.8 of the Disclosure Letter, the execution and delivery of this Agreement and the Related Agreements by each Oak Hill Entity (to the extent a party thereto) do not and will not, and the consummation of the transactions contemplated at the Closings hereby and by such Related Agreements and compliance with the terms hereof and of such Related Agreements, will not:

(i) constitute a violation or breach of the Organizational Documents of any Oak Hill Entity or any Subsidiary, and will not constitute a violation or breach of any Fund Documents;

(ii) except as set forth in Section 3.5(ii) of the Disclosure Letter, constitute a default under or a violation or breach of, or result in the acceleration of any obligation of any Oak Hill Entity, any Subsidiary or any Fund under, or a change in any right or obligation of any Oak Hill Entity, any Subsidiary or any Fund or counterparty under, or require the consent of any Person under, any provision of any Contract or other instrument to which any Oak Hill Entity, any Subsidiary or any Fund is a party or by which (a) any of the assets of any Oak Hill Entity, any Subsidiary or any Fund, or (b) the Purchaser Partnership Interests or the Purchaser LLC Interests, may be affected or secured;

(iii) violate any Order or any Law affecting any Oak Hill Entity, any Subsidiary or any Fund, or the assets of any Oak Hill Entity, any Subsidiary or any Fund; or

(iv) result in the creation of any Lien on any of the assets of any Oak Hill Entity, any Subsidiary or any Fund, other than restrictions contained in the Amended and Restated GenPar II LP Agreement and the Amended and Restated GenPar Alpha LP Agreement.

3.6 Books and Records. The Oak Hill Parties have made available to the iStar Parties complete and correct copies of the Organizational Documents of each Oak Hill Entity and each Subsidiary. The Oak Hill Parties have made available to the iStar Parties complete and correct in all material respects copies of all minute books and all other existing records of any meeting of the partners or members, as the case may be, of each Oak Hill Entity and each Subsidiary.

3.7 Governmental Consents and Approvals. No consent, approval, license, permit, order or authorization of, or registration, declaration or filing with, any Governmental Authority is required to be obtained by or on behalf of any Oak Hill Entity or any Subsidiary in connection with the execution, delivery and performance of this Agreement or the Related Agreements (to the extent a party thereto) or the consummation of the transactions contemplated at the Closings hereby and by such Related Agreements.

3.8 Title to Assets.

(a) Each of the Oak Hill Entities and each Subsidiary has good and valid title, free and clear of all Liens (other than Permitted Liens), to all of its assets reflected on its most recent balance sheet as owned (other than assets disposed of in the ordinary course of business) and assets acquired after September 30, 2004.

(b) Except as set forth in Section 3.8(b) of the Disclosure Letter, none of the Oak Hill Sellers, the Seller Principals or any of their respective Affiliates (other than the Oak Hill Entities and the Subsidiaries) owns any assets used in or necessary to conduct the business of any Oak Hill Entity or any Subsidiary.

(c) All of the material tangible personal property of the Oak Hill Entities and the Subsidiaries has been maintained in all material respects in accordance with generally accepted industry practice. All of the material leased personal property of the Oak Hill Entities and the Subsidiaries is in all material respects in the condition required of such property by the terms of the lease applicable thereto during the relevant term of the lease.

3.9 Real Property.

(a) None of the Oak Hill Entities or the Subsidiaries owns any real property.

(b) Section 3.9(b) of the Disclosure Letter lists all Real Property Leases. Complete and correct copies of each Real Property Lease have been made available to the iStar Parties.



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3.10 Employment Related Agreements and Actions.

(a) Section 3.10(a) of the Disclosure Letter sets forth separately in respect of each Oak Hill Entity and its Subsidiaries a complete and correct list, as of the date hereof, of its directors and officers (to the extent such Oak Hill Entity has directors and officers).

(b) Section 3.10(b) of the Disclosure Letter sets forth separately in respect of each Oak Hill Entity and its Subsidiaries a complete and correct list, as of the date hereof, of all its Contracts currently in effect with current or former employees, consultants, or independent contractors.

(c) Except as set forth in Section 3.10(c) of the Disclosure Letter:

(i) no Action by or before any Governmental Authority brought by or on behalf of any employee, prospective employee, former employee, retiree, labor organization or other representative of the employees of any Oak Hill Entity or any Subsidiary is pending or, to the knowledge of any Oak Hill Party, threatened, against any Oak Hill Entity or any Subsidiary, and none of the Oak Hill Entities or the Subsidiaries is a party to, or otherwise bound by, any consent decree with, or citation by, any Governmental Authority relating to employees or employment practices at any Oak Hill Entity or any Subsidiary;

(ii) no grievance is pending or, to the knowledge of any Oak Hill Party, threatened, by any Person or Persons at any Oak Hill Entity or any Subsidiary against any Oak Hill Entity or any Subsidiary;

(iii) each Oak Hill Entity and each Subsidiary is in compliance in all material respects with all applicable Laws, Contracts and policies relating to employment, employment practices, wages, hours, occupational safety and health, the withholding and payment of Taxes from or with respect to the compensation of employees, and terms and conditions of employment; and

(iv) each Oak Hill Entity and each Subsidiary has paid in full (subject to any good faith dispute) to all of its employees all wages, salaries, commissions, bonuses, benefits and other compensation due to such employees or otherwise arising under any policy, practice, agreement, plan, program, statute or other applicable Law.

3.11 Contracts.

(a) Section 3.11(a) of the Disclosure Letter sets forth as of the date hereof separately in respect of each Oak Hill Entity and its Subsidiaries, and the Oak Hill Parties have made available to the iStar Parties copies of:

(i) (A) each Contract (other than an Investment Advisory Contract) that is not cancelable without penalty by the Oak Hill Entity or Subsidiary party thereto upon 90 days or less notice or that involves the receipt or payment by the Oak Hill Entity or Subsidiary party thereto in any of the two prior fiscal years (or is reasonably likely to involve the receipt of payment by the Oak Hill Entity or Subsidiary party thereto in the current

or any future fiscal year) of an amount in excess of $25,000; (B) each Contract (other than an Investment Advisory Contract) for services for which a prepayment or



advance has been made to, or by, or on behalf of, any Oak Hill Entity or any Subsidiary in excess of $25,000 per Contract; (C) each partnership or joint venture Contract or arrangement or any other agreement involving a sharing of revenue or profits between an Oak Hill Entity or a Subsidiary, on the one hand, and a Person who is not an Oak Hill Entity, Subsidiary or Fund, on the other hand; (D) Contracts restricting any Oak Hill Entity or any Subsidiary from carrying on its business or activities, as the case may be, in any material respect in its usual and customary manner in any jurisdiction; (E) each Contract (other than an Investment Advisory Contract) between any Oak Hill Entity or Subsidiary, on the one hand, and any Affiliate of any Oak Hill Entity or Subsidiary (who is not also an Oak Hill Entity or a Subsidiary), on the other hand; (F) any Contracts for the sale or other disposition by any Oak Hill Entity or any Subsidiary of any of its assets (but, for the avoidance of doubt, not any assets of the Funds) in excess of $25,000 other than in the ordinary course of business, consistent with past practice, and in no event in excess of $50,000; (G) any notes, debt instruments, other evidences of indebtedness, letters of credit or guarantees issued by or for the benefit of any Oak Hill Entity or any Subsidiary the value of which is in excess of $50,000; (H) each outstanding loan or advance made by any Oak Hill Entity or any Subsidiary to any director, officer, employee, partner, member or other Affiliate of such Oak Hill Entity or such Subsidiary (other than business-related advances to employees made in the ordinary course of business, consistent with past practice and in an amount not in excess of $25,000 per employee or $100,000 in the aggregate or tax advances to partners or members); (I) each Contract (other than the Organizational Documents of the Oak Hill Entities or the Subsidiaries) with one or more of the Seller Principals or members of their Immediate Families or entities in which any of them has greater than 5% equity interest; and (J) each other Contract (other than an Investment Advisory Contract) material to the business, governance and financial condition of the Oak Hill Entities and the Subsidiaries, taken as a whole.

(ii) all Contracts under which any Oak Hill Entity or any Subsidiary provides investment advisory or management services to any Person including, without limitation, as a general partner, under a limited partnership, or a similar arrangement and including without limitation, side letter agreements or similar arrangements with Fund investors (collectively, "Investment Advisory Contracts").

(b) As of the date hereof, each Oak Hill Entity and Subsidiary has, with respect to all Contracts required to be listed in any section of the Disclosure Letter (the "Material Contracts"), performed in all material respects all obligations required to be performed by it, and is not in default in any material respect under any such Material Contract, and, to the knowledge of the Oak Hill Parties, no other party to any such Material Contract is in default in any material respect under any such Material Contract. No event has occurred which, with the lapse of time or the giving of notice or both, would constitute a default in any material respect by any Oak Hill Entity or Subsidiary, or, to the knowledge of the Oak Hill Parties, by any other party to any such Contract.

3.12 Intellectual Property.

(a) The Oak Hill Entities and the Subsidiaries own or have the right to use all Intellectual Property as currently used in connection with any of their respective businesses,



including, without limitation, all service marks and license agreements and other agreements granting rights relating to any such Intellectual Property to which any of the Oak Hill Entities or the Subsidiaries is a party or is otherwise bound (the "License Agreements") (collectively, "Oak Hill Entities Intellectual Property").

(b) Section 3.12(b) of the Disclosure Letter sets forth for the Oak Hill Entities Intellectual Property owned by any Oak Hill Entity or a Subsidiary a complete and accurate list of all registrations and applications, United States (federal and state) and foreign (i) Patents, (ii) Trademarks, (iii) Internet Domain Names, and (iv) registered Copyrights, indicating, for each, the applicable jurisdiction, record owner and registration number. Section 3.12(b) of the Disclosure Letter sets forth a complete and accurate list of all License Agreements granting any right to use or practice any material Intellectual Property, to which any of the Oak Hill Entities or the Subsidiaries is a party, except for those licenses for Software that may be readily obtained in the public marketplace for less than $1,500 individually, indicating for each the title, the parties and date.

(c) The Oak Hill Entities Intellectual Property owned by the Oak Hill Entities and the Subsidiaries is owned by one of the Oak Hill Entities or a Subsidiary free and clear of all Liens (other than Permitted Liens disclosed in Section 3.12(c) of the Disclosure Letter).

(d) Section 3.12(b) of the Disclosure Letter discloses all Domain Names owned by any Oak Hill Entity or any Subsidiary that incorporate any of the Trademarks.

(e) All Oak Hill Entities Intellectual Property owned by any Oak Hill Entity or any Subsidiary has been duly maintained, is valid and subsisting, in full force and effect, and has not been cancelled, expired, or abandoned. There is no pending, or, to the knowledge of the Oak Hill Parties, threatened, litigation, opposition, interference, or inter parties proceeding, administrative proceeding, demand (sent or received by any Oak Hill Party), cancellation proceeding before any court, registration authority, or administrative or arbitral tribunal in any jurisdiction against or relating to any of the Oak Hill Entities Intellectual Property owned by any Oak Hill Entity or any Subsidiary.

(f) Except as set forth in Section 3.12(f) of the Disclosure Letter, there are no settlements, forbearances to sue, consents, judgments, orders, or similar obligations to which any of the Oak Hill Entities or any Subsidiary is a party or is otherwise bound, which (i) materially restrict the rights of any of the Oak Hill Entities or any Subsidiary to use any Oak Hill Entities Intellectual Property, or (ii) permit third parties to use any Oak Hill Entities Intellectual Property owned by any Oak Hill Entity or any Subsidiary that would otherwise materially infringe any Oak Hill Entities Intellectual Property. The Oak Hill Entities and the Subsidiaries have not licensed or sublicensed their rights in any Oak Hill Entities Intellectual Property owned by any Oak Hill Entity or any Subsidiary other than pursuant to the License Agreements, and no royalties, honoraria or other fees are payable by the Oak Hill Entities or any Subsidiary for the use of or right to use any Oak Hill Entities Intellectual Property owned by any Oak Hill Entity or any Subsidiary in connection with the business of any of the Oak Hill Entities as currently conducted, except pursuant to the License Agreements.

(g) To the knowledge of the Oak Hill Parties, the Oak Hill Entities Intellectual Property owned by any Oak Hill Entity or any Subsidiary is not being violated or infringed by



any third party, and no such claims are pending against a third party by any Oak Hill Entity or any Subsidiary.

(h) The Oak Hill Entities and the Subsidiaries take reasonable measures to protect the confidentiality of their Trade Secrets.

(i) To the knowledge of the Oak Hill Parties, the conduct of the business of each of the Oak Hill Entities and the Subsidiaries as currently conducted does not materially infringe upon any Intellectual Property owned or controlled by any third party. Except as set forth in Section 3.12(i) of the Disclosure Letter, there are no material claims or suits pending or, to the knowledge of the Oak Hill Parties, threatened, and no Oak Hill Entity or any Subsidiary has received written notice of any third party claim or suit (i) alleging that its activities or the conduct of its business infringes upon or constitutes the unauthorized use of the Intellectual Property rights of any third party, nor alleging libel, slander, defamation, or other violation of a personal right, or (ii) challenging the ownership, use, validity or enforceability of any Oak Hill Entities Intellectual Property, in each case which if resolved adversely to the Oak Hill Entities, would reasonably be expected to have an Oak Hill Material Adverse Effect.

(j) Except as set forth in Section 3.12(j) of the Disclosure Letter, the consummation of the transactions contemplated hereby will not result in the loss or impairment of the right of any Oak Hill Entity or any Subsidiary to own or use any of the Oak Hill Entities Intellectual Property nor require the consent of any Governmental Authority or third party in respect of such Intellectual Property, except for those consents the absence of which, either individually or in the aggregate, would not reasonably be expected to have an Oak Hill Material Adverse Effect.

3.13 Insurance. The Oak Hill Entities and the Subsidiaries maintain the workers' compensation, comprehensive property and casualty, liability, errors and omissions, fidelity and other insurance described in Section 3.13 of the Disclosure Letter.

3.14 Financial Statements; Liabilities; Books and Records.

(a) OHA has provided to the iStar Parties its audited combined statements of financial position as of, and its audited combined statements of operations, changes in partners' capital/stockholder's equity and cash flows for, the fiscal year ended December 31, 2003, together with the notes thereto and the opinions of KPMG LLP thereon (collectively, the "OHA Audited Financial Statements"). The OHA Audited Financial Statements present fairly in all material respects, in conformity with GAAP, the financial condition, results of operations, changes in partners' capital/stockholder's equity and cash flows of OHA and certain affiliated advisory companies of OHA for the periods and dates covered thereby. Additionally, OHA has provided to the iStar Parties its unaudited combined statement of financial position as of, and the unaudited combined statement of operations, for the nine-month period ended September 30, 2004 (collectively, the "Unaudited Interim Financial Statements"). The Unaudited Interim Financial Statements present fairly in all material respects, in conformity with GAAP, the financial condition and results of operations of OHA for such period and date covered thereby, except for adjustments and accruals which are normally made at year end and the absence of footnote disclosures thereto.



(b) Except as set forth in Section 3.14(b) of the Disclosure Letter, OHA and its Subsidiaries do not have any liabilities or obligations of the kind required to be recorded or reflected on a balance sheet, including any notes thereto, under GAAP, whether absolute, accrued, asserted or unasserted, contingent or otherwise, except liabilities, obligations and contingencies, that (i) are reflected on or accrued or reserved against in the OHA 2003 Balance Sheet, or reflected in any notes thereto, or the September 30 Balance Sheet, or reflected in any notes thereto, or (ii) were incurred since September 30, 2004 in the ordinary course of business.

(c) Each of the Oak Hill Entities and the Subsidiaries has at all times since its formation maintained records which in all material respects accurately reflect all its material transactions in reasonable detail, and have at all times maintained accounting controls, policies and procedures reasonably designed to provide that such material transactions are executed in accordance with its management's general or specific authorization, as applicable, and recorded in a manner which permits the preparation of financial statements in accordance with GAAP and applicable regulatory accounting requirements and other account and financial data, and the documentation pertaining thereto is retained, protected and duplicated in accordance with applicable regulatory requirements.

3.15 Tax Matters.

(a) Each Oak Hill Entity and each Subsidiary has timely filed, or has had or caused to be timely filed on its behalf, all material Tax Returns required to be filed by it, and all such Tax Returns are true, complete and accurate in all material respects. All Taxes shown to be due on such Tax Returns, or otherwise owed, have been timely paid. Each Oak Hill Entity and each Subsidiary has withheld or collected and has paid over to the appropriate taxing authority (or is properly holding for payment to such taxing authority) all material Taxes required by Law to be withheld or collected. Complete and correct copies have been made available to the Purchaser and the Parent of (i) all income tax, and unincorporated business tax, gross receipts tax, personal property tax replacement income tax, franchise tax and other similar Tax Returns filed by each of the Oak Hill Entities and the Subsidiaries for the last three taxable years, and (ii) all Tax examination reports and statements of deficiencies assessed with respect to any Oak Hill Entity or Subsidiary for the last five taxable years.

(b) The OHA Audited Financial Statements reflect an adequate reserve in accordance with GAAP for all Taxes and deferred Taxes payable by the Oak Hill Entities and each Subsidiary for all taxable periods and portions thereof through the date of such financial statements. Except as set forth in Section 3.15(b) of the Disclosure Letter, no deficiency with respect to any Taxes has been proposed, asserted or assessed in writing or, to the knowledge of the Oak Hill Parties, threatened in writing against any Oak Hill Entity or any Subsidiary, no waivers of the time to assess any such Taxes are outstanding, and no requests for any other waivers are pending.

(c) Except as set forth in Section 3.15(c) of the Disclosure Letter, none of the Tax Returns of any Oak Hill Entity or any Subsidiary has been examined by any taxing authority or is currently being examined by any taxing authority or is the subject of a pending examination. All assessments for

Taxes due with respect to any completed or settled examinations or any concluded litigation have been fully paid. Except as set forth in Section 3.15(c) of the Disclosure



Letter, none of the Oak Hill Entities or the Subsidiaries has entered into a closing agreement with any taxing authority with respect to Taxes.

(d) There are no Liens for Taxes (other than for current Taxes not yet due and payable) on the assets of any Oak Hill Entity or any Subsidiary. Except as set forth in Section 3.15(d) of the Disclosure Letter, no Oak Hill Entity or Subsidiary is bound by or subject to any tax sharing, allocation or similar agreement or any indemnification or reimbursement agreement with respect to Taxes.

(e) No Oak Hill Entity or Subsidiary has agreed or is or will be required (including as a result of the transactions contemplated hereby) to make any positive adjustments to taxable income pursuant to Section 481 of the Code for any period following the Initial Closing except for any adjustments that are allocated in a manner consistent with the provisions of Section 6.3(b) of the Amended and Restated OHA LP Agreement.

(f) No claim or pending investigation has been proposed or asserted in writing, or to the knowledge of the Oak Hill Parties, has been threatened in writing, by any state, local or other jurisdiction with which an Oak Hill Entity or Subsidiary does not currently file Tax Returns, alleging that such Oak Hill Entity or Subsidiary has a duty to file Tax Returns and pay Taxes or is otherwise subject to the taxing authority of such jurisdiction, nor, to the knowledge of the Oak Hill Parties, has any Oak Hill Entity or Subsidiary received any written notice or questionnaire from any such jurisdiction that suggests or asserts that such Oak Hill Entity or Subsidiary may have a duty to file such Tax Returns and pay such Taxes, or otherwise is subject to the taxing authority of such jurisdiction.

(g) No Oak Hill Entity or Subsidiary has ever been (or has ever had any liability for unpaid Taxes because it once was) a member of an “affiliated group” (as defined in Section 1504(a) of the Code) or any consolidated, combined or unitary state or local Tax Return group.

(h) None of the transactions contemplated hereby will result in a tax termination of GenPar II LLC or GenPar Alpha LLC under Section 708(b)(1)(B) of the Code unless such entity and GenPar II or GenPar Alpha, as applicable, files a federal (and corresponding state and local) income Tax Return that includes a Section 754 election (and related tax basis adjustments consistent with the provisions of Section 6.5 hereof) for the taxable period ending with the date of such tax termination.

(i) Each Oak Hill Entity is and has at all times been classified and treated as a partnership for federal income tax purposes and in each state and local jurisdiction in which it files Tax Returns. Each Subsidiary has at all times been a disregarded entity of OHA or been classified and treated as a partnership for federal, state and local income tax purposes. Except as disclosed in Section 3.15(i) of the Disclosure Letter, no Tax Returns are required to be filed by any Subsidiary.

(j) As of the Initial Closing Date, none of the Oak Hill Entities owns, directly or indirectly (through one or more entities all of which are not “corporations” within the meaning of Section 7701(a)(3) of the Code and the Treasury Regulations), any Equity-Like Security of any issuer that operates or manages (within the meaning of Section 856(l)(3)(A) of the Code) a lodging or healthcare facility or that licenses or otherwise provides rights to any brand name



under which any lodging or healthcare facility is operated, unless in either case the issuer is a “corporation” (within the meaning of Section 7701(a)(3) of the Code and the Treasury Regulations). For purposes of this Section 3.15(j), a lodging facility means a hotel, motel or other establishment more than one-half of the dwelling units in which are used on a transient basis. For purposes of this Section 3.15(j), a healthcare facility means a hospital, nursing facility, assisted living facility, congregate care facility, continuing care facility or other licensed facility which extends medical or nursing or similar services. For purposes of this Section 3.15(j), an Equity-Like Security means any equity interest in the issuer, any option or warrant to acquire an equity interest in the issuer, any debt Security that the holder thereof agrees to treat as equity for federal income tax purposes and any deeply subordinated or participating debt Security; provided that for the avoidance of doubt, no Oak Hill Entity shall be deemed to own an interest in any Equity-Like Security owned by any entity solely by reason of the existence of a management agreement with respect to that entity.

(k) As of the Initial Closing Date, the Oak Hill Entities, individually and together, do not own, directly or indirectly, any TRS Security to the extent that the sum of the products of the ownership interests (expressed as a percentage) represented by the applicable Purchaser Partnership Interests or Purchaser LLC Interests in each Oak Hill Entity, multiplied by the percentage of the total voting power or value represented by all TRS Securities of the applicable issuer held (directly or indirectly) by such Oak Hill Entity, exceeds 35% of the total voting power or value of the outstanding Securities of such issuer. A TRS Security means any Security of a “corporation” (within the meaning of Section 7701(a)(3) of the Code and the Treasury Regulations) that is not a REIT or a “qualified REIT subsidiary” (as defined in Section 856(i)(2) of the Code); provided, however, that if (but only if) the only Security of the applicable issuer that is held by the Oak Hill Entities is a debt Security described in Section 1361(c)(5) (without regard to subparagraph (B)(iii) thereof) of the Code, then such Security shall not be treated as a TRS Security.

(l) As of the Initial Closing Date, except as disclosed in Section 3.15(l) of the Disclosure Letter, the Oak Hill Entities, individually and together, do not own, directly or indirectly, any Security (other than a debt Security described in Section 856(m)(2)(A)-(B) of the Code, a Security described in Section 856(m)(l)(B)-(G) of the Code or a Security described in Section 856(c)(4)(A) of the Code) in any issuer identified in the Securities List to the extent that the sum of the products of the ownership interests (expressed as a percentage) represented by the applicable Purchaser Partnership Interests or Purchaser LLC Interests in each Oak Hill Entity, multiplied by the percentage of the total value represented by all Securities (other than a debt Security described in Section 856(m)(2)(A)-(B) of the Code, a Security described in Section 856(m)(l)(B)-(G) of the Code or a Security described in Section 856(c)(4)(A) of the Code) of the applicable issuer held (directly or indirectly) by such Oak Hill Entity, exceeds 1% of the value of the outstanding Securities of such issuer.

3.16 Absence of Changes. Since December 31, 2003, through the date of this Agreement, except as set forth in Section 3.16 of the Disclosure Letter, each Oak Hill Entity and Subsidiary has conducted its business in the ordinary course thereof consistent with past practice, and with respect to any Oak Hill Entity or any Subsidiary, as the case may be, there has not been any:

(i) event, condition or contingency that would reasonably be expected to have an Oak Hill Material Adverse Effect;

(ii) (A) incurrence, payment or discharge of any liability or obligation (absolute, accrued, contingent or otherwise), (B) incurrence of indebtedness for borrowed money, (C) sale or transfer of any property, or (D) acquisition or sale, lease, grant of interest in, or other disposition of, any assets or businesses, in each case, other than in the ordinary course of business, consistent with past practice;

(iii) (A) guarantee or any other assumption of the obligations of any Person, or (B) making of any loan or advance to any Person (other than business-related advances to employees in the ordinary course of business, consistent with past practice and in an amount not in excess of $25,000 per employee or $100,000 in the aggregate or tax advances to partners or members);

(iv) settlement or compromise of any Action if the amount of such settlement will either not be paid in full prior to the Initial Closing or which settlement or compromise would reasonably be expected to have a continuing material adverse impact on the business of the Oak Hill Entities or any Subsidiary after the Initial Closing;

(v) Tax election or change in a Tax election or the filing for any change in any material respect of any method of accounting with the Internal Revenue Service, except as required by any change in Law;

(vi) change in any method of accounting applied in the preparation of the OHA Audited Financial Statements, and Unaudited Interim Financial Statements, other than a change which is required by reason of a concurrent change in Law or GAAP;

(vii) material change or modification in any of the Contracts, nor has any of the Oak Hill Entities or any Subsidiary entered into any Contract, except, in each case, in the ordinary and regular course of its business; and

(viii) agreement, whether in writing or otherwise, to take any action described in this Section 3.16.

3.17 Litigation and Claims.

(a) As of the date hereof, there is no material Action pending or, to the knowledge of the Oak Hill Parties, threatened, against (i) any Oak Hill Entity or any Subsidiary or to which any Oak Hill Entity or any Subsidiary is reasonably likely to become a party or (ii) against any director, officer, partner or member of any Oak Hill Entity or any Subsidiary in connection with their status as such.

(b) There is no Action pending or, to the knowledge of the Oak Hill Parties, threatened, against any Oak Hill Entity or any Subsidiary or to which any Oak Hill Entity or any Subsidiary is reasonably likely to become a party that would reasonably be expected to materially adversely affect any Oak Hill Entity's or any Subsidiary's ability to consummate the transactions contemplated hereby or by the Related Agreements. There is no Order imposed



upon any Oak Hill Entity or Subsidiary or their respective properties or assets or any of their Affiliated Persons relating to any Oak Hill Entity or any Subsidiary.

3.18 Governmental Permits; Compliance with Applicable Law.

(a) Each Oak Hill Entity and Subsidiary owns, holds or possesses all material Governmental Permits which are necessary to entitle it to own or lease, operate and use its assets and to carry on and conduct its business substantially as currently conducted.

(b) Section 3.18(b) of the Disclosure Letter sets forth a complete and correct list and brief description of each Governmental Permit owned, held or possessed by the Oak Hill Entities and Subsidiaries, except for such Governmental Permits which would be obtainable in due course by any qualified applicant without any undue burden or cost in the event of any failure to apply, lapse, termination, cancellation or forfeiture thereof. Except as set forth in Section 3.18(b) of the Disclosure Letter, (i) each Oak Hill Entity and Subsidiary has fulfilled and performed in all respects its obligations under each of the Governmental Permits which it owns, holds or possesses other than where the failure to perform would not reasonably be expected to have an Oak Hill Material Adverse Effect, and (ii) no notice of cancellation, of default or of any material dispute concerning any Governmental Permit, has been received by the Oak Hill Sellers or any Oak Hill Entity or Subsidiary other than where any such cancellation, default or dispute, individually or in the aggregate, would not reasonably be expected to have an Oak Hill Material Adverse Effect.

(c) Each Oak Hill Entity and Subsidiary is in compliance in all material respects with all Laws which are applicable to its business.

(d) OHA is duly registered as an investment adviser with the Securities and Exchange Commission under the Investment Advisers Act. Except for OHA, no Oak Hill Entity is required to register as an investment adviser with the Securities and Exchange Commission under the Investment Advisers Act. No Oak Hill Entity is required to register in any capacity under the Commodity Exchange Act or the Exchange Act. Each investment advisory representative of OHA has obtained and maintains all material licenses, registrations or qualifications in each state in which such licensing, registration or qualification is required by virtue of the activities of such Person. Each Oak Hill Entity and Subsidiary has made such notice filings with such states as are required by state Law, except where such failure, either individually or in the aggregate, would not reasonably be expected to have an Oak Hill Material Adverse Effect.

(e) Each Oak Hill Entity and Subsidiary has timely filed all forms, reports, registration statements, schedules and other documents, together with any amendments required to be made with respect thereto, that were required to be filed with any Governmental Authority, and has paid all fees and assessments due and payable in connection therewith, except where such failure, either individually or in the aggregate, would not reasonably be expected to have an Oak Hill Material Adverse Effect.

(f) As of their respective dates, all forms, reports, registration statements, schedules or other filings made by each Oak Hill Entity and Subsidiary with Governmental Authorities complied in all material respects with applicable Laws.



(g) Except for (i) the registrations described in Section 3.18(d) and (e) above, the business activities of the Oak Hill Entities, the Subsidiaries and their respective employees (acting in their capacities as such), as presently and heretofore conducted, do not require any registrations under applicable Law except for such registrations the absence of which would not reasonably be expected to have an Oak Hill Material Adverse Effect.

(h) Section 3.18(h) of the Disclosure Letter lists the dates of, and describes in reasonable detail, all Actions commenced by any Governmental Authority against the Oak Hill Entities and the Subsidiaries and Affiliated Persons (in their capacities as such) conducted since January 1, 1999 by any applicable Governmental Authority.

(i) Except as set forth in Section 3.18(i) of the Disclosure Letter, no Affiliated Person of the Oak Entities or Subsidiaries (i) has ever been censured, suspended, barred, disciplined, or otherwise had their activities restricted by any Governmental Authority, (ii) is subject to an order of the Securities and Exchange Commission issued under Section 203(f) of the Investment Advisers Act, (iii) has been convicted within ten years of the date hereof of any felony or misdemeanor involving conduct described in Section 203(e)(2)(A)-(D) of the Investment Advisers Act, (iv) has been found by any Governmental Authority to have engaged, and has been convicted of engaging, in any of the conduct specified in paragraph (1), (5) or (6) of Section 203(e) of the Investment Advisers Act, (v) is subject to an order, judgment or decree described in Section 203(e)(4) of the Investment Advisers Act or (vi) has been found by a court or Governmental Authority to have made a false statement or omission or to have engaged in dishonest activities.

(j) Except with respect to any Employee Benefit Plan of the Oak Hill Entities: (i) the Oak Hill Entities and their Subsidiaries have operated their businesses with the intention of avoiding becoming a “fiduciary” (within the meaning of Section 3(21) of ERISA) or managing “plan assets” (within the meaning of 29 C.F.R. Section 2510.3-101 (the “Plan Asset Regulation”) or Section 401 of ERISA) with respect to any Code Plan or any ERISA Plan (A) by structuring its operations for the purpose of conforming with the requirements of the Plan Asset Regulation (generally relating to ensuring that the assets of any benefit plan investor are invested in a “VCOC” (as defined in the Plan Asset Regulation) and/or managing the assets of entities in which benefit plan investor participation is not “significant” (within the meaning of the Plan Asset Regulation)) and Section 401 of ERISA, and (B) by taking all reasonably prudent steps necessary (including, without limitation, the establishment of, and compliance with, relevant policies and procedures) to avoid becoming such a “fiduciary” of any Code Plan or any ERISA Plan and to avoid the management of “plan assets” of any Code Plan or any ERISA plan; and (ii) to the knowledge of the Oak Hill Parties, (x) the Oak Hill Entities and their Subsidiaries have operated their businesses in full conformity with the Plan Asset Regulation and Section 401 of ERISA to avoid becoming a “fiduciary” of any Code Plan or any ERISA Plan, and to avoid managing “plan assets” of any Code Plan or any ERISA Plan, (y) on the basis of the Plan Asset Regulation, Section 401 of ERISA and the taking of all reasonably prudent steps necessary to avoid becoming a “fiduciary” of any Code Plan or any ERISA Plan, or a manager of “plan assets” of any Code Plan or any ERISA Plan, the Oak Hill Entities and their Subsidiaries are not managing any “plan assets” of any Code Plan or any ERISA Plan, and are not a “fiduciary” with respect to any Code Plan or any ERISA Plan, and (z) neither the execution of this Agreement nor the consummation of the transactions contemplated hereby will give rise to a nonexempt “prohibited transaction” within the meaning of Section 406 of ERISA or Section 4975 of the



Code; provided, however, that the foregoing representation in clause (z) is made on the basis of a representation by the iStar Parties, which representation is hereby given, that the iStar Parties are not using the assets of any Code Plan or ERISA Plan or otherwise engaging in a prohibited transaction with respect to any such plan by entering into or performing under this Agreement.

3.19 The Funds. Except as set forth in Section 3.19 of the Disclosure Letter:

(a) The Funds are all separately managed accounts, collateralized loan or debt obligations or private investment vehicles, which are not required to be registered under the Investment Company Act, for which any Oak Hill Entity or Subsidiary acts as investment adviser, or the like.

(b) The Funds have timely filed all forms, reports, registration statements, schedules and other documents, together with any amendments required to be made with respect thereto, that were required to be filed with any Governmental Authority, and have paid all fees and assessments due and payable in connection therewith, except where such failure, either individually or in the aggregate, would not reasonably be expected to have an Oak Hill Material Adverse Effect.

(c) All information provided by an Oak Hill Entity, Subsidiary or Affiliated Person expressly for use in a Fund Document complied in all material respects with the requirements of applicable Laws.

(d) No Oak Hill Entity or Subsidiary has received notice from any Governmental Authority advising it of the initiation of an Action related to the business or operations of any of the Funds. To the knowledge of the Oak Hill Parties, there is no unresolved violation, criticism or exception made in writing by any Governmental Authority with respect to any report or statement by such Governmental Authority related to any examination of the Funds.

(e) The Disclosure Letter lists the dates of and describes in reasonable detail, all Actions related to the Funds conducted since January 1, 1999 by any Governmental Authority.

(f) The Oak Hill Parties have caused each Fund (other than the Separately Managed Accounts and those Funds where audited financial statements are not required in accordance with the applicable Fund Documents) to provide to the iStar Parties its audited balance sheets as of, and its audited statements of operations, changes in partners’ capital, cash flows and investments for, the fiscal years ended December 31, 2003 and December 31, 2002 or, in the case of any Fund that did not exist prior to the end of any of such years, any such financial statements for each of such fiscal years during which such Fund existed, together with the notes thereto and the opinions of KPMG LLP thereon (the “Audited Fund Financial Statements”). The Audited Fund Financial Statements present fairly in all material respects, in conformity with GAAP and its respective Fund Documents, the financial condition, results of operations, changes in partners’ capital and cash flows of each Fund for the periods and dates covered thereby. Additionally, the Oak Hill Parties have caused each Fund (other than the Separately Managed Accounts and those Funds where audited financial statements are not required in accordance with the

applicable Fund Documents) to provide to the iStar Parties its unaudited balance sheets as of, and its unaudited consolidated statements of operations, changes in partners' capital, cash flows and investments for, the nine-month period ended September 30, 2004 (the "Unaudited



Interim Fund Financial Statements"). Such Unaudited Interim Fund Financial Statements present fairly in all material respects, in conformity with GAAP and its respective Fund Documents, the financial condition, results of operations, changes in partners' capital and cash flows for such period and date covered thereby, except for adjustments and accruals which are normally made at year end, the absence of footnote disclosures thereto and as provided in its respective Fund Documents.

(g) Except as set forth in Section 3.19(g) of the Disclosure Letter, the Funds do not have any liabilities or obligations of the kind required to be recorded on a balance sheet, including any notes thereto, under GAAP, whether absolute, accrued, asserted or unasserted, contingent or otherwise, except liabilities, obligations and contingencies, that (i) are reflected on or accrued or reserved against in the balance sheet contained in the Unaudited Interim Fund Financial Statements, or reflected in any notes thereto, or (ii) were incurred since September 30, 2004 in the ordinary course of business.

(h) Except as set forth in Section 3.19(h) of the Disclosure Letter, each of the Funds has at all times since its formation maintained records which in all material respects accurately reflect all its transactions in reasonable detail, and has at all times maintained accounting controls, policies and procedures reasonably designed to provide that such transactions are executed in accordance with its management's general or specific authorization, as applicable, and recorded in a manner which permits the preparation of financial statements in accordance with GAAP and applicable regulatory accounting requirements and other account and financial data, and the documentation pertaining thereto is retained, protected and duplicated in accordance with applicable regulatory requirements.

(i) Each Fund has, with respect to all of its material contracts or other instruments, performed in all material respects all obligations required to be performed by it, and is not in default in any material respect under any such contract or instrument, and, to the knowledge of the Oak Hill Parties, no other party to any such contract or instrument is in default in any material respect under any such contract or instrument. No event has occurred which, with the lapse of time or the giving of notice or both, would constitute a default in any material respect by any Fund, or, to the knowledge of the Oak Hill Parties, by any other party to any such contract or instrument.

(j) The Oak Hill Parties have made available to the iStar Parties complete and correct copies of the Organizational Documents of each Fund. The Oak Hill Parties have made available to the iStar Parties complete and correct in all material respects copies of all minute books and all other existing records of any meeting of the partners of each Fund.

3.20 Environmental Matters. Except as set forth in Section 3.20 of the Disclosure Letter:

(i) None of the Oak Hill Entities or any Subsidiary has materially violated or is in material violation of any Environmental Law;

(ii) There are no Environmental Conditions present at, on, or under, any Facility as a result of activities of any Oak Hill Entity or any Subsidiary or any of their employees or agents or, to the knowledge of the Oak Hill Parties, as a result of activities



of any other Person, in amounts exceeding the levels permitted by applicable Environmental Law or under circumstances that would reasonably be expected to result in liability in any material respect under or relating to Environmental Law;

(iii) None of the Oak Hill Entities or any Subsidiary has disposed of, arranged for the disposal of, released, threatened to release, or transported any Hazardous Substances in violation of any applicable Environmental Law or in a manner that would reasonably be expected to result in liability to any Person, except as would not reasonably be expected to have an Oak Hill Material Adverse Effect;

(iv) None of the Oak Hill Entities or any Subsidiary is subject to any Actions, is subject to any Order or has received any notice or other communication from any Governmental Authority or the current or prior owner or operator of any of their facilities or any other Person, in each case with respect to any actual or potential violation or failure to comply with any Environmental Law or of any actual or threatened obligation or liability under any Environmental Law, or regarding any Hazardous Substances; and to the knowledge of the Oak Hill Parties, none of the Oak Hill Entities or the Subsidiaries is threatened with any such written Action, Order, notice or communication;

(v) None of the Oak Hill Entities or any Subsidiary has assumed under any contract any liability or obligation under or relating to Environmental Laws or Hazardous Substances; and

(vi) There are no Environmental Reports in the custody or control of the Oak Hill Entities or any Subsidiary relating to their facilities, business of any Oak Hill Entity or any Subsidiary or activities of any Oak Hill Entity or any Subsidiary that have not been made available to the iStar Parties.

3.21 Employee Plans.

(a) Section 3.21(a) of the Disclosure Letter lists each Employee Benefit Plan of the Oak Hill Entities. Except for the Employee Benefit Plans of the Oak Hill Entities, none of the Oak Hill Entities nor any of their Subsidiaries has any liability for any Employee Benefit Plan maintained or contributed to by any current or former Oak Hill Plan Affiliate. None of the Employee Benefit Plans of the Oak Hill Entities is subject to Section 412 of the Code, Section 302 of ERISA or Title IV of ERISA and none of the Oak Hill Entities or any of their Subsidiaries has any liability under Section 412 of the Code, Section 302 of ERISA or Title IV of ERISA.

(b) The Oak Hill Entities have delivered complete and correct copies to the iStar Parties of (i) each written Employee Benefit Plan of the Oak Hill Entities, as amended to the Initial Closing, together with all required unaudited financial statements and actuarial reports for the three most recent plan years, if any; (ii) each funding vehicle with respect to each such plan; (iii) the most recent and any other material determination letter, ruling or notice issued

by any Governmental Authority with respect to such plan; (iv) the Form 5500 Annual Report (or evidence of any applicable exemption) for the three most recent plan years to the extent such forms are required for any Employee Benefit Plan; (v) the most recent summary plan description and any summary of material modifications thereto which relates to any such plan; and (vi) each



other document, explanation or communication which describes any material aspect of any such plan that is not disclosed in previously or subsequently delivered materials. A description of any unwritten Employee Benefit Plans of the Oak Hill Entities, including a description of any material terms of such plan, is set forth in Section 3.21(b) of the Disclosure Letter.

(c) Each Employee Benefit Plan of the Oak Hill Entities (i) has been in material compliance and currently complies in all material respects in form and in operation in all respects with all applicable requirements under ERISA, the Code or any other applicable Law, and in accordance with its terms; and (ii) has, with respect to each such plan which is intended to be qualified under Section 401(a) of the Code, received a determination letter from the Internal Revenue Service with respect to its qualified status, and, since the date of such determination letter, to the knowledge of the Oak Hill Parties, nothing has occurred which would reasonably be expected to result in revocation of such plan's qualified status under Section 401(a) of the Code, and (iii) has, with respect to each plan which is not intended to qualify under Section 401(a) of the Code, been and is operated and funded in such a manner as to qualify, where appropriate, for both federal and state purposes, for income tax exclusions to its participants, tax-exempt income for its funding vehicle, and the allowance of deductions and credits with respect to contributions thereto.

(d) None of the Employee Benefit Plans of the Oak Hill Entities is (i) a plan which is a "multiemployer plan" as defined in Section 4001 of ERISA, (ii) a "multiemployer plan" within the meaning of Section 3(37) of ERISA, (iii) except as set forth in Section 3.21(d) of the Disclosure Letter, a "multiple employer plan" within the meaning of Code Section 413(c), or (iv) a "multiple employer welfare arrangement" within the meaning of Section 3(40) of ERISA.

(e) There are no actions, suits, investigations or claims pending or, to the knowledge of the Oak Hill Parties, threatened with respect to any Employee Benefit Plan of the Oak Hill Entities, or the assets thereof (other than routine claims for benefits), and to the knowledge of any Oak Hill Party, there are no facts which would reasonably be expected to give rise to any liability, action, suit, investigation, or claim against any Employee Benefit Plan of the Oak Hill Entities, any fiduciary or plan administrator or other person dealing with any Employee Benefit Plan of the Oak Hill Entities or the assets thereof other than routine claims for benefits.

(f) No person: (i) has entered into any nonexempt "prohibited transaction," as such term is defined in ERISA and the Code, with respect to any Employee Benefit Plan of the Oak Hill Entities; (ii) has breached a fiduciary obligation with respect to any Employee Benefit Plan of the Oak Hill Entities; or (iii) otherwise has any liability for any failure to act or comply in connection with the administration or investment of the assets of any such plan.

(g) Except as set forth in Section 3.21(g) of the Disclosure Letter, to the knowledge of the Oak Hill Parties, each Employee Benefit Plan of the Oak Hill Entities may be amended, terminated, modified or otherwise revised by the Oak Hill Entities or their Subsidiaries, as applicable, on and after the Initial Closing, without further liability to any of the Oak Hill Entities or their Subsidiaries, other than accrued costs, claims in process, wind-down expenses or liabilities imposed by statute or regulation (including, without limitation, COBRA, as defined below).



(h) No Employee Benefit Plan of the Oak Hill Entities provides medical, health, life insurance or other welfare-type benefits to retirees or former employees or individuals who terminate (or have terminated) employment with any of the Oak Hill Entities or their Subsidiaries, or the spouses or dependents of any of the foregoing (except for limited continued medical benefit coverage for former employees, their spouses and other dependents as required to be provided under Section 4980B of the Code or Part 6 of Subtitle B of Title I of ERISA ("COBRA") or applicable similar state law).

(i) With respect to the six year period prior to the Initial Closing, the requirements of COBRA or any applicable similar state Law have been satisfied with respect to each Employee Benefit Plan of the Oak Hill Entities.

(j) With respect to each Employee Benefit Plan of the Oak Hill Entities, all contributions, payments, premiums, expenses, reimbursements or accruals for all periods ending prior to or as of the Initial Closing (including periods from the first day of the then current plan year to the Initial Closing) shall have been made or accrued on the appropriate financial statements and each such plan has no unfunded liability which is not reflected on the appropriate financial statements.

(k) Except as would not reasonably be expected to result in material liability to the Oak Hill Entities or Subsidiaries, no communication or disclosure has been made that, at the time made, did not accurately reflect the terms and operations of any Employee Benefit Plan of the Oak Hill Entities.

(l) No Employee Benefit Plan of the Oak Hill Entities or any other agreement, program, policy or other arrangement by or to which any of the Oak Hill Entities or any of their Subsidiaries are a party, are bound or are otherwise liable, by its terms or in effect could reasonably be expected to require any payment or transfer of money, property or other consideration on account of or in connection with the transactions contemplated by this Agreement or any subsequent termination of employment related to the transactions contemplated by this Agreement which payment could constitute an "excess parachute payment" within the meaning of Section 280G of the Code.

(m) Except as set forth in Section 3.21(m) of the Disclosure Letter, to the knowledge of the Oak Hill Parties, no Oak Hill Employee Benefit Plan is both (i) a non-qualified deferred compensation plan as defined in section 409A of the Code, and (ii) non-compliant with the requirements of section 409A of the Code; provided, however, that any such plan will be deemed to comply with Section 409A of the Code if (A) it is eligible for grandfathered treatment, or (B) it can be brought into compliance with such section by December 31, 2005, in accordance with Section 409A of the Code and any guidance issued by the U.S. Treasury Department thereunder, or otherwise.

3.22 Fiduciary Commitments and Duties. Assuming the Notices have been delivered in the manner specified in Section 5.8 of the Disclosure Letter, each Oak Hill Entity and Subsidiary has performed in all material respects all of its duties as a fiduciary under the Investment Advisers Act, and has complied in all material respects, in its capacity as a fiduciary, with all applicable Laws, Orders, agreements and instruments, except as expressly provided in the Investment Advisory Contracts.

3.23 No Finder. Except for the engagement of Morgan Stanley & Co., Inc., which obligation shall be the sole responsibility of the Oak Hill Sellers or the Seller Principals, none of the Oak Hill Entities or any party acting on their behalf, has paid or become obligated to pay any fee or commission to any broker, finder or intermediary for or on account of the transactions contemplated hereby or by the Related Agreements.

3.24 OHAI/OHAMI. Other than the Investment Advisory Agreements and certain other agreements being transferred to OHAI and OHAMI as contemplated by the OHAI Contribution and the OHAMI Contribution, respectively, and except as otherwise set forth in Section 3.24 of the Disclosure Letter, neither OHAI nor OHAMI has any material assets, including, without limitation, assets used in or necessary to conduct the business of any Oak Hill Entity or any Subsidiary. The representation contained in this Section 3.24 is solely being made by OHAMI and August and only OHAMI and August shall have any liability in connection herewith if breached.

3.25 Assets Under Management. Set forth in Section 3.25 of the Disclosure Letter is a complete and correct list of the fee basis amounts of assets under management, administration or custody by the Oak Hill Entities and the Subsidiaries as of the dates set forth in such Letter.

## ARTICLE IV

## REPRESENTATIONS AND WARRANTIES OF THE iSTAR PARTIES

Each iStar Party represents and warrants to the Oak Hill Sellers and the Oak Hill Principals as follows, subject to such exceptions or qualifications as are disclosed in writing in the iStar Disclosure Letter, which is arranged in paragraphs corresponding to the numbered and lettered paragraphs contained in this Agreement and the disclosures in any paragraph of the iStar Disclosure Letter shall also constitute disclosure under, and shall also qualify, the other paragraphs in this Agreement to the extent that the relevance of such disclosures are apparent on their face. The inclusion of any information in any section of the iStar Disclosure Letter or other document delivered pursuant to this Agreement shall not be deemed to be an admission or evidence of the materiality of such item, nor shall it establish a standard of materiality for any purpose whatsoever.

4.1 Organization; Good Standing.

(a) Each iStar Party is a corporation duly organized, validly existing and in good standing under the Laws of the state of the jurisdiction in which it is incorporated. The Purchaser will not own any assets other than the Purchaser Partnership Interests, the Purchaser Designee that purchases the Purchaser GenPar II LLC Interests will not own any assets other than the Purchaser GenPar II LLC Interests and the Purchaser Designee that purchases the Purchaser GenPar Alpha LLC Interests will not own any assets other than the Purchaser GenPar Alpha LLC Interests.

(b) Each iStar Party has full power and authority to conduct all of the business and activities conducted by it, and to own or lease all of the assets owned or leased by it; and is duly licensed or qualified to do business and is in good standing as a foreign entity in all jurisdictions



in which the nature of the business and activities conducted by it, and/or the character of the assets owned or leased by it, makes such qualification or license necessary, except for those jurisdictions in which the failure to be so qualified or licensed, individually or in the aggregate, would not limit its ability to consummate the transactions contemplated hereby and by the Related Agreements or would reasonably be expected to have an iStar Material Adverse Effect.

4.2 Authority; Execution and Delivery; Enforceability.

(a) Each iStar Party has full corporate power and authority to execute and deliver this Agreement and, to the extent a party thereto, the Related Agreements, to perform its respective obligations hereunder and under the Related Agreements and to consummate the transactions contemplated hereby and by such Related Agreements.

(b) All corporate acts and other proceedings required to be taken by each iStar Party to authorize the execution, delivery and performance of this Agreement and such Related Agreements have been duly and properly taken.

(c) Each of this Agreement and (when executed) the Related Agreements has been (or will be) duly executed and delivered by each iStar Party, and constitutes (or will, when executed, constitute) the legal, valid and binding obligation of each iStar Party enforceable against each iStar Party in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, moratorium and other similar Laws of general applicability relating to or affecting creditors' rights and to general equity principles.

4.3 Non-Contravention. The execution and delivery of this Agreement and the Related Agreements by each iStar Party (to the extent a party thereto) does not and will not, and the consummation of the transactions contemplated at the Closings hereby and by such Related Agreements and compliance with the terms hereof and of such Related Agreements, will not:

(i) constitute a violation or breach of the Organizational Documents of any iStar Party;

(ii) constitute a default under or a violation or breach of, or result in the acceleration of any obligation under, or require the consent of any Person under, any provision of any contract or other instrument to which any iStar Party is a party or by which any of the assets of any iStar Party may be affected or secured; or

(iii) violate any Order or any Law affecting any iStar Party or the assets of any iStar Party.

4.4 Governmental Consents and Approvals. No consent, approval, license, permit, order or authorization of, or registration, declaration or filing with, any Governmental Authority is required to be obtained by or on behalf of any iStar Party in connection with the execution, delivery and

performance of this Agreement or the Related Agreements (to the extent a party thereto) or the consummation of the transactions contemplated at the Closings hereby and by such Related Agreements.



4.5 iStar Shares. The iStar Shares when issued in accordance with the terms of this Agreement, will be duly and validly issued, fully paid and non-assessable, will be free and clear of any Liens, other than restrictions on transferability imposed under the Shareholder's Agreement, the Securities Act and restrictions on ownership intended to preserve the Parent's status as a REIT, as set forth in its organizational documents, will not be subject to preemptive rights and will not subject the holder thereof to personal liability by reasons of being such a holder.

4.6 Litigation and Claims. There is no Action pending or, to the knowledge of the iStar Parties, threatened, against any iStar Party or to which any iStar Party is reasonably likely to become a party that would reasonably be expected to materially adversely affect any iStar Party's ability to consummate the transactions contemplated hereby or by the Related Agreements.

4.7 SEC Reports. The Parent has filed all forms, reports and documents required to be filed by it with the Securities and Exchange Commission since January 1, 2004 (the "SEC Reports"). The SEC Reports (i) were prepared in all material respects in accordance with the requirements of the Securities Act or the Exchange Act, as the case may be, and (ii) did not at the time they were filed contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. Each of the balance sheets (including the related notes) included in the SEC Reports presents fairly in all material respects the consolidated financial position of the Parent as of the respective dates thereof, and the other related financial statements (including the related notes) included therein presented fairly in all material respects the consolidated results of operations and changes in financial position of the Parent for the respective periods indicated, except, in the case of interim financial statements, for year-end audit adjustments, consisting only of normal recurring accruals. Each of the financial statements (including the related notes) included in the SEC Reports has been prepared in accordance with GAAP, except as otherwise noted therein or, in the case of the unaudited financial statements, as permitted by the applicable rules and regulations of the Securities and Exchange Commission.

4.8 Private Offering. Subject to the accuracy of the representations and warranties of the Oak Hill Sellers and the Seller Principals contained herein, the offer, sale and issuance of the iStar Shares, as contemplated hereby, are exempt from the registration requirements of the Securities Act. The Parent has not offered or sold the iStar Shares by any form of general solicitation or general advertising, as such terms are used in Rule 502(c) under the Securities Act.

4.9 REIT Status. The Parent (i) qualifies as a REIT, (ii) for all taxable years commencing with its taxable year of formation through its taxable year ended December 31, 2004, has been subject to taxation as a REIT, and (iii) has operated, and intends to continue to operate, in such manner as to qualify as a REIT for the taxable year ending December 31, 2005 and subsequent taxable years. To Parent's knowledge, no action, proceeding or investigation that would reasonably be expected to result in the termination of Parent's status as a REIT has been taken or omitted or is pending or threatened in writing.



4.10 Sources of Funds. The Parent has the funds necessary to consummate the transactions on the terms contemplated by this Agreement.

4.11 Books and Records. The Parent has made available to the Oak Hill Parties and the Seller Principals complete and correct in all material respects copies of all minute books and all other existing records of any meeting of the board of directors, or the audit committee thereof, for the Parent's three preceding fiscal years.

4.12 No Finder. Neither any iStar Party nor any party acting on their behalf has paid or become obligated to pay any fee or commission to any broker, finder or intermediary for or on account of the transactions contemplated hereby or by the Related Agreements.

4.13 Investment Intention and Accredited Investor.

(a) The iStar Parties are acquiring the Purchaser Partnership Interests and the Purchaser LLC Interests for their own account for investment only, and not with a view towards their distribution. The iStar Parties understand that the Purchaser Partnership Interests and the Purchaser LLC Interests are being offered and sold pursuant to an exemption from registration contained in the Securities Act. The iStar Parties also understand that they must bear the economic risk of this investment indefinitely unless the Purchaser Partnership Interests and the Purchaser LLC Interests are registered pursuant to the Securities Act, or an exemption from registration is available.

(b) Each of the iStar Parties represents that it is an "accredited investor" within the meaning of Regulation D under the Securities Act.

4.14 No Other Representations and Warranties. Notwithstanding anything to the contrary contained in this Agreement, each of the iStar Parties acknowledges and agrees that none of the Oak Hill Parties or any of their respective Affiliates has made or is making any representations or warranties whatsoever, express or implied, beyond those expressly given in Articles II and III of this Agreement (as supplemented or amended by the Disclosure Letter). Any claims the iStar Parties may have for a breach of a representation or warranty contained in this Agreement shall be based solely on the representations and warranties set forth in Articles II and III of this Agreement (as supplemented or amended by the Disclosure Letter). Without affecting the representations and warranties of the Oak Hill Parties contained in this Agreement, each of the iStar Parties further represents that none of the Oak Hill Parties or any of their respective Affiliates, or any other Person has made any representation or warranty, express or implied, as to the accuracy or completeness of any information regarding the Oak Hill Entities including without limitation (i) any confidential memoranda, financial or other projections and forward looking statements, budgets or Fund Documents distributed on behalf of any Oak Hill Party or relating to any Oak Hill Entity or any of the Funds, (ii) other publications or data room information provided to the iStar Parties or their respective representatives, and (iii) any other document or information in any form provided to the iStar Parties or their representatives in connection with the transactions contemplated hereby, or the transactions contemplated by this Agreement and the Related Agreements not expressly set forth in this Agreement. Without affecting the representations and warranties contained in this Agreement, each of the iStar Parties acknowledges that it has conducted to its satisfaction, its own independent investigation of the condition, operations and business of the Oak Hill Entities and the Funds and, in making its

determination to proceed with the transactions contemplated by this Agreement, the iStar Parties have relied on the results of their own independent investigation together with the representations and warranties of the Oak Hill Parties contained in this Agreement.

4.15 Taxes. Parent and each Subsidiary of Parent has timely filed all Tax Returns required to be filed by it, and all such Tax Returns are true, complete and accurate in all material respects. All Taxes shown to be due on such Tax Returns, and all material Taxes otherwise owed, have been paid. No material deficiencies for any Taxes have been or are currently being proposed, asserted or assessed in writing, or to the knowledge of Parent, threatened in writing by any Governmental Authority against Parent or any Subsidiary of Parent. The most recent audited financial statements contained in the SEC Reports reflect an adequate accrual in accordance with GAAP for all Taxes and deferred Taxes payable by Parent and the Subsidiaries of Parent for all taxable periods and portions thereof through the date of such financial statements. Since the date of such financial statements, (i) Parent has incurred no material liability for Taxes under Sections 856(c)(7), 857(b)(4), 857(b)(5), 857(b)(6), 857(b)(7), 860(c) or 4981 of the Code, and (ii) no condition or circumstance exists which presents a material risk that any material Tax described in this sentence will be imposed upon Parent or any Subsidiary of Parent. Neither Parent nor any Subsidiary is bound by or subject to any written Tax sharing or similar agreement or arrangement.

## ARTICLE V

## ACTION PRIOR TO THE INITIAL CLOSING DATE

From and after the execution of this Agreement until the Initial Closing Time (or earlier termination of this Agreement in accordance with Section 10.1):

5.1 Conduct of Business.

(a) Except for the Reclassification, the Reorganization, the OHAMI Contribution, the OHAI Contribution, the Keystone Payment and any other transaction in respect of the Excluded Assets, and as otherwise set forth in Section 1.6 (collectively, the "Permitted Transactions"), each Oak Hill Entity shall, and each Oak Hill Seller and each Seller Principal shall cause each Oak Hill Entity and Subsidiary to, (i) carry on its business in the ordinary course of business in accordance with past practice; (ii) use commercially reasonable efforts to preserve its respective present business organization and relationships; (iii) use commercially reasonable efforts to keep available the present services of its employees; and (iv) use commercially reasonable efforts to preserve and enhance its assets under management, administration and custody and profitability and the goodwill and relations of its clients and others with whom business relationships exist consistent with past practice.

(b) Notwithstanding Section 5.1(a), and except for the Permitted Transactions, from and after the date hereof and through and until the Initial Closing none of the Oak Hill Entities or any Subsidiary shall, and each Oak Hill Seller and Seller Principal shall cause the Oak Hill Entities and the Subsidiaries not to, without the prior written consent of the Parent (such consent not to be unreasonably withheld, delayed or conditioned):



(i) take any action that would be prohibited by the provisions of Section 8.4 of the Amended and Restated OHA LP Agreement as if such provisions were in effect as of the date of this Agreement;

(ii) incur any indebtedness or issue any debt securities, or assume, guarantee or otherwise become responsible for the obligation of another Person;

(iii) make or change any material Tax elections, make any material change in accounting methods with respect to Taxes, settle or offer to settle any material Tax controversy or file any amended Tax Return;

(iv) make any change in the methods of accounting or accounting principals applied in the preparation of financial statements of the Oak Hill Entities, other than a change which is required by reason of a concurrent change in Law or GAAP;

(v) amend its Organizational Documents (other than as contemplated hereby or by the Related Agreements), or cause any Fund Document to be amended or modified in any material respect;

(vi) issue, deliver, or agree (actually or contingently) to issue or deliver (whether pursuant to any option or otherwise), or grant or modify any option, warrant or other right to purchase or otherwise acquire, any equity interests of any Oak Hill Entity or any Subsidiary, as the case may be, or any security convertible into or exchangeable for, any such interests, or issue or agree to issue any bonds, notes, or other securities;

(vii) enter into any partnership or joint venture agreement or arrangement or any other agreement involving a sharing of revenue or profits;

(viii) take any action or omit to take any action that would reasonably be expected to cause the representations made in subparagraphs (h), (i), (j) or (k) of Section 3.15 to be untrue in any respect as of the Initial Closing Date;

(ix) take any action or omit to take any action that would reasonably be expected to cause the representation made in Section 3.15(l) to be untrue in any respect as of the Initial Closing Date based on the Securities List then in effect; or

(x) agree, whether in writing or otherwise, to do any of the foregoing.

5.2 No Breach of Representations and Warranties; Notification of Certain Matters. Each of the parties hereto will use his or its commercially reasonable efforts to refrain from taking any action, and each of them will endeavor in good faith not to permit any event to occur, which (a) would cause the conditions set forth in Articles VII and VIII not to be satisfied, or (b) would otherwise prohibit such party from consummating the transactions contemplated hereby or by any Related Agreement. The parties hereto will, in the event of, and promptly after the occurrence of, or promptly after becoming aware of the occurrence of, or the impending or threatened occurrence of, any event or condition which would reasonably be expected to result in the inability of any

condition contained in Articles VII or VIII to be satisfied or would otherwise prevent it from consummating the transactions contemplated hereby or by any Related



Agreement, give detailed written notice thereof to the other parties hereto and each such party shall use its commercially reasonable efforts to prevent or promptly to remedy such breach. None of the disclosures pursuant to this Section 5.2 will be deemed to qualify, modify, amend or supplement the representations, warranties or covenants of any party hereto.

5.3 Access. Subject to the terms of the November Confidentiality Agreement, the Oak Hill Parties shall afford the iStar Parties' employees, auditors, legal counsel and other authorized representatives and advisors, upon reasonable notice, all reasonable opportunity and access during normal business hours to inspect and investigate the assets, liabilities, Contracts, operations and businesses of the Oak Hill Entities and the Subsidiaries and to interview the employees and officers of the Oak Hill Entities and the Subsidiaries.

5.4 Standstill. None of the Oak Hill Parties shall, and shall not permit any of their respective Affiliated Persons or Affiliates to, initiate, solicit, encourage, negotiate or enter into any agreement with any Person other than the iStar Parties respecting the acquisition of any portion of the business of any Oak Hill Entity or any Subsidiary or any of the Purchaser Partnership Interests or the Purchaser LLC Interests.

5.5 Notice of Litigation. Promptly after becoming aware of the occurrence of or the threatened occurrence of any material Action against any Oak Hill Party, or to which any Oak Hill Party is reasonably likely to become a party, such Oak Hill Party shall give detailed written notice thereof to the iStar Parties.

5.6 Fulfillment of Conditions to Obligations of the iStar Parties. Each Oak Hill Party agrees, and the Oak Hill Sellers and the Seller Principals agree, to cause each Oak Hill Entity, to use commercially reasonable efforts to effectuate the transactions contemplated hereby and by the Related Agreements and to fulfill the conditions to the obligations of the iStar Parties contained in Article VII.

5.7 Fulfillment of Conditions to Obligations of the Oak Hill Parties. Each iStar Party agrees, and the Parent agrees to cause the Purchaser, to use commercially reasonable efforts to effectuate the transactions contemplated hereby and by the Related Agreements and to fulfill the conditions to the obligations of the Oak Hill Parties contained in Article VIII.

5.8 Notices. The Oak Hill Entities shall use commercially reasonable efforts to deliver the notices set forth in Section 5.8 of the Disclosure Letter (collectively, the "Notices") in the manner provided in Section 5.8 of the Disclosure Letter; provided, however, that in no event shall any Person be required to pay any consideration, relinquish any right or incur any additional liabilities or obligations in connection with delivering the Notices. The parties agree and acknowledge that they have jointly developed the actions and procedures described in this Section 5.8 and that, notwithstanding anything to the contrary, no party shall have liability to any other party under this Agreement or otherwise in respect of the Notices, the method pursuant to which such Notices were delivered or any other such claim relating to a violation of Law or a violation of the Organizational Documents of any Fund.

5.9 Amended and Restated LP Agreements/Operating Agreements. Promptly following the date of this Agreement, the Parent and the Seller Principals shall cause the Organizational Documents of each of the Oak Hill Entities to be amended and revised, to the



extent necessary to effectuate the transactions contemplated hereby and by the Related Agreements. Without limiting the foregoing, the operating agreement or the partnership agreement, as the case may be, of an Oak Hill Entity shall be amended and revised to provide that any transfer of ownership interests in such Oak Hill Entity shall be subject to restrictions substantially similar to those restrictions contained in Article 10 of the Amended and Restated OHA LP Agreement. In addition, the Organizational Documents of Oak Hill CLO Management I, L.L.C., Oak Hill CLO Management II, L.L.C. and Oak Hill CLO Management III, L.L.C., shall be amended and revised to provide for the separation of the Excluded Assets and the interests being purchased as contemplated by this Agreement.

5.10 Delivery of Governmental Documents. The Oak Hill Parties will deliver or cause to be delivered or by notice make available or cause to be made available to the iStar Parties at the same time as the filing thereof a complete copy of each Governmental Document filed after the date hereof and prior to the Initial Closing Date by or on behalf of any of the Oak Hill Entities or any Subsidiary.

5.11 Publicity. No public release or announcement concerning the transactions contemplated hereby or by the Related Agreements shall be issued by any party without the prior consent of the other parties (which consent shall not be unreasonably withheld or delayed), except as such release or announcement may be required by Law, in which case the party required to make the release or announcement shall allow the other parties reasonable time to comment on such release or announcement in advance of such issuance and shall make a reasonable effort to take into account such comments.

## ARTICLE VI

## OTHER AGREEMENTS OF THE PARTIES

6.1 Key Man Insurance. From and after the date hereof, the iStar Parties shall have the right to obtain at their sole cost and expense for their sole benefit key-man life insurance policies on each Seller Principal. Each Seller Principal expressly consents to, and will reasonably cooperate with respect to, the acquisition of such policies by the iStar Parties and has no knowledge of any reason why he would be uninsurable.

6.2 Office Space. Following the Initial Closing, the iStar Parties and the Seller Principals shall cooperate with each other with respect to relocating to office space at the same location, subject to entering into mutually satisfactory agreements relating to the sharing of costs and expenses.

6.3 Board Representation. The Parent agrees that the GRA Seller shall have the right to designate one person (the "Oak Hill Designee") to be appointed to the Parent's board of directors, such appointment to take effect on the later of (1) the day after the Initial Closing and (2) the day after the Parent's 2005 Annual Meeting of Stockholders. The Oak Hill Designee shall be appointed to serve as a director until the Parent's 2006 Annual Meeting of

Stockholders, subject to the Oak Hill Designee's continued compliance with the policies and procedures applicable to the Parent's directors generally. The initial Oak Hill Designee shall be August. If August is for any reason unwilling or unable to serve as a director, or if August resigns or is



removed as a director, the GRA Seller shall have the right to designate another person to serve as the Oak Hill Designee, subject to the reasonable approval of such person's credentials by the Parent's nominating and governance committee of the board of directors.

6.4 Consulting Agreement. After the Initial Closing, the iStar Parties and OHA and its Affiliates shall enter into a consulting agreement in substantially the form attached hereto as Exhibit 1 (the "Consulting Agreement"). It is understood by the parties hereto that the compensation to OHA or such Affiliates under such agreement will be nominal.

6.5 Federal Income Tax Treatment. The parties shall cause OHA and each Subsidiary of OHA that is not a disregarded entity, GenPar II LLC, GenPar Alpha LLC, GenPar II and GenPar Alpha, respectively, to make an election under Section 754 of the Code (and any corresponding provisions of state and local tax law), effective with respect to the transfers of partnership interests occurring on the Initial Closing Date and the Subsequent Closing Date, respectively, to adjust their tax basis in their assets with respect to the Purchaser. In the case of OHA and each Subsidiary of OHA (if any) that is not a disregarded entity, the Section 754 election (and any corresponding state and local Tax Law election) relating to the purchase transactions consummated at the Initial Closing shall be made on a federal (and any corresponding state and local) Tax Return filed for the taxable period ending with the Initial Closing Date. The Purchaser shall be provided with a copy of such Tax Returns, in the form proposed to be filed, at least 15 days prior to the due date with extensions (or earlier proposed filing date) of such Tax Returns for the limited purpose of enabling the Purchaser to confirm OHA's compliance with the provisions of this Section 6.5. (The immediately preceding sentence shall also apply to any Tax Returns filed pursuant to Section 3.15(h) hereof.) All basis adjustments made under Section 743 of the Code pursuant to the Section 754 election shall be based on the total purchase price actually paid (valuing the iStar Shares based on their market trading price), shall reflect the allocation of the Initial Purchase Price and the Subsequent Purchase Price, respectively, between the Purchaser Partnership Interests and the Purchaser LLC Interests in accordance with the Allocation Percentages, and shall reflect the further allocation of the portion of the Initial Purchase Price and the portion of the Subsequent Purchase Price so allocated to the Purchaser Partnership Interests among the assets of OHA in a manner consistent with a written appraisal report prepared by Ernst & Young (or other nationally recognized appraisal firm) for OHA and provided to the Purchaser as soon as practicable. The parties agree to report the Tax consequences of the transactions contemplated hereby consistent with the foregoing.

6.6 Transfer Taxes. All transfer, real estate transfer, documentary, stamp, recording, sales or other similar Taxes (including interest, penalties and additions to any such Taxes) ("Transfer Taxes") incurred in connection with the transactions contemplated by this Agreement shall be paid by the person on which such Transfer Taxes are imposed by applicable law. The parties shall cooperate with each other in preparing, executing and filing any Tax Returns with respect to such Transfer Taxes.

6.7 Contributions and Reorganization. If the OHAI Contribution is not effected at or prior to the Initial Closing, then promptly following the Initial Closing (but in no event later than two Business Days following the Initial Closing Date), the Seller Principals shall cause the OHAI Contribution to be effected. The Reorganization shall be effected at or prior to the Initial



Closing in the manner contemplated on Exhibit R and the OHAMI Contribution shall be effected at or prior to the Initial Closing.

6.8 Further Assurances. From and after the Closings, each party shall, at any time and from time to time, make, execute and deliver, or cause to be made, executed and delivered, for no additional consideration but at the cost and expense of the requesting party (excluding any internal costs incurred, such as having any of the following reviewed by in-house counsel) such assignments, deeds, drafts, checks, certificates, returns, filings and other instruments, agreements, consents and assurances and take or cause to be taken all such actions as the other party or its counsel may reasonably request for the effectual consummation and confirmation of this Agreement and the Related Agreements and the transactions contemplated hereby and by the Related Agreements.

6.9 Additions to Securities List. The following procedures shall apply with respect to the Securities List and related matters for all purposes of this Agreement, including, without limitation, for purposes of Section 3.15(1), Section 5.1(b)(ix) and this Section 6.9. Parent shall have the right to revise the Securities List at any time after the date hereof in accordance with the following procedure: (i) The Seller Principals shall cause OHA to provide to Parent in writing, no later than five Business Days after the date on which they receive a written request to do so, any factual information requested by Parent in writing (in order to make the determinations hereinafter provided) with respect to the Oak Hill Entities' ownership (direct or indirect) of or commitments to acquire (directly or indirectly) any Security (other than a debt Security described in Section 856(m)(2)(A)-(B) of the Code, a Security described in Section 856(m)(1)(B)-(G) of the Code or a Security described in Section 856(c)(4)(A) of the Code) of a Real Estate Issuer to which Parent might make a loan (which loan, subject to the following provisions of this Section 6.9, Parent anticipates would be added to the Securities List if such loan is made) based on discussions commenced prior to the date of such request. (ii) If, based on the written factual information provided by OHA in response to Parent's request (together with any additional factual information requested by Parent in writing in order to make this determination) Parent concludes that the Oak Hill Entities (directly or indirectly) own or have committed to acquire Securities of such issuer that would reasonably be expected to cause the representation in Section 3.15(l) to be untrue if such issuer were added to the Securities List, then Parent shall notify the Seller Principals in writing of such conclusion (such notification to be provided by Parent no later than five Business Days after Parent has received all written factual information requested by it in writing in order to make such determination) and Parent shall not be permitted to add such issuer to the Securities List (and the existing Securities List shall remain in effect), provided, that if the Securities identified in writing by OHA (in response to Parent's written request) as Securities committed to be acquired by the Oak Hill Entities are not actually acquired within 65 Business Days after the date that the Seller Principals receive notification from Parent of its conclusion with respect to such Real Estate Issuer, then the Seller Principals shall cause OHA to so notify Parent in writing no later than five Business Days after such 65 Business Day period has ended and, unless Parent concludes that the representation made in Section 3.15(l) would be untrue in any respect based on the Securities of such Real Estate Issuer actually owned (directly or indirectly) by the Oak Hill Entities, upon receipt by the Seller Principals of written notification from Parent, the Securities List shall thereupon be amended to include such Real Estate Issuer subject to the deemed agreement (as to the Securities identified in the written factual information provided by OHA as Securities owned by the Oak

Hill Entities) under, and to the second proviso of, clause (iii) of this Section 6.9. (iii) If the written factual information provided by OHA in response to Parent's written request (A) is not timely provided or (B) indicates that the Oak Hill Entities (directly or indirectly) own or have committed to acquire Securities of the issuer but, based on such factual information, Parent concludes that clause (ii) of this Section 6.9 does not apply, then Parent shall so notify the Seller Principals in writing within five Business Days after Parent has received all written factual information requested by it in writing in order to make such determination and the Securities List shall thereupon be amended to include the Real Estate Issuer identified in Parent's request and, in the case of clause (B) of this sentence, for all purposes of this Agreement Parent shall be deemed to have agreed that the Securities identified in the written factual information provided by OHA as Securities that the Oak Hill Entities own or have committed to acquire shall not at any time cause the representation made in Section 3.15(l) to be untrue in any respect; provided, that for avoidance of doubt, any such deemed agreement of Parent shall only apply to the class of Security and number of units (such as principal amount or number of shares) specified in the written factual information provided by OHA; and provided further, that Parent shall notify the Seller Principals in writing if Parent does not make a loan or commit to make a loan to such Real Estate Issuer within 65 Business Days thereafter, or if Parent does commit to make a loan to such Real Estate Issuer within said 65 Business Day period but the commitment is thereafter terminated without Parent actually making the loan, and the Securities List shall thereupon be amended to exclude such Real Estate Issuer. (iv) If the written factual information provided by OHA in response to Parent's request is timely provided and indicates that an Oak Hill Entity has commenced discussions to acquire Securities of such issuer (other than a debt Security described in Section 856(m)(2)(A)-(B) of the Code, a Security described in Section 856(m)(1)(B)-(G) of the Code or a Security described in Section 856(c)(4)(A) of the Code), then the parties will conduct discussions in good faith to determine whether and under what circumstances such issuer may be added to the Securities List. (v) Once Parent has submitted a written request as to a particular Real Estate Issuer, Parent shall not be entitled to again submit a written request as to such Real Estate Issuer during the 65 Business Day period applicable to Parent's earlier request (so as to effectively extend the 65 Business Day period as to such Real Estate Issuer), but shall not be precluded from submitting written requests as to any other Real Estate Issuers in accordance with this Section 6.9 during such period. (vi) If the applicable debt Securities of any Real Estate Issuer identified in the Securities List cease to be owned by Parent, then Parent shall so notify the Seller Principals in writing and the Securities List shall thereupon be amended to remove such Real Estate Issuer from the Securities List. (vii) If one or more of the Oak Hill Entities intends to commence or has commenced discussions with a Real Estate Issuer identified on the Securities List and the Oak Hill Entities anticipate that they might acquire or commit to acquire Securities of such issuer, the Seller Principals may cause OHA to request in writing that Parent provide its consent to such acquisition or commitment to acquire such Securities by the Oak Hill Entities (such consent to be in writing and not to be unreasonably withheld) and if Parent either consents in writing or does not provide a written response within 5 Business Days after the date it receives such written request from OHA, for all purposes of this Agreement Parent shall be deemed to have agreed that the Securities identified in the written information provided by OHA as Securities that the Oak Hill Entities intend to acquire or commit to acquire shall not at any time cause the representation made in Section 3.15(l) to be untrue in any respect; provided, that for avoidance of doubt, any such deemed agreement of Parent shall only apply to the class of Security and number of units (such as principal amount or number of shares) specified in such written information; and provided further, that such Securities are actually



acquired by the Oak Hill Entities within 65 Business Days thereafter (and, if such Securities are not actually acquired by the Oak Hill Entities by the end of such 65 Business Day period, the Seller Principals shall cause OHA to so notify Parent in writing no later than five Business Days after such 65 Business Day period has ended). (viii) Promptly after the date of the occurrence of any event that results in an amendment of the Securities List in accordance with this Section 6.9, Parent shall provide a revised Securities List to the Seller Principals. For the avoidance of doubt, the parties agree that the covenants contained in this Section 6.9 shall apply from the date of this Agreement until the Initial Closing Date.

6.10 New TRSs. Promptly following the date of this Agreement, the Parent shall cause the incorporation of two new wholly-owned taxable REIT subsidiaries (each, a "Purchaser Designee"). The Parent will cause one Purchaser Designee to purchase the GenPar II LLC Interests, and one Purchaser Designee to purchase the GenPar Alpha LLC Interests, in accordance with the terms of this Agreement.

6.11 Extension of Funds.

The parties agree that:

(i) if the term of any of Oak Hill Credit Partners I, Limited, Oak Hill Credit Partners II, Limited, or Oak Hill Credit Partners III, Limited is extended beyond its term as of the date of this Agreement, then, promptly following such extension, the Seller Principals shall cause, as of the date of such extension and thereafter, the Parent, the Purchaser or a Purchaser Designee to receive, for no additional consideration, 47.5% of the Seller Principals' aggregate direct and indirect economic interest in any carried interest, incentive fee or other performance based allocation, distribution or compensation of the general partner or investment manager special purpose vehicle relating to such Excluded Assets;

(ii) if, after the date of this Agreement, the term of Oak Hill Special Opportunities Fund, L.P. or Oak Hill Special Opportunities Fund (Management), L.P. is extended and capital commitments in excess of the aggregate capital commitments to those funds as of the date hereof are made, then, the Seller Principals shall cause the Parent, the Purchaser or a Purchaser Designee to receive, for no additional consideration, 47.5% of the Seller Principals' aggregate direct and indirect economic interest in any carried interest, incentive fee or other performance based allocation, distribution or compensation of the general partner or investment manager special purpose vehicle associated with and attributable to such additional capital commitments; and

(iii) if after the date of this Agreement any incentive fee, distribution or similar payment related to Oak Hill Securities Fund, L.P. is or becomes distributable or payable to Oak Hill Securities GenPar, L.P. or any of its Affiliates or any Seller Principal, as of the date distributable or payable and thereafter, the Seller Principals shall cause the Parent, the Purchaser or a Purchaser Designee to receive, for no additional consideration, an amount equal to 47.5% of the Seller Principals' aggregate direct and indirect share thereof as and when received by the Oak Hill Parties.



The parties shall make, execute and deliver, or cause to be made, executed and delivered, for no additional consideration to any iStar Party, such agreements, consents and assurances and take or cause to be taken all such actions as may reasonably be requested by the Parent to effectuate the agreements contained in this Section 6.11.

ARTICLE VII

CONDITIONS PRECEDENT TO OBLIGATIONS OF iSTAR PARTIES

7.1 Initial Closing. The obligation of the iStar Parties to consummate the transactions contemplated under this Agreement are subject to the fulfillment of each of the following conditions at the Initial Closing, any or all of which may be waived in whole or in part by the iStar Parties, in their sole discretion:

(i) Representations and Warranties. Except as provided in the next sentence, the representations and warranties contained in Articles II and III shall be true and correct as of the date of this Agreement and as of the Initial Closing Time as though made as of such time (other than the representations and warranties contained in Sections 3.15(j), 3.15(k) and 3.15(l), which shall be true and correct only as of the Initial Closing Time as though made as of such time), except as would not reasonably be expected to have an Oak Hill Material Adverse Effect. Notwithstanding the foregoing, (A) representations and warranties which expressly relate to an earlier date shall be true and correct only on and as of such earlier date, and any other representations and warranties contained in Sections 3.10(c), 3.11, 3.12, 3.13, 3.14(b), 3.15 (other than Sections 3.15(i), 3.15(j), 3.15(k) and 3.15(l)), 3.16, 3.17(a), 3.18, 3.19(b), 3.19(d), 3.20, 3.21, 3.22 and 3.25 shall be true and correct only on and as of the date of this Agreement, except, in each case, as would not reasonably be expected to have an Oak Hill Material Adverse Effect and (B) representations and warranties contained in Sections 2.1, 2.2, 2.3, 3.1, 3.2, 3.3, 3.4 and 3.24 and qualified as to materiality or an Oak Hill Material Adverse Effect shall be true and correct, and those contained in Sections 2.1, 2.2, 2.3, 3.1, 3.2, 3.3, 3.4 and 3.24 not so qualified shall be true and correct in all material respects, in each case as of the date of this Agreement and at the Initial Closing Time as though made as of such time.

(ii) Performance. The Oak Hill Parties shall each have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by any Oak Hill Party prior to or at the Initial Closing Time, except those covenants and agreements required by this Agreement to be performed or complied with by the RBO Seller, the CSW Seller, Okun and Wernicke at the Subsequent Closing Time.

(iii) Material Adverse Effect. Between the date of this Agreement and the Initial Closing Date, no Action shall have been commenced, brought, conducted or heard by or before any Governmental Authority (whether commenced, or brought or conducted by any Governmental Authority or other Person) that has had or would reasonably be expected to have an Oak Hill Material Adverse Effect.



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(iv) Certificates. The iStar Parties shall have received (a) a certificate of the managing general partner or managing member, as the case may be, of each Oak Hill Entity dated the Initial Closing Date and certifying to the fulfillment on the part of such Oak Hill Entity of the conditions specified in Section 7.1(i), (ii) and (iii); and (b) a certificate of the managing general partner or managing member, as the case may be, of each Oak Hill Entity dated the Initial Closing Date, setting forth the resolutions of the partners/members of such Oak Hill Entity adopting and approving this Agreement, the Related Agreements (to the extent a party thereto) and all other documents contemplated hereby and thereby and authorizing the transactions hereby and thereby contemplated.

(v) No Injunction. There shall not be in effect any injunction or restraining order issued by a court of competent jurisdiction in an Action against the consummation of the transactions contemplated hereby or by any Related Agreement.

(vi) Notices. The Oak Hill Parties and the Oak Hill Entities shall have delivered the Notices in the manner specified in Section 5.8 of the Disclosure Letter.

(vii) Pre-Closing Transactions. The Reclassification, the OHAMI Contribution (with respect to Investment Advisory Contracts) and the Reorganization shall have been completed.

(viii) Relationship Agreement. The Relationship Agreement shall have been executed and delivered by the parties thereto.

(ix) Amended and Restated LP Agreements/Amended and Restated Operating Agreements. Each Amended and Restated LP Agreement and each Amended and Restated Operating Agreement shall have been executed and delivered by the parties thereto.

(x) Shareholder’s Agreement. The Shareholder’s Agreement shall have been executed and delivered by the parties thereto.

(xi) Legal Opinion. The iStar Parties shall have received a reasoned legal opinion from Paul, Weiss, Rifkind, Wharton & Garrison LLP or Dechert LLP that the transactions contemplated by this Agreement should not constitute an assignment under the Investment Advisers Act.

(xii) Certificates. The iStar Parties shall have received certificates (or other appropriate evidences of ownership) representing all the Purchaser Partnership Interests and the Purchaser LLC Interests (other than those owned by the RBO Seller, the CSW Seller, Okun or Wernicke which are required to be delivered at the Subsequent Closing Time), and, if certificated, duly endorsed to the Purchaser or its designee or accompanied by appropriate powers, with all appropriate tax transfer stamps affixed.

7.2 Subsequent Closing. The obligation of the iStar Parties to consummate the transactions contemplated under this Agreement at the Subsequent Closing are subject to the fulfillment of each of the following conditions at the Subsequent Closing:



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(i) Initial Closing. The Initial Closing shall have taken place on or prior to the Subsequent Closing Date.

(ii) Representations and Warranties. The representations and warranties of the RBO Seller, the CSW Seller, Okun and Wernicke contained in Sections 2.1, 2.2 and 2.3 shall be true and correct as of the date of this Agreement and at the Subsequent Closing Time as though made as of such time.

(iii) Performance. The RBO Seller, the CSW Seller, Okun and Wernicke shall each have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by any of them prior to or at the Subsequent Closing Time. For purposes of clarification, the only covenants and agreements required to be performed by them at the Subsequent Closing relate to the delivery to the Purchaser of the RBO Seller's and the CSW Seller's Purchaser Partnership Interests and Okun's and Wernicke's Purchaser LLC Interests.

(iv) Material Adverse Effect. Between the date of this Agreement and the Subsequent Closing Date, no Action shall have been commenced, brought, conducted or heard by or before any Governmental Authority (whether commenced, or brought or conducted by any Governmental Authority or other Person) that has had or would reasonably be expected to have an Oak Hill Material Adverse Effect.

(v) Certificates. The iStar Parties shall have received certificates (or other appropriate evidence of ownership) representing the Purchaser Partnership Interests owned by the RBO Seller and the CSW Seller and the Purchaser LLC Interests owned by Okun and Wernicke, and, if certificated, duly endorsed to the Purchaser or its designee or accompanied by appropriate powers, with all appropriate tax transfer stamps affixed.

(vi) Subsequent Amended and Restated LP Agreements and Subsequent Amended and Restated Operating Agreements. Each Subsequent Amended and Restated LP Agreement and each Subsequent Amended and Restated Operating Agreement shall have been executed and delivered by the parties thereto.

ARTICLE VIII

CONDITIONS PRECEDENT TO OBLIGATIONS OF
THE OAK HILL PARTIES AND THE OAK HILL SELLERS

8.1 Initial Closing. The obligation of the Oak Hill Parties to consummate the transactions contemplated by this Agreement are subject to the fulfillment of each of the following conditions at the Initial Closing, any or all of which may be waived in whole or in part by the Oak Hill Parties:

(i) Representations and Warranties. Except as provided in the next sentence, the representations and warranties contained in Article IV shall be true and correct as of the date hereof and as of the Initial Closing Time as though made as of such time, except as would not reasonably be expected to have an iStar Material Adverse Effect. Notwithstanding the foregoing, (A) representations and warranties which expressly relate



to an earlier date shall be true and correct only on and as of such earlier date, and any other representations and warranties contained in Section 4.7 shall be true and correct only on and as of the date of this Agreement except, in each case, as would not reasonably be expected to have an iStar Material Adverse Effect, and (B) representations and warranties contained in Sections 4.1, 4.2 and 4.5 and qualified as to materiality or an iStar Materials Adverse Effect shall be true and correct, and those contained in Sections 4.1, 4.2 and 4.5 not so qualified shall be true and correct in all material respects, in each case as of the date of this Agreement and at the Initial Closing Time as though made as of such time.

(ii) Performance. The iStar Parties shall have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by them prior to or at the Initial Closing Time.

(iii) Certificates. The Oak Hill Parties shall have received (a) a certificate of an executive officer of each of the Parent and the Purchaser, dated the Initial Closing Date, certifying to the fulfillment of the conditions specified in Section 8.1(i) and (ii); and (b) a certificate of the Secretary of each of the Parent and the Purchaser, dated the Initial Closing Date, setting forth the resolutions of the board of directors of each of them approving this Agreement, the Related Agreements and all other documents contemplated hereby and thereby, and authorizing the transactions hereby and thereby contemplated.

(iv) No Injunction. There shall not be in effect any injunction or restraining order issued by a court of competent jurisdiction in an Action against the consummation of the transactions contemplated hereby or by any Related Agreement.

(v) Notices. The Oak Hill Parties and the Oak Hill Entities shall have delivered in the manner specified in Section 5.8 of the Disclosure Letter.

(vi) Shareholder's Agreement. The Parent shall have executed and delivered the Shareholder's Agreement.

(vii) Initial Purchase Price. The Purchaser and the Purchaser Designees shall have delivered the Initial Cash Purchase Price and the Parent shall have delivered the Initial iStar Shares, each in accordance with Section 1.2.

(viii) Relationship Agreement. The Relationship Agreement shall have been executed and delivered by the parties thereto.

(ix) Amended and Restated LP Agreements/Amended and Restated Operating Agreements. Each Amended and Restated LP Agreement and each Amended and Restated Operating Agreement shall have been executed and delivered by the parties thereto.

8.2 Subsequent Closing. The obligation of the RBO Seller, the CSW Seller, Okun and Wernicke to consummate the transactions contemplated by this Agreement at the Subsequent



Closing are subject to the fulfillment of each of the following conditions at the Subsequent Closing:

(i) Initial Closing. The Initial Closing shall have taken place on or prior to the Subsequent Closing Date.

(ii) Subsequent Purchase Price. The Purchaser and the Purchaser Designees shall have delivered the Subsequent Cash Purchase Price and the Parent shall have delivered the Subsequent iStar Shares, each in accordance with Section 1.3.

## ARTICLE IX

## INDEMNIFICATION

9.1 Survival of Representations and Warranties. All certificates delivered pursuant to Sections 7.1 and 8.1 (the "Closing Certificates") and all representations and warranties made herein by the parties to this Agreement and their respective obligations to be performed pursuant to the terms hereof, shall survive the Initial Closing Time, provided, that, the representations and warranties and the covenants contained in Sections 5.2 and 5.5 made herein by the parties and the Closing Certificates as they relate to such representations, warranties and covenants shall terminate 18 months following the Initial Closing Date, except that (i) the representations and warranties (and the Closing Certificates as they relate thereto) set forth in Sections 3.15 (Tax Matters), 3.20 (Environmental Matters), 3.21 (Employee Plans), 4.9 (REIT Status) and 4.15 (Taxes) shall survive the Initial Closing Time for the applicable statute of limitations, plus 30 days, and (ii) the representations and warranties (and the Closing Certificates as they relate thereto) set forth in Sections 2.1 (Authority; Execution and Delivery; Enforceability), 2.2 (Title to Purchaser Partnership Interests), 2.3 (Title to Purchaser LLC Interests), 2.4(i) (Non-Contravention), 3.1 (Organization; Good Standing), 3.2 (Authority; Execution and Delivery; Enforceability), 3.3 (Capitalization), 3.4 (Subsidiaries), 3.5(i) (Non-Contravention), 3.24 (OHAI/OHAMI), 4.1 (Organization; Good Standing), 4.2 (Authority; Execution and Delivery; Enforceability), 4.3(i) (Non-Contravention), 4.5 (iStar Shares) and 4.14 (No Other Representations and Warranties) shall survive the Initial Closing Time indefinitely. Notwithstanding the foregoing, if written notice of any matter setting forth in reasonable detail a claim for a breach of any representation or warranty is given to the iStar Parties or the applicable Oak Hill Party, as the case may be, in writing pursuant to this Agreement prior to the end of the applicable survival period, any such representation or warranty (and the Closing Certificates as they relate thereto) that would otherwise terminate shall be deemed to survive solely with respect to such claim until resolved.

9.2 Indemnification by the Oak Hill Sellers and the Seller Principals.

(a) Each Oak Hill Seller, individually as to such Oak Hill Seller and each Seller Principal, jointly and severally only with respect to such Seller Principal and each Oak Hill Seller in which such Seller Principal owns any equity interests, shall indemnify and hold harmless any iStar Group Member from and against any and all Damages incurred by such iStar Group Member arising from:



(i) any failure by such Oak Hill Seller or such Seller Principal to perform any covenants or other agreements of such Oak Hill Seller or Seller Principal contained in Article I;

(ii) any breach of any representation or warranty of such Oak Hill Seller or such Seller Principal contained in Article II; or

(iii) the allegation in writing by any third party of the existence of any liability, obligation, lease, agreement, contract or other commitment or state of facts which, if such allegation were true, would constitute a breach by such Oak Hill Seller or Seller Principal of any representation or warranty of such Oak Hill Seller or Seller Principal contained in Article II.

(b) Each Oak Hill Seller and each Seller Principal, jointly and severally, shall indemnify and hold harmless any iStar Group Member from and against any and all Damages incurred by such iStar Group Member, directly (or indirectly as a result of Damages suffered by an Oak Hill Entity), arising from:

(i) any failure by an Oak Hill Party to perform any of its covenants or other agreements contained herein, other than covenants or other agreements for which the iStar Group Members are entitled to indemnification pursuant to Section 9.2(a)(i);

(ii) any breach of any representation or warranty of an Oak Hill Party contained in Article III or in any Closing Certificate delivered by an Oak Hill Party in connection herewith;

(iii) the allegation in writing by any third party of the existence of any liability, obligation, lease, agreement, contract or other commitment or state of facts which, if such allegation were true, would constitute a breach by such Oak Hill Party of any representation or warranty of such Oak Hill Seller or Seller Principal contained in Article III;

(iv) without duplicating Damages recovered under Section 9.2(b)(ii), any and all Taxes imposed upon or assessed against any Oak Hill Entity or Subsidiary or their respective assets (A) with respect to any pre-Closing period, (B) by reason of having been a member of an "affiliated group" (as defined in Section 1504(a) of the Code) or any consolidated, combined or unitary state or local Tax Return group, or (C) under any tax sharing, allocation or similar agreement or any indemnification or reimbursement agreement with respect to Taxes; or

(v) any Damages incurred in respect of the failure of the OHAI Note or the OHA Liabilities to be paid and discharged by the applicable Oak Hill Party.

9.3 Indemnification by the Parent. The Parent will indemnify and hold harmless any Seller Group Member from and against any and all Damages incurred by such Seller Group Member arising from:



(i) any failure by any iStar Party to perform any of its covenants or other agreements contained herein;

(ii) any breach of any representation or warranty of any iStar Party contained in Article IV or in any Closing Certificate delivered by any iStar Party in connection herewith; or

(iii) the allegation in writing by any third party of the existence of any liability, obligation, lease, agreement, contract or other commitment or state of facts which, if such allegation were true, would constitute a breach by an iStar Party of any representation or warranty of it contained herein.

9.4 Notification of Claims.

(a) A Person that may be entitled to be indemnified under this Agreement (the "Indemnified Party"), shall promptly notify the party or parties liable for such indemnification (the "Indemnifying Party") in writing (a "Claim Notice") of any pending or threatened claim or demand that the Indemnified Party has determined, has given or could reasonably be expected to give rise to a right of indemnification under this Agreement (including a pending or threatened claim or demand asserted by a third party against the Indemnified Party, such claim being a "Third Party Claim"), describing in reasonable detail the facts giving rise to any claim for indemnification hereunder and shall include (if then known) the amount or the method of computation of the amount of such claim, and a reference to the provision of this Agreement; provided, however, that the failure to provide such notice shall not release the Indemnifying Party from any of its obligations under this Article IX except to the extent the Indemnifying Party is prejudiced by such failure, it being understood that notices for claims in respect of a breach of a representation, warranty, covenant or agreement must be delivered prior to the expiration of any applicable survival period specified in Section 9.1 for such representation or warranty (as contemplated by Section 9.1).

(b) In the case of any Third Party Claim as to which indemnification is sought by an Indemnified Party, the Indemnifying Party shall have 30 Business Days after receipt of a Claim Notice to notify the Indemnified Party that it elects to conduct and control such Third Party Claim. If the Indemnifying Party elects to conduct and control such Third Party Claim, the Indemnifying Party shall agree promptly to reimburse the Indemnified Party for the full amount of any Damages resulting from such Third Party Claim, except fees and expenses of counsel for the Indemnified Party incurred after the assumption of the conduct and control of such Third Party Claim by the Indemnifying Party. If the Indemnifying Party does not give the foregoing notice, the Indemnified Party shall have the right to conduct and control such Third Party Claim, provided, that (x) the Indemnified Party shall permit the Indemnifying Party to participate in such conduct or settlement through counsel chosen by the Indemnifying Party, but the fees and expenses of such counsel shall be borne by the Indemnifying Party, and (y) the Indemnified Party may not compromise or settle such Third Party Claim without the consent of the Indemnifying Party (which consent will not be unreasonably withheld or delayed), unless (i) there is no finding or admission of any violation of Law by the Indemnifying Party or any violation by the Indemnifying Party of the rights of any Person and no effect on any other claims that may be made against the Indemnifying Party, (ii) the sole relief provided is monetary Damages that are paid in full by the Indemnified Party, (iii) the Indemnifying Party shall have no



liability with respect to any compromise or settlement and (iv) such settlement includes an unconditional release in favor of the Indemnifying Party by the third-party claimant from all liability with respect to such claim. If the Indemnifying Party gives the foregoing notice, subject to the first and second sentences of this Section 9.4(b), the Indemnifying Party shall have the right, at the sole expense of the Indemnifying Party, to conduct and control, such Third Party Claim with counsel reasonably acceptable to the Indemnified Party, and the Indemnified Party shall cooperate with the Indemnifying Party in connection therewith, provided, that (x) the Indemnifying Party shall permit the Indemnified Party to participate in such conduct or settlement through counsel chosen by the Indemnified Party, but the fees and expenses of such counsel shall be borne by the Indemnified Party, and (y) the Indemnifying Party may not compromise or settle any such Third Party Claim without the consent of the Indemnified Party (which consent will not be unreasonably withheld or delayed) unless (i) there is no finding or admission of any violation of Law by the Indemnified Party or any violation by the Indemnified Party of the rights of any Person and no effect on any other claims that may be made against the Indemnified Party, (ii) the sole relief provided is money Damages that are paid in full by the Indemnifying Party, (iii) the Indemnified Party shall have no liability with respect to any compromise or settlement and (iv) such settlement includes an unconditional release in favor of the Indemnified Party by the third-party claimant from all liability with respect to such claim. The parties hereto shall use their reasonable commercial efforts to minimize any Damages from claims by third parties and shall act in good faith in responding to, defending against, settling or otherwise dealing with such claims, notwithstanding any dispute as to liability under this Article IX.

(c) Each of the parties agrees and acknowledges that for the purposes of this Section 9.4, Oak Hill Advisors GenPar, L.P. shall have the right to act as the Indemnifying Party with respect to any claim arising under Section 9.2(b) of this Agreement; provided, however, that such an election by Oak Hill Advisors GenPar, L.P. shall not limit the liability of any other Oak Hill Party under this Article IX.

9.5 Limitations on Indemnification.

(a) No iStar Group Member shall be entitled to be indemnified (1) pursuant to Sections 9.2(a)(ii) or (iii) or Sections 9.2(b)(ii) or (iii), or (2) for any breach of the covenants set forth in Sections 5.2 or 5.5, as the case may be, unless and until the aggregate of all Damages for which the iStar Group Members are entitled to be indemnified under Sections 9.2(a)(ii) and (iii) and Sections 9.2(b)(ii) and (iii) for any breach of the covenants set forth in Sections 5.2 and 5.5 shall exceed $1,000,000 (the "Deductible Amount"), after which the iStar Group Members shall be entitled to be indemnified for the aggregate cumulative amount of all such Damages in excess of the Deductible Amount; provided, however, that each iStar Group Member shall be entitled to be indemnified for all Damages on a dollar-for-dollar basis from the first dollar of Damages, without regard to the Deductible Amount, incurred as a result of any breach of the representations and warranties set forth in Sections 2.1(a), 2.1(b), 2.2, 2.3, 2.9, 3.1(a), 3.1(b), 3.2(a), 3.3, 3.4, 3.15, 3.23, and 3.24 (the "Seller Deductible Exclusions").

(b) The iStar Group Members, collectively, shall not be entitled to indemnification pursuant to this Agreement to the extent that such indemnification in the aggregate exceeds $50,000,000 (the "Cap Amount") (other than for Damages in respect of the Seller Deductible Exclusions, or with respect to Section 9.2(a)(i) or Sections 9.2(b)(i), (iv) or (v) in which case the



aggregate amount of all indemnification under this Agreement (including for matters which are subject to the Cap Amount) shall not exceed the Purchase Price.

(c) No Seller Group Member shall be entitled to be indemnified pursuant to Sections 9.3(ii) or (iii) unless and until the aggregate of all Damages for which the Seller Group Members are entitled to be indemnified under Sections 9.3(ii) and (iii) shall exceed the Deductible Amount, after which the Seller Group Members shall be entitled to be indemnified for the aggregate cumulative amount of all such Damages in excess of the Deductible Amount; provided, however, that each Seller Group Member shall be entitled to be indemnified for all Damages on a dollar-for-dollar basis from the first dollar of

Damages, without regard to the Deductible Amount, incurred as a result of any breach of the representations and warranties set forth in Sections 4.1(a), 4.2(a), 4.5, 4.9, 4.14, and 4.15 (the "iStar Deductible Exclusions").

(d) The Seller Group Members, collectively, shall not be entitled to indemnification pursuant to this Agreement to the extent that such indemnification in the aggregate exceeds the Cap Amount (other than for Damages in respect of the iStar Deductible Exclusions, or with respect to Section 9.3(i) in which case the aggregate amount of all indemnification under this Agreement (including for matters which are subject to the Cap Amount) shall not exceed the Purchase Price), except in respect of Section 4.5).

(e) Without limitation to the foregoing, for purposes of Sections 9.2(b)(ii) and (iii) and Sections 9.3(ii) and (iii), in determining the amount of any Damages in connection with any inaccuracy of a representation and warranty (but not for purposes of determining whether any such inaccuracy has occurred), any materiality or "Material Adverse Effect" qualifier in such representation or warranty will be disregarded.

(f) The parties acknowledge and agree that after the Closings, the indemnification provisions contained in Sections 9.2(a), 9.2(b) and 9.3 shall be the sole and exclusive remedy for damages or claims (whether directly or by way of contribution) arising out of or caused by the breach of any of the representations, warranties, covenants or agreements of the parties contained in this Agreement, except for any remedies that may be available with respect to claims arising out of fraud. For purposes of clarity, the parties acknowledge and agree that the foregoing shall not limit any remedies for damages or claims arising out of the ongoing relationships of the parties.

(g) In no event will (i) the RBO Seller or Okun be liable for any Damages arising under Section 9.2(b) with respect to GenPar II or GenPar II LLC, (ii) any Oak Hill Seller or Seller Principal, other than OHAMI and August, be liable for any Damages arising under Section 9.2(b) as a result of a breach of a representation or warranty contained in Section 3.24, or (iii) the RBO Seller, the CSW Seller, Okun or Wernicke be liable for any Damages arising under Article IX if the Subsequent Closing has not occurred in accordance with Section 1.1 of this Agreement.

(h) Notwithstanding the preamble to Article III, in no event will any Oak Hill Seller or Seller Principal be liable for more than the percentage interest set forth opposite its or his name in Section 9.5(h) of the Disclosure Letter of any Damages arising under Section 9.2(b) (other than OHAMI and August in the case of Section 3.24). The iStar Parties agree to proceed against the Oak Hill Parties at the same time in connection with any action arising under Section 9.2(b).



(i) The iStar Parties acknowledge and agree that in respect of any damages or claims arising out of or caused by a breach of a covenant contained in Section 5.1(b)(viii) or Section 5.1(b)(ix) or Section 6.9 or a breach of a representation or warranty contained in Sections 3.15(j), 3.15(k) or 3.15(l) by any Oak Hill Seller or Seller Principal, their recourse shall be limited to such Oak Hill Seller's or Seller Principal's direct and indirect interests (including, without limitation, any distributions and allocations relating thereto, in each case after the date of such claims) in the Oak Hill Entities and no Oak Hill Seller or Seller Principal shall have any other liability with respect thereto, and none of the iStar Parties shall have recourse against any other assets of the Oak Hill Sellers or Seller Principals with respect thereto.

9.6 Tax Treatment of Indemnity Payments. It is the intention of the parties to treat any indemnity payment made under this Agreement as an adjustment to the purchase price for all federal, state, local and foreign income Tax purposes, and the parties agree to file their income Tax Returns accordingly (unless otherwise required by applicable Tax Laws).

9.7 Indemnity Payments by Seller Group Members. Any Seller Group Member shall be entitled, at its sole discretion, to satisfy all or a portion of any claim made for indemnification by an iStar Group Member by surrendering to such iStar Group Member iStar Common Stock, which shall be deemed to have a value equal to the average VWAP of the iStar Common Stock over the 15 Trading Days immediately preceding delivery of the iStar Shares by such Seller Group Member.

## ARTICLE X

## TERMINATION

10.1 Termination. This Agreement may be terminated at any time prior to the Initial Closing Date:

(a) by mutual consent of the parties hereto; or

(b) by the iStar Parties, if there has been a material violation or breach by any Oak Hill Party or any Oak Hill Entity of any representation, warranty, covenant or agreement contained in this Agreement, provided, that written notice of such material violation or breach shall have been given to such Oak Hill Party or such Oak Hill Entity, as applicable, and such material violation or breach shall not have been cured within 30 days of receipt of such notice (provided, further, that, to exercise its rights under this Section 10.1(b) for any particular violation or breach, the iStar Parties must terminate this Agreement within 15 Business Days after the cure period provided for in this Section 10.1(b) if not cured); or

(c) by all of the Oak Hill Parties and the Oak Hill Entities, if there has been a material violation or breach by the iStar Parties of any representation, warranty, covenant or agreement contained in this Agreement, provided, that written notice of such material violation or breach shall have been given to the iStar Parties and such material violation or breach shall not have been cured within 30 days of receipt of such notice (provided, further, that, to exercise their rights under this Section 10.1(c) for any particular violation or breach, the Oak Hill Parties and the Oak Hill Entities must terminate this Agreement within 15 Business Days after the end of the cure period provided for in this Section 10.1(c) if not cured); or



(d) by either the iStar Parties, on one hand, or all of the Oak Hill Parties and the Oak Hill Entities, on the other hand, if the Initial Closing shall not have occurred on or by April 1, 2005.

10.2 Effects of Termination. Except as otherwise provided in this Section 10.2, in the event of a termination of this Agreement pursuant to this Article X (i) all further obligations of the parties under this Agreement shall terminate, (ii) the parties will remain subject to the provisions of the November Confidentiality Agreement and February Confidentiality Agreement, (iii) no party shall have any right under this Agreement against any other party except as set forth in Section 11.1, and (iv) each party shall bear its own costs and expenses; provided, however, that the termination of this Agreement under this Article X shall not relieve any party of liability for any breach of this Agreement prior to the date of termination, or constitute a waiver of any claim with respect thereto; provided, further, that Sections 9.5(g), 9.5(h) and 9.5(i) shall survive such termination and apply with respect to any such liability.

10.3 Termination Following Initial Closing but Prior to Subsequent Closing. This Agreement may be terminated with respect to the Okun Group Sellers and the Wernicke Group Sellers by either the iStar Parties, on one hand, and Okun Group Sellers and Wernicke Group Sellers, on the other hand, if the Subsequent Closing shall not have occurred by May 2, 2005; provided, however, that the termination of this Agreement under this Article X shall not relieve any party of liability for any breach of this Agreement prior to the date of termination, or constitute a waiver of any claim with respect thereto; provided, further, that Sections 9.5(g), 9.5(h) and 9.5(i) shall survive such termination and apply with respect to any such liability.

## ARTICLE XI

## MISCELLANEOUS

11.1 Expenses of the Transaction. Each of the parties hereto agrees to pay such party's own fees and expenses in connection with this Agreement and the Related Agreements and the transactions contemplated hereby and by the Related Agreements including, without limitation, legal and accounting fees and expenses. The fees and expenses of the Oak Hill Entities in connection with this Agreement and the Related Agreements and the transactions contemplated hereby and by the Related Agreements shall be borne solely by the Seller Principals or the Oak Hill Sellers.

11.2 Notices. All notices or other communications required or permitted hereunder shall be in writing and shall be deemed given or delivered (i) when delivered personally or by private courier, (ii) when actually delivered by registered or certified United States mail, return receipt requested, or (iii) when sent by facsimile transmission (provided, that it is confirmed by a means specified in clause (i) or (ii)), addressed as follows:



If to the iStar Parties to:

iStar Financial Inc.
1114 Avenue of the Americas, 27th Floor
New York, New York 10036
Attention: Jay Nydick
Nina Matis
Andrew Richardson
Facsimile: (212) 930-9494
Telephone: (212) 930-9400

with a copy to:

Katten Muchin Zavis Rosenman
575 Madison Avenue
New York, New York 10022
Attention: Henry Bregstein, Esq.
David H. Landau, Esq.
Facsimile: (212) 940-8776
Telephone: (212) 940-8800

If to any Oak Hill Party or Oak Hill Entity to:

Oak Hill Advisors, L.P.
Park Avenue Tower
65 East 55th Street
New York, New York 10022
Attention: Glenn R. August
William H. Bohnsack, Jr.
Facsimile: (212) 838-8411
Telephone: (212) 326-1500

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, New York 10019
Attention: Kenneth M. Schneider, Esq.
Marco V. Masotti, Esq.
Facsimile: (212) 757-3990
Telephone: (212) 373-3000

or to such other address as such party may indicate by a notice delivered to the other parties hereto.

11.3 No Modification Except in Writing. This Agreement shall not be changed, modified, or amended except by a writing signed by the party to be affected by such change, modification or amendment, and this Agreement may not be discharged except by performance

in accordance with its terms or by a writing signed by the party to which performance is to be rendered.

11.4 Entire Agreement. This Agreement together with the Related Agreements, Disclosure Letters, Appendices and Exhibits hereto and the November Confidentiality Agreement (except that the provisions of the February Confidentiality Agreement pertaining to non-solicitation of employees, officers and directors and to transfers or purchases of iStar common stock are hereby terminated and of no further force and effect), sets forth the entire agreement and understanding among the parties as to the subject matter hereof and merges and supersedes all prior discussions, agreements and understandings of every kind and nature among them with respect to such subject matter.

11.5 Severability. If any provision of this Agreement or the application of any provision hereof to any person or circumstances is held invalid, the remainder of this Agreement and the application of such provision to other persons or circumstances shall not be affected unless the provision held invalid shall substantially impair the benefits of the remaining portions of this Agreement.

11.6 Assignment. No party will assign this Agreement or any rights hereunder, or delegate any obligations hereunder, without the prior consent of the other parties, except that, after the Initial Closing Date, the iStar Parties may assign their rights (but not their obligations) under this Agreement to any of their respective Affiliates or to its successor or transferee in any merger, business combination or sale or other disposition of material assets. This Agreement will inure to the benefit of the parties, and will be binding upon the parties and their respective heirs, executors, administrators, permitted successors and assigns.

11.7 Governing Law; Jurisdiction.

(a) This Agreement shall be governed by, and construed in accordance with, the Laws of the State of New York applicable to contracts made and to be performed wholly within said State, without giving effect to the conflict of laws principles thereof.

(b) Each party to this Agreement irrevocably submits to the exclusive jurisdiction of (i) the courts of the State of New York located in New York County and (ii) the United States District Court for the Southern District of New York, for the purposes of any Action arising out of this Agreement or the transactions contemplated hereby.

11.8 Headings; References. The headings appearing in this Agreement are inserted only as a matter of convenience and for reference and in no way define, limit or describe the scope and intent of this Agreement or any of the provisions hereof. Any reference in this Agreement (including in any Exhibit, Appendix or Disclosure Letter hereto) to a "Section," "Article," or "Exhibit" shall mean a Section, Article or Exhibit of or to this Agreement unless expressly stated otherwise.

11.9 Interpretation. In this Agreement, (a) words used herein regardless of the gender specifically used shall be deemed and construed to include any other gender, masculine, feminine or neuter, as the context shall require, and (b) all terms defined in the singular shall have the same meanings when used in the plural and *vice versa*. Any statute defined or referred



to herein or in any agreement or instrument that is referred to herein means such statute as from time to time amended, modified or supplemented, including (in the case of statutes) by succession of comparable successor statutes. References to a Person are also its predecessors and permitted successors and assigns.

11.10 Third Parties. Except as expressly provided herein or as otherwise agreed by the parties hereto, the provisions of this Agreement are solely for the benefit of the parties hereto and shall not inure to the benefit of any third party.

11.11 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which taken together shall constitute a single agreement.

*[Signature page follows]*



**IN WITNESS WHEREOF**, each of the parties hereto has executed this Agreement on the day and year first above written.

**iSTAR PARTIES:**

**iSTAR FINANCIAL INC.**

By: /s/ Jay S. Sugerman
Name: Jay S. Sugerman
Title: Chairman & CEO

**iSTAR ALPHA TRS INC.**

By: /s/ Jay S. Sugerman

Name: Jay S. Sugerman
Title: Chairman & CEO

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**OAK HILL ENTITIES:**

**OAK HILL ADVISORS, L.P.**

By: Oak Hill Advisors MGP, Inc.,
Managing General Partner

By: /s/ Glenn R. August
Name:
Title:

**OAK HILL SECURITIES GENPAR II, L.P.**

By: Oak Hill Securities MGP II, Inc.,
General Partner

By: /s/ Glenn R. August
Name:
Title:

**OAK HILL CREDIT ALPHA GENPAR, L.P.**

By: Oak Hill Credit Alpha MGP, LLC,
General Partner

By: /s/ Glenn R. August
Name:
Title:

**OHSF GP PARTNERS II, LLC**

By: /s/ Glenn R. August
Name: Glenn R. August
Title: Managing Member

**OAK HILL CREDIT ALPHA MGP, LLC**

By: /s/ Glenn R. August
Name:
Title:

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**OAK HILL SELLERS:**

**OAK HILL ADVISORS MGP, INC.**

By: /s/ Glenn R. August
Name:
Title:

**WHB, INC.**

By: /s/ William H. Bohnsack Jr.
Name:
Title:

**KRASE, INC.**

By: /s/ Scott D. Krase
Name:
Title:

**RBO, INC.**

By: /s/ Robert Okun
Name:
Title:

**CSW, INC.**

By: /s/ Carl L. Wernicke
Name:
Title:

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**GA LLC**

By: /s/ Glenn R. August
Name:
Title:

**OAK HILL ASSET MANAGEMENT, INC.**

By: /s/ Glenn R. August
Name:
Title:

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**SELLER PRINCIPALS:**

/s/ Glenn R. August
Glenn R. August

/s/ William H. Bohnsack Jr.
William H. Bohnsack, Jr.

/s/ Scott D. Krase
Scott D. Krase

/s/ Robert Okun
Robert Okun

/s/ Carl L. Wernicke
Carl L. Wernicke

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APPENDIX A

DEFINITIONS

The following terms when used in the Agreement shall have the respective meanings ascribed to them below:

"Action" shall mean any action, suit, claim, litigation, proceeding, arbitration, audit, investigation, or hearing (whether civil, criminal, administrative, investigative or informal) commenced, brought, conducted or heard by or before, any Governmental Authority.

"Affiliate" shall mean, with respect to a specified Person, any other Person who, directly or indirectly, controls, is controlled by, or is under common control with such specified Person. As used in this definition, the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.

"Affiliated Person" shall mean, with respect to a Person, any director, officer, agent, partner, member or employee of such Person.

"Agreement" has the meaning ascribed to such term in the Preamble hereto.

"Allocation Percentages" has the meaning ascribed to such term in Section A-1 of the Disclosure Letter.

"Amended and Restated GenPar II LLC Operating Agreement" shall mean the Amended and Restated Operating Agreement of GenPar II LLC amended in accordance with Section 5.9 and otherwise in form and substance reasonably satisfactory to the parties.

"Amended and Restated GenPar II LP Agreement" shall mean the Amended and Restated Limited Partnership Agreement of GenPar II amended in accordance with Section 5.9 and otherwise in form and substance reasonably satisfactory to the parties.

"Amended and Restated GenPar Alpha LLC Operating Agreement" shall mean the Amended and Restated Operating Agreement of GenPar Alpha LLC amended in accordance with Section 5.9 and otherwise in form and substance reasonably satisfactory to the parties.

"Amended and Restated GenPar Alpha LP Agreement" shall mean the Amended and Restated Limited Partnership Agreement of GenPar Alpha amended in accordance with Section 5.9 and otherwise in form and substance reasonably satisfactory to the parties.

"Amended and Restated LP Agreements" shall mean the Amended and Restated OHA LP Agreement, the Amended and Restated GenPar II LP Agreement and the Amended and Restated GenPar Alpha LP Agreement.

"Amended and Restated OHA LP Agreement" shall mean the Fifth Amended and Restated Limited Partnership Agreement of OHA in substantially the form attached hereto as Exhibit 2.



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"Amended and Restated Operating Agreements" shall mean the Amended and Restated GenPar II LLC Operating Agreement and the Amended and Restated GenPar Alpha LLC Operating Agreement.

"Audited Fund Financial Statements" has the meaning ascribed thereto in Section 3.19(f).

"August" has the meaning ascribed to such term in the Preamble hereto.

"August Group Sellers" shall mean August and the GRA Seller.

"Bohnsack" has the meaning ascribed to such term in the Preamble hereto.

"Bohnsack Group Sellers" shall mean Bohnsack and the WHB Seller.

"Business Day" shall mean a day (other than a Saturday or Sunday), on which commercial banks are open for business in New York, New York.

"Cap Amount" has the meaning ascribed to such terms in Section 9.5(b).

"Claim Notice" has the meaning ascribed to such term in Section 9.4(a).

"Closing Certificate" has the meaning ascribed to such term in Section 9.1.

"Closing Statement" has the meaning set forth in Section 1.6.

"Closings" has the meaning ascribed to such term in Section 1.1.

"COBRA" has the meaning ascribed to such term in Section 3.21(h).

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Code Plan" shall mean a plan (within the meaning of Section 4975 of the Code) which is subject to Section 4975 of the Code.

"Consulting Agreement" has the meaning ascribed to such term in Section 6.4.

"Content" has the meaning ascribed to such term in the definition of Intellectual Property.

"Contracts" shall mean all leases, including, without limitation, Real Property Leases, licenses, contracts, including, without limitation, Investment Advisory Contracts, agreements, indentures, promissory notes, guarantees, arrangements, commitments and understandings of any kind, whether written or oral, to which any Oak Hill Entity or Subsidiary is a party or by which any Oak Hill Entity or Subsidiary or any of the assets of any Oak Hill Entity or Subsidiary may be bound, and all rights arising under any of them.

"Copyrights" has the meaning ascribed to such term in the definition of Intellectual Property.

"CSW Seller" has the meaning ascribed to such term in the Preamble hereto.

"Daily iStar Common Stock Price" shall mean, in respect of any Trading Day, the VWAP on such Trading Day; provided, however, (i) if the VWAP on such Trading Day is greater than $45.00, "Daily iStar Common Stock Price" for such Trading Day shall mean $45.00 and (ii) if the VWAP on such Trading Day is less than $39.00, "Daily iStar Common Stock Price" for such Trading Day shall mean $39.00.

"Damages" shall mean losses, obligations, reduction in value of the Purchaser Partnership Interests or the Purchaser LLC Interests from the Purchase Price, liabilities, settlement payments, awards, judgments, fines, penalties, damages, deficiencies, Taxes and reasonable expenses and costs, including reasonable attorneys' and auditors' fees (and any reasonable experts' fees) and court costs. "Damages" shall not include punitive damages or consequential damages, except to the extent a reduction in value of the Purchaser Partnership Interests or the Purchaser LLC Interests from the Purchase Price would be considered consequential damages.

"Deductible Amount" has the meaning ascribed thereto in Section 9.5(a).

"Disclosure Letter" shall mean that certain letter, dated the date hereof from the Oak Hill Parties to iStar, qualifying the representations and warranties contained in Article II and Article III.

"Domain Names" has the meaning ascribed to such term in the definition of Intellectual Property.

"Employee Benefit Plan" shall mean any of the following (whether written, unwritten or terminated): (a) any "employee welfare benefit plan," as defined in Section 3(1) of ERISA, including, but not limited to, any medical plan, life insurance plan, short-term or long-term disability plan, dental plan, and sick leave; (b) any "employee pension benefit plan," as defined in Section 3(2) of ERISA, including, but not limited to, any excess benefit, top hat or deferred compensation plan or any nonqualified deferred compensation or retirement plan or arrangement or any qualified defined contribution or defined benefit plan; or (c) any other plan, policy, program, arrangement or agreement which provides employee benefits or benefits to any current or former employee, dependent, beneficiary, director, independent contractor or like person, including, but not limited to, any severance agreement or plan, personnel policy, vacation time, holiday pay, service award, moving expense reimbursement programs, tool allowance, safety equipment allowance, material fringe benefit plan or program, bonus or incentive plan, stock option, restricted stock, stock bonus or deferred bonus plan, salary reduction, change-of-control or employment agreement (or consulting agreement with a former employee).

"Employee Benefit Plan of the Oak Hill Entities" shall mean "Oak Hill Employee Benefit Plan" as set forth below.

"Environment" shall mean soil, surface waters, ground waters, land, stream, sediments, surface or subsurface strata and ambient air.

"Environmental Condition" shall mean any condition with respect to the Environment on or off any Facility caused by a Release of Hazardous Substances or violation of Environmental Laws, whether or not yet discovered, which could or does result in any Damages, including,



without limitation, any condition resulting from the operation of the business of any Oak Hill Entity or Subsidiary or the operation of the business of any subtenant or occupant of any Facility or that of other property owners or operators in the vicinity of any Facility or any activity or operation formerly conducted by any person or entity on or off such Facility.

"Environmental Laws" shall mean all Laws relating to the pollution of or protection of the Environment, from contamination by, or relating to injury to, or the protection of, real or personal property or human health or the Environment, including, without limitation, all valid and lawful requirements of courts and other Governmental Authorities pertaining to reporting, licensing, permitting, investigation, remediation and removal of, emissions, discharges, releases or threatened releases of Hazardous Substances, chemical substances, pesticides, petroleum or petroleum products, pollutants, contaminants or hazardous or toxic substances, materials or wastes, into the Environment, or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Substances, pollutants, contaminants or hazardous or toxic substances, materials or wastes.

"Environmental Report" shall mean any report, study, assessment, audit, or other similar document that addresses any issue of actual or potential noncompliance with, actual or potential liability under or cost arising out of, or actual or potential impact on business in connection with, any Environmental Law or any proposed or anticipated change in or addition to any Environmental Law.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Plan" shall mean an employee benefit plan (as defined in Section 3(3) of ERISA) which is subject to Title I of ERISA.

"Exchange Act" shall mean the U.S. Securities Exchange Act of 1934, as amended, or any successor law, and regulations and rules issued under that Act or any successor law.

"Excluded Assets" shall mean (a) the interests attributable to carried interest, incentive fees or other performance based allocations, distributions or compensation of the general partner or investment manager special purpose vehicles relating to Oak Hill Special Opportunities GenPar, L.P., Oak Hill CLO Management I, L.L.C., a Delaware limited liability company, Oak Hill CLO Management II, L.L.C., a Delaware limited liability company, and Oak Hill CLO Management III, L.L.C., a Delaware limited liability company, (b) the fractional interests in four airplanes indirectly owned by August and (c) the passive investments by the Oak Hill Parties or their Affiliates for their own account (i) not arising directly or indirectly from the business of the Partnership or (ii) arising from the activities on behalf of Keystone, Inc., other Oak Hill – related investment management business and related parties and co-investment entities thereof.

"Facility" shall mean any facility that is now or has heretofore been owned, leased or used in connection with the business of any Oak Hill Entity or Subsidiary.

"February Confidentiality Agreement" shall mean the Confidentiality Agreement, dated February 3, 2005, between OHA and the Parent.



"Fund Documents" shall mean the offering documents with respect to offerings and sales of the interests in a Fund and all forms, reports, registration statements, schedules or other filings made by an Oak Hill Entity or Subsidiary with federal, state or securities self-regulatory organizations with respect to a Fund.

"Funds" shall mean Oak Hill Securities Fund, L.P., Oak Hill Securities Fund II, L.P., Oak Hill Securities Fund Liquidating Trust, Oak Hill Special Opportunities Fund, L.P., Oak Hill Special Opportunities Fund (Management), L.P., Oak Hill Credit Partners I, Limited, Oak Hill Credit Partners II, Limited, Oak Hill Credit Partners III, Limited, Oak Hill Credit Partners IV, Limited, VP CBO, Limited, SMBC MVI SPC, Oak Hill Credit Alpha Fund, LP, Oak Hill Credit Alpha Fund (Offshore), Ltd. and separately managed accounts (the "Separately Managed Accounts") entered into with The Leland Stanford Junior University, Lerner Enterprises Limited Partnership, Cardinal Investment Partners I, L.P., and P&PK Family Limited Partnership.

"GAAP" shall mean United States generally accepted accounting principles.

"GA LLC" has the meaning ascribed thereto in the Preamble hereto.

"GenPar II" has the meaning ascribed to such term in the Preamble hereto.

"GenPar II Interests" has the meaning ascribed to such term in Section 3.3.

"GenPar II LLC" has the meaning ascribed to such term in the Preamble hereto.

"GenPar II LLC Interests" has the meaning ascribed to such term in the Recitals hereto.

"GenPar II LLC Operating Agreement" shall mean the limited liability company agreement of GenPar LLC, dated September 28, 1999.

"GenPar II LP Agreement" shall mean the agreement of limited partnership of GenPar II, dated as of September 28, 1999.

"GenPar Alpha" has the meaning ascribed to such term in the Preamble hereto.

"GenPar Alpha Interests" has the meaning ascribed to such term in Section 3.3.

"GenPar Alpha LLC" has the meaning ascribed to such term in the Preamble hereto.

"GenPar Alpha LLC Interests" has the meaning ascribed to such term in the Recitals hereto.

"GenPar Alpha LLC Operating Agreement" shall mean the limited liability company agreement of GenPar Alpha LLC, dated as of January 1, 2004.

"GenPar Alpha LP Agreement" shall mean the amended and restated agreement of limited partnership of GenPar Alpha, dated as of January 1, 2004.

"GenPar Interests" has the meaning ascribed to such term in Section 3.3.



"Governmental Authority" shall mean any (i) federal, state, local, provincial, municipal, foreign, or other government, (ii) governmental or quasi-governmental authority of any nature or (iii) other body exercising any statutory, administrative, judicial, arbitrative, legislative, police, regulatory, or taxing authority or power.

"Governmental Documents" shall mean all reports and registration statements filed, or required to be filed, by Law, by contract or otherwise, by an entity pursuant to the authority of any Governmental Authority.

"Governmental Permits" shall mean all licenses, franchises, registrations, permits, privileges, immunities, approvals and other authorizations from a Governmental Authority.

"GRA Seller" has the meaning ascribed to such term in the Preamble hereto.

"Hazardous Substance" shall mean any substance whether solid, liquid or gaseous in nature:

(i) the presence of which requires notification, investigation, or remediation under any Environmental Law;

(ii) which is defined as "toxic", a "hazardous waste", "hazardous material" or "hazardous substance" or "pollutant" or "contaminant" under any Environmental Laws;

(iii) which is toxic, explosive, corrosive, flammable, radioactive, carcinogenic, mutagenic or otherwise hazardous and is regulated by any Governmental Authority;

(iv) which contains gasoline, diesel fuel or other petroleum hydrocarbons or volatile organic compounds;

(v) which contains polychlorinated byphenyls (PCBs) or asbestos or urea formaldehyde foam insulation; or

(vi) which contains or emits radioactive particles, waves or materials, including radon gas.

"Immediate Family" shall mean, with respect to any individual, (a) such individual's spouse, parents, siblings and children, (b) any spouse, parent, sibling or child of any Person specified in clause (a) above and (c) estates, trusts, partnerships and other entities and legal relationships of which a majority in interest of the beneficiaries, members, owners, investors or participants at all times in question are, directly or indirectly, one or more of the Persons described above and/or such individual.

"Indemnified Party" has the meaning ascribed to such term in Section 9.4(a).

"Indemnifying Party" has the meaning ascribed to such term in Section 9.4(a).

"Initial Cash Purchase Price" has the meaning ascribed to such term in Section 1.2.

"Initial Closing" has the meaning ascribed to such term in Section 1.1.



"Initial Closing Date" has the meaning ascribed to such term in Section 1.1.

"Initial Closing Time" has the meaning ascribed to such term in Section 1.1.

"Initial iStar Shares" has the meaning ascribed to such term in Section 1.2.

"Initial Purchase Price" has the meaning ascribed to such term in Section 1.2.

"Intellectual Property" shall mean any United States (federal and state) and foreign: patents and patent applications, including but not limited to all reissues, divisions, continuation, continuations-in-part, and extensions of the patents, industrial design registrations, certificates of invention and utility models (collectively, "Patents"); trademarks, service marks, and trademark and service mark registrations and applications, both use based and on an intent to use basis, trade names, business names, logos, and, slogans, together with all goodwill related to the foregoing (collectively, "Trademarks"); Internet domain names (collectively, the "Domain Names"); copyrights, copyright registrations, renewals, and applications for copyrights, including without limitation for the Content and the Software (collectively, "Copyrights"); and Software, technology, trade secrets, business methodology, and other confidential models and methodologies; in each case that are trade secrets under applicable law (collectively, "Trade Secrets"); "Software" means any and all of (i) computer programs, including any and all software implementations of algorithms, models, and methodologies, whether in source code or object code form, (ii) databases, compilations, and any other electronic data files, including any and all collections of data, whether machine readable or otherwise, and (iii) all documentation, including technical, end-user, training and troubleshooting manuals and materials, relating to any and all of the foregoing. "Content" means any and all written or fixed information, pictures, images, graphics, video, audio, text and any other written or fixed content or information, in whatever form and on any media.

"Investment Advisers Act" shall mean the Investment Advisors Act of 1940, as amended, or any successor Law, and regulations and rules issued under that Act or any successor Law.

"Investment Advisory Contracts" has the meaning ascribed to such term in Section 3.11(a)(ii).

"Investment Company Act" shall mean the Investment Company Act of 1940, as amended, or any successor law, and regulations and rules issued under that Act or any successor law.

"iStar Common Stock" shall mean the common stock, par value $0.0001 per share, of the Parent.

"iStar Common Stock Price" shall mean the average of the Daily iStar Common Stock Prices for the first 20 Trading Days in March 2005.

"iStar Deductible Exclusions" has the meaning ascribed to such term in Section 9.5(c).

"iStar Group Member" shall mean each of Parent, the Purchaser, the Purchaser Designees and their respective Affiliates, including the Oak Hill Entities and their respective directors, officers, employees, agents and attorneys and their respective successors and assigns.



"iStar Material Adverse Effect" shall mean any event or condition that has had, or is reasonably likely to have, a material adverse effect on the business, assets, liabilities, results of operations or financial condition of the Parent, taken as a whole; provided, however, that such changes shall not include events, developments, conditions, facts or occurrences resulting from (i) changes in U.S. general economic or securities, debt, or high-yield market conditions, (ii) acts of terrorism or outbreak of war generally affecting the economy, or (iii) the announcements of the transactions contemplated by this Agreement.

"iStar Parties" shall mean the Parent and the Purchaser, and, for purposes of Articles VII, IX, and XI, the Purchaser Designees.

"iStar Shares" has the meaning ascribed to such term in Section 2.7.

"Keystone Payment" shall mean the cash payment by OHA to Keystone, Inc. (or one of its Affiliates) in an amount agreed to by OHA and Keystone, Inc., which will be funded at or prior to the Initial Closing and which shall constitute an OHA Liability.

"Krase" has the meaning ascribed to such term in the Preamble hereto.

“Krase Group Sellers” shall mean Krase and the Krase Seller.

“Krase Seller” has the meaning ascribed to such term in the Preamble hereto.

“Law” shall mean any constitution, law, treaty, compact, directive, ordinance, principal of common law, permit, authorization, variance, regulation, rule, or statute, including, without limitation, all federal, foreign, international, state, exchange and local laws (including without limitation the anti-fraud provisions thereof) and rules and all exchange and self-regulatory organization rules and regulation related to securities (including without limitation the Exchange Act, the Securities Act, the Investment Advisers Act, the Investment Company Act and the Bank Holding Company Act), commodities (including without limitation, the Commodity Exchange Act), Taxes, ERISA, Hazardous Substances and the Environment, zoning and land use, Intellectual Property, privacy, occupational safety and health, consumer protection, product quality, safety, employment and labor matters.

“LIBOR” shall mean the rate appearing on Page 3750 of the Dow Jones Market Service (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service as determined by the general partner of OHA from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of an interest period relating to a loan issued under the line of credit referred to in Section 1.6, as the rate for dollar deposits with a maturity comparable to such interest period.

“License Agreements” has the meaning ascribed to such term in Section 3.12(a).

“Liens” shall mean all mortgages, pledges, liens, security interests, conditional sale agreements, encumbrances or similar restrictions but expressly excluding licensed Intellectual Property.



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“LLC Interests” has the meaning ascribed to such term in the Recitals.

“LLC Operating Agreements” shall mean the GenPar II Operating Agreement and the GenPar Alpha LLC Operating Agreement.

“Material Contracts” has the meaning ascribed to such term in Section 3.11(b).

“Notices” shall have the meaning ascribed to such term in Section 5.8.

“November Confidentiality Agreement” shall mean the Confidentiality Agreement, dated November 9, 2004, between OHA and the Parent.

“Oak Hill Designee” has the meaning ascribed to such term in Section 6.3.

“Oak Hill Employee Benefit Plan” shall mean any Employee Benefit Plan, with respect to which any Oak Hill Entity, or any of Subsidiary thereof, maintains, makes contributions to or has any other liability with respect to, or arising out of the employment, or other similar affiliation (e.g., independent contractor, director, etc.), of any individual with any current or former Oak Hill Plan Affiliate.

“Oak Hill Entities” has the meaning ascribed to such term in the Preamble hereto.

“Oak Hill Entities Intellectual Property” has the meaning ascribed to such term in Section 3.12(a).

“Oak Hill Material Adverse Effect” shall mean any event, or condition that has had, or is reasonably likely to have, a material adverse effect on the business, assets, liabilities, results of operations or financial condition of the Oak Hill Entities, taken as a whole; provided, however, that an Oak Hill Material Adverse Effect shall not include events, developments, conditions, facts or occurrences resulting from (i) U.S. general economic or securities, debt or high yield market conditions, (ii) acts of terrorism or outbreak of war generally affecting the economy or (iii) the announcement of the transactions contemplated by this Agreement.

“Oak Hill Parties” has the meaning ascribed to such term in the Preamble hereto.

“Oak Hill Plan Affiliate” shall mean any of the Oak Hill Entities, any Subsidiary and predecessor of any of them and any other Person who constitutes or has constituted all or part of a controlled group or has been or is under common control with, or whose employees were or are treated as employed by, any of the Oak Hill Entities, any Subsidiary and/or any predecessor or any of them, under Section 414 of the Code.

“Oak Hill Sellers” has the meaning ascribed to such term in the Preamble.

“OHA” has the meaning ascribed to such term in the Preamble hereto.

“OHA 2003 Balance Sheet” shall mean the audited combined statement of financial position of OHA and certain affiliated advisory companies for the fiscal year ended December 31, 2003.



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“OHA Audited Financial Statements” has the meaning ascribed to such term in Section 3.14(a).

“OHA Liabilities” shall mean (x) those liabilities set forth on the OHA 2003 Balance Sheet or the September 30 Balance Sheet described in the following line items: (i) Due to Oak Hill Special Opportunities Management, LLC and (ii) Due to Affiliates and (y) any similar liabilities of OHA or any other Oak Hill Entity that may exist as of the Business Day immediately prior to the Initial Closing.

"OHA Partnership Agreement" shall mean the Third Amended and Restated Agreement of Limited Partnership, dated as of November 1, 2004, of OHA.

"OHA Partnership Interests" has the meaning ascribed to such term in the Recitals hereto.

"OHAI" shall mean Oak Hill Advisors, Inc., a Delaware corporation wholly-owned by August.

"OHAI Advisory Agreements" shall mean the Investment Advisory Contracts with Lerner Enterprises Partnership, Cardinal Investment Partners I, L.P. and P&PK Family Limited Partnership.

"OHAI Contribution" shall mean the contribution (by merger, assignment or other transfer) of the OHAI Advisory Agreements and certain other agreements to which OHAI is a party as set forth in Section A-10 of the Disclosure Letter to OHA in exchange for Class B Interests.

"OHAMI Contribution" shall mean the contribution (by merger, assignment or other transfer) of the OHAMI Advisory Agreements and certain other agreements to which OHAMI is a party as set forth in Section A-10 of the Disclosure Letter to OHA in exchange for Class A Interests.

"OHAI Note" shall mean that certain note payable to August as shown in the OHA Audited Financial Statements and any financial statements thereafter.

"OHAMI" has the meaning ascribed to such term in the Preamble hereto.

"OHAMI Advisory Agreements" shall mean the Investment Advisory Contracts with Oak Hill Securities Fund, L.P. and Oak Hill Securities Fund Liquidating Trust.

"Okun" has the meaning ascribed to such term in the Preamble hereto.

"Okun Group Sellers" shall mean Okun and the RBO Seller.

"Order" shall mean any award, decision, injunction, decree, stipulation, determination, writ, judgment, order, ruling, or verdict ordered, issued, made or rendered by any court, administrative agency or other Governmental Authority.

"Organizational Documents" shall mean, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive



documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

"Parent" has the meaning ascribed to such term in the Preamble hereto.

"Patents" has the meaning ascribed to such term in the definition of Intellectual Property.

"Permitted Liens" shall mean Liens (i) for any current taxes or assessments not yet delinquent, (ii) created by statute of carriers, warehousemen, mechanics, laborers or materialmen incurred in the ordinary course of business for sums not yet due or (iii) real property leases and licenses for the use of Intellectual Property.

"Permitted Transactions" has the meaning ascribed to such term in Section 5.1.

"Person" shall mean any individual, firm, unincorporated organization, corporation (including any not-for-profit corporation), general or limited partnership, limited liability company, cooperative marketing association, joint venture, estate, trust, association or other entity as well as any syndicate or group that would be deemed to be a person under Section 13(a)(3) of the Exchange Act.

"Plan Asset Regulation" has the meaning ascribed thereto in Section 3.18(j).

"Principal Exchange" shall mean the New York Stock Exchange or, if at any time the iStar Common Stock is not listed on the New York Stock Exchange, the principal stock exchange (including Nasdaq) on which the iStar Common Stock is then listed or admitted to trading, or quotes, as applicable.

"Pro Rata Share" has the meaning ascribed to such term in Section 1.3.

"Purchaser" has the meaning ascribed to such term in the Preamble hereto.

"Purchaser Designee" has the meaning ascribed to such term in Section 6.10.

"Purchaser GenPar II LLC Interest" has the meaning ascribed to such term in the Recitals hereto.

"Purchaser GenPar Alpha LLC Interest" has the meaning ascribed to such term in the Recitals hereto.

"Purchaser LLC Interests" has the meaning ascribed to such term in the Recitals hereto.

"Purchaser Partnership Interests" has the meaning ascribed to such term in the Recitals hereto.

"<u>RBO Seller</u>" has the meaning ascribed to such term in the Preamble hereto.

"<u>Real Estate Issuer</u>" shall mean any corporation or partnership if real estate and "interests in real property" (within the meaning of Section 856(c)(4)(C) of the Code, irrespective of where such assets are located) constitute more than 50% of the fair market value of its assets.

"<u>Real Property Leases</u>" shall mean all leases for real property to which any Oak Hill Entity or Subsidiary is a party or by which it is bound.

"<u>Reclassification</u>" has the meaning ascribed to such term in the Recitals hereto.

"<u>REIT</u>" shall mean a real estate investment trust, within the meaning of Section 856 of the Code.

"<u>Related Agreements</u>" shall mean (i) the Amended and Restated LP Agreements, (ii) the Amended and Restated Operating Agreements, (iii) the Relationship Agreement, (iv) the Shareholder's Agreement, (v) the Consulting Agreement and (vi) those other agreements and documents contemplated by this Agreement.

"<u>Relationship Agreement</u>" shall mean the Relationship Agreement in substantially the form attached hereto as <u>Exhibit 3</u>.

"<u>Reorganization</u>" shall mean the recapitalization of GenPar II LLC, as described in Exhibit R.

"<u>SEC Reports</u>" has the meaning ascribed to such term in Section 4.7.

"<u>Securities Act</u>" shall mean the Securities Act of 1933, as amended, or any successor law, and regulations and rules issued under that Act or any successor law.

"<u>Securities List</u>" shall mean the written list attached hereto as <u>Exhibit SL</u>, as the same may be amended in writing from time to time in accordance with the provisions of Section 6.9 hereof, containing the name, address and taxpayer identification number of, and any additional information reasonably requested by the Seller Principals with respect to, each Real Estate Issuer in which Parent owns or, as a result of any transaction entered into or pending, reasonably expects to acquire, Securities the ownership of which would cause Parent to violate Section 856(c)(4)(B)(iii)(III) of the Code but for qualifying (in Parent's good faith judgment) as "straight debt securities" described in Section 856(m)(1)(A) of the Code.

"<u>Security</u>" shall have the meaning set forth in the Investment Company Act of 1940, as amended; provided that for the avoidance of doubt, no Oak Hill Entity shall be deemed to own an interest in any Security owned by any entity solely by reason of the existence of a management agreement with respect to that entity.

"<u>Seller Deductible Exclusions</u>" has the meaning ascribed to such term in Section 9.5(a).

"<u>Seller Group Member</u>" shall mean the August Group Sellers, the Bohnsack Group Sellers, the Krase Group Sellers, the Okun Group Sellers and the Wernicke Group Sellers and



each of their respective agents and attorneys and their respective successors and permitted assigns.

"<u>Seller Principals</u>" has the meaning ascribed to such term in the Preamble hereto.

"<u>Separately Managed Accounts</u>" has the meaning ascribed thereto in the definition of Funds.

"<u>September 30 Balance Sheet</u>" shall mean the unaudited combined statement of financial position of OHA for the period ended September 30, 2004.

"<u>Shareholder's Agreement</u>" shall mean the Shareholder's Agreement in substantially the form attached hereto as Exhibit 4.

"<u>Software</u>" has the meaning ascribed to such term in the definition of Intellectual Property.

"<u>Subsequent Amended and Restated LP Agreements</u>" shall mean any Amended and Restated LP Agreements revised to reflect the transactions contemplated by the Subsequent Closing.

"<u>Subsequent Amended and Restated Operating Agreements</u>" shall mean any Amended and Restated Operating Agreements revised to reflect the transactions contemplated by the Subsequent Closing.

"<u>Subsequent Cash Purchase Price</u>" has the meaning ascribed to such term in Section 1.3.

"<u>Subsequent Closing</u>" has the meaning ascribed to such term in Section 1.1.

"<u>Subsequent Closing Date</u>" has the meaning ascribed to such term in Section 1.1.

"<u>Subsequent Closing Time</u>" has the meaning ascribed to such term in Section 1.1.

"<u>Subsequent iStar Shares</u>" has the meaning ascribed to such term in Section 1.3.

"Subsequent Purchase Price" has the meaning ascribed to such term in Section 1.3.

"Subsidiary" shall mean, as to any Person, any other Person more than 50% of the shares of the voting stock or other voting interests of which are owned or controlled, or the ability to select or elect more than 50% of the directors or similar managers is held, directly or indirectly, by such first Person or one or more of its Subsidiaries or by such first Person and one or more of its Subsidiaries. Unless otherwise, specified, all references herein to a "Subsidiary" or to "Subsidiaries" shall refer to a Subsidiary or Subsidiaries of the Oak Hill Entities. For purposes of this Agreement, none of the Funds shall be deemed to be Subsidiaries of any of the Oak Hill Entities.

"Tax Returns" shall mean all federal, state, local, provincial and foreign returns, reports, declarations, estimates, information returns, forms, schedules and statements (including any related or supporting information) and any amended Tax return relating to Taxes.



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"Taxes" shall mean any and all federal, state, local and foreign taxes, assessments, governmental charges, duties, impositions and liabilities, including, but not limited to, income (whether net or gross), excise, property, sales, transfer, gains, gross receipts, occupation, privilege, payroll, wage, unemployment, workers' compensation, social security, escheat, use, value added, capital, gross receipts, franchise, license, severance, stamp, premium, windfall profits, environmental (including taxes under Code Sec. 59A), capital stock, profits, withholding, disability, real property, personal property, registration, customs duties, alternative or add-on minimum, estimated or other tax of any kind whatsoever (whether disputed or not) imposed by any tax authority, including any related charges, fees, interest, penalties, additions to tax or other assessments.

"Third Party Claim" has the meaning ascribed to such term in Section 9.4(a).

"Trade Secrets" has the meaning ascribed to such term in the definition of Intellectual Property.

"Trademarks" has the meaning ascribed to such term in the definition of Intellectual Property.

"Trading Day" shall mean any day on which the Principal Exchange is open for trading.

"Transfer Taxes" has the meaning ascribed to such term in Section 6.6.

"Unaudited Interim Financial Statements" has the meaning ascribed to such term in Section 3.14(a).

"Unaudited Interim Fund Financial Statements" has the meaning ascribed thereto in Section 3.19(f).

"VWAP" shall mean the daily dollar volume-weighted average sale price for the iStar Common Stock on the Principal Exchange on any particular Trading Day during the period beginning at 9:30 a.m., Eastern Time, and ending at 4:00 p.m., Eastern Time, as reported by Bloomberg through its "Volume at Price" functions.

"Wernicke" has the meaning ascribed to such term in the Preamble hereto.

"Wernicke Group Sellers" shall mean Wernicke and the CSW Seller.

"WHB Seller" has the meaning ascribed to such term in the Preamble hereto.

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**EXHIBIT 31.0**

**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, 2005

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, 2005

By: /s/ CATHERINE D. RICE

Name: Catherine D. Rice
Title: Chief Financial Officer

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CERTIFICATIONS
CERTIFICATION

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**EXHIBIT 32.0**

**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, 2005 (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, 2005 (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

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