UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2000

OR

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

FOR THE TRANSITION PERIOD FROM ______________ TO______________

COMMISSION FILE NO. 1-10150

ISTAR FINANCIAL INC.

(Exact name of registrant as specified in its charter)

MARYLAND (State or other jurisdiction of incorporation or organization)	95-6881527 (I.R.S. Employer Identification Number)
1114 AVENUE OF THE AMERICAS, 27TH FLOOR NEW YORK, NY 10036 (Address of principal executive offices)	10036 (Zip Code)

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

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

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

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

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

As of November 8, 2000, there were 85,734,749 shares of common stock of IStar Financial Inc., $0.001 par value per share outstanding ("Common Stock").

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PART I--CONSOLIDATED FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ISTAR FINANCIAL INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	AS OF SEPTEMBER 30, 2000	AS OF DECEMBER 31, 1999
	(UNAUDITED)	
ASSETS		
Loans and other lending investments, net	$2,269,957	$2,003,506
Real estate subject to operating leases, net	1,654,671	1,714,284
Cash and cash equivalents	47,585	34,408
Restricted cash	16,316	10,195
Marketable securities	62	4,344
Accrued interest and operating lease income receivable	17,994	16,211
Deferred operating lease income receivable	7,986	1,147
Deferred expenses and other assets	60,030	29,074
Investment in IStar Operating	125	383
Total assets	$4,074,726	$3,813,552
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 53,088	$ 54,773
Dividends payable	5,225	53,667
Debt obligations	2,169,969	1,901,204
Total liabilities	2,228,282	2,009,644
Commitments and contingencies	--	--
Minority interest in consolidated entities	2,565	2,565
Shareholders' equity:		
Series A Preferred Shares, $0.001 par value, liquidation preference $220,000, 4,400 shares authorized and outstanding at September 30, 2000 and December 31, 1999	4	4
Series B Preferred Shares, $0.001 par value, liquidation preference $50,000, 2,000 shares issued and outstanding at September 30, 2000 and December 31, 1999	2	2
Series C Preferred Shares, $0.001 par value, liquidation preference $32,500, 1,300 shares issued and outstanding at September 30, 2000 and December 31, 1999	1	1
Series D Preferred Shares, $0.001 par value, liquidation preference $100,000, 4,000 shares issued and outstanding at September 30, 2000 and December 31, 1999	4	4
Common Stock, $0.001 par value, 200,000 shares authorized, 85,733 and 84,985 shares issued and outstanding at September 30, 2000 and December 31, 1999, respectively	86	85
Warrants and options	16,943	17,935
Accumulated other comprehensive income (losses)	(34)	(229)
Additional paid in capital	1,966,281	1,953,972
Retained earnings (deficit)	(98,863)	(129,992)
Treasury stock (at cost)	(40,545)	(40,439)
Total shareholders' equity	1,843,879	1,801,343
Total liabilities and shareholders' equity	$4,074,726	$3,813,552

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

ISTAR FINANCIAL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
REVENUE:				
Interest income	$ 70,148	$52,911	$197,095	$154,837
Operating lease income	46,327	4,276	139,822	11,726
Other income	4,208	3,448	12,568	8,751
Total revenue	120,683	60,635	349,485	175,314
COSTS AND EXPENSES:				
Interest expense	46,470	21,099	127,029	61,348
Operating costs--corporate tenant lease assets	3,284	--	9,568	--
Depreciation and amortization	8,705	1,365	26,575	4,095
General and administrative	5,859	717	20,570	2,386
Provision for possible credit losses	1,750	1,250	4,750	3,500
Stock option compensation expense	569	--	1,703	--
Advisory fees	--	4,933	--	14,614
Total costs and expenses	66,637	29,364	190,195	85,943
Net income before minority interest, gain on sale of corporate tenant lease assets and extraordinary loss	54,046	31,271	159,290	89,371
Minority interest in consolidated entities	(41)	--	(123)	--
Gain on sale of corporate tenant lease assets	1,974	--	2,948	--
Net income before extraordinary loss	55,979	31,271	162,115	89,371
Extraordinary loss on early extinguishment of debt	(388)	--	(705)	--
Net income	$ 55,591	$31,271	$161,410	$ 89,371
Preferred dividend requirements	(9,227)	(5,308)	(27,681)	(15,923)
Net income allocable to common shareholders	$ 46,364	$25,963	$133,729	$ 73,448
Basic earnings per common share(1)	$ 0.54	$ 0.49	$ 1.57	$ 1.39
Diluted earnings per common share	$ 0.54	$ 0.47	$ 1.55	$ 1.31

EXPLANATORY NOTE:

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

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

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

	SERIES A PREFERRED STOCK	SERIES B PREFERRED STOCK	SERIES C PREFERRED STOCK	SERIES D PREFERRED STOCK	COMMON STOCK AT PAR	WARRANTS AND OPTIONS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK
Balance at December 31, 1999	$ 4	$ 2	$ 1	$ 4	$ 85	$17,935	$(229)	$(40,439)
Exercise of options	--	--	--	--	1	(992)	--	--
Dividends declared--preferred stock	--	--	--	--	--	--	--	--
Dividends declared--common stock	--	--	--	--	--	--	--	--
Acquisition of ACRE Partners	--	--	--	--	--	--	--	--
Restricted stock units issued to employees in lieu of cash bonuses	--	--	--	--	--	--	--	--
Restricted stock units granted to employees	--	--	--	--	--	--	--	--
Treasury stock	--	--	--	--	--	--	--	(106)
Net income for the period	--	--	--	--	--	--	--	--
Change in accumulated other comprehensive income	--	--	--	--	--	--	195	--
Balance at September 30, 2000	$ 4	$ 2	$ 1	$ 4	$ 86	$16,943	$ (34)	$(40,545)

	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNING (DEFICIT)	TOTAL
Balance at December 31, 1999	$1,953,972	$(129,992)	$1,801,343
Exercise of options	7,087	--	6,096
Dividends declared--preferred stock	248	(27,681)	(27,433)
Dividends declared--common stock	--	(102,600)	(102,600)
Acquisition of ACRE Partners	3,637	--	3,637
Restricted stock units issued to employees in lieu of cash bonuses	1,125	--	1,125
Restricted stock units granted to employees	212	--	212
Treasury stock	--	--	(106)
Net income for the period	--	161,410	161,410
Change in accumulated other comprehensive income	--	--	195
Balance at September 30, 2000	$1,966,281	$ (98,863)	$1,843,879

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 SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
Cash flows from operating activities:				
Net income	$ 55,591	$ 31,271	$ 161,410	$ 89,371
Adjustments to reconcile net income to cash flows provided by operating activities:				
Minority interest in consolidated entities	41	--	123	--
Equity in (earnings) loss of unconsolidated joint ventures and subsidiaries	(1,415)	(48)	(3,826)	65
Depreciation and amortization	12,662	2,709	35,642	8,359
Amortization of discounts/premiums, deferred interest and costs on lending investments	(6,007)	(6,295)	(17,758)	(19,025)
Distributions from operating joint ventures	996	--	3,374	--
Straight-line operating lease income adjustments	(2,348)	--	(6,879)	--
Realized (gains) losses on sales of securities	--	(11)	229	(11)
Gain on sale of corporate tenant lease assets	(1,974)	--	(2,948)	--
Extraordinary loss on early extinguishment of debt	388	--	705	--
Provision for possible credit losses	1,750	1,250	4,750	3,500
Changes in assets and liabilities:				
(Increase) decrease in restricted cash	(178)	(1)	(6,121)	2,201
(Increase) decrease in accrued interest and operating lease income receivable	398	(1,673)	(1,783)	(884)
Increase in deferred expenses and other assets	(2,094)	(3,167)	(10,928)	(4,201)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	552	(944)	(3,784)	(2,908)
Cash flows provided by operating activities	58,362	23,091	152,206	76,467
Cash flows from investing activities:				
New investment originations/acquisitions	(227,300)	(24,164)	(670,473)	(361,414)
Principal fundings on existing loan commitments	(12,768)	(14,483)	(50,577)	(37,207)
Proceeds from sale of corporate tenant lease assets	--	--	145,948	--
Repayments of and principal collections from loans and other lending investments	210,388	102,892	373,620	368,062
Net investments in and advances to unconsolidated joint ventures	14,812	--	2,839	--
Capital expenditures on real estate subject to operating leases	(4,544)	--	(7,626)	--
Cash flows provided by (used in) investing activities	(19,412)	64,245	(206,269)	(30,559)
Cash flows from financing activities:				
Net borrowings (repayments) under revolving credit facilities	154,587	(663)	(342,539)	44,796
Borrowings under term loans	--	--	90,000	1,564
Repayments under term loans	(4,759)	(64,634)	(245,114)	--
Borrowings under repurchase agreements	220	--	28,201	--
Repayments under repurchase agreements	(3,594)	(200)	(5,986)	(6,691)
Borrowings under bond offerings	5,000	--	863,254	--
Repayments under bond offerings	(120,445)	--	(121,684)	--
Common dividends paid	(51,429)	(22,791)	(151,040)	(66,758)
Preferred dividends paid	(9,144)	(5,225)	(27,433)	(11,377)
Minority interest	(41)	--	(123)	--
Payments for deferred financing costs	(491)	566	(26,286)	(4,592)
Purchase of treasury stock	--	--	(106)	--
Proceeds from exercise of options	6,013	--	6,096	947
Cash flows provided by (used in) financing activities	(24,083)	(92,947)	67,240	(42,111)
Increase (decrease) in cash and cash equivalents	14,867	(5,611)	13,177	3,797
Cash and cash equivalents at beginning of period	32,718	19,518	34,408	10,110
Cash and cash equivalents at end of period	$ 47,585	$ 13,907	$ 47,585	$ 13,907
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest	$ 39,674	$ 19,219	$ 111,287	$ 57,578

The accompanying notes are an integral part of the financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--ORGANIZATION AND BUSINESS

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

BUSINESS--The Company is the leading publicly traded finance company focused on the commercial real estate industry, providing structured mortgage, mezzanine, and corporate lease financing to private and corporate owners of real estate nationwide. The Company, which is taxed as a real estate investment trust ("REIT"), seeks to deliver superior risk-adjusted returns on equity for shareholders by providing innovative and value-added financing solutions to its customers.

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

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

NOTE 2--BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements have been prepared in conformity with the instructions to Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements. The Consolidated Financial Statements include the accounts of the Company, its qualified REIT subsidiaries, and its majority-owned and controlled partnership. Certain third-party mortgage servicing operations are conducted through IStar Operating Inc. ("IStar Operating"), a taxable corporation which is not consolidated with the Company for

NOTE 2--BASIS OF PRESENTATION (CONTINUED)

financial reporting or income tax purposes. The Company owns all of the preferred stock and a 95% economic interest in IStar Operating, which is accounted for under the equity method for financial reporting purposes. In addition, the Company has an investment in TriNet Management Operating Company, Inc. ("TMOC"), a taxable noncontrolled subsidiary of the Company, which is also accounted for under the equity method. Further, certain other investments in partnerships or joint ventures which the Company does not control are also accounted for under the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying Consolidated Financial Statements contain all adjustments, consisting of normal and recurring accruals, necessary for a fair presentation of the Company's financial condition at September 30, 2000 and December 31, 1999 and the results of its operations, changes in shareholders' equity and its cash flows for the three- and nine-month periods ended September 30, 2000 and 1999, respectively. Such operating results are not necessarily indicative of the results that may be expected for any other interim periods or the entire year.

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

LOANS AND OTHER LENDING INVESTMENTS, NET--As described in Note 5, "Loans and Other Lending Investments," includes the following investments: senior mortgages, subordinate mortgages, corporate/ partnership loans, loan participations and other lending investments. In general, management considers its investments in this category as held-to-maturity and, accordingly, reflects such items at amortized historical cost.

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

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

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

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

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
investments at fair market value with changes in fair market value reflected as a component of shareholders' equity.

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

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

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

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

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

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

PROVISION FOR POSSIBLE CREDIT LOSSES--The Company's accounting policies require that an allowance for estimated credit losses be maintained at a level that management, based upon an evaluation of known and inherent risks in the portfolio, considers adequate to provide for possible credit losses. Specific valuation allowances are established for impaired loans in the amount by which the carrying value, before allowance for estimated losses, exceeds the fair value of collateral less disposition costs on an individual loan basis. Management considers a loan to be impaired when, based upon current information and events, it believes that it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement on a timely basis. Management measures these impaired loans at the fair value of the loans' underlying collateral less estimated disposition costs. Impaired loans may be left on accrual status during the period the Company is pursuing repayment of the loan; however, these loans are placed on non-accrual status at such time that the loans either: (i) become 90 days delinquent; or (ii) management determines the borrower is incapable of, or has ceased efforts toward, curing the cause of the impairment. While on non-accrual status, interest income is recognized only upon actual receipt.

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

Impairment losses are recognized as direct write-downs of the related loan with a corresponding charge to the provision for possible credit losses. Charge-offs occur when loans, or a portion thereof, are considered uncollectible and of such little value that further pursuit of collection is not warranted. Management's periodic evaluation of the allowance for possible credit losses is based upon an analysis of the portfolio, historical and industry loss experience, economic conditions and trends, collateral values and quality and other relevant factors.

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

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

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

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

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

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). On June 23, 1999, the FASB voted to defer the effectiveness of SFAS No. 133 for one year. SFAS No. 133 is now effective for fiscal years beginning after June 15, 2000, but earlier application is permitted as of the beginning of any fiscal quarter subsequent to June 15, 1998. SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as: (i) a hedge of the exposure to

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (ii) a hedge of the exposure to variable cash flows of a forecasted transaction; or (iii) in certain circumstances, a hedge of a foreign currency exposure. The Company currently plans to adopt this pronouncement, as amended by Statement of Financial Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities--deferral of the Effective Date of FASB Statement No. 133" and Statement of Financial Accounting Standards No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities--an Amendment of FASB Statement No. 133," as required effective January 1, 2001. The adoption of SFAS No. 133 is not expected to have a material financial impact on the financial position or results of operations of the Company.

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

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

NOTE 4--CAPITAL TRANSACTIONS

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

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

RECAPITALIZATION TRANSACTIONS--As more fully discussed above, pursuant to a series of transactions beginning in March 1994 and including the exercise of the class A and class B warrants in January 1997, the Starwood Investors acquired joint ownership of 69.46% and 100% of the outstanding class A shares and class B shares of the Company, respectively, through which they controlled approximately 79.64% of the voting interests in the Company as of December 31, 1997. Prior to the consummation of these transactions on March 18, 1998 (collectively, the "Recapitalization Transactions"), Starwood Mezzanine also owned 761,491 units which represented the remaining 91.95% of APMT Limited Partnership not held by the Company. Those units were convertible into cash, an additional 761,491 class A shares of the Company, or a combination of the two, as determined by the Company.

NOTE 4--CAPITAL TRANSACTIONS (CONTINUED)

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

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

ADVISORY AGREEMENT--In connection with the Recapitalization Transactions, the Company and its former external advisor (the "Advisor"), an affiliate of the Starwood Investors, entered into an Advisory Agreement (the "Advisory Agreement") pursuant to which the Advisor managed the affairs of the Company, subject to the Company's purpose and investment policy, the investment restrictions and the directives of the Board of Directors.

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

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

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

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

NOTE 4--CAPITAL TRANSACTIONS (CONTINUED)

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

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

ADVISOR TRANSACTION--Contemporaneously with the consummation of the TriNet Acquisition, the Company acquired 100% of the interests in the Advisor in exchange for total consideration of four million shares of Common Stock. For accounting purposes, the Advisor Transaction was not considered the acquisition of a "business" in applying Accounting Principles Board Opinion No. 16, "Business Combinations" and, therefore, the market value of the Common Stock issued in excess of the fair value of the net tangible assets acquired of approximately $94.5 million was charged to operating income as a one-time item in the fourth quarter of 1999, rather than capitalized as goodwill.

INCORPORATION MERGER--Prior to the consummation of the TriNet Acquisition and the Advisor Transaction, the Company changed its form from a Maryland trust to a Maryland corporation in the Incorporation Merger, which technically involved a merger of the Company with a wholly-owned subsidiary formed solely to effect such merger. In the Incorporation Merger, the class B shares were converted into shares of Common Stock on a 49-for-one basis (the same ratio at which class B shares were previously convertible into class A shares), and the class A shares were converted into shares of Common Stock on a one-for-one basis. As a result, the Company no longer has multiple classes of common shares. The Incorporation Merger was treated as a transfer of assets and liabilities under common control. Accordingly, the assets and liabilities transferred from the Maryland trust to the Maryland corporation were reflected at their predecessor basis and no gain or loss was recognized.

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

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

NOTE 4--CAPITAL TRANSACTIONS (CONTINUED)

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

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1999 (UNAUDITED)
REVENUE:	
Interest income	$160,147
Operating lease income	142,517
Other income	17,532
Total revenue	320,196
EXPENSES:	
Interest expense	100,741
Operating costs--corporate tenant lease assets	8,963
Depreciation and amortization	26,712
General and administrative	15,468
Provision for possible credit losses	3,500
Stock option compensation expense	1,703
Total expenses	157,087
Net income before minority interest	163,109
Minority interest in consolidated entities	(122)
Net income from continuing operations	$162,987
Preferred dividend requirements	(27,681)
Net income from continuing operations allocable to common shareholders	$135,306
BASIC EARNINGS PER SHARE:	
Basic earnings per common share	$ 1.55
Weighted average number of common shares outstanding	87,262

Investments and dispositions are assumed to have taken place as of January 1, 1999; however, loan originations and acquisitions are not reflected in these pro forma numbers until the actual origination or acquisition date by the Company. The pro forma information above excludes certain non-recurring historical charges recorded in 1999 by TriNet (prior to its acquisition by the Company) of $3.4 million to write down the fair value of a corporate tenant lease asset. General and administrative costs represent estimated expense levels as an internally-managed Company.

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

NOTE 5--LOANS AND OTHER LENDING INVESTMENTS

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

TYPE OF INVESTMENT	UNDERLYING PROPERTY TYPE	# OF BORROWERS IN CLASS	ORIGINAL COMMITMENT AMOUNT	PRINCIPAL BALANCES OUTSTANDING	CARRYING VALUE AS OF SEPTEMBER 30, 2000 (UNAUDITED)	CARRYING VALUE AS OF DECEMBER 31, 1999	EFFECTIVE MATURITY DATES
Senior Mortgages(4)	Office/Hotel/Mixed Use/Apartment/Retail/ Resort/Conference Center/Land	22	$1,330,314	$1,267,180	$1,250,810	$ 938,040	2000 to 2009
Subordinated Mortgages	Office/Hotel/Mixed Use/Retail	14	382,136	349,846	334,543	540,441	2000 to 2007
Corporate/ Partnership Loans	Office/Hotel/Residential	13	395,897	387,177	393,936	309,768	2000 to 2028
Loan Participations	Office/Retail	3	127,497	111,399	111,260	152,782	2000 to 2005
Other Lending Investments	Real Estate-Related Securities/Ventures	10	N/A	N/A	191,658	69,975	2002 to 2007
Gross Carrying Value					$2,282,207	$2,011,006	
Provision for Possible Credit Losses					(12,250)	(7,500)	
Total, Net					$2,269,957	$2,003,506	

TYPE OF INVESTMENT	CONTRACTUAL INTEREST PAYMENT RATES(1)	CONTRACTUAL INTEREST ACCRUAL RATES(1)	PRINCIPAL AMORTIZ-ATION	PARTICI-PATION FEATURES
Senior Mortgages(4)	Fixed: 7.28% to 20.00% Variable: LIBOR + 1.25% to 6.00%	Fixed: 7.28% to 24.00% Variable: LIBOR + 1.25% to 6.00%	Yes(2)	Yes(3)
Subordinated Mortgages	Fixed: 7.00% to 15.25% Variable: LIBOR + 5.80%	Fixed: 8.00% to 15.25% Variable: LIBOR + 5.80%	Yes(2)	Yes(3)
Corporate/ Partnership Loans	Fixed: 9.00% to 14.50% Variable: LIBOR + 2.78% to 7.50%	Fixed: 9.00% to 17.50% Variable: LIBOR + 2.78% to 7.50%	Yes	Yes(3)
Loan Participations	Fixed: 10.00% to 13.60% Variable: LIBOR + 4.50%	Fixed: 10.00% to 13.60% Variable: LIBOR + 4.50%	No	Yes(3)
Other Lending Investments	Fixed: 6.75% to 12.75%	Fixed: 6.75% to 12.75%	No	No
Gross Carrying Value				
Provision for Possibl				
Total, Net				

EXPLANATORY NOTES:

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

(2) The loans require fixed payments of principal and interest resulting in partial principal amortization over the term of the loan with the remaining principal due at maturity. In addition, one of the loans permits additional annual prepayments of principal of up to $1.3 million without penalty at the borrower's option.

(3) Under some of these loans, the Company receives additional payments representing additional contingent interest from participation in available cash flow from operations of the property and the proceeds, in excess of a base amount, arising from a sale or refinancing of the property.

(4) The unfunded commitment amount on one of the Company's construction loans, included in senior mortgages, was $16.2 million as of December 31, 1999. As of September 30, 2000, the construction loan was fully funded.

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

During the nine-month periods ended September 30, 2000 and 1999, respectively, the Company and its affiliated ventures originated or acquired an aggregate of approximately $670.5 million and $361.4 million in loans and other lending investments, funded $50.6 million and $37.2 million under existing loan commitments and received principal repayments of $373.6 million and $368.1 million.

The Company has reflected additional provisions for possible credit losses of approximately $1.8 million and $1.3 million in its results of operations during the three months ended September 30, 2000 and 1999, respectively, and $4.8 million and $3.5 million during the nine months ended September 30, 2000 and 1999, respectively. There was no other activity in the Company's reserve balances during these periods. These provisions represent portfolio reserves based on management's evaluation of general market conditions, the Company's internal risk management policies and credit risk ratings system, industry loss experience, likelihood of delinquencies or defaults and the underlying collateral. No direct impairment reserves on specific loans were considered necessary. Management may transfer reserves between general and specific reserves as considered necessary.

NOTE 6--REAL ESTATE SUBJECT TO OPERATING LEASES

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

	SEPTEMBER 30, 2000 (UNAUDITED)	DECEMBER 31, 1999
Buildings and improvements	$1,267,205	$1,390,933
Land and land improvements	358,526	277,872
Less accumulated depreciation	(39,340)	(14,627)
	1,586,391	1,654,178
Investments in unconsolidated joint ventures	68,280	60,106
Real estate subject to operating leases, net	$1,654,671	$1,714,284

Under certain leases, the Company receives additional participating lease payments to the extent gross revenues of the tenant exceed a base amount. The Company earned no such additional participating lease payments in the three- or nine-month periods ended September 30, 2000, and $554,000 in the three-and nine-month periods ended September 30, 1999.

At September 30, 2000, the Company had investments in seven joint ventures: (i) TriNet Sunnyvale Partners L.P. ("Sunnyvale"), whose external partners are John D. O'Donnell, Trustee, John W. Hopkins, and Donald S. Grant; (ii) Corporate Technology Associates LLC ("CTC I"), whose external member is Corporate Technology Centre Partners LLC; (iii) Sierra Land Ventures ("Sierra"), whose external joint venture partner is Sierra-LC Land, Ltd.; (iv) Corporate Technology Centre Associates II LLC ("CTC II"), whose external joint venture member is Corporate Technology Centre Partners II LLC; (v) TriNet Milpitas Associates, LLC ("Milpitas"), whose external member is The Prudential Insurance Company of America; (vi) TN-CP Venture One ("TN-CP"), whose external partner is Sierra Office Venture Three, Ltd.; and (vii) ACRE Simon, L.L.C. ("ACRE"), whose external partner is William E. Simon & Sons Realty Investments, L.L.C. These ventures were formed for the purpose of operating, acquiring and in certain cases, developing corporate tenant lease facilities. At September 30, 2000, all facilities held by CTC II and TN-CP had been sold.

At September 30, 2000, the ventures comprised 23 facilities, four of which are under development. Additionally, 17.7 acres of land are held for sale. The Company's combined investment in these joint ventures at September 30, 2000 was $68.3 million. The joint ventures' purchase price for the 23 facilities owned at September 30, 2000 was $295.7 million. The purchase price of the land held for sale was $6.8 million. In the aggregate, the joint ventures had total assets of $337.6 million and total liabilities of $244.0 million as of September 30, 2000 and net income of $6.1 million for the nine months ended September 30, 2000. The Company accounts for these investments under the equity method because its joint venture partners have certain participating rights which limit the Company's control. The Company's investments in and advances to

NOTE 6--REAL ESTATE SUBJECT TO OPERATING LEASES (CONTINUED)
unconsolidated joint ventures, its percentage ownership interests, its respective income and pro rata share of third-party debt as of September 30, 2000 are presented below (in thousands):

UNCONSOLIDATED JOINT VENTURES	OWNERSHIP %	EQUITY INVESTMENT	NOTES RECEIVABLE	ACCRUED INTEREST INCOME	TOTAL INVESTMENT	JOINT VENTURE INCOME	INTEREST INCOME	TOTAL INCOME
Operating:								
Sunnyvale	44.7%	$13,776	$ --	$ --	$13,776	$1,142	$ --	$1,142
CTC I	50.0%	22,349	--	--	22,349	936	--	936
CTC II	50.0%	--	21,932	5,684	27,616	(755)	4,030	3,275
Milpitas	50.0%	21,052	--	--	21,052	2,140	--	2,140
TN-CP	50.0%	34	--	--	34	393	--	393
ACRE SIMON	20.0%	5,117	--	--	5,117	33	--	33
Development:								
Sierra	50.0%	5,952	--	--	5,952	228	--	228
Total		$68,280	$21,932	$5,684	$95,896	$4,117	$4,030	$8,147

UNCONSOLIDATED JOINT VENTURES	PRO RATA SHARE OF THIRD-PARTY DEBT
Operating:	
Sunnyvale	$10,728
CTC I	38,099
CTC II	--
Milpitas	40,766
TN-CP	--
ACRE SIMON	5,138
Development:	
Sierra	724
Total	$95,455

At September 30, 2000, the Company was the guarantor for 50% of CTC I's $76.2 million construction loan.

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

NOTE 7--DEBT OBLIGATIONS

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

	MAXIMUM AMOUNT AVAILABLE	CARRYING VALUE AS OF SEPTEMBER 30, 2000 (UNAUDITED)	CARRYING VALUE AS OF DECEMBER 31, 1999	STATED INTEREST RATES
SECURED REVOLVING CREDIT FACILITIES:				
Line of credit	$ 675,000	$ 268,161	$ 592,984	LIBOR + 1.50%
Line of credit	500,000	231,335	169,952	LIBOR + 1.50%-1.75%(1)
UNSECURED REVOLVING CREDIT FACILITIES:				
Line of credit	350,000	107,600	186,700	LIBOR + 1.55%
Line of credit	100,000	--	--	LIBOR + 2.00%-2.25%
Total revolving credit facilities	$1,625,000	607,096	949,636	
SECURED TERM LOANS:				
Secured by real estate under operating leases		151,439	153,618	7.44%
Secured by senior and subordinate mortgage investments		--	109,398	LIBOR + 1.00%
Secured by senior mortgage investment		--	90,902	LIBOR + 1.00%
Secured by corporate lending investment		60,000	--	LIBOR + 2.50%
Secured by real estate under operating leases		78,610	78,610	LIBOR + 1.38%
Secured by real estate under operating leases		60,645	73,279	Fixed: 6.00%-11.38% Variable: LIBOR + 1.00%
Secured by senior mortgage investment		54,000	54,000	LIBOR + 1.75%(5)
Total term loans		404,694	559,807	
Less debt discounts		(105)	(521)	
Total secured term loans		404,589	559,286	
ISTAR ASSET RECEIVABLES SECURED NOTES:				
Class A		360,349	--	LIBOR + 0.30%
Class B		94,055	--	LIBOR + 0.50%
Class C		105,813	--	LIBOR + 1.00%
Class D		52,906	--	LIBOR + 1.45%
Class E		123,447	--	LIBOR + 2.75%
Class F		5,000	--	LIBOR + 3.15%
Total IStar Asset Receivables secured notes		741,570	--	
UNSECURED NOTES:				
6.75% Dealer Remarketable Securities(7)		125,000	125,000	6.75%
7.30% Notes		100,000	100,000	7.30%
7.70% Notes		100,000	100,000	7.70%
7.95% Notes		50,000	50,000	7.95%
Total unsecured notes		375,000	375,000	
Less debt discounts(8)		(19,262)	(21,481)	
Total unsecured notes		355,738	353,519	
OTHER DEBT OBLIGATIONS		60,976	38,763	Various
TOTAL DEBT OBLIGATIONS		$2,169,969	$1,901,204	

	EXPECTED/ SCHEDULED MATURITY DATE
SECURED REVOLVING CREDIT FACILITIES:	
Line of credit	March 2001
Line of credit	August 2002(1)
UNSECURED REVOLVING CREDIT FACILITIES:	
Line of credit	May 2001
Line of credit	January 2002
Total revolving credit facilities	
SECURED TERM LOANS:	
Secured by real estate under oper leases	March 2009
Secured by senior and subordinate investments	August 2000(2)
Secured by senior mortgage invest	August 2000(2)
Secured by corporate lending inve	June 2003(3)

Secured by real estate under oper leases.........................	June 2001
Secured by real estate under oper leases.........................	(4)
Secured by senior mortgage invest	November 2000(5)
Total term loans.................	
Less debt discounts..............	
Total secured term loans.........	
ISTAR ASSET RECEIVABLES SECURED NOT	
Class A..........................	August 2003(6)
Class B..........................	October 2003(6)
Class C..........................	January 2004(6)
Class D..........................	June 2004(6)
Class E..........................	January 2005(6)
Class F..........................	January 2005(6)
Total IStar Asset Receivables sec	
UNSECURED NOTES:	
6.75% Dealer Remarketable Securit	March 2013
7.30% Notes......................	March 2001
7.70% Notes......................	July 2017
7.95% Notes......................	May 2006
Total unsecured notes............	
Less debt discounts(8)...........	
Total unsecured notes............	
OTHER DEBT OBLIGATIONS............	Various
TOTAL DEBT OBLIGATIONS............	

EXPLANATORY NOTES:

- --

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

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

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

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

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

(6) Principal payments on these bonds are a function of the principal repayments on loan assets which collateralize these obligations. The dates indicated above represent the expected date on which the final payment would occur for such class based on the assumptions that the loans which collateralize the obligations are not voluntarily prepaid, the loans are paid on their effective maturity dates and no extensions of the effective maturity dates of any of the loans are granted. The final maturity date for the underlying indenture on classes A, B, C, D, E, and F is September 25, 2022.

(7) Subject to mandatory tender on March 31, 2003, to either the dealer or the Leasing Subsidiary. The initial coupon of 6.75% applies to first five-year term through the mandatory tender date. If tendered to the dealer, the notes must be remarketed. The rates reset upon remarketing.

(8) These obligations were assumed as part of the TriNet Acquisition. As part of the accounting for the purchase, these fixed rate obligations were considered to have stated interest rates which were below the then prevailing market rates at which the Leasing Subsidiary could issue new debt obligations and, accordingly, the Company ascribed a market discount to each obligation. Such discounts will be amortized as an adjustment to interest expense using the effective interest method over the related term of the obligations.

NOTE 7--DEBT OBLIGATIONS (CONTINUED)

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

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

On January 31, 2000, the Company closed a new unsecured revolving credit facility. The facility is led by a major commercial bank, which committed $50.0 million of the facility amount. On July 7, 2000, the Company increased the facility amount to $100.0 million through syndication. The new facility has a two-year primary term and a one-year extension, at the Company's option, and bears interest at LIBOR plus 2.00% to 2.25%, depending upon certain conditions.

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

On May 17, 2000, the Company closed the inaugural offering under its proprietary matched funding program, IStar Asset Receivables ("STARS"), Series 2000-1. In the initial transaction, a wholly-owned subsidiary of the Company issued $896.5 million of investment grade bonds secured by the subsidiary's assets, which had an aggregate outstanding principal balance of approximately $1.2 billion at inception. Principal payments received on the assets will be utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funds the maturity of the underlying assets financed under the program. The Company initially purchased the class F bonds at a par value of $38.2 million, which the Company financed with a $27.8 million repurchase agreement maturing in May 2001, which has a balance of $24.2 million at September 30, 2000 and is included in other debt obligations in the preceding table. On July 17, 2000, the Company sold, at par, $5.0 million of the class F bonds to an institutional investor. For accounting purposes, these transactions were treated as secured financings.

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

During the nine-month period ended September 30, 2000, the Company incurred an extraordinary loss of approximately $0.7 million as a result of the early retirement of certain secured debt obligations of its Leasing Subsidiary.

NOTE 7--DEBT OBLIGATIONS (CONTINUED)

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

2000 (remaining three months)	$ 65,631
2001	554,372
2002	246,392
2003	514,404
2004	195,016
Thereafter	613,521
Total principal maturities	2,189,336
Net unamortized debt (discounts)/premiums	(19,367)
Total debt obligations	$2,169,969

NOTE 8--STOCKHOLDERS' EQUITY

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

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

As more fully described in Note 4, the Company consummated a series of transactions on November 4, 1999 in which its class A and class B shares were exchanged into a single class of Common Stock. The Company's charter now provides for the issuance of up to 200.0 million shares of Common Stock, par value $0.001 per share, and 30.0 million shares of preferred stock. As part of these transactions, the Company adopted articles supplementary creating four series of preferred stock designated as 9.5% Series A Cumulative Redeemable Preferred Stock, consisting of 4.4 million shares, 9.375% Series B Cumulative Redeemable Preferred Stock, consisting of 2.3 million shares, 9.20% Series C Cumulative Redeemable Preferred Stock, consisting of approximately 1.5 million shares, and 8.0% Series D Cumulative Redeemable Preferred Stock, consisting of 4.6 million shares. The Series B, C and D Cumulative Redeemable Preferred Stock were issued in the TriNet Acquisition in exchange for similar issuances of TriNet stock then outstanding. The Series A, B, C and D Cumulative Redeemable Preferred Stock are redeemable without premium at the option of the Company at their respective liquidation preferences beginning on December 15, 2003, June 15, 2001, August 15, 2001 and October 8, 2002, respectively.

NOTE 8--STOCKHOLDERS' EQUITY (CONTINUED)

STOCK REPURCHASE PROGRAM: The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of September 30, 2000 and December 31, 1999, the Company had repurchased approximately 2.3 million shares at an aggregate cost of approximately $40.5 million.

NOTE 9--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS

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

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

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

In connection with the closing of STARS, Series 2000-1 in May 2000, the Company entered into a LIBOR interest rate cap struck at 10.00% in the notional amount of $312.0 million, and simultaneously sold a LIBOR interest rate cap with the same terms. Since these instruments do not reduce the Company's net interest rate risk exposure, they do not qualify as hedges and changes in their respective values are charged to earnings. As the significant terms of these arrangements are substantially the same, the effects of a revaluation of these two instruments are expected to substantially offset one another. At September 30, 2000 and December 31, 1999, the net fair value of the Company's interest rate caps were $0.7 million and $2.2 million, respectively.

The Company has entered into LIBOR interest rate swaps struck at 5.714%, 7.055%, and 7.058% in notional amounts of $92.0 million, $125.0 million and $125.0 million, respectively, which expire in March

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

2001, June 2003 and June 2003, respectively. These swaps effectively fix the interest rate on a portion of the Company's floating-rate term loan obligations. In connection with the TriNet Acquisition, the Company acquired an interest rate swap agreement which, together with certain existing interest rate cap agreements, effectively fix the interest rate on $75.0 million of the Leasing Subsidiary's LIBOR-based borrowings at 5.58% plus the applicable margin through December 1, 2004. Management expects that it will have aggregate LIBOR-based borrowings at the Leasing Subsidiary in excess of the notional amount for the duration of the swap. The actual borrowing cost to the Company with respect to indebtedness covered by the swap will depend upon the applicable margin over LIBOR for such indebtedness, which will be determined by the terms of the relevant debt instruments. In June 2000, an interest rate swap with a notional amount of approximately $112.0 million matured. At September 30, 2000 and December 31, 1999, the fair value (liability) of the Company's interest rate swaps were ($1.1) million and $3.4 million, respectively.

During the year ended December 31, 1999, the Company settled an aggregate notional amount of approximately $63.0 million that was outstanding under certain hedging agreements which the Company had entered into in order to hedge the potential effects of interest rate movements on anticipated fixed-rate borrowings. The settlement of such agreements resulted in a receipt of approximately $0.6 million which had been deferred pending completion of the planned fixed-rate financing transaction. Subsequently, the transaction was modified and was actually consummated as a variable-rate financing transaction. As a result, the previously deferred receipt no longer qualified for hedge accounting treatment and the $0.6 million was recognized as a gain included in other income in the consolidated statement of operations for the nine-month period ended September 30, 2000 in connection with the closing of STARS, Series 2000-1.

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

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

Substantially all of the Company's real estate subject to operating leases (including those held by joint ventures), loans and other lending investments are collateralized by facilities located in the United States, with significant concentrations (i.e., greater than 10%) as of September 30, 2000 in California (24.2%) and Texas (14.6%). As of September 30, 2000, the Company's investments also contain significant concentrations in the following asset/collateral types: office (49.0%) and hotel/resorts (19.9%).

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

The Company underwrites the credit of prospective borrowers and tenants and often requires them to provide some form of credit support such as corporate guarantees or letters of credit. Although the Company's loans and other lending investments and corporate tenant lease assets are geographically diverse and the borrowers and tenants operate in a variety of industries, to the extent the Company has a significant concentration of interest or operating lease revenues from any single borrower or tenant, the inability of that borrower or tenant to make its payment could have an adverse effect on the Company. As of September 30, 2000, the Company's five largest borrowers or tenants collectively accounted for approximately 17.6% of the Company's aggregate annualized interest and operating lease revenue.

NOTE 10--INCOME TAXES

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

NOTE 11--STOCK OPTION PLANS AND EMPLOYEE BENEFITS

The Company's 1996 Long-Term Incentive Plan (the "Plan") is designed to provide incentive compensation for officers, other key employees and directors of the Company. The Plan provides for awards of stock options and restricted stock and other performance awards. The maximum number of shares of Common Stock available for awards under the Plan is 9% of the outstanding shares of Common Stock, calculated on a fully diluted basis, from time to time; provided that the number of shares of Common Stock reserved for grants of options designated as incentive stock options is 5.0 million, subject to certain antidilution provisions in the Plan. All awards under the Plan, other than automatic awards to non-employee directors, are at the discretion of the Board or a committee of the Board. At September 30, 2000, a total of approximately 7.7 million shares of Common Stock were available for awards under the Plan, of which options to purchase approximately 4.4 million shares of Common Stock were outstanding.

Concurrently with the Recapitalization Transactions, the Company issued approximately 2.5 million (as adjusted) fully vested and immediately exercisable options to purchase class A shares at $14.72 (as adjusted) per share to the Advisor with a term of ten years. The Advisor granted a portion of these options to its employees and the remainder were allocated to an affiliate. Upon consummation of the Advisor Transaction, these individuals became employees of the Company. In general, the grants to these employees provided for scheduled vesting over a predefined service period of three to five years and, under certain conditions, provide for accelerated vesting. These options expire on March 15, 2008.

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

NOTE 11--STOCK OPTION PLANS AND EMPLOYEE BENEFITS (CONTINUED)
were converted into options to purchase shares of Common Stock on substantially the same terms, as adjusted for the merger exchange ratio.

Also, as a result of the TriNet Acquisition, TriNet terminated its dividend equivalent rights program. The program called for immediate vesting and cash redemption of all dividend equivalent rights upon a change of control of 50% or more of the voting common stock. Concurrent with the TriNet Acquisition, all dividend equivalent rights were vested and amounts due to former TriNet employees of approximately $8.3 million were paid by the Company. Such payments were included as part of the purchase price paid by the Company to acquire TriNet for financial reporting purposes.

Changes in options outstanding during the nine months ended September 30, 2000 was as follows:

	NUMBER OF SHARES			
	EMPLOYEES	NON-EMPLOYEE DIRECTORS	OTHER	AVERAGE STRIKE PRICE
OPTIONS OUTSTANDING, DECEMBER 31, 1999	3,001,270	183,177	764,146	$19.08
Granted in 2000	1,849,746	80,000	50,000	$17.31
Exercised in 2000	(413,733)	--	--	$14.72
Forfeited in 2000	(1,069,966)	--	--	$23.02
OPTIONS OUTSTANDING, SEPTEMBER 30, 2000	3,367,317	263,177	814,146	

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

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICE RANGE	OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	CURRENTLY EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$14.72	1,826,603	7.45	$14.72	886,569(1)	$14.72
$16.69-$16.88	1,212,803	9.28	$16.86	--	$ --
$17.00-$17.56	550,000	9.48	$17.39	--	$ --
$19.50-$19.63	5,250	9.65	$19.51	--	$ --
$20.63-$21.44	238,250	7.31	$20.99	86,250	$21.09
$22.45	34,500	3.17	$22.45	34,500	$22.45
$23.32	98,325	2.65	$23.32	98,325	$23.32
$23.64	60,720	3.65	$23.64	28,988	$23.64
$24.13-$24.57	144,737	5.11	$24.33	144,737	$24.33
$25.22-$26.09	34,500	0.69	$25.74	34,500	$25.74
$27.88-$28.37	68,425	1.41	$28.35	65,550	$28.35
$29.08	10,185	8.63	$29.08	10,185	$29.08
$30.33	144,900	2.25	$30.33	123,142	$30.33
$33.15-$33.70	10,350	4.44	$33.39	7,475	$33.49
$56.44	5,092	8.84	$56.44	5,092	$56.44
	4,444,640	7.05	$16.29	1,525,313	$19.31

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

EXPLANATORY NOTE:

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

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

In connection with the original grant of options in March 1998 to the Advisor, the Company utilized the option value method as required by SFAS No. 123. An independent financial advisory firm estimated the value of these options at date of grant to be approximately $2.40 per share using a Black-Scholes valuation model. In the absence of comparable historical market information for the Company, the advisory firm utilized assumptions consistent with activity of a comparable peer group of companies including an estimated option life of five years, a 27.5% volatility rate and an estimated annual dividend rate of 8.5%. The resulting charge to earnings was calculated as the number of options allocated to the Advisor multiplied by the estimated value at consummation. A charge of approximately $6.0 million was reflected in the Company's first quarter 1998 financial results for this original grant.

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

During the nine-month period ended September 30, 2000, the Company granted 76,852 restricted stock units ("RSU's") to new employees. The RSU's vest over a three-year period, with the exception of 12,500 RSU's, which were immediately vested on the date of grant. The RSU's are valued at the date of grant and are reflected as compensation expense over the vesting period.

Effective November 4, 1999, the Company implemented a savings and retirement plan (the "401 (k) Plan"), which is a voluntary, defined contribution plan. All employees are eligible to participate in the 401 (k) Plan following completion of six months of continuous service with the Company. Each participant may contribute on a pretax basis between 2% and 15% of such participant's compensation. At the discretion of the Board of Directors, the Company may make matching contributions on the participant's behalf up to 50% of the first 10% of the participant's annual contribution. The Company made contributions of approximately $48,000 and $223,000 to the 401 (k) Plan for the three- and nine-month periods ended September 30, 2000.

NOTE 12--EARNINGS PER SHARE

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

As more fully described in Note 4, in the Incorporation Merger, the class A shares and class B shares were converted into shares of Common Stock and, as a result, the Company no longer has multiple classes of common shares. Basic and diluted earnings per share are based upon the following weighted average shares outstanding during the three- and nine-month periods ended September 30, 2000 and 1999, respectively (in thousands):

	THREE-MONTH PERIODS ENDED SEPTEMBER 30,		NINE-MONTH PERIODS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
	(UNAUDITED)			
Weighted average common shares outstanding for basic earnings per common share	85,662	52,471	85,345	52,463
Add effect of assumed shares issued under treasury stock method for stock options and restricted stock units	982	1,513	676	1,645
Add effects of conversion of class B shares (49-for-one)	--	560	--	568
Add effects of assumed warrants exercised under treasury stock method for stock options	--	783	--	1,530
Weighted average common shares outstanding for diluted earnings per common share	86,644	55,327	86,021	56,206

NOTE 13--COMPREHENSIVE INCOME

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130") effective for fiscal years beginning after December 15, 1997. The statement changes the reporting of certain items currently reported as changes in the shareholders' equity section of the balance sheet and establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. SFAS No. 130 requires that all components of comprehensive income shall be reported in the financial statements in the period in which they are recognized. Furthermore, a total amount for comprehensive income shall be displayed in the financial statements. The Company has adopted this standard effective January 1, 1998. Total comprehensive income was $161.4 million and $89.2 million for the nine-month periods ended September 30, 2000 and 1999, respectively, and $55.6 million and $31.2 million for the three-month periods ended September 30, 2000 and 1999, respectively. The primary component of comprehensive income other than net income was the change in value of certain investments in marketable securities classified as available-for-sale.

NOTE 14--DIVIDENDS

In order to maintain its election to qualify as a REIT, the Company must distribute, at a minimum, an amount equal to 95% of its taxable income and must distribute 100% of its taxable income to avoid paying corporate federal income taxes. Accordingly, the Company anticipates it will distribute all of its taxable income to its shareholders.

Total dividends declared by the Company aggregated $116.1 million, or $1.86 per common share, for the year ended December 31, 1999. Total common dividends declared by the Company aggregated $51.4 million, or $0.60 per share of Common Stock, for the three months ended September 30, 2000 and $102.6 million, or $1.20 per share of Common Stock, for the nine months ended September 30, 2000. On October 2, 2000, the Company declared a dividend of approximately $51.4 million, or $0.60 per share of Common Stock, applicable to the third quarter and payable to shareholders of record on October 16, 2000. The Company also declared dividends aggregating $15.7 million, $3.5 million, $2.2 million and $6.0 million, respectively, on its Series A, B, C and D preferred stock, respectively, for the nine-month period ended September 30, 2000 and $5.2 million, $1.2 million, $0.7 million and $2.0 million, respectively, on its Series A, B, C and D preferred stock, respectively, for the three-month period ended September 30, 2000. There are no dividend arrearages on any of the preferred shares currently outstanding.

In November 1999, the Company declared and paid a dividend of a total of one million shares of Common Stock pro rata to all holders of record of Common Stock as of the close of business on November 3, 1999.

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

Holders of shares of the Series B Cumulative Redeemable Preferred Stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 9.375% per annum of the $25.00 liquidation preference, equivalent to a fixed annual rate of $2.34 per share. Dividends are cumulative from the date of original issue and are payable quarterly in arrears on or before the 15th day of each March, June, September and December or, if not a business day, the next succeeding business day. Any dividend payable on the Series B Cumulative Redeemable Preferred Stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as of the close of business on the first day of the calendar month in which the applicable dividend payment date falls or on another date designated by the Board of Directors of the Company for the payment of dividends that is not more than 30 nor less than 10 days prior to the dividend payment date.

Holders of shares of the Series C Cumulative Redeemable Preferred Stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 9.20% of the $25.00 liquidation preference per year, equivalent to a fixed annual rate of $2.30 per share.

Holders of shares of the Series D Cumulative Redeemable Preferred Stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 8.00% of the $25.00 liquidation preference per year, equivalent to a fixed annual rate of $2.00 per share.

NOTE 14--DIVIDENDS (CONTINUED)

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

NOTE 15--SEGMENT REPORTING

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

The Company has two reportable segments: real estate lending and corporate tenant leasing. The Company does not have substantial foreign operations. The accounting policies of the segments are the same as those described in Note 3. The Company has no single customer that accounts for 10% or more of revenues (see Note 9 for other information regarding concentrations of credit risk).

The Company evaluates performance based on the following financial measures for each segment. Selected results of operations for the three- and nine-month periods ended September 30, 2000 and 1999

NOTE 15--SEGMENT REPORTING (CONTINUED)
and selected asset information as of September 30, 2000 and December 31, 1999 regarding the Company's operating segments are as follows (in thousands):

	REAL ESTATE LENDING	CORPORATE TENANT LEASING (1)	CORPORATE/ OTHER (2)	COMPANY TOTAL
		(UNAUDITED)		
Total revenues(3):				
Three months ended:				
September 30, 2000	$ 72,363	$ 48,360	$ (40)	$ 120,683
September 30, 1999	56,298	4,276	61	60,635
Nine months ended:				
September 30, 2000	$ 206,588	$ 142,690	$ 207	$ 349,485
September 30, 1999	163,640	11,727	(53)	175,314
Total operating and interest expenses(4):				
Three months ended:				
September 30, 2000	$ 32,118	$ 28,089	$ 6,430	$ 66,637
September 30, 1999	19,297	4,417	5,650	29,364
Nine months ended:				
September 30, 2000	$ 82,959	$ 84,963	$ 22,273	$ 190,195
September 30, 1999	56,113	12,830	17,000	85,943
Net operating income before minority interest, gain on sale of corporate tenant lease assets and extraordinary loss(5):				
Three months ended:				
September 30, 2000	$ 40,245	$ 20,271	$ (6,470)	$ 54,046
September 30, 1999	37,001	(141)	(5,589)	31,271
Nine months ended:				
September 30, 2000	$ 123,629	$ 57,727	$ (22,066)	$ 159,290
September 30, 1999	107,527	(1,103)	(17,053)	89,371
Total long-lived assets(6):				
September 30, 2000	$2,269,957	$1,654,671	N/A	$3,924,628
December 31, 1999	2,003,506	1,714,284	N/A	3,717,790
Total assets:				
September 30, 2000	$2,269,957	$1,654,671	$ 150,098	$4,074,726
December 31, 1999	2,003,506	1,714,284	95,762	3,813,552

EXPLANATORY NOTES:

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

(2) Corporate and Other represents all corporate-level items, including general and administrative expenses and any intercompany eliminations necessary to reconcile to the consolidated Company totals. This caption also includes the Company's servicing business, which is not considered a material separate segment.

(3) Total revenues represents all revenues earned during the period from the assets in each segment. Revenue from the Real Estate Lending Business primarily represents interest income and revenue from the Corporate Tenant Leasing business primarily represents operating lease income.

(4) Total operating and interest expense represents provision for possible credit losses for the Real Estate Lending business and operating costs on corporate tenant lease assets for the Corporate Tenant Leasing business, as well as interest expense specifically related to each segment. General and administrative, advisory fees (prior to November 4, 1999) and stock option compensation expense is included in Corporate and Other for all periods. Depreciation and amortization of $8,705 and $1,365 for the three-month periods ended September 30, 2000 and 1999, respectively, and $26,575 and $4,095 for the nine-month periods ended September 30, 2000 and 1999, respectively, are included in the corporate tenant leasing amounts presented above.

NOTE 15--SEGMENT REPORTING (CONTINUED)

(5) Net operating income before minority interest, gain on sale of corporate tenant lease assets and extraordinary loss represents total revenues, as defined in note (3) above, less total operating and interest expense, as defined in note (4) above.

(6) Long-lived assets is comprised of Loans and Other Lending Investments, net and Real Estate Subject to Operating Leases, net, for each respective segment.

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

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto appearing elsewhere in this report and also with the Company's Annual Report for 1999 filed on Form 10-K. Unless otherwise defined in this report, or unless the context otherwise requires, the capitalized words or phrases referred to in this section have the meaning ascribed to them in such financial statements and the notes thereto.

GENERAL

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

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

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

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

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

RESULTS OF OPERATIONS

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

INTEREST INCOME--Interest income increased to $70.1 million for the three months ended September 30, 2000 from $52.9 million for the same period in 1999. This increase is a result of the interest generated by $670.5 million of newly-originated loan investments during fiscal 2000 and an additional $50.6 million funded under existing loan commitments. The increase was partially offset by a reduction in interest earned as a result of principal repayments of approximately $373.6 million made to the Company on its loan investments during the nine months ended September 30, 2000.

OPERATING LEASE INCOME--Operating lease income increased to $46.3 million for the three months ended September 30, 2000 from $4.3 million for the same period in 1999. Approximately $38.9 million of this increase is attributable to operating lease income generated from corporate tenant lease assets acquired in the TriNet Acquisition.

OTHER INCOME--Included in other income for the three months ended September 30, 2000 is a prepayment penalty of approximately $1.2 million resulting from a refinancing of a senior mortgage and corporate loan, in addition to an approximately $1.4 million gain resulting from the repayment of a senior loan held at a discount upon the conversion of such loan to a corporate tenant lease holding pursuant to a purchase option granted to the Company in connection with its original investment in the asset.

INTEREST EXPENSE--The Company's interest expense increased by $25.4 million for the three-month period ended September 30, 2000 over the same period in the prior year. This was in part due to higher interest rates and higher average aggregate borrowings by the Company on its credit facilities, other term loans and secured notes, the proceeds of which were used to fund additional loan origination and acquisition activities. Further, interest expense in fiscal 2000 includes approximately $13.1 million of interest expense incurred by the Leasing Subsidiary subsequent to its acquisition.

OPERATING COSTS--CORPORATE TENANT LEASE ASSETS--For the three months ended September 30, 2000, operating costs associated with corporate tenant lease assets, net of recoveries from tenants, increased to approximately $3.3 million.

Such operating costs represent unreimbursed operating expenses associated with corporate tenant lease assets incurred by the Leasing Subsidiary subsequent to its acquisition. All costs of this kind were borne directly by the tenant on the Company's pre-existing corporate tenant leasing portfolio prior to the TriNet Acquisition.

DEPRECIATION AND AMORTIZATION--Depreciation and amortization increased by approximately $7.3 million for the three-month period ended September 30, 2000 over the same period in the prior year, primarily as a result of depreciation and amortization on the Leasing Subsidiary's corporate tenant lease assets subsequent to its acquisition.

GENERAL AND ADMINISTRATIVE--The Company's general and administrative expenses during the three-month period ended September 30, 2000 increased by approximately $5.1 million compared to the same period in 1999. These increases were generally the result of the increased scope of the Company's operations as a result of costs associated with additional lending operations, the TriNet Acquisition and the direct overhead costs associated with the Company's former external advisor, which was acquired in the fourth quarter of 1999.

PROVISION FOR POSSIBLE CREDIT LOSSES--The Company's charge for provision for possible credit losses increased to $1.8 million from $1.3 million as a result of expanded lending operations as well as additional seasoning of the Company's existing lending portfolio. As more fully discussed in Note 5 to the Company's Consolidated Financial Statements, the Company has not realized any actual losses on any of its loan investments to date.

STOCK OPTION COMPENSATION EXPENSE--Stock compensation expense increased by approximately $569,000 as a result of charges relating to grants of stock options to the Company's employees, including amortization of the deferred charge incurred in connection with the Advisor Transaction.

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

GAIN ON SALE OF CORPORATE TENANT LEASE ASSETS--On September 6, 2000, the TN-CP joint venture sold its only facility, a 247,254 square foot office facility located in Irving, Texas, for $41.9 million. The Company recognized a gain of $1.7 million on this transaction, which was 50% of the gain recorded by the joint venture. On September 28, 2000, the CTC II joint venture sold all five facilities in its portfolio for $66.0 million. These facilities comprised 308,929 square feet of office space located in San Jose, California. The Company recognized a gain of $222,000 on this sale.

EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT--Certain of the proceeds from the CTC II portfolio disposition were used to repay the third-party debt of the joint venture of $16.4 million. In connection with this paydown, CTC II incurred certain prepayment penalties, which resulted in an extraordinary loss to the Company of $388,000 during the third quarter of 2000.

NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2000 COMPARED TO THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 1999

INTEREST INCOME--Interest income increased to $197.1 million for the nine months ended September 30, 2000 from $154.8 million for the same period in 1999. This increase is a result of the interest generated by $670.5 million of newly-originated loan investments during fiscal 2000 and an additional $50.6 million funded under existing loan commitments. The increase was partially offset by a reduction in interest earned as a result of principal repayments of approximately $373.6 million made to the Company on its loan investments during the nine months ended September 30, 2000.

OPERATING LEASE INCOME--Operating lease income increased to $139.8 million for the nine months ended September 30, 2000 from $11.7 million for the same period in 1999. Approximately $118.9 million of this increase is attributable to operating lease income generated from corporate tenant lease assets acquired in the TriNet Acquisition.

OTHER INCOME--Included in other income for fiscal year 2000 are prepayment fees of approximately $5.4 million resulting from the full or partial repayments of several loans, a forbearance fee of $1.1 million resulting from the purchase of a sub-performing loan and subsequent restructuring of such loan to fully performing status, a prepayment penalty of approximately $1.2 million resulting from a refinancing of a senior mortgage and corporate loan, and approximately $1.4 million resulting from the repayment of a senior loan held at a discount upon the conversion of such loan to a corporate tenant lease holding pursuant to a purchase option granted to the Company in connection with its original investment in the asset.

INTEREST EXPENSE--The Company's interest expense increased by $65.7 million for the nine-month period ended September 30, 2000 over the same period in the prior year. This was in part due to higher interest rates and higher average aggregate borrowings by the Company on its credit facilities, other term loans and secured notes, the proceeds of which were used to fund additional investments. Further, interest expense in fiscal 2000 includes approximately $39.9 million of interest expense incurred by the Leasing Subsidiary subsequent to its acquisition.

OPERATING COSTS--CORPORATE TENANT LEASE ASSETS--For the nine months ended September 30, 2000, operating costs associated with corporate tenant lease assets increased to approximately $9.6 million, net of recoveries from tenants.

Such operating costs represent unreimbursed operating expenses associated with corporate tenant lease assets incurred by the Leasing Subsidiary subsequent to its acquisition. All costs of this kind were borne directly by the tenant on the Company's pre-existing corporate tenant leasing portfolio prior to the TriNet Acquisition.

DEPRECIATION AND AMORTIZATION--Depreciation and amortization increased by approximately $22.5 million for the nine-month period ended September 30, 2000 over the same period in the prior year, primarily as a result of depreciation and amortization on the Leasing Subsidiary's corporate tenant lease assets subsequent to its acquisition.

GENERAL AND ADMINISTRATIVE--The Company's general and administrative expenses during the nine-month period ended September 30, 2000 increased by approximately $18.2 million compared to the same period in 1999. These increases were generally the result of the increased scope of the Company's operations as a result of costs associated with additional lending operations, the TriNet Acquisition and the direct overhead costs associated with the Company's former external advisor, which was acquired in the fourth quarter of 1999.

PROVISION FOR POSSIBLE CREDIT LOSSES--The Company's charge for provision for possible credit losses increased to $4.8 million from $3.5 million as a result of expanded lending operations as well as additional seasoning of the Company's existing lending portfolio. As more fully discussed in Note 5 to the Company's Consolidated Financial Statements, the Company has not realized any actual losses on any of its loan investments to date.

STOCK OPTION COMPENSATION EXPENSE--Stock compensation expense increased by approximately $1.7 million as a result of charges relating to grants of stock options to the Company's employees including amortization of the deferred charge incurred in connection with the Advisor Transaction.

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

GAIN ON SALE OF CORPORATE TENANT LEASE ASSETS--During the first nine months of 2000, the Company disposed of seven corporate tenant lease assets. On March 1, 2000, the Company sold a 174,600 square foot industrial facility located in Sunnyvale, California for $13.4 million and recognized a gain of $238,000. On March 2, 2000, the Company sold a 370,562 square foot office facility located in Paoli, Pennsylvania for $32.6 million and recognized a gain of $295,000. On April 25, 2000, the Company sold a 251,850 square foot industrial facility located in Conroe, Texas for $5.5 million and recognized a gain of $11,000. On May 22, 2000, the Company sold a 442,000 square foot industrial facility located in North Reading, Massachusetts for $47.0 million and recognized a gain of $222,000. On June 1, 2000, the Company sold a 420,000 square foot office facility located in Parsippany, New Jersey for $49.8 million and recognized a gain of $207,000. On September 6, 2000, the TN-CP joint venture sold its only facility, a 247,254 square foot office facility located in Irving, Texas, for $41.9 million. The Company recognized a gain of $1.7 million on this transaction, which was 50% of the gain recorded by the joint venture. On September 28, 2000, the CTC II joint venture sold all five facilities in its portfolio for $66.0 million. These facilities comprised 308,929 square feet of office space located in San Jose, California. The Company recognized a gain of $222,000 on this sale.

EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT--Certain of the proceeds from an asset disposition were used to partially repay $8.1 million of the 1994 mortgage loan. In connection with this partial paydown, the Company incurred prepayment penalties, which resulted in an extraordinary loss of $317,000 during the first quarter of 2000. Additionally, proceeds from the CTC II portfolio disposition were used to repay the third-party debt of the joint venture of $16.4 million. In connection with this paydown, CTC II incurred certain prepayment penalties, which resulted in an extraordinary loss to the Company of $388,000 during the third quarter of 2000.

INTEREST RATE RISK MANAGEMENT

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

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

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

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

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond the control of the Company. As more fully discussed in Note 9 to the Company's Consolidated Financial Statements, the Company employs match funding-based hedging strategies to limit the effects of changes in interest rates on its operations, including engaging in interest rate caps, floors, swaps, futures and other interest rate-related derivative contracts. These strategies are specifically designed to reduce the Company's exposure, on specific transactions or on a portfolio basis, to changes in cash flows as a result of interest rate movements in the market. The Company does not enter into derivative contracts for speculative purposes nor as a hedge against changes in credit risk of its borrowers or of the Company itself.

Each interest rate cap or floor agreement is a legal contract between the Company and a third party (the "counterparty"). When the Company purchases a cap or floor contract, the Company makes an up-front payment to the counterparty and the counterparty agrees to make payments to the Company in the future should the reference rate (typically one- or three-month LIBOR) rise above (cap agreements) or fall below (floor agreements) the "strike" rate specified in the contract. Each contract has a notional face amount. Should the reference rate rise above the contractual strike rate in a cap, the Company will earn cap income. Should the reference rate fall below the contractual strike rate in a floor, the Company will earn floor income. Payments on an annualized basis will equal the contractual notional face amount multiplied by the difference between actual reference rate and the contracted strike rate. The cost of the up-front payment is amortized over the term of the contract.

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

The distribution requirements under the REIT provisions of the Code restrict the Company's ability to retain earnings and thereby replenish capital committed to its operations. However, the Company believes that its significant capital resources and access to financing will provide it with financial flexibility and market responsiveness at levels sufficient to meet current and anticipated capital requirements, including expected new lending and leasing transactions.

The Company's ability to meet its long-term (i.e., beyond one year) liquidity requirements is subject to the renewal of its credit lines and /or obtaining other sources of financing, including issuing additional debt or equity from time to time. Any decision by the Company's lenders and investors to enter into such transactions with the Company will depend upon a number of factors, such as compliance with the terms of its existing credit arrangements, the Company's financial performance, industry or market trends, the general availability of and rates applicable to financing transactions, such lenders' and investors' resources and policies concerning the terms under which they make such capital commitments and the relative attractiveness of alternative investment or lending opportunities.

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

As more fully discussed in Note 7 to the Company's Consolidated Financial Statements, at September 30, 2000, the Company had existing fixed-rate borrowings of approximately $151.4 million secured by real estate under operating leases which mature in 2009, an aggregate of approximately $192.6 million in LIBOR-based, variable-rate loans secured by various senior and subordinate mortgage investments and real estate under operating leases which mature between fiscal 2000 and 2003, fixed-rate corporate debt obligations aggregating approximately $355.7 million which mature between 2001 and 2017, and other variable- and fixed-rate secured debt obligations aggregating approximately $121.6 million which mature at various dates through 2010.

In addition, the Company has entered into LIBOR-based secured revolving credit facilities of $675.0 and $500.0 million which expire in fiscal 2001 and 2002, respectively. As of September 30, 2000, the Company had drawn approximately $268.2 million and $231.3 million under these facilities. Availability under these facilities is based on collateral provided under a borrowing base calculation. The Company also has two unsecured credit facilities of $100.0 million and $350.0 million. The $100.0 million facility had no outstanding balance as of September 30, 2000, matures in January 2002 and bears interest at LIBOR plus 2.00% to 2.25%, depending upon certain conditions. In addition, the Leasing Subsidiary's $350.0 million unsecured credit facility had a balance of $107.6 million as of September 30, 2000, matures on May 31, 2001 with a one-year extension period at the Company's option and bears interest at LIBOR plus 1.55%. Under the terms of the this facility, the Leasing Subsidiary is generally permitted to make cash distributions to the Company in an amount equal to 85% of cash flow from operations in any rolling four-quarter period.

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

In connection with the closing of STARS, Series 2000-1 in May 2000, the Company entered into a LIBOR interest rate cap struck at 10.00% in the notional amount of $312.0 million, and simultaneously sold a LIBOR interest rate cap with the same terms. Since these instruments do not reduce the Company's net interest rate risk exposure, they do not qualify as hedges and changes in their respective values are charged to earnings. As the significant terms of these arrangements are substantially the same, the effects of any revaluation of these two instruments are expected to substantially offset one another. At September 30, 2000, the net fair value of the Company's interest rate caps was $0.7 million.

The Company has originated or acquired certain assets using proceeds from LIBOR-based borrowings. In connection with such borrowings, the Company entered into LIBOR interest rate swaps struck at 5.714%, 7.055% and 7.058% in notional amounts of $92.0 million, $125.0 million and $125.0 million, respectively which expire in March 2001, June 2003 and June 2003, respectively. These swaps effectively fix the interest rate on such obligations. In connection with the TriNet Acquisition, the Company acquired an interest rate swap which, together with certain existing interest rate cap agreements, effectively fix the interest rate on $75.0 million of the Leasing Subsidiary's LIBOR-based borrowings at 5.58% plus the applicable margin through December 1, 2004. Management expects that it will have aggregate LIBOR based borrowings at the Leasing Subsidiary in excess of the notional amount for the duration of the swap. The actual borrowing cost to the Company with respect to indebtedness covered by the swap will depend upon the applicable margin over LIBOR for such indebtedness, which will be determined by the terms of the relevant debt instruments. In June 2000, an interest rate swap with a notional amount of approximately $112.0 million matured. At September 30, 2000, the fair value (liability) of the Company's interest rate swaps was ($1.1) million.

During the year ended December 31, 1999, the Company settled derivative instruments with an aggregate notional amount of approximately $63.0 million that was outstanding under certain hedging agreements which the Company had entered into in order to hedge the potential effects of interest rate movements on anticipated fixed-rate borrowings. The settlement of such agreements resulted in the receipt of approximately $0.6 million which had been deferred pending completion of the related planned fixed-rate financing transaction. Since the transaction was subsequently modified and consummated as a variable-rate financing transaction, the previously deferred receipt no longer qualified for hedge accounting treatment. Therefore, the $0.6 million was recognized as a gain and included in other income in the consolidated statement of operations for the three- and nine-month periods ended September 30, 2000 in connection with the closing of STARS, Series 2000-1.

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

On May 17, 2000, the Company closed the inaugural offering under its proprietary matched funding program, STARS, Series 2000-1. In the initial transaction, a wholly-owned subsidiary of the Company issued $896.5 million of investment grade bonds secured by the subsidiary's assets, which had an aggregate outstanding principal balance of approximately $1.2 billion at inception. Principal payments received on the assets will be utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funds the maturity of the underlying assets financed under the program. The Company initially purchased the class F bonds at a par value of $38.2 million, which the Company financed with a $27.8 million repurchase agreement maturing in May 2001, which has a balance of $24.2 million at September 20, 2000. On July 17, 2000, the Company sold, at par, $5.0 million of the class F bonds to an institutional investor. For accounting purposes, these transactions were treated as secured financings.

STOCK REPURCHASE PROGRAM: The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of September 30, 2000 and December 31, 1999, the Company had repurchased approximately 2.3 million shares at an aggregate cost of approximately $40.5 million.

ADJUSTED EARNINGS

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

The Company believes that to facilitate a clear understanding of the historical operating results of the Company, adjusted earnings should be examined in conjunction with net income as shown in the Consolidated Statements of Operations. Adjusted earnings should not be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of the Company's performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is it indicative of funds available to fund the Company's cash needs.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
Adjusted earnings:				
Net income	$55,591	$31,271	$161,410	$89,371
Real estate depreciation and amortization	8,705	1,365	26,575	4,095
Joint venture depreciation	1,148	169	2,590	507
Amortization of deferred financing costs and debt discounts	4,042	1,344	9,330	4,264
Preferred dividend requirements	(9,227)	(5,308)	(27,681)	(15,923)
Net income allocable to class B shares(1)	--	(288)	--	(823)
Gain on sale of corporate tenant lease assets	(1,974)	--	(2,948)	--
Extraordinary loss--early extinguishment of debt	388	--	705	--
Adjusted earnings allocable to common shareholders:				
Basic	$58,673	$28,553	$169,981	$81,491
Diluted	$58,909	$28,841	$170,685	$82,314
Adjusted earnings per common share:				
Basic	$ 0.68	$ 0.54	$ 1.99	$ 1.55
Diluted	$ 0.68	$ 0.52	$ 1.98	$ 1.46

EXPLANATORY NOTE:

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

NEW ACCOUNTING STANDARDS

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

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). On June 23, 1999 the FASB voted to defer the effectiveness of SFAS 133 for one year. SFAS No. 133 is now effective for fiscal years beginning after June 15, 2000, but earlier application is permitted as of the beginning of any fiscal quarter subsequent to June 15, 1998. SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as: (i) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (ii) a hedge of the exposure to variable cash flows of a forecasted transaction; or (iii) in certain circumstances a hedge of a foreign currency exposure. The Company currently plans to adopt this pronouncement, as amended by Statement of Financial Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities-deferral of the Effective Date of FASB Statement No. 133" and Statement of Financial Accounting Standards No. 138 "Accounting for Certain Hedging Activities-an Amendment of FASB No. 133," as required effective January 1, 2001. The adoption of SFAS No. 133 is not expected to have a material financial impact on the financial position or results of operations of the Company.

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

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

OTHER MATTERS

1940 ACT EXEMPTION

The Company at all times intends to conduct its business so as to not become regulated as an investment company under the Investment Company Act of 1940. If the Company were to become regulated as an investment company, then the Company's ability to use leverage would be substantially reduced. The Investment Company Act exempts entities that are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" (i.e., "Qualifying Interests"). Under the current interpretation of the staff of the SEC, in order to qualify for this exemption, the Company must maintain at least 55% of its assets directly in Qualifying Interests. As of September 30, 2000, the Company calculates that it is in and has maintained compliance with this requirement.

FORWARD LOOKING STATEMENTS

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

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

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

A. EXHIBITS

27.1 Financial Data Schedule.

B. REPORTS ON FORM 8-K

None.

SIGNATURES

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

ISTAR FINANCIAL INC.

REGISTRANT

Date: November 14, 2000

/s/ Jay Sugarman

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

Date: November 14, 2000

/s/ Spencer B. Haber

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

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9-MOS
DEC-31-2000
JAN-01-2000
SEP-30-2000
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62
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162,115
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(705)
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1.55