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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2003

OR

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

For the transition period from ______________ to______________

Commission File No. 1-15371

iSTAR FINANCIAL INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

As of June 30, 2003 the aggregate market value of the common stock, $0.001 par value per share of iStar Financial Inc. ("Common Stock"), held by non-affiliates(1) of the registrant was approximately $3.8 billion, based upon the closing price of $36.50 on the New York Stock Exchange composite tape on such date.

As of March 1, 2004, there were 107,393,300 shares of Common Stock outstanding.

(1) For purposes of this Annual Report only, includes all outstanding Common Stock other than Common Stock held directly by the registrant's directors and executive officers.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the registrant's definitive proxy statement for the registrant's 2004 Annual Meeting, to be filed within 120 days after the close of the registrant's fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

Item 1. Business

Explanatory Note for Purposes of the "Safe Harbor Provisions" of Section 21E of the Securities Exchange Act of 1934, as amended

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which involve certain risks and uncertainties. Forward-looking statements are included with respect to, among other things, iStar Financial Inc.'s (the "Company's") current business plan, business strategy and portfolio management. The Company's actual results or outcomes may differ materially from those anticipated. Important factors that the Company believes might cause such differences are discussed in the cautionary statements presented under the caption "Factors That May Affect the Company's Business Strategy" in Item 1 of this Form 10-K or otherwise accompany the forward-looking statements contained in this Form 10-K. In assessing all forward-looking statements, readers are urged to read carefully all cautionary statements contained in this Form 10-K.

Code of Conduct

The Company has adopted a code of business conduct for all of its employees and directors, including the Company's chief executive officer, chief financial officer, other executive officers and personnel. A copy of the Company's code of conduct is attached to this Annual Report on Form 10-K as Exhibit 10.7 and is also available on the Company's website at www.istarfinancial.com. The Company intends to post on its website material changes to, or waivers from, its code of conduct, if any, within two days of any such event. As of December 31, 2003, there were no such changes or waivers.

Overview

The Company is the leading publicly-traded finance company focused on the commercial real estate industry. The Company provides custom-tailored financing to private and corporate owners of real estate nationwide, including senior and junior mortgage debt, senior, mezzanine and subordinated corporate capital, and corporate net lease financing. The Company, which is taxed as a real estate investment trust ("REIT"), seeks to deliver strong dividends and superior risk-adjusted returns on equity to shareholders by providing innovative and value-added financing solutions to its customers.

The Company's primary product lines include:

- *Structured Finance.* The Company provides senior and subordinated loans that typically range in size from $20 million to $100 million. These loans may be either fixed or variable rate and are structured to meet the specific financing needs of the borrowers, including the acquisition or financing of large, quality real estate. The Company offers borrowers a wide range of structured finance options, including first mortgages, second mortgages, partnership loans, participating debt and interim facilities. The Company's structured finance transactions have maturities generally ranging from three to ten years. As of December 31, 2003, based on gross carrying values, the Company's structured finance assets represented 25.97% of its assets.

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

three to ten years. As of December 31, 2003, based on gross carrying values, the Company's portfolio finance assets represented 15.49% of its assets.

- *Corporate Finance.* The Company provides senior and subordinated capital to corporations engaged in real estate or real estate-related businesses. Financings may be either secured or unsecured and typically range in size from $20 million to $150 million. The Company's corporate finance transactions have maturities generally ranging from five to ten years. As of December 31, 2003, based on gross carrying values, the Company's corporate finance assets represented 8.29% of its assets.

- *Loan Acquisition.* The Company acquires whole loans and loan participations which present attractive risk-reward opportunities. Loans are generally acquired at a small discount to the principal balance outstanding. Loan acquisitions typically range in size from $5 million to $100 million and are collateralized by all major property types. The Company's loan acquisition transactions have maturities generally ranging from three to ten years. As of December 31, 2003, based on gross carrying values, the Company's loan acquisition assets represented 6.34% of its assets.

- *Corporate Tenant Leasing.* The Company provides capital to corporations and borrowers who control facilities leased to single creditworthy tenants. The Company's net leased assets are generally mission-critical headquarters or distribution facilities that are subject to long-term leases with rated corporate credit tenants, and which provide for all expenses at the property to be paid by the corporate tenant on a triple net lease basis. Corporate tenant lease, or CTL, transactions have terms generally ranging from ten to 20 years and typically range in size from $20 million to $150 million. As of December 31, 2003, based on gross carrying values, the Company's CTL assets (including investments in and advances to joint ventures and unconsolidated subsidiaries and assets held for sale) represented 41.89% of its assets.

As more fully discussed in Note 1 to the Company's Consolidated Financial Statements, the Company began its business in 1993 through private investment funds formed to capitalize on inefficiencies in the real estate finance market. In March 1998, these funds contributed their approximately $1.1 billion of assets to the Company's predecessor in exchange for a controlling interest in that company. Since that time, the Company has grown by originating new lending and leasing transactions, as well as through corporate acquisitions.

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

Concurrent with the TriNet Acquisition, the Company also acquired its former external advisor in exchange for shares of the Company's Common Stock and converted its organizational form to a Maryland corporation. As part of the conversion to a Maryland corporation, the Company replaced its former dual class common share structure with a single class of Common Stock. The Company's Common Stock began trading on the New York Stock Exchange on November 4, 1999. Prior to this date, the Company's common shares were traded on the American Stock Exchange.

Investment Strategy

The Company's investment strategy targets specific sectors of the real estate credit markets in which it believes it can deliver value-added, flexible financial solutions to its customers, thereby differentiating its financial products from those offered by other capital providers.

The Company has implemented its investment strategy by:

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

- Avoiding commodity businesses in which there is significant direct competition from other providers of capital such as conduit lending and investment in commercial or residential mortgage-backed securities.

- Developing direct relationships with borrowers and corporate customers as opposed to sourcing transactions solely through intermediaries.

- Adding value beyond simply providing capital by offering borrowers and corporate customers specific lending expertise, flexibility, certainty and continuing relationships beyond the closing of a particular financing transaction.

- Taking advantage of market anomalies in the real estate financing markets when the Company believes credit is mispriced by other providers of capital, such as the spread between lease yields and the yields on corporate customers' underlying credit obligations.

The Company intends to continue to emphasize a mix of portfolio financing transactions to create asset diversification and single-asset financings for properties with strong, long-term competitive market positions. The Company's credit process will continue to focus on:

- Building diversification by asset type, property type, obligor, loan/lease maturity and geography.

- Financing commercial real estate assets in major metropolitan markets.

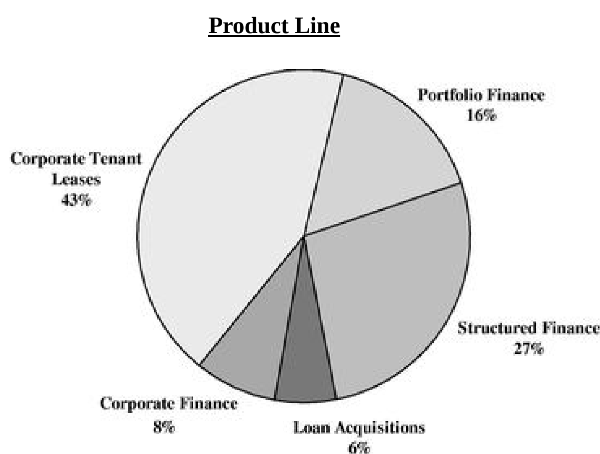
- Underwriting assets using conservative assumptions regarding collateral value and future property performance.

- Requiring adequate cash flow coverage on its investments.

- Stress testing potential investments for adverse economic and real estate market conditions.

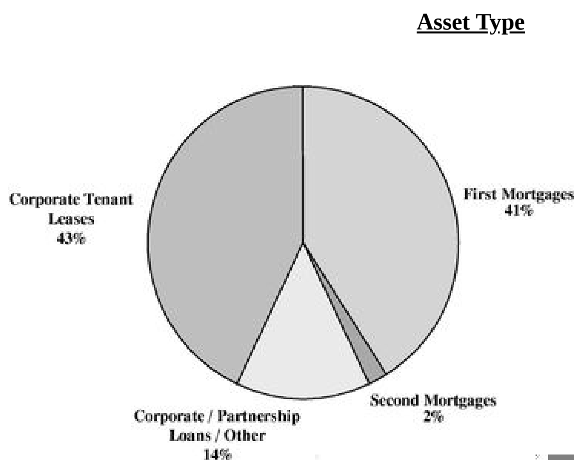
As of December 31, 2003, based on current gross carrying values, the Company's business consists of the following product lines:

Product Line

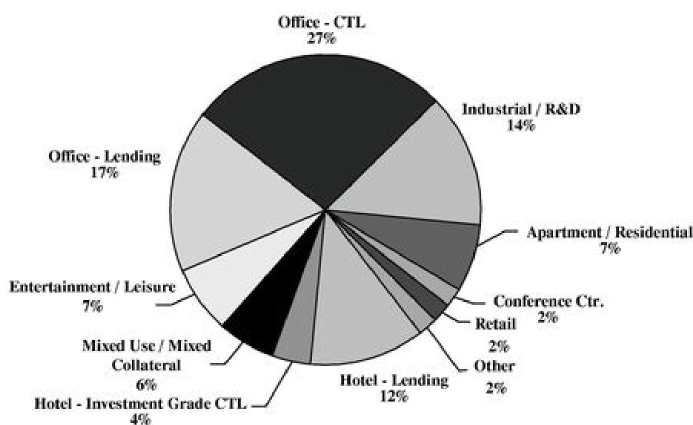


The Company seeks to maintain an investment portfolio which is diversified by asset type, underlying property type and geography. As of December 31, 2003, based on current gross carrying values, the Company's total investment portfolio has the following characteristics:

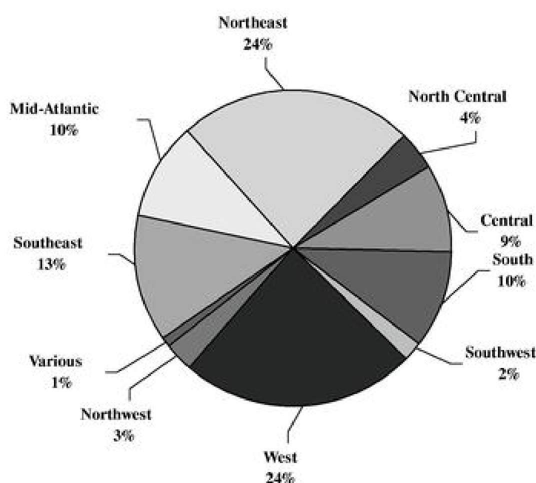
Asset Type



Property Type



Geography



The Company's Underwriting Process

The Company discusses and analyzes investment opportunities during regular weekly meetings which are attended by all of its investment professionals, as well as representatives from its legal, risk management and capital markets areas. The Company has developed a process for screening potential investments called the Six Point Methodology^{sm}. Through this process the Company evaluates an investment opportunity prior to beginning its formal commitment process by: (1) evaluating the source of the opportunity; (2) evaluating the quality of the collateral or corporate credit, as well as its market or industry dynamics; (3) evaluating the equity or corporate sponsor; (4) determining whether it can implement an appropriate legal and financial structure for the transaction given its risk profile; (5) performing an alternative investment test; and (6) evaluating the liquidity of the investment and its ability to match fund the asset.

The Company has an intensive underwriting process in place for all potential investments. This process provides for comprehensive feedback and review by all disciplines within the Company, including investments, credit, risk management, legal/structuring and capital markets. Participation is encouraged from all professionals throughout the entire origination process, from the initial consideration of the opportunity, through the Six Point Methodology^{sm} and into the preparation and distribution of a comprehensive memorandum for the Company's internal and Board of Directors investment committees.

Commitments of less than $40.0 million require the unanimous consent of the Company's internal investment committee, consisting of senior management representatives from each of the Company's key disciplines. For commitments between $40.0 million and $75.0 million, the further approval of the Company's Board of Directors' investment committee is also required. All commitments of $75.0 million or more must be approved by the Company's full Board of Directors.

Financing Strategy

The Company has access to a wide range of debt and equity capital resources to finance its investment and growth strategies. At December 31, 2003, the Company had over $2.4 billion of tangible book equity capital and a total market capitalization of approximately $8.7 billion. The Company believes that its size, diversification, investor sponsorship and track record are competitive advantages in obtaining attractive financing for its businesses.

The Company seeks to maximize risk-adjusted returns on equity and financial flexibility by accessing a variety of public and private debt and equity capital sources, including:

- Long-term, unsecured corporate debt.
- iStar Asset Receivables ("STARs"), the Company's proprietary match-funded, securitized debt program.
- A combined $2.7 billion of capacity under its unsecured and secured revolving credit facilities at year end.

The Company's business model is premised on significantly lower leverage than many other commercial finance companies. In this regard, the Company seeks to:

- Maintain a prudent corporate leverage level based upon the Company's mix of business and appropriate leverage levels for each of its primary business lines.
- Maintain a large tangible equity base and conservative credit statistics.
- Match fund assets and liabilities.

The Company has not historically utilized, and does not currently plan to utilize, "off-balance sheet" financing vehicles other than normal corporate tenant leasing joint ventures with unrelated third parties,

which may be accounted for under the equity method due to the existence of provisions providing for a sharing of control with the venture partners. Detailed information on the Company's three remaining joint ventures in which the Company currently has investments/operations, which totaled approximately $25.0 million at December 31, 2003, including information on the Company's share of the joint ventures' non-recourse debt, is provided in Item 7–"Management's Discussion and Analysis of Financial Condition and Results of Operations–Liquidity and Capital Resources," and in Note 6 to the Company's Consolidated Financial Statements.

A more detailed discussion of the Company's current capital resources is provided in Item 7–"Management's Discussion and Analysis of Financial Condition and Results of Operations–Liquidity and Capital Resources."

Hedging Strategy

The Company has variable-rate lending assets and variable-rate debt obligations. These assets and liabilities create a natural hedge against changes in variable interest rates. This means that as interest rates increase, the Company earns more on its variable-rate lending assets and pays more on its variable-rate debt obligations and, conversely, as interest rates decrease, the Company earns less on its variable-rate lending assets and pays less on its variable-rate debt obligations. When the Company's variable-rate debt obligations exceed its variable-rate lending assets, the Company utilizes derivative instruments to limit the impact of changing interest rates on its net income. The Company does not use derivative instruments to hedge assets or for speculative purposes. The derivative instruments the Company uses are typically in the form of interest rate swaps and interest rate caps. Interest rate swaps effectively change variable-rate debt obligations to fixed-rate debt obligations. Interest rate caps effectively limit the maximum interest rate on variable-rate debt obligations.

In addition, when appropriate the Company enters into interest rate swaps that convert fixed-rate debt to variable rate in order to mitigate the risk of changes in fair value of the fixed-rate debt obligations.

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

Developing an effective strategy for dealing with movements in interest rates is complex and no strategy can completely insulate the Company from risks associated with such fluctuations. There can be no assurance that the Company's hedging activities will have the desired beneficial impact on its results of operations or financial condition.

Business

Real Estate Lending:

The Company provides structured financing to private and corporate owners of real estate nationwide, including senior and junior mortgage debt, senior mezzanine and subordinated corporate capital.

Set forth below is information regarding the Company's primary real estate lending product lines as of December 31, 2003:

	Current Carrying Value	% of Total
	(In thousands)	
Structured finance	$ 1,729,765	46.30%
Portfolio finance	1,031,538	27.61%
Corporate finance	552,443	14.79%
Loan acquisition	422,364	11.30%
Gross carrying value	$ 3,736,110	100.00%
Provision for loan losses	(33,436)	

Total carrying value, net	$	3,702,674

As more fully discussed in Note 3 to the Company's Consolidated Financial Statements, the Company continually monitors borrower performance and completes a detailed, loan-by-loan formal credit review on a quarterly basis. After having originated or acquired over $9 billion of investment transactions, the Company and its private investment fund predecessors have experienced minimal actual losses on their lending investments.

Despite the Company's historical track record of having minimal credit losses and loans on non-accrual status, the Company considers it prudent to reflect provisions for loan losses on a portfolio basis based upon the Company's assessment of general market conditions, the Company's internal risk management policies and credit risk rating system, industry loss experience, the Company's assessment of the likelihood of delinquencies or defaults, and the value of the collateral underlying its investments. Accordingly, since its first full quarter operating its current business as a public company (the quarter ended June 30, 1998), management has reflected quarterly provisions for loan losses in its operating results.

Summary of Interest Characteristics

As more fully discussed in Item 7–"Management's Discussion and Analysis of Financial Condition and Results of Operations–Liquidity and Capital Resources" as well as in Item 7a.–"Quantitative and Qualitative Disclosures about Market Risk," the Company utilizes certain interest rate risk management techniques, including both asset/liability matching and certain other hedging techniques, in order to mitigate the Company's exposure to interest rate risks.

As of December 31, 2003, the Company's Lending Business portfolio has the following interest rate characteristics:

	Current Carrying Value	% of Total
	(In thousands)	
Fixed-rate loans	$ 1,450,534	38.82%
Variable-rate loans	2,285,576	61.18%
Gross carrying value	$ 3,736,110	100.00%

Summary of Prepayment Terms

The Company is exposed to risks of prepayment on its loan assets, and generally seeks to protect itself from such risks by structuring its loans with prepayment restrictions and/or penalties.

As of December 31, 2003, the Company's Lending Business portfolio has the following call protection characteristics:

	Current Carrying Value	% of Total
	(In thousands)	
Fixed prepayment penalties	$ 1,262,420	33.79%
Substantial lock-out for original term	1,134,223	30.36%
Currently open to prepayment with no penalty	890,100	23.82%
Yield maintenance	256,701	6.87%
Other	192,666	5.16%
Gross carrying value	$ 3,736,110	100.00%

Summary of Lending Business Maturities

As of December 31, 2003, the Company's Lending Business portfolio has the following maturity characteristics:

Year of Maturity	Number of Transactions Maturing	Current Carrying Value	% of Total
		(In thousands)	
2004	16	$ 352,267	9.43%
2005	29	1,008,448	26.99%
2006	21	757,524	20.28%
2007	11	353,896	9.47%
2008	15	420,419	11.25%
2009	8	305,569	8.18%

2010	2	37,334	1.00%
2011	7	222,337	5.95%
2012	1	7,800	0.21%
2013	8	155,736	4.17%
2014 and thereafter	7	114,780	3.07%
Gross carrying value		$ 3,736,110	100.00%
Weighted average maturity		3.72 years	

Structured Finance

The Company provides custom-tailored senior and subordinated loans that typically range in size from $20 million to $100 million. These loans may be either fixed or variable rate and are structured to meet the specific financing needs of the borrowers, including the acquisition or financing of large, quality real estate. The Company offers borrowers a wide range of structured finance options, including first mortgages, second mortgages, partnership loans, participating debt and interim facilities. The Company's structured finance transactions have maturities generally ranging from three to ten years.

As of December 31, 2003, the Company's structured finance investments have the following characteristics:

Investment Class	Collateral Types	# of Loans In Class	Current Carrying Value(1)	Current Principal Balance Outstanding	Weighted Average Stated Pay Rate(2)	Weighted Average First Dollar Current Loan-to-Value(3)	Weighted Average Last Dollar Current Loan-to-Value(4)
First Mortgages	Office/Residential/ Industrial, R&D/Conference Center/Mixed Use/ Hotel/Entertainment, Leisure	33	$ 1,262,732	$ 1,269,024	5.88%	0%	64%
Junior First Mortgages(5)	Office/Residential/Mixed Use/Hotel	10	200,943	207,088	9.76%	61%	78%
Second Mortgages	Office/Mixed Use/Hotel	7	122,139	117,963	9.88%	47%	66%
Corporate Loans/Other	Office/Residential/Industrial, R&D/Mixed Use/Hotel	13	143,951	143,506	10.84%	58%	73%
Total		63	$ 1,729,765	$ 1,737,581			

Explanatory Notes:

(1) Where Current Carrying Value differs from Current Principal Balance Outstanding, the difference represents unamortized amount of acquired premiums, discounts or deferred loan fees.

(2) All variable-rate loans assume a one-month LIBOR rate of 1.12% (the actual one-month LIBOR rate at December 31, 2003). As of December 31, 2003, five loans with a combined carrying value of $95.9 million have a stated accrual rate that exceeds the stated pay rate.

(3) Weighted average ratio of first dollar current loan carrying value to underlying collateral value using third-party appraisal or the Company's internal valuation.

(4) Weighted average ratio of last dollar current loan carrying value to underlying collateral value using third-party appraisal or the Company's internal valuation.

(5) Junior first mortgages represent promissory notes secured by first mortgages which are junior to other promissory notes secured by the same first mortgage.

Portfolio Finance

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

As of December 31, 2003, the Company's portfolio finance investments have the following characteristics:

Investment Class	Collateral Types	# of Loans In Class	Current Carrying Value(1)	Current Principal Balance Outstanding	Weighted Average Stated Pay Rate(2)	Weighted Average First Dollar Current Loan-to-Value(3)	Weighted Average Last Dollar Current Loan-to-Value(4)
First Mortgages	Residential/Mixed Use/Hotel/ Entertainment, Leisure	8	$ 399,418	$ 402,056	7.04%	0%	63%
Junior First Mortgages(5)	Office/Hotel Entertainment, Leisure	5	167,811	168,532	6.79%	55%	64%
Second Mortgages	Hotel	1	29,955	29,294	12.22%	74%	94%
Corporate Loans/Other	Office/Residential/Mixed Use/Hotel/ Entertainment, Leisure	13	434,354	441,078	9.32%	55%	70%
Total		27	$ 1,031,538	$ 1,040,960			

Explanatory Notes:

(1) Where Current Carrying Value differs from Current Principal Balance Outstanding, the difference represents unamortized amount of acquired premiums, discounts or deferred loan fees.

(2) All variable-rate loans assume a one-month LIBOR rate of 1.12% (the actual one-month LIBOR rate at December 31, 2003).

(3) Weighted average ratio of first dollar current loan carrying value to underlying collateral value using third-party appraisal or the Company's internal valuation.

(4) Weighted average ratio of last dollar current loan carrying value to underlying collateral value using third-party appraisal or the Company's internal valuation.

(5) Junior first mortgages represent promissory notes secured by first mortgages which are junior to other promissory notes secured by the same first mortgage.

Corporate Finance

The Company provides senior and subordinated capital to corporations engaged in real estate or real estate-related businesses. Financings may be either secured or unsecured and typically range in size from $20 million to $150 million. The Company's corporate finance transactions have maturities generally ranging from five to ten years.

As of December 31, 2003, the Company's corporate finance investments have the following characteristics:

Investment Class	Collateral Types	# of Loans In Class	Current Carrying Value(1)	Current Principal Balance Outstanding	Weighted Average Stated Pay Rate(2)	Weighted Average First Dollar Current Loan-to-Value(3)	Weighted Average Last Dollar Current Loan-to-Value(4)
First Mortgages	Industrial, R&D/Hotel/ Entertainment, Leisure	7	$ 196,532	$ 210,579	7.44%	11%	60%
Junior First Mortgages(5)	Office/Retail/Hotel Entertainment, Leisure/Other	6	127,753	127,481	7.37%	49%	63%
Corporate Loans/Other	Office/Residential/Retail/Industrial, R&D/Other	10	228,158	242,702	8.56%	62%	72%
Total		23	$ 552,443	$ 580,762			

Explanatory Notes:

(1) Where Current Carrying Value differs from Current Principal Balance Outstanding, the difference represents unamortized amount of acquired premiums, discounts or deferred loan fees.

(2) All variable-rate loans assume a one-month LIBOR rate of 1.12% (the actual one-month LIBOR rate at December 31, 2003).

(3) Weighted average ratio of first dollar current loan carrying value to underlying collateral value using third-party appraisal or the Company's internal valuation.

(4) Weighted average ratio of last dollar current loan carrying value to underlying collateral value using third-party appraisal or the Company's internal valuation.

(5) Junior first mortgages represent promissory notes secured by first mortgages which are junior to other promissory notes secured by the same first mortgage.

Loan Acquisition

The Company acquires whole loans and loan participations which represent attractive risk-reward opportunities. Loans are generally acquired at a small discount to the principal balance outstanding. Loan acquisitions typically range in size from $5 million to $100 million and are collateralized by all major property types. The Company's loan acquisition transactions have maturities generally ranging from three to ten years.

For accounting purposes, these loans are initially reflected at the Company's acquisition cost which represents the outstanding balance net of the acquisition discount or premium. The Company amortizes such discounts or premiums as an adjustment to increase or decrease the yield, respectively, realized on these loans using the effective interest method. As such, differences between carrying value and principal balances outstanding do not represent embedded losses or gains as the Company generally plans to hold such loans to maturity.

As of December 31, 2003, the Company's loan acquisition investments have the following characteristics:

Investment Class	Collateral Types	# of Loans In Class	Current Carrying Value(1)	Current Principal Balance Outstanding	Weighted Average Stated Pay Rate(2)	Weighted Average First Dollar Current Loan-to-Value(3)	Weighted Average Last Dollar Current Loan-to-Value(4)
First Mortgages	Office/Retail/Other	4	$ 314,098	$ 327,658	7.98%	0%	82%
Second Mortgages	Other	3	18,848	25,905	6.75%	59%	66%
Corporate Loans/Other	Hotel	5	89,418	112,769	7.54%	64%	81%
Total		12	$ 422,364	$ 466,332			

Explanatory Notes:

(1) Where Current Carrying Value differs from Current Principal Balance Outstanding, the difference represents unamortized amount of acquired premiums, discounts or deferred loan fees.

(2) All variable-rate loans assume a one-month LIBOR rate of 1.12% (the actual one-month LIBOR rate at December 31, 2003).

(3) Weighted average ratio of first dollar current loan carrying value to underlying collateral value using third-party appraisal or the Company's internal valuation.

(4) Weighted average ratio of last dollar current loan carrying value to underlying collateral value using third-party appraisal or the Company's internal valuation.

Corporate Tenant Leasing:

The Company, directly and through its Leasing Subsidiary, provides capital to corporations and borrowers who control facilities leased to single creditworthy tenants. The Company's net leased assets are generally mission-critical headquarters or distribution facilities that are subject to long-term leases with rated corporate credit tenants, and which provide for all expenses at the property to be paid by the corporate tenant on a triple net lease basis. CTL transactions have terms generally ranging from ten to 20 years and typically range in size from $20 million to $150 million.

The Company pursues the origination of CTL transactions by structuring purchase/leasebacks and by acquiring facilities subject to existing long-term net leases. In a typical purchase/leaseback transaction, the Company purchases a corporation's facility and leases it back to that corporation subject to a long-term net lease. This structure allows the corporate customer to reinvest the proceeds from the sale of its facilities into its core business, while the Company capitalizes on its structured financing expertise.

The Company generally intends to hold its CTL assets for long-term investment. However, subject to certain tax restrictions, the Company may dispose of an asset if it deems the disposition to be in the Company's best interests and may either reinvest the disposition proceeds, use the proceeds to reduce debt, or distribute the proceeds to shareholders.

The Company's CTL investments primarily represent a diversified portfolio of mission-critical headquarters or distribution facilities subject to net lease agreements with creditworthy corporate tenants. The Company generally seeks general-purpose real estate with residual values that represent a discount to current market values and replacement costs. Under a typical net lease agreement, the corporate customer agrees to pay a base monthly operating lease payment and all facility operating expenses (including taxes, maintenance and insurance).

The Company generally seeks corporate tenants with the following characteristics:

- Established companies with stable core businesses or market leaders in growing industries.
- Investment-grade credit strength or appropriate credit enhancements if corporate credit strength is not sufficient on a stand-alone basis.
- Commitment to the facility as a mission-critical asset to their on-going businesses.

As of December 31, 2003, the Company had 160 corporate customers operating in more than 23 major industry sectors, including aerospace, energy, finance, healthcare, manufacturing, technology and telecommunications. The majority of these customers represent well-recognized national and international companies, such as Federal Express, IBM, Nike, Nokia, the U.S. Government and Verizon.

As of December 31, 2003, the Company's CTL portfolio has the following tenant credit characteristics:

	Annualized In-Place Operating Lease Income(3)	% of In-Place Operating Lease Income
	(In thousands)	
Investment grade(1)	$ 124,140	42.27%
Implied investment grade(2)	41,847	14.25%
Non-investment grade	43,215	14.71%
Unrated	84,504	28.77%
	$ 293,706	100.00%

Explanatory Notes:

(1) A customer's credit rating is considered "Investment Grade" if the tenants' or its guarantor has a published senior unsecured credit rating of Baa3/BBB- or above by one or more of the three national rating agencies. Where a customer's credit is rated investment grade by one agency and non-investment grade by another, the Company only classifies the credit "Investment Grade" if the agency rating the credit investment grade is Standard & Poor's or Moody's Investors Service.

(2) A customer's credit rating is considered "Implied Investment Grade" if it is 100.00% owned by an investment-grade parent or it has no published ratings, but has credit characteristics that the Company believes warrant an investment grade senior unsecured credit rating. Examples at December 31, 2003 include Cisco Systems Inc., Northrop Grumman Information and Volkswagen of America, Inc.

(3) Reflects annualized GAAP operating lease income for leases in place at December 31, 2003. The operating lease income includes the Company's pro rata share from facilities owned by the Company's joint ventures.

Risk Management Strategies. The Company believes that diligent risk management of its CTL assets is an essential component of its long-term strategy. There are several ways to optimize the performance and maximize the value of CTL assets. The Company monitors its portfolio for changes that could affect the performance of the markets, credits and industries in which it has invested. As part of this monitoring, the Company's risk management group reviews market, customer and industry data and frequently inspects its facilities. In addition, the Company attempts to develop strong relationships with its large corporate customers, which provide a source of information concerning the customers' facilities needs. These relationships allow the Company to be proactive in obtaining early lease renewals and in conducting early marketing of assets where the customer has decided not to renew.

As of December 31, 2003, the Company owned 162 office and industrial facilities principally subject to net leases to 159 customers, comprising 26.3 million square feet in 28 states. The Company also has a portfolio of 17 hotels under a long-term master lease with a single customer. Information regarding the Company's CTL assets as of December 31, 2003 is set forth below:

SIC Code		# of Leases	% of In-Place Operating Lease Income(1)	% of Total Revenue(2)
73	Business Services	20	14.82%	6.63%
48	Communications	24	8.93%	3.99%
70	Hotels, Rooming, Housing & Lodging	3	8.73%	3.90%
35	Industrial/Commercial Machinery, incl. Computers	17	8.64%	3.86%
62	Security and Commodity Brokers	5	7.37%	3.30%
37	Transportation Equipment	7	6.83%	3.05%
36	Electronic & Other Elec. Equipment	16	6.13%	2.74%
30	Rubber and Misc. Plastics Products	2	5.96%	2.66%
49	Electric, Gas and Sanitary Services	3	2.96%	1.33%
64	Insurance Agents, Brokers & Service	5	2.48%	1.11%
63	Insurance Carriers	7	2.38%	1.06%
50	Wholesale Trade-Durable Goods	7	2.30%	1.03%
91	Executive, Legislative and General Gov't.	5	2.09%	0.93%
42	Motor Freight Transp. & Warehousing	2	2.05%	0.92%
58	Eating and Drinking Places	13	2.02%	0.90%
79	Amusement and Recreation Services	2	1.50%	0.67%
60	Depository Institutions	3	1.46%	0.65%
87	Engineering, Accounting & Research Services	7	1.46%	0.65%
38	Measuring & Analyzing Instruments	5	1.33%	0.60%
51	Wholesale Trade-Non-Durable Goods	4	1.24%	0.55%
45	Airports, Flying Fields & Terminal Services	1	1.18%	0.53%
29	Petroleum Refining	1	1.14%	0.51%
23	Apparel and Other Finished Products	2	1.07%	0.48%
	Various	28	5.93%	
	Total	189	100.00%	

Explanatory Notes:

(1) Reflects annualized GAAP operating lease income for leases in place at December 31, 2003. The operating lease income includes the Company's pro rata share from facilities owned by the Company's joint ventures.

(2) Reflects annualized GAAP operating lease income for leases in place at December 31, 2003 as a percentage of annualized total revenue for the quarter ended December 31, 2003.

As of December 31, 2003, lease expirations on the Company's CTL assets, including facilities owned by the Company's joint ventures, are as follows:

Year of Lease Expiration	Number of Leases Expiring	Annualized In-Place Operating Lease Income(1)	% of In-Place Operating Lease Income	% of Total Revenue(2)
		(In thousands)		
2004	20	$ 19,599	6.67%	2.98%
2005	16	10,723	3.65%	1.63%
2006	27	30,073	10.24%	4.58%
2007	23	18,448	6.28%	2.81%
2008	17	13,714	4.67%	2.09%
2009	12	13,478	4.59%	2.05%
2010	6	8,557	2.91%	1.30%
2011	7	6,131	2.09%	0.93%
2012	11	17,367	5.91%	2.64%
2013	5	6,816	2.32%	1.04%
2014 and thereafter	45	148,800	50.67%	22.65%
Total	189	$ 293,706	100.00%	
Weighted average remaining lease term		9.93 years		

Explanatory Notes:

(1) Reflects annualized GAAP operating lease income for leases in place at December 31, 2003. The operating lease income includes the Company's pro rata share from facilities owned by the Company's joint ventures.

(2) Reflects annualized GAAP operating lease income for leases in place at December 31, 2003 as a percentage of annualized total revenue for the quarter ended December 31, 2003.

Policies with Respect to Other Activities

The Company's investment, financing and conflicts of interests policies are managed under the ultimate supervision of the Company's Board of Directors. The Board can amend, revise or eliminate these policies at any time without a vote of shareholders. At all times, the Company intends to make investments in a manner consistent with the requirements of the Code for the Company to qualify as a REIT.

Investment Restrictions or Limitations

The Company does not have any prescribed allocation among investments or product lines. Instead, the Company focuses on corporate and real estate credit underwriting to develop an in-depth analysis of the risk/reward ratios in determining the pricing and advisability of each particular transaction.

The Company believes that it is not, and intends to conduct its operations so as not to become, regulated as an investment company under the Investment Company Act. The Investment Company Act generally exempts entities that are "primarily engaged in purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" (collectively, "Qualifying Interests"). The Company intends to rely on current interpretations of the Securities and Exchange Commission in an effort to qualify for this exemption. Based on these interpretations, the Company, among other things, must maintain at least 55.00% of its assets in Qualifying Interests and at least 25.00% of its assets in real estate-related assets (subject to reduction to the extent the Company invests more than 55.00% of its assets in Qualifying Interests). Generally, the Company's senior mortgages, CTL assets and certain of its subordinated mortgages constitute Qualifying Interests.

Subject to the limitations on ownership of certain types of assets and the gross income tests imposed by the Code, the Company also may invest in the securities of other REITs, other entities engaged in real estate activities or other issuers, including for the purpose of exercising control over such entities.

Competition

The Company is engaged in a competitive business. In originating and acquiring assets, the Company competes with public and private companies, including other finance companies, mortgage banks, pension funds, savings and loan associations, insurance companies, institutional investors, investment banking firms and other lenders and industry participants, as well as individual investors. Existing industry participants and potential new entrants compete with the Company for the available supply of investments suitable for origination or acquisition, as well as for debt and equity capital. Certain of the Company's competitors are larger than the Company, have longer operating histories, may have access to greater capital and other resources, may have management personnel with more experience than the officers of the Company, and may have other advantages over the Company in conducting certain businesses and providing certain services.

Regulation

The operations of the Company are subject, in certain instances, to supervision and regulation by state and federal governmental authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, which, among other things: (1) regulate credit granting activities; (2) establish maximum interest rates, finance charges and other charges; (3) require disclosures to customers; (4) govern secured transactions; and (5) set collection, foreclosure, repossession and claims-handling procedures and other trade practices. Although most states do not regulate commercial finance, certain states impose limitations on interest rates and other charges and on certain collection practices and creditor remedies and require licensing of lenders and financiers and adequate disclosure of certain contract terms. The Company is also required to comply with certain provisions of the Equal Credit Opportunity Act that are applicable to commercial loans.

In the judgment of management, existing statutes and regulations have not had a material adverse effect on the business conducted by the Company. However, it is not possible to forecast the nature of future legislation, regulations, judicial decisions, orders or interpretations, nor their impact upon the future business, financial condition or results of operations or prospects of the Company.

The Company has elected and expects to continue to make an election to be taxed as a REIT under Section 856 through 860 of the Code. As a REIT, the Company must currently distribute, at a minimum, an amount equal to 90.00% of its taxable income and must distribute 100.00% of its taxable income to avoid paying corporate federal income taxes. REITs are also subject to a number of organizational and operational requirements in order to elect and maintain REIT status. These requirements include specific share ownership tests and assets and gross income composition tests. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates. Even if the Company qualifies for taxation as a REIT, the Company may be subject to state and local income taxes and to federal income tax and excise tax on its undistributed income.

Factors That May Affect the Company's Business Strategy

The implementation of the Company's business strategy and investment policies are subject to certain risks, including the effect of economic and other conditions in the United States generally and in markets where the Companys' customers, collateral and corporate facilities are located. In addition, the following factors may affect the Company's financial condition and results of operations:

- The Company may suffer a loss if a borrower defaults on a non-recourse loan or an unsecured loan.

- The Company may suffer a loss in the event of a bankruptcy of a borrower, particularly if the borrower has incurred debt that is senior to its loan.
- The Company is subject to the risk that provisions of its loan agreements may be unenforceable or that it may experience delays in enforcing remedies.
- Lease expirations, defaults and terminations will adversely affect its revenue if the Company cannot replace the leases on advantageous terms.
- The Company may not be able to redeploy capital from loans that have been repaid on terms as attractive as the loans being repaid, which may adversely impact its earnings.
- The Company's ownership interests in corporate facilities may be illiquid, hindering its ability to mitigate a loss.
-

The Company needs continued access to significant capital, including debt, in order to grow. Increased leverage magnifies changes in its net worth and creates the risk that it might not be able to service its debt obligations.

- As an owner of real estate, the Company faces risks of liability under environmental laws.

- The Company will suffer adverse consequences if it fails to qualify as a REIT.

Environmental Matters

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner of real estate (including, in certain circumstances, a secured lender that succeeds to ownership or control of a property) may become liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. Those laws typically impose cleanup responsibility and liability without regard to whether the owner or control party knew of or was responsible for the release or presence of such hazardous or toxic substances. The costs of investigation, remediation or removal of those substances may be substantial. The owner or control party of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. Certain environmental laws also impose liability in connection with the handling of or exposure to asbestos-containing materials, pursuant to which third parties may seek recovery from owners of real properties for personal injuries associated with asbestos-containing materials. Absent succeeding to ownership or control of real property, a secured lender is not likely to be subject to any of these forms of environmental liability. The Company is not currently aware of any environmental issues which could materially affect the Company.

Employees

As of March 1, 2004, the Company had 155 employees and believes its relationships with its employees to be good. The Company's employees are not represented by a collective bargaining agreement.

Website Access to Reports

The Company maintains a website at www.istarfinancial.com. Effective as of January 1, 2003, through the Company's website, the Company makes available free of charge its annual proxy statement, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those Reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC.

Item 2. Properties

The Company's principal executive and administrative offices are located at 1114 Avenue of the Americas, New York, NY 10036. Its telephone number, general facsimile number and web address are (212) 930-9400, (212) 930-9494 and www.istarfinancial.com, respectively. The lease for the Company's primary corporate office space expires in February 2010. The Company believes that this office space is suitable for its operations for the foreseeable future. The Company also maintains super-regional offices in Atlanta, Georgia; Hartford, Connecticut; and San Francisco, California, as well as regional offices in Boston, Massachusetts; Dallas, Texas; and Denver, Colorado.

See Item 1—"Corporate Tenant Leasing" for a discussion of CTL facilities held by the Company and its Leasing Subsidiary for investment purposes and Item 8—"Schedule III—Corporate Tenant Lease Assets and Accumulated Depreciation" for a detailed listing of such facilities.

Item 3. Legal Proceedings

The Company is not a party to any material litigation or legal proceedings, or to the best of its knowledge, any threatened litigation or legal proceedings which, in the opinion of management, individually or in the aggregate, would have a material adverse effect on its results of operations or financial condition.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of 2003.

PART II

Item 5. Market for Registrant's Equity and Related Share Matters

The Company's Common Stock trades on the New York Stock Exchange ("NYSE") under the symbol "SFI."

The high and low sales prices per share of Common Stock are set forth below for the periods indicated.

Quarter Ended	High	Low
2002		
March 31, 2002	$ 28.90	$ 24.59
June 30, 2002	$ 31.45	$ 28.50
September 30, 2002	$ 29.55	$ 25.30
December 31, 2002	$ 28.40	$ 25.90

2003		
March 31, 2003	$ 29.90	$ 27.05
June 30, 2003	$ 36.60	$ 29.68
September 30, 2003	$ 38.95	$ 35.00
December 31, 2003	$ 40.00	$ 37.25

On March 1, 2004, the closing sale price of the Common Stock as reported by the NYSE was $42.50. The Company had 2,980 holders of record of Common Stock as of March 1, 2004.

At December 31, 2003, the Company had six series of preferred stock outstanding: 9.375% Series B Preferred Stock, 9.200% Series C Preferred Stock, 8.000% Series D Preferred Stock, 7.875% Series E Preferred Stock, 7.800% Series F Preferred Stock and 7.650% Series G Preferred Stock. Each of the Series B, C, D, E, F and G preferred stock is publicly traded.

Dividends

The Company's management expects that any taxable income remaining after the distribution of preferred dividends and the regular quarterly or other dividends on its Common Stock will be distributed annually to the holders of the Common Stock on or prior to the date of the first regular quarterly dividend payment date of the following taxable year. The dividend policy with respect to the Common Stock is subject to revision by the Board of Directors. All distributions in excess of dividends on preferred stock or those required for the Company to maintain its REIT status will be made by the Company at the sole discretion of the Board of Directors and will depend on the taxable earnings of the Company, the financial condition of the Company, and such other factors as the Board of Directors deems relevant. The Board of Directors has not established any minimum distribution level. In order to maintain its qualifications as a REIT, the Company intends to make regular quarterly dividends to its shareholders that, on an annual basis, will represent at least 90.00% of its taxable income (which may not necessarily equal net income as calculated in accordance with GAAP), determined without regard to the deduction for dividends paid and excluding any net capital gains.

Holders of Common Stock will be entitled to receive distributions if, as and when the Board of Directors authorizes and declares distributions. However, rights to distributions may be subordinated to the rights of holders of preferred stock, when preferred stock is issued and outstanding. In addition, most of the Company's borrowings contain covenants that limit the Company's ability to pay distributions on its capital stock based upon the Company's adjusted earnings provided however, that these borrowings generally permit the Company to pay the minimum amount of distributions necessary to maintain the Company's REIT status.In any liquidation, dissolution or winding up of the Company, each outstanding share of Common Stock will entitle its holder to a proportionate share of the assets that remain after the Company pays its liabilities and any preferential distributions owed to preferred shareholders.

The following table sets forth the dividends paid or declared by the Company on its Common Stock:

Quarter Ended	Shareholder Record Date	Dividend/ Share
2002(1)		
March 31, 2002	April 15, 2002	$ 0.6300
June 30, 2002	July 15, 2002	$ 0.6300
September 30, 2002	October 15, 2002	$ 0.6300
December 31, 2002	December 16, 2002	$ 0.6300
2003(2)		
March 31, 2003	April 15, 2003	$ 0.6625
June 30, 2003	July 15, 2003	$ 0.6625
September 30, 2003	October 15, 2003	$ 0.6625
December 31, 2003	December 15, 2003	$ 0.6625

Explanatory Notes:

(1) For tax reporting purposes, the 2002 dividends were classified as 87.61% ($2.2078) ordinary income, 1.80% ($0.0454) 20.00% capital gain and 10.59% ($0.2668) return of capital for those shareholders who held shares of the Company for the entire year.

(2) For tax reporting purposes, the 2003 dividends were classified as 68.90% ($1.8258) ordinary income, 2.46% ($0.0651) 20.00% capital gain, 1.90% ($0.0503) 15.00% capital gain (post May 5, 2003), 2.67% ($0.0709) 25.00% Section 1250 capital gain and 24.08% ($0.6380) return of capital for those shareholders who held shares of the Company for the entire year.

The Company declared dividends aggregating $14.3 million, $4.7 million, $3.0 million, $8.0 million $4.9 million, $1.7 million, and $170,000, respectively, on its Series A, B, C, D, E, F and G preferred stock, respectively, for the year ended December 31, 2003. There are no dividend arrearages on any of the preferred shares currently outstanding.

Distributions to shareholders will generally be taxable as ordinary income, although a portion of such dividends may be designated by the Company as capital gain or may constitute a tax-free return of capital. The Company annually furnishes to each of its shareholders a statement setting forth the distributions paid during the preceding year and their characterization as ordinary income, capital gain or return of capital.

The Company intends to continue to declare quarterly distributions on its Common Stock. No assurance, however, can be given as to the amounts or timing of future distributions, as such distributions are subject to the Company's earnings, financial condition, capital requirements, debt covenants and such other factors as the Company's Board of Directors deems relevant. On February 11, 2004, the Company announced that, effective April 1, 2004, its Board of Directors approved an increase in the regular quarterly dividend on its Common Stock for 2004 to $0.6975 per share, representing $2.79 per share on an annualized basis.

Disclosure of Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders-stock options(1)	2,870,138	$ 18.59	1,880,530
Equity compensation plans approved by security holders-restricted stock awards(2)	2,422,037	N/A	N/A
Equity compensation plans approved by security holders-high performance units(3)	—	N/A	N/A
Equity compensation plans not approved by security holders	—	—	—
Total	5,292,175	$ 18.59	1,880,530

Explanatory Notes:

(1) Stock Options—As more fully discussed in Note 10 to the Company's Consolidated Financial Statements, there were approximately 2.9 million stock options outstanding as of December 31, 2003. These 2.9 million options, together with their weighted-average exercise price, have been included in columns (a) and (b), above. The 1.9 million figure in column (c) represents the aggregate amount of stock options or restricted stock awards that could be granted under compensation plans approved by the Company's security holders after giving effect to previously issued awards of stock options, shares of restricted stock and other performance awards.

(2) Restricted Stock—As of December 31, 2003, the Company has issued 933,475 shares of restricted stock. The restrictions on 422,037 of such shares primarily relate to the passage of time for vesting periods which have not lapsed, and are thus not included in the Company's outstanding share balance. These shares have been included in column (a), above.

Phantom Shares—As more fully discussed in Note 10 to the Company's Consolidated Financial Statements, the Company has granted 2.0 million unvested phantom shares, each of which represents one share of the Company's Common Stock. As of December 31, 2003, all of these shares have contingently vested. These shares have been included in column (a), above. Shares that have contingently vested generally are not expected to become fully vested until March 30, 2004.

(3) High Performance Unit Program—In May 2002, the Company's shareholders approved the iStar Financial High Performance Unit Program. The Program is more fully described in the Company's proxy statement dated April 8, 2002 and in Note 10 to the Company's Consolidated Financial Statements. The program entitles the employee participants to receive cash distributions in the nature of common stock dividends if the total rate of return on the Company's Common Stock exceeds certain performance levels. The first and second tranches of the program were completed on December 31, 2002 and 2003, respectively. As a result of the Company's superior performance during the valuation period for both tranches, the program participants are entitled to share in cash distributions equivalent to dividends payable on 819,254 shares and 987,149 shares of the Company's Common Stock, in the aggregate, as and when such dividends are paid by the Company for the 2002 and the 2003 plan, respectively. Such dividend payments for the first tranche began with the first quarter 2003 dividend and those for the second tranche will begin with the first quarter 2004 dividend and will reduce net income allocable to common stockholders when paid. No shares of the Company's Common Stock will be issued in connection with this program and thus no effect has been reflected in the above table.

Item 6. Selected Financial Data

The following table sets forth selected financial data on a consolidated historical basis for the Company. On November 4, 1999, the Company acquired TriNet, which increased the size of the Company's operations, and also acquired its former external advisor. Operating results for the year ended December 31, 1999 reflect only the effects of these transactions subsequent to their consummation.

Accordingly, the results of operations for the Company for the year ended December 31, 1999, does not reflect the current operations of the Company as a well capitalized, internally-managed finance company operating in the commercial real estate industry. For these reasons, the Company believes that the information should be read in conjunction with the discussions set forth in Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations." Certain prior year amounts have been reclassified to conform to the 2003 presentation.

	For the Years Ended December 31,				
	2003	2002	2001	2000	1999
	(In thousands, except per share data and ratios)				
OPERATING DATA:					
Interest income	$ 304,394	$ 255,631	$ 254,119	$ 268,011	$ 209,848
Operating lease income	265,478	236,643	179,279	171,247	40,633
Other income	36,677	27,993	31,000	17,902	12,900
Total revenue	606,549	520,267	464,398	457,160	263,381
Interest expense	194,999	185,375	169,974	173,549	91,112
Operating costs-corporate tenant lease assets	17,371	13,202	12,029	12,230	2,111
Depreciation and amortization	55,286	46,948	34,573	33,529	10,219
General and administrative	38,153	30,449	24,151	25,706	6,269
General and administrative-stock-based compensation	3,633	17,998	3,574	2,864	412
Provision for loan losses	7,500	8,250	7,000	6,500	4,750
Loss on early extinguishment of debt	—	12,166	1,620	705	—
Advisory fees	—	—	—	—	16,193
Costs incurred in acquiring former external advisor(1)	—	—	—	—	94,476
Total costs and expenses	316,942	314,388	252,921	255,083	225,542
Income before equity in (loss) earnings from joint ventures and unconsolidated subsidiaries, minority interest and other items	289,607	205,879	211,477	202,077	37,839
Equity in (loss) earnings from joint ventures and unconsolidated subsidiaries	(4,284)	1,222	7,361	4,796	235
Minority interest in consolidated entities	(249)	(162)	(218)	(195)	(41)
Cumulative effect of change in accounting principle(2)	—	—	(282)	—	—

	2003	2002	2001	2000	1999
Net income from continuing operations	285,074	206,939	218,338	206,678	38,033
Income from discontinued operations	1,916	7,614	10,429	7,960	853
Gain from discontinued operations	5,167	717	1,145	2,948	—
Net income	$ 292,157	$ 215,270	$ 229,912	$ 217,586	$ 38,886
Preferred dividend requirements	(36,908)	(36,908)	(36,908)	(36,908)	(23,843)
Net income allocable to common shareholders and HPU holders(3)	$ 255,249	$ 178,362	$ 193,004	$ 180,678	$ 15,043
Basic earning per common share(4)(5)	$ 2.52	$ 1.98	$ 2.24	$ 2.11	$ 0.25
Diluted earnings per common share(5)(6)	$ 2.43	$ 1.93	$ 2.19	$ 2.10	$ 0.25
Dividends declared per common share(7)	$ 2.65	$ 2.52	$ 2.45	$ 2.40	$ 1.86
SUPPLEMENTAL DATA:					
Adjusted diluted earnings allocable to common shareholders and HPU holders(8)(10)	$ 341,177	$ 277,736	$ 254,095	$ 230,371	$ 127,798
EBITDA(9)(10)	$ 535,608	$ 439,424	$ 423,385	$ 413,951	$ 233,881
Ratio of EBITDA to interest expense(11)	2.75x	2.37x	2.49x	2.39x	2.57x
Ratio of EBITDA to combined fixed charges(12)	2.31x	1.98x	2.05x	1.97x	2.03x
Ratio of earnings to fixed charges(13)	2.49x	2.14x	2.25x	2.18x	2.45x
Ratio of earnings to fixed charges and preferred stock dividends(13)	2.10x	1.78x	1.86x	1.80x	1.94x
Weighted average common shares outstanding-basic	100,314	89,886	86,349	85,441	57,749
Weighted average common shares outstanding-diluted	104,101	92,649	88,234	86,151	60,393
Cash flows from:					
Operating activities	$ 338,262	$ 348,793	$ 293,260	$ 219,868	$ 119,625
Investing activities	(974,354)	(1,149,070)	(349,525)	(193,805)	(143,911)
Financing activities	700,248	800,541	49,183	(37,719)	48,584
BALANCE SHEET DATA:					
Loans and other lending investments, net	3,702,674	3,050,342	2,377,763	2,227,083	2,003,506
Corporate tenant lease assets, net	2,535,885	2,291,805	1,781,565	1,592,087	1,654,300
Total assets	6,660,590	5,611,697	4,380,640	4,034,775	3,813,552
Debt obligations	4,113,732	3,461,590	2,495,369	2,131,967	1,901,204
Minority interest in consolidated entities	5,106	2,581	2,650	6,224	2,565
Shareholders' equity	2,415,228	2,025,300	1,787,778	1,787,885	1,801,343
SUPPLEMENTAL DATA:					
Total debt to shareholders' equity	1.7x	1.7x	1.4x	1.2x	1.1x

Explanatory Notes:

(1) This amount represents a non-recurring, non-cash charge of approximately $94.5 million relating to the acquisition of the Company's formal external advisor in November 1999.

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

(3) HPU holders are Company employees who purchased high performance common stock units under the Company's High Performance Unit Program.

(4) Prior to November 1999, earnings per common share excludes 1.00% of net income allocable to the Company's former class B shares. The former class B shares were exchanged for Common Stock in connection with the acquisition of TriNet and other related transactions on November 4, 1999. As a result, the Company now has a single class of Common Stock outstanding.

(5) For the 12 months ended December 31, 2003, net income used to calculate earnings per basic and diluted common share excludes $2,006 and $1,994 of net income allocable to HPU holders, respectively.

(6) For the 12 months ended December 31, 2003, net income used to calculate earnings per diluted common share includes joint venture income of $167.

(7) The Company generally declares common and preferred dividends in the month subsequent to the end of the quarter.

(8) Adjusted earnings represents net income to common shareholders and HPU holders computed in accordance with GAAP, before depreciation, amortization, gain from discontinued operations, extraordinary items and cumulative effect of change in accounting principle. For the year ended December 31, 2002, adjusted earnings excludes the $15.0 million charge related to the performance based vesting of restricted shares granted under the Company's long-term incentive plan and includes $3.9 million of cash paid for prepayment penalties associated with early extinguishment of debt. For the years ended December 31, 2001 and 2000, adjusted earnings includes $1.0 million and $317,000 of cash paid for prepayment penalties associated with early extinguishment of debt. For the year ended December 31, 1999, adjusted earnings excludes the non-recurring, non-cash cost incurred in acquiring the Company's former external advisor. (See reconciliation in Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations").

(9) EBITDA is calculated as net income plus the sum of interest expense, depreciation and amortization, minority interest in consolidated entities, cumulative effect of change in accounting principle and costs incurred in acquiring former advisor minus income from discontinued operations and gain from discontinued operations.

	For the Years Ended December 31,				
	2003	2002	2001	2000	1999
			(In thousands)		
Net income	$ 292,157	$ 215,270	$ 229,912	$ 217,586	$ 38,886
Add: Interest expense	194,999	185,375	169,974	173,549	91,112
Add: Depreciation and amortization	55,286	46,948	34,573	33,529	10,219
Add: Minority interest in consolidated entities	249	162	218	195	41
Add: Cumulative effect of change in accounting principle	—	—	282	—	—
Add: Costs incurred in acquiring former advisor	—	—	—	—	94,476
Less: Income from discontinued operations	(1,916)	(7,614)	(10,429)	(7,960)	(853)
Less: Gain from discontinued operations	(5,167)	(717)	(1,145)	(2,948)	—
EBITDA	$ 535,608	$ 439,424	$ 423,385	$ 413,951	$ 233,881

(10) Each of adjusted earnings and EBITDA should be examined in conjunction with net income as shown in the Consolidated Statements of Operations. Neither adjusted earnings nor EBITDA should 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 either measure indicative of funds available to fund the Company's cash needs or available for distribution to shareholders. The Company's management believes that adjusted earnings and EBITDA more closely approximate operating cash flow and are useful measures for investors to consider, in conjunction with net income and other GAAP measures. This is because, as a commercial finance company that focuses on real estate lending and corporate tenant leasing; therefore, the Company's net income (determined in accordance with GAAP) reflects significant non-cash depreciation expense on CTL assets and significant deferred financing costs. Several of the Company's material borrowing arrangements contain covenants based on adjusted earnings, therefore, the Company must monitor adjusted earnings in order to ensure compliance with these covenants. It should be noted that the Company's manner of calculating adjusted earnings and EBITDA may differ from the calculations of similarly-titled measures by other companies.

(11) The 1999 EBITDA to interest expense ratio on a pro forma basis would have been 2.83x.

(12) Combined fixed charges are comprised of interest expense, capitalized interest, amortization of loan costs and preferred stock dividend requirements. The 1999 EBITDA to combined fixed charges ratio on a pro forma basis would have been 2.23x.

(13) For the purposes of calculating the ratio of earnings to fixed charges, "earnings" consist of income from continuing operations before adjustment for minority interest in consolidated subsidiaries, or income or loss from equity investees, income taxes and cumulative effect of change in accounting principle plus "fixed charges" and certain other adjustments. "Fixed charges" consist of interest incurred on all indebtedness related to continuing operations (including amortization of original issue discount) and the implied interest component of the Company's rent obligations in the years presented. For 1999, these ratios exclude the effect of a non-recurring, non-cash charge in the amount of approximately $94.5 million relating to the November 1999 acquisition of the former external advisor to the Company. Including the effect of this non-recurring, non-cash charge, the ratio of earnings to fixed charges for that period would have been 1.4x and the Company's ratio of earnings to fixed charges and preferred stock dividends would have been 1.1x.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

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

The Company began its business in 1993 through private investment funds formed to take advantage of the lack of well-capitalized lenders capable of servicing the needs of customers in its markets. In March 1998, the private investment funds contributed their approximately $1.1 billion of assets to the Company's predecessor in exchange for a controlling interest in that public company. In November 1999, the Company acquired its leasing subsidiary, TriNet Corporate Realty Trust, Inc. ("TriNet" or the "Leasing Subsidiary"), which was then the largest publicly-traded company specializing in corporate sale/leaseback for office and industrial facilities (the "TriNet Acquisition"). Concurrent with the TriNet Acquisition, the Company also acquired its former external advisor in exchange for shares of its Common Stock and converted its organizational form to a Maryland corporation. The Company's Common Stock began trading on the New York Stock Exchange under the symbol "SFI" in November 1999.

The Company has experienced significant growth since its first quarter as a public company in 1998. Transaction volume for the fiscal year ended December 31, 2003 was $2.2 billion, compared to $1.7 billion in 2002 and $1.1 billion in 2001. The Company completed 60 financing commitments in 2003, compared to 41 in 2002 and 35 in 2001. Repeat customer business has become a key source of transaction volume for the Company, accounting for approximately 55.00% of the Company's cumulative volume through the end of 2003. Based upon feedback from its customers, the Company believes that greater recognition of the Company and its reputation for completing highly structured transactions in an efficient manner have also contributed to increases in its transaction volume. The benefits of higher investment volumes were mitigated to an extent by the extremely low interest rate environment in 2002 and 2003. Low interest rates benefit the Company in that its borrowing costs decrease, but similarly, earnings on its variable-rate lending investments also decrease.

During the difficult economic and real estate market conditions of 2002 and 2003, the Company focused its investment activity on lower risk investments such as first mortgages and corporate tenant lease transactions that met its risk adjusted return standards. The Company has experienced minimal losses on its lending investments. In 2003, the Company also focused on re-leasing space at its corporate tenant lease facilities under longer term leases in an effort to reduce the impact of lease expirations on the Company's earnings.

The Company has continued to broaden its sources of capital and was particularly active in the capital markets in 2003. The Company's strong performance and the low interest rate environment enabled the Company to issue equity and debt securities in 2003 (and in early 2004) on attractive pricing terms. The Company used the proceeds from the issuances to repay secured indebtedness and to refinance higher cost capital. The Company made significant progress in 2003 in migrating its debt obligations from secured debt towards unsecured debt. While the Company considers it prudent to have a broad array of sources of capital, including secured financing arrangements, the Company will continue to seek to reduce its use of secured debt and increase its use of unsecured debt.

Results of Operations

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Interest income—Interest income increased by $48.8 million to $304.4 million for the 12 months ended December 31, 2003 from $255.6 million for the same period in 2002. This increase was primarily due to $102.3 million of interest income on new originations or additional fundings, offset by a $51.2 million decrease from the repayment of loans and other lending investments. This increase was partially offset by a decrease in interest income on the Company's variable-rate lending investments as a result of lower average one-month LIBOR rates of 1.21% in 2003, compared to 1.77% in 2002.

Operating lease income—Operating lease income increased by $28.9 million to $265.5 million for the 12 months ended December 31, 2003 from $236.6 million for the same period in 2002. Of this increase, $36.6 million was attributable to new CTL investments. This increase was partially offset by $7.0 million of lower operating lease income due to vacancies on certain CTL assets.

Other income—Other income generally consists of prepayment penalties and realized gains from the early repayment of loans and other lending investments, financial advisory and asset management fees, lease termination fees, mortgage servicing fees, loan participation payments and dividends on certain investments. During the 12 months ended December 31, 2003, other income included realized gains on sale of lending investments of $16.3 million, income from loan repayments and prepayment penalties of $17.3 million, asset management, mortgage servicing and other fees of approximately $2.6 million and other miscellaneous income such as dividend payments of $489,000.

During the 12 months ended December 31, 2002, other income included prepayment penalties and realized gains on loan repayments of $12.6 million, asset management, mortgage servicing, and other fees of approximately $9.0 million, lease termination fees of $2.9 million, loan participation payments of $3.3 million and other miscellaneous income such as dividend payments and insurance claims of $994,000.

Interest expense—For the 12 months ended December 31, 2003, interest expense increased by $9.6 million to $195.0 million from $185.4 million for the same period in 2002. This increase was primarily due to higher average borrowings on the Company's debt obligations, term loans and secured notes. This increase was partially offset by lower average one-month LIBOR rates, which averaged 1.21% in 2003 compared to 1.77% in 2002 on the unhedged portion of the Company's variable-rate debt and by a $4.5 million decrease in amortization of deferred financing costs on the Company's debt obligations in 2003 compared to the same period in 2002.

Operating costs—corporate tenant lease assets—For the 12 months ended December 31, 2003, operating costs increased by approximately $4.2 million from $13.2 million to $17.4 million for the same period in 2002. This increase is primarily related to new CTL investments and higher unrecoverable operating costs due to vacancies on certain CTL assets.

Depreciation and amortization—Depreciation and amortization increased by $8.4 million to $55.3 million for the 12 months ended December 31, 2003 from $46.9 million for the same period in 2002. This increase is primarily due to depreciation on new CTL investments.

General and administrative—For the 12 months ended December 31, 2003, general and administrative expenses increased by $7.8 million to $38.2 million, compared to $30.4 million for the same period in 2002. This increase is primarily due to the consolidation of iStar Operating and the result of compensation expense recognized for dividends paid on the Chief Executive Officer's contingently vested phantom shares (see Note 10 to the Company's Consolidated Financial Statements).

General and administrative—stock-based compensation—General and administrative-stock-based compensation decreased by $14.4 million for the 12 months ended December 31, 2003 compared to the same period in 2002. In 2002, the Company recognized a charge of approximately $15.0 million related to the performance-based vesting of 500,000 restricted shares granted under the Company's long-term incentive plan in 2002 (see Note 10 to the Company's Consolidated Financial Statements).

Provision for loan losses—The Company's charge for provision for loan losses decreased to $7.5 million for the 12 months ended December 31, 2003 compared to $8.3 million in the same period in 2002. As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, the Company has experienced minimal actual losses on its loan investments to date. The Company considers it prudent to reflect provisions for loan losses on a portfolio basis based upon the Company's assessment of general market conditions, the Company's internal risk management policies and credit risk rating system, industry loss experience, the Company's assessment of the likelihood of delinquencies or defaults, and the value of the collateral underlying its investments. Accordingly, since its first full quarter operating its current business as a public company (the quarter ended June 30, 1998), management has reflected quarterly provisions for loan losses in its operating results.

Loss on early extinguishment of debt—During the 12 months ended December 31, 2003, the Company had no losses on early extinguishment of debt.

During the 12 months ended December 31, 2002, the Company had $12.2 million of losses on early extinguishment of debt associated with the prepayment penalties and amortization of deferred financing fess related to the repayment of the STARs, Series 2000-1 bonds. This loss of $12.2 million represented approximately $8.2 million in unamortized deferred financing costs and approximately $4.0 million in prepayment penalties. In accordance with SFAS No. 145 these costs were reclassified from "Extraordinary loss on early extinguishment of debt" into continuing operations for comparative purposes for financial statements for periods after January 1, 2003.

Equity in (loss) earnings from joint ventures and unconsolidated subsidiaries—For the 12 months ended December 31, 2003, equity in (loss) earnings from joint ventures and unconsolidated subsidiaries decreased by $5.5 million to $(4.3) million from $1.2 million for the same period in 2002. This decrease is primarily due to certain lease terminations in one of the Company's CTL joint venture investments. (see Note 6 to the Company's Consolidated Financial Statements).

Income from discontinued operations—For the 12 months ended December 31, 2003 and 2002, operating income earned by the Company on CTL assets sold (prior to their sale) and assets held for sale of approximately $1.9 million and $7.6 million, respectively, is classified as "discontinued operations," even though such income was recognized by the Company prior to the asset dispositions or classification as "Assets held for sale" on the Company's Consolidated Balance Sheets.

Gain from discontinued operations—During 2003, the Company disposed of nine CTL assets for net proceeds of $47.6 million, and recognized a gain of approximately $5.2 million.

During 2002, the Company disposed of one CTL asset for net proceeds of $3.7 million, and recognized a gain of approximately $595,000. In addition, one of the Company's customers exercised an option to terminate its lease on 50.00% of the land leased from the Company. In connection with this termination, the Company realized $17.5 million in cash lease termination payments, offset by a $17.4 million impairment change in connection with the termination, resulting in a net gain of approximately $123,000.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Interest income—Interest income increased by $1.5 million to $255.6 million for the 12 months ended December 31, 2002 from $254.1 million for the same period in 2001. This increase was primarily due to $72.5 million of interest income on new originations or additional fundings, offset by a $50.5 million decrease from the repayment of loans and other lending investments. This increase was partially offset by a decrease in interest income on the Company's variable-rate lending investments as the result of lower average one-month LIBOR rates of 1.77% in 2002, compared to 3.88% in 2001.

Operating lease income—Operating lease income increased by $57.3 million to $236.6 million for the 12 months ended December 31, 2002 from $179.3 million for the same period in 2001. Of this increase, $59.6 million was attributable to new CTL investments. This increase was partially offset by CTL dispositions and lower operating lease income due to vacancies on certain CTL assets.

Other income—Other income generally consists of prepayment penalties and realized gains from the early repayment of loans and other lending investments, financial advisory and asset management fees, lease termination fees, mortgage servicing fees, loan participation payments and dividends on certain investments. During the 12 months ended December 31, 2002, other income included prepayment penalties and realized gains on loan repayments of $12.6 million, asset management, mortgage servicing and other fees of approximately $9.0 million, lease termination fees of $2.9 million, loan participation payments of $3.3 million, and other miscellaneous income such as dividend payments and insurance claims of $994,000.

During the 12 months ended December 30, 2001, other income included loan participation payments of $13.1 million, prepayment penalties and gains on loan repayments of $13.0 million and financial advisory, lease termination, asset management and mortgage servicing fees of $5.3 million.

Interest expense—For the 12 months ended December 31, 2002, interest expense increased by $15.4 million to $185.4 million from $170.0 million for the same period in 2001. This increase was primarily due to the higher average borrowings on the Company's debt obligations, term loans and secured notes, and by approximately $2.7 million due to additional amortization of deferred financing costs on the Company's debt obligations in 2002 compared to the same period in 2001. This increase was partially offset by lower average one-month LIBOR rates on the Company's variable-rate debt of 1.77% in 2002, compared to 3.88% in 2001.

Operating costs—corporate tenant lease assets—For the 12 months ended December 31, 2002, operating costs increased by approximately $1.2 million from $12.0 million to $13.2 million for the same period in 2001. This increase is primarily related to new CTL investments and higher operating costs on certain CTL assets, partially offset by CTL dispositions.

Depreciation and amortization—Depreciation and amortization increased by $12.3 million to $46.9 million for the 12 months ended December 31, 2002 from $34.6 million for the same period in 2001. This increase is primarily due to new CTL investments.

General and administrative—For the 12 months ended December 31, 2002, general and administrative expenses increased by $6.2 million to $30.4 million, compared to $24.2 million for the same period in 2001. This increase is primarily the result of an increase in personnel and related costs.

General and administrative—stock-based compensation—General and administrative-stock-based compensation increased by $14.4 million primarily due to a charge related to the performance-based vesting of 500,000 restricted shares granted under the Company's long-term incentive plan and tied to overall shareholder performance (see Note 10 to the Company's Consolidated Financial Statements).

Provision for loan losses—The Company's charge for provision for loan losses increased to $8.3 million for the 12 months ended December 31, 2002 compared to $7.0 million for the same period in 2001. As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, the Company has experienced minimal actual losses on its loan investments to date. The Company considers it prudent to reflect provisions for loan losses on a portfolio basis based upon the Company's assessment of general market conditions, the Company's internal risk management policies and credit risk rating system, industry loss experience, the Company's assessment of the likelihood of delinquencies or defaults, and the value of the collateral underlying its investments. Accordingly, since its first full quarter operating its current business as a public company (the quarter ended June 30, 1998), management has reflected quarterly provisions for loan losses in its operating results.

Loss on early extinguishment of debt—During the 12 months ended December 31, 2002, the Company had $12.2 million of losses on early extinguishment of debt associated with the prepayment penalties and amortization of deferred financing fess related to the repayment of the STARs, Series 2000-1 bonds. This loss of $12.2 million, represented approximately $8.2 million in unamortized deferred financing costs and approximately $4.0 million in prepayment penalties. In accordance with SFAS No. 145 these costs were reclassified from "Extraordinary loss on early extinguishment of debt" into continuing operations for comparative purposes for financial statements for periods after January 1, 2003.

During the 12 months ended December 31, 2001, the Company repaid a secured term loan, which had an original maturity date of December 2004. In addition, the Company prepaid an unsecured revolving credit facility, which had an original maturity date of May 2002. In connection with these prepayments, the Company expensed the remaining unamortized deferred financing costs and incurred certain prepayment penalties, which resulted in a loss of approximately $1.6 million. In accordance with SFAS No. 145 these costs were reclassified from "Extraordinary loss on early extinguishment of debt" into continuing operations for comparative purposes for financial statements for periods after January 1, 2003.

Equity in (loss) earnings from joint ventures and unconsolidated subsidiaries—During the 12 months ended December 31, 2002, equity in (loss) earnings from joint ventures and unconsolidated subsidiaries decreased by approximately $6.2 million to $1.2 million from $7.4 million for the same period in 2001. This decrease is primarily due to the consolidation of one of the Company's CTL joint venture investments (see Note 6 to the Company's Consolidated Financial Statements).

Income from discontinued operations—For the 12 months ended December 31, 2002 and 2001, operating income earned by the Company on CTL assets sold (prior to their sale) and assets held for sale of approximately $7.6 million and $10.4 million, respectively, is classified as "discontinued operations," even though such income was recognized by the Company prior to the asset dispositions or classification as "Assets held for sale" on the Company's Consolidated Balance Sheets.

Gain from discontinued operations—During 2002, the Company disposed of one CTL asset for net proceeds of $3.7 million, and recognized a gain of approximately $595,000. In addition, one of the Company's customers exercised an option to terminate its lease on 50.00% of the land leased from the Company. In connection with this termination, the Company realized $17.5 million in cash lease termination payments, offset by a $17.4 million impairment change in connection with the termination, resulting in a net gain of approximately $123,000.

During 2001, the Company disposed of four CTL assets for net proceeds of $26.3 million, and recognized net gains of $1.1 million.

Adjusted Earnings

Adjusted earnings represents net income allocable to common shareholders and HPU holders computed in accordance with GAAP, before depreciation, amortization, gain from discontinued operations, extraordinary items and cumulative effect of change in accounting principle. Adjustments for unconsolidated partnerships and joint ventures reflect the Company's share of adjusted earnings calculated on the same basis.

The Company believes that 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 Company's 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 or available for distribution to the Company's shareholders. The Company's management believes that adjusted earnings more closely approximates operating cash flow and is a useful measure for investors to consider, in conjunction with net income and other GAAP measures, in evaluating the Company's financial performance. This is primarily because the Company is a commercial finance company that focuses on real estate lending and corporate tenant leasing; therefore, the Company's net income (determined in accordance with GAAP) reflects significant non-cash depreciation expense on CTL assets and significant deferred financing costs. In addition, several of the Company's material borrowing arrangements contain covenants based on adjusted earnings, therefore, the Company must monitor adjusted earnings in order to ensure compliance with these covenants. It should be noted that the Company's manner of calculating adjusted earnings may differ from the calculation of similarly-titled measures by other companies.

	For the Years Ended December 31,				
	2003	2002	2001	2000	1999
			(In thousands) (Unaudited)		
Adjusted earnings:					
Net income allocable to common shareholders and HPU holders	$ 255,249	$ 178,362	$ 193,004	$ 180,678	$ 15,043
Add: Joint venture income	593	991	965	937	1,603
Add: Depreciation	55,905	48,041	35,642	34,514	11,016
Add: Joint venture depreciation and amortization	7,417	4,433	4,044	3,662	365
Add: Amortization of deferred financing costs	27,180	31,676	21,303	13,528	6,121
Less: Gains from discontinued operations	(5,167)	(717)	(1,145)	(2,948)	—
Add: Cumulative effect of change in accounting principle(1)	—	—	282	—	—
Less: Net income allocable to class B shares(2)	—	—	—	—	(826)
Add: Cost incurred in acquiring former external advisor	—	—	—	—	94,476
Adjusted diluted earnings allocable to common shareholders and HPU holders(3)(4)(5)	$ 341,177	$ 262,786	$ 254,095	$ 230,371	$ 127,798
Weighted average diluted common shares outstanding(6)	104,248	93,020	88,606	86,523	61,750

Explanatory Notes:

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

(2) Prior to November 1999, adjusted earnings per common share excludes 1.00% of net income allocable to the Company's former class B shares. The former class B shares were exchanged for Common Stock in connection with the acquisition of TriNet and other related transactions on November 4, 1999. As a result, the Company now has a single class of Common Stock outstanding.

(3) For the year ended December 31, 2003, adjusted diluted earnings allocable to common shareholders and HPU holders includes $2,659 of adjusted earnings allocable to HPU holders.

(4) For years ended December 31, 2002, 2001, and 2000, adjusted diluted earnings allocable to common shareholders includes $3,950, $1,037 and $317 of cash paid for prepayment penalties associated with early extinguishment of debt.

(5) Includes a $15.0 million charge related to performance-based vesting of restricted shares granted under the Company's long-term incentive plan for the 12 months ended December 31, 2002.

(6) In addition to the GAAP defined weighted average diluted shares outstanding these balances include an additional 147,000 shares, 371,000 shares, 372,000 shares, 372,000 shares and 1.4 million shares for the years ended December 31, 2003, 2002, 2001, 2000 and 1999, respectively, relating to the additional dilution of joint venture shares.

Risk Management

First Dollar and Last Dollar Exposure—One component of the Company's risk management assessment is an analysis of the Company's first and last dollar loan-to-value percentage with respect to the facilities or companies the Company finances. First dollar loan-to-value represents the weighted average beginning point for the Company's lending exposure in the aggregate capitalization of the underlying facilities or companies it finances. Last dollar loan-to-value represents the weighted average ending point for the Company's lending exposure in the aggregate capitalization of the underlying facilities or companies it finances.

Non-Accrual Loans—The Company transfers loans to non-accrual status at such time as: (1) management believes that the potential risk exists that scheduled debt service payments will not be met within the coming 12 months; (2) the loan becomes 90 days delinquent; (3) management determines the

borrower is incapable of, or ceased efforts toward, curing the cause of an impairment; or (4) the net realizable value of the loan's underlying collateral approximates the Company's carrying value of such loan. Interest income is recognized only upon actual cash receipt for loans on non-accrual status. As of December 31, 2003, the Company had three assets on non-accrual status with an aggregate carrying value of $40.3 million, or 0.62% of the gross book value of the Company's investments. Management believes there is adequate collateral to support the book values of the assets.

The first non-accrual loan is a $12.8 million junior participation in a first mortgage loan secured by a hotel facility in New York, New York. This loan bears interest at a fixed rate of 7.91% and matures in June 2006. The borrower remains current on all of its debt service payments to the Company and has continued to invest additional equity to fund on-going capital improvements at the facility. Management believes there is adequate collateral to support the book value of the asset. However, due to poor operating performance, this loan was transferred to non-accrual effective July 1, 2003.

The second non-accrual loan is a partnership loan with a balance of $349,000 as of December 31, 2003. The loan is presently secured by a partnership interest in a partnership owning facilities in Colorado leased to the U.S. Government. The loan bears interest at LIBOR + 3.50%, with a LIBOR floor of 3.00%. The loan matured on March 29, 2003 and therefore is currently in default. In April 2003 and November 2003, the Company received $1.2 million and $4.2 million of principal repayments, respectively. The borrower remains current on its regular interest obligations to the Company. However, as a result of the maturity default and the uncertainty surrounding the timing of the completion, sale or refinancing of the facilities, the loan remains on non-accrual status.

The third non-accrual loan is a $27.1 million, 90.00% participating interest in a loan secured by a class A office building located in Pittsburgh, Pennsylvania. The loan was acquired at a premium to its principal balance as a part of the Company's acquisition of Lazard Freres' structured finance portfolio in 1998. Lazard continues to retain a 10.00% interest in the loan. The loan matures in March 2008 and bears interest at 17.50%, 11.00% of which is due currently and 6.50% of which is accrued. In August 2003 the borrower stopped making debt service payments due to insufficient cash flow caused by vacancies at the facility. Management believes the underlying collateral value supports its basis in the outstanding principal balance of the loan. During the third quarter of 2003, management determined that an acquisition premium on the loan with an unamortized balance of $3.3 million was impaired. As a result in the third quarter of 2003, the Company took a $3.3 million impairment charge against its loan loss reserve, bringing the carrying value of the loan to $27.1 million.

Watch List Assets—The Company conducts a quarterly comprehensive credit review, resulting in an individual risk rating being assigned to each asset. This review is designed to enable management to evaluate and proactively manage asset-specific credit issues and identify credit trends on a portfolio-wide basis as an "early warning system." As of December 31, 2003, the Company has five loans that are on its credit watch list, including the three non-accrual loans mentioned above.

One of the watch list loans not on non-accrual is a $35.8 million junior interest in a $103.1 million first mortgage loan secured by a super regional mall in Chicago, Illinois. The whole loan bears interest at 8.88%. Cash flow at the mall has been negatively impacted by the departure of an anchor tenant; however, mall management has been actively negotiating to reconfigure the space for an existing anchor. To provide for the repositioning of the center and ultimate refinancing of the loan, the maturity of the loan was extended for two years to January 1, 2006. The loan is not open for prepayment until January 1, 2005, at which time it may be repaid in full at a 3.00% premium for six months and then may be repaid at par for the six months prior to maturity. The borrower has made significant equity investments in the facility, with over $19.0 million invested in the past three years. The borrower remains current on all of its debt service

payments. Management believes the collateral value remains adequate to support the book value of the asset.

The other watch list loan not on non-accrual is a $27.2 million first mortgage secured by an office facility in Louisville, Kentucky. The whole loan bears interest at LIBOR + 4.50% and matures in April, 2004. On October 14, 2003, the Company acquired the senior trust certificate from a financial institution. The facility is experiencing near-term tenant rollover in a soft local real estate market; however, management believes its last dollar exposure is below replacement cost, and the loan remains current through December 31, 2003. Management believes that there is adequate collateral to support the book value of the asset.

The table below summarizes the Company's loans and other lending investments that are more than 60-days past due in scheduled payments and details the provision for loan losses associated with the Company's lending investments for the 12 months ended December 31, 2003 and 2002 (in thousands):

	As of December 31,			
	2003		2002	
	$	%	$	%
Carrying value of loans past due 60 days or more/ As a percentage of loans and other lending investments	$ 27,480	0.74%	$ —	—
Provision for loan losses/ As a percentage of loans and other lending investments	33,436	0.89%	29,250	0.95%
Net charge-offs/ As a percentage of loans and other lending investments	3,314	0.09%	—	—

Liquidity and Capital Resources

The Company requires significant capital to fund its investment activities and operating expenses. The Company has sufficient access to capital resources to fund its existing business plan, which includes the expansion of its real estate lending and corporate tenant leasing businesses. The Company's capital sources include cash flow from operations, borrowings under lines of credit, additional term borrowings, 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 limit the Company's ability to retain earnings and thereby replenish or increase capital committed to its operations. However, the Company believes that its access to significant capital resources and financing will enable the Company to meet current and anticipated capital requirements.

The Company believes that its existing sources of funds will be adequate for purposes of meeting its short- and long-term liquidity needs. The Company's ability to meet its long-term (i.e., beyond one year) liquidity requirements is subject to obtaining additional debt and equity financing. Any decision by the Company's lenders and investors to provide the Company with financing will depend upon a number of factors, such as the Company's compliance with the terms of its existing credit arrangements, the Company's financial performance, industry or market trends, the general availability of and rates applicable to financing transactions, such lenders' and investors' resources and policies concerning the terms under which they make capital commitments and the relative attractiveness of alternative investment or lending opportunities.

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

		Principal Payments Due By Period(1)				
	Total	Less Than 1 Year	2 - 3 Years	4 - 5 Years	6 - 10 Years	After 10 Years
	(In thousands)					
Long-Term Debt Obligations:						
Secured revolving credit facilities	$ 696,591	$ —	$ 386,227	$ 310,364	$ —	$ —
Unsecured revolving credit facilities	130,000	130,000	—	—	—	—
Secured term loans	808,128	60,000	273,805	185,852	236,847	51,624
iStar Asset Receivables secured notes(2)	1,311,314	40,010	235,808	—	1,035,496	—
Unsecured notes	1,185,000	—	50,000	535,000	500,000	100,000
Other debt obligations	34,148	34,148	—	—	—	—
Total	4,165,181	264,158	945,840	1,031,216	1,772,343	151,624
Operating Lease Obligations:(3)	16,067	2,879	5,878	4,761	2,549	—
Total	$ 4,181,248	$ 267,037	$ 951,718	$ 1,035,977	$ 1,774,892	$ 151,624

Explanatory Notes:

(1) Assumes exercise of extensions on the Company's long-term debt obligations to the extent such extensions are at the Company's option.

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

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

The Company has four LIBOR-based secured revolving credit facilities with an aggregate maximum capacity of $2.4 billion, of which $696.6 million was drawn as of December 31, 2003 (see Note 7 to the Company's Consolidated Financial Statements). Availability under these facilities is based on collateral provided under a borrowing base calculation. At December 31, 2003, the Company also had an unsecured credit facility totaling $300.0 million which bears interest at LIBOR + 2.125% per annum and matures in July 2004. At December 31, 2003, the Company had drawn $130.0 million under this facility.

Unencumbered Assets/Unsecured Debt—The Company has made and will continue to make progress in migrating its balance sheet towards more unsecured debt, which results in a corresponding reduction of secured debt and an increase in unencumbered assets. The exact timing in which the Company will issue or borrow unsecured debt will be subject to market conditions. The following table shows the ratio of unencumbered assets to unsecured debt at December 31, 2003 and 2002 (in thousands):

	As of December 31,	
	2003	2002
Total Unencumbered Assets	$ 2,167,388	$ 1,366,909
Total Unsecured Debt(1)	$ 1,315,000	$ 625,000
Unencumbered Assets/Unsecured Debt(2)	165%	219%

Explanatory Notes:

(1) See Note 7 to the Company's Consolidated Financial Statements for a more detailed description of the Company's unsecured debt.

(2) At December 31, 2003, the Company had assets with an aggregate book value of $346.6 million pledged as collateral to its secured revolving credit facilities for which there were no amounts drawn. If these assets had been released from the credit facilities, unencumbered assets/unsecured debt would have been 191% at December 31, 2003.

Capital Markets Financings—The Company was an active issuer in the capital markets in 2003 and the beginning of 2004. The continued strength of the Company's stock price and the low interest rate environment provided the Company with the opportunity to issue equity and debt securities on attractive pricing terms. In 2003 and through March 15, 2004, the Company issued $1,285.0 million aggregate principal amount of fixed-rate Senior Notes bearing interest at annual rates ranging from 4.875% to 7.00%

and maturing between 2008 and 2014 and $175.0 million aggregate principal amount of floating-rate Senior Notes bearing interest at annual rates of three-month LIBOR+1.25% and maturing in 2007. The Company issued 21.1 million shares of preferred stock in five series with cumulative annual dividend rates ranging

from 7.50% to 7.875%. All of the shares of preferred stock have a liquidation preference of $25.00 per share. The Company also issued 5.0 million shares of Common Stock in 2003 at a price to the public of $38.50 per share.

The Company primarily used the proceeds from the issuances of securities described above to repay secured indebtedness as it migrates its balance sheet towards more unsecured debt and to refinance higher yielding obligations. In 2003 and January 2004, the Company retired all of its 4.0 million shares of 9.50% Series A Cumulative Redeemable Preferred Stock, its 3.3 million shares of Series H Variable Rate Cumulative Redeemable Preferred Stock and the 6.75% Dealer Remarketable Securities of its Leasing Subsidiary. The Company called for redemption all of its 2.0 million shares of 9.375% Series B Cumulative Redeemable Preferred Stock and all of its 1.3 million shares of 9.20% Series C Cumulative Redeemable Preferred Stock.

On November 14, 2002, the Company completed an underwritten public offering of 8.0 million primary shares of the Company's Common Stock. The Company received approximately $202.9 million from the offering and used these proceeds to repay a portion of its secured debt.

On August 9, 2001, the Company issued $350.0 million of 8.75% Senior Notes due in 2008. The Notes are unsecured senior obligations of the Company. The Company used the net proceeds to partially repay outstanding borrowings under its secured credit facilities.

Other Financing Activities—Subsequent to year-end, on January 13, 2004, the Company closed $200.0 million of term financing with a leading financial institution that is secured by certain corporate bond investments and other lending securities. A number of these investments were previously financed under existing credit facilities. The new facility bears interest at LIBOR + 1.05%–1.50% and has a final maturity date of January 2006.

On November 4, 2003, one of the Company's $500.0 million secured facilities was amended to include subordinate and mezzanine lending investments as collateral at stated interest rates of LIBOR + 2.15%–2.25%.

On October 31, 2003, the Company's $50.0 million term loan bearing interest at LIBOR + 0.60% matured and was repaid.

On September 29, 2003, the Company closed a $135.0 million term loan secured by a CTL asset it acquired the same day. The loan has a five-year term and bears interest at LIBOR + 1.75%.

On July 24, 2003, the Company closed a $48.0 million term loan secured by a corporate lending investment it originated in the third quarter of 2003. The loan has a three-year primary term and two one-year extension options, and bears interest at LIBOR + 2.125%.

On May 21, 2003, a wholly-owned subsidiary of the Company issued iStar Asset Receivables ("STARs"), Series 2003-1, the Company's proprietary match funding program, consisting of $645.8 million of investment-grade bonds secured by the subsidiary's structured finance and CTL assets, which had an aggregate carrying value of approximately $738.1 million 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 weighted average interest rate on the bonds, on an all-floating rate basis, was approximately LIBOR + 0.47% at inception. For accounting purposes, this transaction was treated as a secured financing: the underlying assets and STARs liabilities remained on the Company's Consolidated Balance Sheets, and no gain on sale was recognized.

On May 14, 2003, the Company extended the maturity on its $300.0 million unsecured facility to July 2004.

On May 8, 2003, the Company extended the maturity on its $60.0 million term loan to June 2004.

On April 9, 2003, the Company repaid the existing term loan financing a $75.0 million term preferred investment in a publicly-traded real estate company and simultaneously entered into another $50.0 million term loan with a leading financial institution. The new term loan bears interest at LIBOR + 0.60% and has a final maturity date of October 2003 with amortization payments in July 2003 and October 2003.

On January 27, 2003, the Company extended the maturity on one of its $700.0 million secured facilities to January 2007, which includes a one-year "term-out" at the Company's option.

On December 11, 2002, the Company closed a $61.5 million term loan financing with a leading financial institution. The proceeds were used to fund a portion of an $82.1 million CTL investment. The non-recourse loan is fixed rate and bears interest at 6.412%, has a maturity date of December 2012 and amortizes over a 30-year schedule.

On September 30, 2002, the Company closed a $500.0 million secured revolving credit facility with a leading financial institution. The facility has a three-year term and bears interest at LIBOR + 1.50% to 2.25%, depending upon the collateral contributed to the borrowing base. The facility accepts a broad range of structured finance and corporate tenant assets and has a final maturity date of September 2005.

On July 2, 2002, the Company purchased the remaining interest in the Milpitas joint venture from the former Milpitas external member for $27.9 million. Upon purchase of the interest, the Milpitas joint venture became fully consolidated for accounting purposes and approximately $79.1 million of secured term debt is reflected on the Company's Consolidated Balance Sheets.

On May 28, 2002, the Company repaid the then remaining $446.2 million of bonds outstanding under its STARs, Series 2000-1 financing. Simultaneously, a wholly-owned subsidiary of the Company issued STARs, Series 2002-1, consisting of $885.1 million of investment-grade bonds secured by the subsidiary's structured finance and CTL assets, which had an aggregate outstanding carrying value of approximately $1.1 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 weighted average interest rate on the bonds, on an all-floating rate basis, is approximately LIBOR + 0.56% at inception. For accounting purposes, this transaction was treated as a secured financing: the underlying assets and STARs liabilities remained on the Company's Consolidated Balance Sheets, and no gain on sale was recognized.

On March 29, 2002, the Company extended the maturity of its $500.0 million secured facility to August 2005, which includes a one-year "term-out" extension at the Company's option.

On July 27, 2001, the Company completed a $300.0 million unsecured revolving credit facility with a group of leading financial institutions. The facility has an initial maturity of July 2003, with a one-year extension at the Company's option and another one-year extension at the lenders' option. This facility replaces two prior credit facilities maturing in 2002 and 2003, and bears interest at LIBOR + 2.125%. On May 14, 2003, the Company extended the maturity of this facility to July 2004.

On July 6, 2001, the Company financed a $75.0 million structured finance asset with a $50.0 million term loan bearing interest at LIBOR + 2.50%. The loan has a maturity of July 2006, including a one-year extension at the Company's option. This investment is a $75.0 million term preferred investment in a publicly-traded real estate company. The Company's investment carries an initial current yield of 10.50%, with annual increases of 0.50% in each of the next two years. In addition, the Company's investment is convertible into the customer's common stock at a strike price of $25.00 per share. The investment is callable by the customer between months 13 and 30 of the term at a yield maintenance premium, and after month 30, at a premium sufficient to generate a 14.62% internal rate of return on the Company's investment. The investment is putable by the Company to the customer for cash after five years. On April 9, 2003, the Company repaid this term loan and simultaneously entered into another $50.0 million term loan bearing interest at LIBOR + 0.60% and with a final maturity of October 2003.

On June 14, 2001, the Company closed $193.0 million of term loan financing secured by 15 CTL assets. The variable-rate loan bears interest at LIBOR + 1.85% (not to exceed 10.00% in aggregate) and has two one-year extensions at the Company's option. The Company used these proceeds to repay a $77.8 million secured term loan maturing in June 2001 and to pay down a portion of its revolving credit facilities. In addition, the Company extended the maturity of its $500.0 million secured revolving credit facility to August 2003. On March 29, 2002, the Company again extended the final maturity of this facility to August 2005, which includes a one-year "term-out" extension at the Company's option.

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

On February 22, 2001, the Company extended the maturity of its $350.0 million unsecured revolving credit facility to May 2002. On July 27, 2001, the Company repaid this facility and replaced it with a new $300.0 million unsecured revolving credit facility.

On January 11, 2001, the Company closed a $700.0 million secured revolving credit facility which is led by a major commercial bank. The facility has a three-year primary term and one-year "term-out" extension option, and bears interest at LIBOR + 1.40% to 2.15%, depending upon the collateral contributed to the borrowing base. This facility accepts a broad range of structured finance assets and has a final maturity of January 2005. On January 27, 2003, the Company extended the final maturity on this facility to January 2007.

Hedging Activities—The Company has variable-rate lending assets and variable-rate debt obligations. These assets and liabilities create a natural hedge against changes in variable interest rates. This means that as interest rates increase, the Company earns more on its variable-rate lending assets and pays more on its variable-rate debt obligations and, conversely, as interest rates decrease, the Company earns less on its variable-rate lending assets and pays less on its variable-rate debt obligations. When the amount of the Company's variable-rate debt obligations exceeds the amount of its variable-rate lending assets, the Company utilizes derivative instruments to limit the impact of changing interest rates on its net income. The Company does not use derivative instruments to hedge assets or for speculative purposes. The derivative instruments the Company uses are typically in the form of interest rate swaps and interest rate caps. Interest rate swaps effectively change variable-rate debt obligations to fixed-rate debt obligations. Interest rate caps effectively limit the maximum interest rate on variable-rate debt obligations.

In addition, when appropriate the Company enters into interest rate swaps that convert fixed-rate debt to variable rate in order to mitigate the risk of changes in fair value of the fixed-rate debt obligations.

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

The Company has entered into the following cash flow and fair value hedges that are outstanding as of December 31, 2003. The net value (liability) associated with these hedges is reflected on the Company's Consolidated Balance Sheets (in thousands).

Type of Hedge	Notional Amount	Strike Price or Swap Rate	Trade Date	Maturity Date	Estimated Value at December 31, 2003
Pay-Fixed Swap	$ 125,000	2.885%	1/23/03	6/25/06	$ (1,632)
Pay-Fixed Swap	125,000	2.838%	2/11/03	6/25/06	(1,486)
Pay-Fixed Swap	75,000	5.580%	11/4/99(1)	12/1/04	(3,227)
Pay-Floating Swap	200,000	4.381%	12/17/03	12/15/10	(1,472)
Pay-Floating Swap	100,000	4.345%	12/17/03	12/15/10	(958)
Pay-Floating Swap	100,000	3.878%	11/27/02	8/15/08	2,681
Pay-Floating Swap	50,000	3.810%	11/27/02	8/15/08	1,183
Pay-Floating Swap	50,000	4.290%	12/17/03	12/15/10	(649)
LIBOR Cap	345,000	8.000%	5/22/02	5/28/14	11,648
LIBOR Cap	135,000	6.000%	9/29/03	10/15/06	418
LIBOR Cap	75,000	7.750%	11/4/99(1)	12/1/04	—
LIBOR Cap	35,000	7.750%	11/4/99(1)	12/1/04	—

Total Estimated Value	6,506

Explanatory Note:

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

Between January 1, 2002 and December 31, 2003, the Company also had outstanding the following cash flow hedges that have expired or been settled (in thousands):

Type of Hedge	Notional Amount	Strike Price or Swap Rate	Trade Date	Maturity Date
Pay-Fixed Swap	$ 125,000	7.058%	6/15/00	6/25/03
Pay-Fixed Swap	125,000	7.055%	6/15/00	6/25/03
Pay-Fixed Swap	100,000	4.139%	9/29/03	1/2/11
Pay-Fixed Swap	100,000	4.643%	9/29/03	1/2/14

During 2003, the Company entered into two 90-day forward starting swaps each having a $100.0 million notional amount. These pay-fixed swaps which were effective in September 2003, had rates of 4.139% and 4.643%, had seven-year and 10-year terms, respectively, and were used to lock-in swap rates related to a portion of planned future corporate unsecured fixed-rate bond issuances. These two swaps were settled in connection with the Company's issuance of $350.0 million of seven-year Senior Notes and $150.0 million of 10-year Senior Notes. In addition, effective in September 2003, the Company entered into a $135.0 million cap with a rate of 6.00% to hedge the Company's current outstanding floating-rate debt. This cap has a three-year term. Further, the Company entered into two $125.0 million forward starting swaps. These pay-fixed swaps were effective in June 2003 and replaced the two $125.0 million pay-fixed swaps mentioned above. The two new pay-fixed swaps have a three-year term and expire on June 25, 2006.

In addition, in connection with a portion of the Company's fixed-rate corporate bonds, the Company entered into three pay-floating interest rate swaps in December 2003 struck at 4.381%, 4.345% and 4.29% with notional amounts of $200.0 million, $100.0 million and $50.0 million, respectively, and maturing on December 15, 2010 and entered into two pay-floating interest rate swaps in November 2002 struck at 3.8775% and 3.81% with notional amounts of $100.0 million and $50.0 million, respectively, and maturing on August 15, 2008. The Company pays six-month LIBOR on the swaps entered into in December 2003 and one-month LIBOR on the swaps entered into in November 2002 and receives the stated fixed rate in return. These swaps mitigate the risk of changes in the fair value of $350.0 million of seven-year Senior

Notes and $150.0 million of 10-year Senior Notes attributable to changes in LIBOR. For accounting purposes, the difference between the fixed rate received and the LIBOR rate paid on the notional amount of the swap is recorded as "Interest expense" on the Company's Consolidated Statements of Operations. In addition, the Company adjusts the value of the swap to its fair value and adjusts the carrying amount of the hedged liability by an offsetting amount on a quarterly basis.

In connection with STARs, Series 2003-1 in May 2003, the Company entered into a LIBOR interest rate cap struck at 6.95% in the notional amount of $270.6 million, and simultaneously sold a LIBOR interest rate cap with the same terms. Since these instruments do not change the Company's net interest rate risk exposure, they do not qualify as hedges and changes in their respective values are charged to earnings. As the terms of these arrangements are substantially the same, the effects of a revaluation of these two instruments substantially offset one another.

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

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

Certain of the Company's CTL joint ventures, have hedging activities which are more fully described in Note 6 to the Company's Consolidated Financial Statements.

Off-Balance Sheet Transactions—The Company is not dependent on the use of any off-balance sheet financing arrangements for liquidity. As of December 31, 2003, the Company had investments in three CTL joint ventures accounted for under the equity method, which had total debt obligations outstanding of approximately $175.3 million. The Company's pro rata share of the ventures' third-party debt was approximately $76.7 million (see Note 6 to the Company's Consolidated Financial Statements). These ventures were formed for the purpose of operating, acquiring and in certain cases, developing CTL facilities. The debt obligations of these joint ventures are non-recourse to the ventures and the Company, and mature between fiscal years 2004 and 2011. As of December 31, 2003, the debt obligations consisted of six term loans bearing fixed rates per annum ranging from 7.61% to 8.43% and one variable-rate term loan with a rate of LIBOR + 1.25% per annum.

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

The Company has certain discretionary and non-discretionary unfunded commitments related to its loans and other lending investments that it may need to, or choose to, fund in the future. Discretionary commitments are those under which the Company has sole discretion with respect to future funding. Non-discretionary commitments are those under which the Company is generally obligated to fund at the request of the borrower or upon the occurrence of events outside of the Company's direct control. As of December 31, 2003, the Company had 18 loans with unfunded commitments totaling $208.6 million, of which $80.2 million was discretionary and $128.4 million was non-discretionary.

Ratings Triggers—On July 27, 2001, the Company completed a $300.0 million unsecured revolving credit facility with a group of leading financial institutions. The facility has an initial maturity of July 2003 with a one-year extension at the Company's option and another one-year extension at the lenders' option. On May 14, 2003, the Company extended the final maturity to July 2004. This facility replaces two prior credit facilities maturing in 2002 and 2003, and bears interest at LIBOR + 2.125% per annum based on the Company's senior unsecured credit ratings of BB+ from S&P, Ba1 from Moody's and BBB- from Fitch Ratings. If the Company achieves a higher rating from either S&P or Moody's, the facility's interest rate will improve to LIBOR + 2.00% per annum. If the Company's credit rating is downgraded by any of the rating agencies (regardless of how far), the facility's interest rate will increase to LIBOR + 2.25% per annum. In the event the Company receives two credit ratings that are not equivalent, the spread over LIBOR shall be determined by the lower of the two such ratings. As of December 31, 2003, $130.0 million was outstanding on this facility. Accordingly, management does not believe any rating changes would have a material adverse impact on the Company's results of operations. There are no other ratings triggers in any of the Company's debt instruments or other operating or financial agreements.

On July 30, 2002, the Company's senior unsecured credit rating was upgraded to an investment grade rating of BBB- from BB+ by Fitch Ratings. In addition, Moody's and S&P raised their ratings outlook for the Company's senior unsecured credit rating to "positive." On October 22, 2003, Moody's confirmed its rating of Ba1 and its ratings outlook of "positive" for the Company. On November 20, 2003, S&P also reaffirmed its rating of BB+ and its ratings outlook of "positive" for the Company.

Transactions with Related Parties—The Company has an investment in iStar Operating Inc. ("iStar Operating"), a taxable subsidiary that, through a wholly-owned subsidiary, services the Company's loans and certain loan portfolios owned by third parties. The Company owns all of the non-voting preferred stock and a 95.00% economic interest in iStar Operating. The common shareholder, an entity controlled by a former director of the Company, is the owner of all the voting common stock and a 5.00% economic interest in iStar Operating. As of December 31, 2003, there have never been any distributions to the common shareholder, nor does the Company expect to make any in the future. At any time, the Company has the right to acquire all of the common stock of iStar Operating at fair market value, which the Company believes to be nominal.

iStar Operating has elected to be treated as a taxable REIT subsidiary for purposes of maintaining compliance with the REIT provisions of the Code and prior to July 1, 2003 was accounted for under the equity method for financial statement reporting purposes and was presented in "Investments in and advances to joint ventures and unconsolidated subsidiaries" on the Company's Consolidated Balance Sheets. As of July 1, 2003, the Company consolidates this entity as a VIE (see Note 3 to the Company's Consolidated Financial Statements) with no material impact. Prior to its consolidation, the Company charged an allocated portion of its general overhead expenses to iStar Operating based on the number of employees at iStar Operating as a percentage of the Company's total employees. These general overhead expenses were in addition to the direct general and administrative costs of iStar Operating. As of December 31, 2003, iStar Operating had no debt obligations.

In addition, the Company had an investment in TriNet Management Operating Company, Inc. ("TMOC"), an entity originally formed to make a $2.0 million investment in the convertible debt securities of a real estate company which trades on the Mexican Stock Exchange. This investment was made by TriNet prior to its acquisition by the Company in 1999. Prior to March 29, 2003, the Company owned 95.00% of the outstanding voting and non-voting common stock (representing 1.00% voting power and 95.00% of the economic interest) in TMOC. The owners of the remaining TMOC stock were two executives of the Company. On March 29, 2003, the Company purchased the remaining 5.00% interest from the executives for approximately $2,000, an amount that was equal to the carrying value, which was less than their original investment. Following this purchase, the Company owned 100.00% of TMOC and therefore consolidated the entity for accounting purposes. On June 30, 2003, the $2.0 million investment was fully repaid and prior to December 31, 2003, the entity was liquidated.

The Company entered into an employment agreement with its Chief Executive Officer as of March 31, 2001. In addition to the salary and bonus provisions of the agreement, the agreement provides for an award of 2.0 million phantom units to the executive, each of which notionally represents one share of the Company's Common Stock. Portions of these phantom units will vest on a contingent basis if the average closing price of the Company's Common Stock achieves certain levels (ranging from $25.00 to $37.00 per share) for 60 consecutive calendar days. The total rate of return (share price appreciation plus the reinvestment of dividends at market price on the date of distribution) from December 31, 2000 through December 31, 2003 was 155.10%. Contingently vested units will become fully vested, meaning that they are no longer subject to forfeiture, if the executive remains employed through March 30, 2004, or earlier upon certain change of control and termination events. When and if contingently vested phantom units become fully vested units, the Company must deliver to the executive either a number of shares of Common Stock equal to the number of fully vested units or an amount of cash equal to the then fair market value of that number of shares of Common Stock. If shares were unavailable under the Company's then long-term incentive plans, this obligation could require the Company to make a substantial cash payment to the executive. See "Critical Accounting Policies-Executive Compensation" below for a discussion of the accounting treatment applicable to the compensation awarded to the Chief Executive Officer under this agreement.

As more fully described in Note 10 to the Company's Consolidated Financial Statements certain affiliates of SOF IV and the Company's Executive Officer have agreed to reimburse the Company for the value of restricted shares awarded to the former President in excess of 350,000 shares.

DRIP/Stock Purchase Plan—The Company maintains a dividend reinvestment and direct stock purchase plan. Under the dividend reinvestment component of the plan, the Company's shareholders may purchase additional shares of Common Stock without payment of brokerage commissions or service charges by automatically reinvesting all or a portion of their Common Stock cash dividends. Under the direct stock purchase component of the plan, the Company's shareholders and new investors may purchase shares of Common Stock directly from the Company without payment of brokerage commissions or service charges. All purchases of shares in excess of $10,000 per month pursuant to the direct purchase component are at the Company's sole discretion. Shares issued under the plan may reflect a discount of up to 3.00% from the prevailing market price of the Company's Common Stock. The Company is authorized to issue up to 8.0 million shares of Common Stock pursuant to the dividend reinvestment and direct stock purchase plan. During the 12 months ended December 31, 2003

and 2002, the Company issued a total of approximately 2.6 million and 1.6 million shares of its Common Stock, respectively, through the direct stock purchase component of the plan. Net proceeds during the 12 months ended December 31, 2003 and 2002 were approximately $89.1 million and $44.4 million, respectively. There are approximately 3.6 million shares available for issuance under the plan as of December 31, 2003.

Stock Repurchase Program—The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets or loan repayments and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of December 31, 2003, the Company had repurchased a total of approximately 2.3 million shares at an aggregate cost of approximately $40.7 million. The Company has not repurchased any shares under the stock repurchase program since November 2000.

Critical Accounting Policies

The Company's Consolidated Financial Statements include the accounts of the Company and all majority-owned and controlled subsidiaries. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the

financial statements, giving due consideration to materiality. The Company does not believe that there is a great likelihood that materially different amounts would be reported related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

Management has the obligation to ensure that its policies and methodologies are in accordance with GAAP. During 2003, management reviewed and evaluated its critical accounting policies and believes them to be appropriate. The Company's accounting policies are described in Note 3 to the Company's Consolidated Financial Statements. Management believes the more significant of these to be as follows:

Revenue Recognition—The most significant sources of the Company's revenue come from its lending operations and its CTL operations. For its lending operations, the Company reflects income using the effective yield method, which recognizes periodic income over the expected term of the investment on a constant yield basis. For CTL assets, the Company recognizes income on the straight-line method, which effectively recognizes contractual lease payments to be received by the Company evenly over the term of the lease. Management believes the Company's revenue recognition policies are appropriate to reflect the substance of the underlying transactions.

Provision for Loan Losses—The Company's accounting policies require that an allowance for estimated credit losses be reflected in the financial statements based upon an evaluation of known and inherent risks in its private lending assets. While the Company and its private predecessors have experienced minimal actual losses on their lending investments, management considers it prudent to reflect provisions for loan losses on a portfolio basis based upon the Company's assessment of general market conditions, the Company's internal risk management policies and credit risk rating system, industry loss experience, the Company's assessment of the likelihood of delinquencies or defaults, and the value of the collateral underlying its investments. Actual losses, if any, could ultimately differ from these estimates.

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

Impairment of Long-Lived Assets—CTL assets represent "long-lived" assets for accounting purposes. The Company periodically reviews long-lived assets to be held and used in its leasing operations for impairment in value whenever any events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In management's opinion, based on this analysis, CTL assets to be held and used are not carried at amounts in excess of their estimated recoverable amounts.

Risk Management and Financial Instrument—The Company has historically utilized derivative financial instruments only as a means to help to manage its interest rate risk exposure on a portion of its variable-rate debt obligations (i.e., as cash flow hedges). The instruments utilized are generally either pay-fixed swaps or LIBOR-based interest rate caps which are widely used in the industry and typically with major financial institutions. The Company's accounting policies generally reflect these instruments at their fair value with unrealized changes in fair value reflected in "Accumulated other comprehensive income (losses)" on the Company's Consolidated Balance Sheets. Realized effects on the Company's cash flows are generally recognized currently in income.

However, when appropriate the Company enters into interest rate swaps that convert fixed-rate debt to variable rate in order to mitigate the risk of changes in fair value of its fixed-rate debt obligations. The Company reflects these instruments at their fair value and adjusts the carrying amount of the hedged liability by an offsetting amount.

Income Taxes—The Company's financial results generally do not reflect provisions for current or deferred income taxes. Management believes that the Company has and intends to continue to operate in a

manner that will continue to allow it to be taxed as a REIT and, as a result, does not expect to pay substantial corporate-level taxes. Many of these requirements, however, are highly technical and complex. If the Company were to fail to meet these requirements, the Company would be subject to Federal income tax.

Executive Compensation—The Company's accounting policies generally provide cash compensation to be estimated and recognized over the period of service. With respect to stock-based compensation arrangements, as of July 1, 2002 (with retroactive application to the beginning of the calendar year), the Company has adopted the fair value method allowed under SFAS No. 123 on a prospective basis, which values options on the date of grant and recognizes an expense equal to the fair value of the option multiplied by the number of options granted over the related service period. Prior to the third quarter 2002, the

Company elected to use APB 25 accounting, which measured the compensation charges based on the intrinsic value of such securities when they become fixed and determinable, and recognized such expense over the related service period. These arrangements are often complex and generally structured to align the interests of management with those of the Company's shareholders. See Note 10 to the Company's Consolidated Financial Statements for a detailed discussion of such arrangements and the related accounting effects.

During 2001, the Company entered into three-year employment agreements with its Chief Executive Officer and its former President. In addition, during 2002 the Company entered into a three-year employment agreement with its Chief Financial Officer. See Note 10 to the Company's Consolidated Financial Statements for a more detailed description of these employment agreements.

The following is a hypothetical illustration of the effects on the Company's net income and adjusted earnings of the full vesting of phantom units under the employment agreement with the Chief Executive Officer. During the 12 months ended December 31, 2003, 2.0 million of the phantom shares awarded to the Chief Executive Officer were contingently vested. Absent an earlier change of control or termination of employment, these 2.0 million shares will not become fully vested until March 30, 2004. Assuming that the market price of the Common Stock on March 30, 2004 is $38.90 (which was the market price of the Common Stock on December 31, 2003), the Company would incur a one-time charge to earnings at that time of approximately $77.8 million (the fair market value of the 2.0 million shares at $38.90 per share) subject to the availability of 2.0 million shares under the Company's 1996 Long-Term Incentive Plan.

On April 29, 2002, the 500,000 unvested restricted shares awarded to the President became contingently vested as the total shareholder return exceeded 60.00% and became fully vested on September 30, 2002 as all employment contingencies were met. The Company incurred a charge of approximately $15.0 million related to these vested shares, recognized ratably over the service period from the date of contingent vesting through September 30, 2002.

New CEO Employment Agreement—The March 2001 employment agreement with the Company's Chief Executive Officer expires on March 30, 2004. Subsequent to December 31, 2003, the Company entered into a new employment agreement with its Chief Executive Officer which will take effect upon the expiration of the old agreement. The new agreement has an initial term of three years and provides for the following compensation:

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

each year increases by at least 15.00%, in which case the sale restrictions on 25.00% of the shares awarded will lapse in respect of each 12-month period.

In addition, the Chief Executive Officer will purchase an 80.00% interest in the Company's 2006 High Performance Unit Program for directors and executive officers. This performance program was approved by the Company's shareholders in 2003 and is described in detail in the Company's 2003 annual proxy statement. The purchase price to be paid by the Chief Executive Officer will be based upon a valuation prepared by an independent investment-banking firm. The interests purchased by the Chief Executive Officer will only have nominal value to him unless the Company achieves total shareholder returns in excess of those achieved by peer group indices, all as more fully described in the Company's 2003 annual proxy statement.

New Accounting Standards

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

EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," issued during the third quarter of 2003, provides guidance on revenue recognition for revenues derived from a single contract that contain multiple products or services. EITF 00-21 also provides additional requirements to determine when these revenues may be recorded separately for accounting purposes. The Company adopted EITF 00-21 on July 1, 2003, as required, and it did not have a significant impact on the Company's Consolidated Financial Statements.

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

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities," an interpretation of ARB 51. FIN 46 provides guidance on identifying entities for which control is achieved through means other than through voting rights (a "variable interest entity" or "VIE"), and how to determine when and which business enterprise should consolidate a VIE. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The transitional disclosure requirements took effect immediately and were required for all financial statements initially issued or modified after January 31, 2003. Immediate consolidation is required for VIEs entered into or modified after February 1, 2003 in which the Company is deemed the primary beneficiary. For VIEs in which the Company entered into prior to February 1, 2003 the FASB recently issued FSP to defer FIN 46 for those older entities to the reporting period ending after March 15, 2004. The adoption of the additional consolidation provisions of FIN 46 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 ("SFAS No. 148"), "Accounting for Stock-Based Compensation—Transition and Disclosure," an amendment of FASB Statement No. 123 ("SFAS No. 123"). This statement provides alternative transition

methods for a voluntary change to the fair value basis of accounting for stock-based employee compensation. However, this Statement does not permit the use of the original SFAS No. 123 prospective method of transition for changes to the fair value based method made in fiscal years beginning after December 15, 2003. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation, description of transition method utilized and the effect of the method used on reported results. The Company adopted SFAS No. 148 with retroactive application to grants made subsequent to January 1, 2002 with no material effect on the Company's Consolidated Financial Statements.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," an interpretation of Statement of Financial Accounting Standards No. 5 ("SFAS No. 5"), "Accounting for Contingencies," Statement of Financial Accounting Standards No. 57, "Related Party Disclosures," Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments" and rescinds FASB Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others, an Interpretation of SFAS No. 5." It requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee regardless if the Company receives separately identifiable consideration (e.g., a premium). The disclosure requirements are effective December 31, 2002. The adoption of FIN 45 did not have a material impact on the Company's Consolidated Financial Statements, nor is it expected to have a material impact in the future.

In September 2002, the FASB issued Statement of Financial Accounting Standards No. 147 ("SFAS No. 147"), "Acquisitions of Certain Financial Institutions," an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9. SFAS No. 147 provides guidance on the accounting for the acquisitions of financial institutions, except those acquisitions between two or more mutual enterprises. SFAS No. 147 removes acquisitions of financial institutions from the scope of both FASB No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," and FASB Interpretation No. 9, Applying APB Opinions No. 16 and 17, "When a Savings and Loan Association or a Similar Institution is Acquired in a Business Combination Accounted for by the Purchase Method," and requires that those transactions be accounted for in accordance with SFAS No. 141 and SFAS No. 142. SFAS No. 147 also amends SFAS No. 144 to include in its scope long-term, customer-relationship intangible assets of financial institutions such as depositor-relationship and borrower-relationship intangible assets and credit cardholder intangible assets. The Company adopted the provisions of this statement, as required, on October 1, 2002, and it did not have a significant financial impact on the Company's Consolidated Financial Statements.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146 ("SFAS No. 146"), "Accounting for Exit or Disposal Activities," to address significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force ("EITF") has set forth in EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The scope of SFAS No. 146 also includes: (1) costs related to terminating a contract that is not a capital lease; and (2) termination benefits received by employees involuntarily terminated under the terms of a one-time benefit arrangement that is not an on-going benefit arrangement or an individual deferred-compensation contract. The Company adopted the provisions of SFAS 146 on December 31, 2002, as required, and it did not have a material effect on the Company's Consolidated Financial Statements.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS No. 145"), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds both FASB Statements No. 4 ("SFAS No. 4"), "Reporting Gains and Losses from Extinguishment of Debt," and the amendment to SFAS No. 4, FASB Statement No. 64 ("SFAS No. 64"), "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." Through this rescission, SFAS No. 145 eliminates the requirement (in both SFAS No. 4 and SFAS No. 64) that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. An entity is not prohibited from classifying such gains and losses as extraordinary items, so long as they meet the criteria in paragraph 20 of Accounting Principles Board Opinion No. 30 ("APB 30"), "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions"; however, due to the nature of the Company's operations, such treatment may not be available to the Company. Any gains or losses on extinguishments of debt that were previously classified as extraordinary items in prior periods presented that do not meet the criteria in APB 30 for classification as an extraordinary item will be reclassified to income from continuing operations. The provisions of SFAS No. 145 are effective for financial statements issued for fiscal years beginning after May 15, 2002. The Company adopted the provisions of this statement, as required, on January 1, 2003. For the years ended December 31, 2002 and 2001, the Company reclassified $12.2 million and $1.6 million, respectively from "Extraordinary loss from early extinguishment of debt" into "Loss on early extinguishment of debt" in income from continuing operations on the Company's Consolidated Statements of Operations.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS No. 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 provides guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of, and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 requires that current operations prior to the disposition of CTL assets and prior period results of such operations be presented in discontinued operations in the Company's Consolidated Statements of Operations. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and must be applied at the beginning of a fiscal year. The Company adopted the provisions of this statement on January 1, 2002, as required, and it did not have a significant financial impact on the Company.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141 ("SFAS No. 141"), "Business Combinations" and Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets." SFAS No. 141 requires the purchase method of accounting to be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also addresses the initial recognition and measurement of goodwill and other intangible assets acquired in business combinations and requires intangible assets to be recognized apart from goodwill if certain tests are met. SFAS No. 142 requires that goodwill not be amortized but instead be measured for impairment at least annually, or when events indicate that there may be an impairment. The Company adopted the provisions of both statements for transactions initiated after June 30, 2001, as required, and the adoption did not have a significant impact on the Company.

In July 2001, the SEC released Staff Accounting Bulletin No. 102 ("SAB 102"), "Selected Loan Loss Allowance and Documentation Issues." SAB 102 summarizes certain of the SEC's views on the development, documentation and application of a systematic methodology for determining allowances for loan and

lease losses. Adoption of SAB 102 by the Company did not have a significant impact on the Company.

In September 2000, the FASB issued Statement of Financial Accounting Standards No. 140 ("SFAS No. 140"), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

This statement is applicable for transfers of assets and extinguishments of liabilities occurring after June 30, 2001. The Company adopted the provisions of this statement as required for all transactions entered into on or after April 1, 2001. The adoption of SFAS No. 140 did not have a significant impact on the Company.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

Market Risks

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. In pursuing its business plan, the primary market risk to which the Company is exposed is interest rate risk. Consistent with its liability management objectives, the Company has implemented an interest rate risk management policy based on match funding, with the objective that variable-rate assets be primarily financed by variable-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 (the difference in the principal amount outstanding) between the Company's interest-earning assets and interest-bearing liabilities. Any significant compression of the spreads between interest-earning assets and interest-bearing liabilities could have a material adverse effect on the Company. In addition, an increase in interest rates could, among other things, reduce the value of the Company's interest-bearing assets and its ability to realize gains from the sale of such assets, and a decrease in interest rates could reduce the average life of the Company's interest-earning assets.

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

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

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond the control of the Company. As more fully discussed in Note 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

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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 the actual reference rate and the contracted strike rate. The Company utilizes the provisions of SFAS No. 133 with respect to such instruments. SFAS No. 133 provides that the up-front fees paid on option-based products such as caps be expensed into earnings based on the allocation of the premium to the affected periods as if the agreement were a series of "caplets." These allocated premiums are then reflected as a charge to income and are included in "Interest expense" on the Company's Consolidated Statements of Operations in the affected period.

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 variable-rate interest payments from the counterparty for fixed interest payments from the Company. However, when appropriate the Company enters into "pay floating" swaps involving the exchange of fixed-rate interest payments from the counterparty for variable-rate interest payments from the Company, which mitigates the risk of changes in fair value of the Company's fixed-rate debt obligations.

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 the specified instrument (i.e., U.S. Treasury securities) upon settlement. Under these agreements, the Company would generally receive additional cash flow at settlement if interest rates rise and pay cash if interest rates fall. The effects of such receipts or payments would 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 would 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 derivative instruments 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.

The following table quantifies the potential changes in net investment income and net fair value of financial instruments should interest rates increase or decrease 25, 50, 100 or 200 basis points, assuming no change in the shape of the yield curve (i.e., relative interest rates). Net investment income is calculated as revenue from loans and other lending investments and operating leases (as of December 31, 2003), less related interest expense and operating costs on CTL assets, for the year ended December 31, 2003. Net fair value of financial instruments is calculated as the sum of the value of derivative instruments and the present value of cash in-flows generated from interest-earning assets, less cash out-flows in respect of interest-bearing liabilities as of December 31, 2003. The cash flows associated with the Company's assets are calculated based on management's best estimate of expected payments for each loan based on loan characteristics such as loan-to-value ratio, interest rate, credit history, prepayment penalty, term and collateral type. Most of the Company's loans are protected from prepayment as a result of prepayment penalties and contractual terms which prohibit prepayments during specified periods. However, for those loans where prepayments are not currently precluded by contract, declines in interest rates may increase prepayment speeds. The base interest rate scenario assumes the one-month LIBOR rate of 1.12% as of December 31, 2003. Actual results could differ significantly from those estimated in the table.

Estimated Percentage Change In

Change in Interest Rates	Net Investment Income(1)	Net Fair Value of Financial Instruments(2)
-50 Basis Points	2.37%	2.53%
-25 Basis Points	1.19%	1.23%
Base Interest Rate	0.00%	0.00%
+100 Basis Points	(3.81)%	(1.58)%
+200 Basis Points	(5.52)%	7.43%

Explanatory Note:

(1) At December 31, 2003, the pro forma estimated percentage changes in net investment income for a decrease of 25 and 50 basis points and an increase of 100 and 200 basis points, giving effect to the $635.0 million pay-fixed swaps entered into in March 2004, are 0.74%, 1.48%, (2.03)% and (1.97)%, respectively (see Note 17 to the Company's Consolidated Financial Statements).

(2) Amounts exclude fair values of non-financial investments, primarily CTL assets and certain forms of corporate finance investments.

Item 8. Financial Statements and Supplemental Data

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All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Financial statements of five owned companies or joint ventures accounted for under the equity method have been omitted because the Company's proportionate share of the income from continuing operations before income taxes is less than 20.00% of the respective consolidated amount and the investments in and advances to each company are less than 20.00% of consolidated total assets.

Report of Independent Auditors

To the Board of Directors and Shareholders
of iStar Financial Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of iStar Financial Inc. and its subsidiaries (the "Company") at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
New York, NY
February 20, 2004, except for Note 17, which is as of March 12, 2004

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iStar Financial Inc.

Consolidated Balance Sheets

(In thousands, except per share data)

	As of December 31,	
	2003	**2002**
ASSETS		
Loans and other lending investments, net	$ 3,702,674	$ 3,050,342
Corporate tenant lease assets, net	2,535,885	2,291,805
Investments in and advances to joint ventures and unconsolidated subsidiaries	25,019	30,611
Assets held for sale	24,800	28,501
Cash and cash equivalents	80,090	15,934
Restricted cash	57,665	40,211
Accrued interest and operating lease income receivable	26,076	26,804
Deferred operating lease income receivable	51,447	36,739
Deferred expenses and other assets	156,934	90,750
Total assets	$ 6,660,590	$ 5,611,697
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 126,524	$ 117,001
Dividends payable	—	5,225
Debt obligations	4,113,732	3,461,590
Total liabilities	4,240,256	3,583,816
Commitments and contingencies	—	—
Minority interest in consolidated entities	5,106	2,581
Shareholders' equity:		
Series A Preferred Stock, $0.001 par value, liquidation preference $50.00 per share, 0 and 4,400	—	4

	2003	2002
shares issued and outstanding at December 31, 2003 and 2002, respectively		
Series B Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 2,000 shares issued and outstanding at December 31, 2003 and 2002	2	2
Series C Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 1,300 shares issued and outstanding at December 31, 2003 and 2002	1	1
Series D Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 4,000 shares issued and outstanding at December 31, 2003 and 2002	4	4
Series E Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 5,600 and 0 shares issued and outstanding at December 31, 2003 and 2002, respectively	6	—
Series F Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 4,000 and 0 shares issued and outstanding at December 31, 2003 and 2002, respectively	4	—
Series G Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 3,200 and 0 shares issued and outstanding at December 31, 2003 and 2002, respectively	3	—
High Performance Units	5,131	1,359
Common Stock, $0.001 par value, 200,000 shares authorized, 107,215 and 98,114 shares issued and outstanding at December 31, 2003 and 2002, respectively	107	98
Warrants and options	20,695	20,322
Additional paid-in capital	2,678,772	2,281,636
Retained earnings (deficit)	(242,449)	(227,769)
Accumulated other comprehensive income (losses) (See Note 12)	1,008	(2,301)
Treasury stock (at cost)	(48,056)	(48,056)
Total shareholders' equity	2,415,228	2,025,300
Total liabilities and shareholders' equity	$ 6,660,590	$ 5,611,697

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

iStar Financial Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

	For the Year Ended December 31,		
	2003	**2002***	**2001***
Revenue:			
Interest income	$ 304,394	$ 255,631	$ 254,119
Operating lease income	265,478	236,643	179,279
Other income	36,677	27,993	31,000
Total revenue	606,549	520,267	464,398
Costs and expenses:			
Interest expense	194,999	185,375	169,974
Operating costs—corporate tenant lease assets	17,371	13,202	12,029
Depreciation and amortization	55,286	46,948	34,573
General and administrative	38,153	30,449	24,151
General and administrative—stock-based compensation expense	3,633	17,998	3,574
Provision for loan losses	7,500	8,250	7,000
Loss on early extinguishment of debt	—	12,166	1,620
Total costs and expenses	316,942	314,388	252,921
Net income before equity in (loss) earnings from joint ventures and unconsolidated subsidiaries, minority interest and other items	289,607	205,879	211,477
Equity in (loss) earnings from joint ventures and unconsolidated subsidiaries	(4,284)	1,222	7,361
Minority interest in consolidated entities	(249)	(162)	(218)
Cumulative effect of change in accounting principle (See Note 3)	—	—	(282)
Net income from continuing operations	285,074	206,939	218,338
Income from discontinued operations	1,916	7,614	10,429
Gain from discontinued operations	5,167	717	1,145
Net income	292,157	215,270	229,912
Preferred dividend requirements	(36,908)	(36,908)	(36,908)

Net income allocable to common shareholders and HPU holders(1)	$	255,249	$	178,362	$	193,004
Basic earnings per common share(2)	$	2.52	$	1.98	$	2.24
Diluted earnings per common share(2)(3)	$	2.43	$	1.93	$	2.19

* ***Reclassified to conform to 2003 presentation.***

Explanatory Notes:

(1) HPU holders are Company employees who purchased high performance common stock units under the Company's High Performance Unit Program.

(2) For the 12 months ended December 31, 2003, net income used to calculate earnings per basic and diluted common share excludes $2,066 and $1,994 of net income allocable to HPU holders, respectively.

(3) For the 12 months ended December 31, 2003, net income used to calculate earnings per diluted common share includes joint venture income of $167.

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

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

	Series A Preferred Stock	Series B Preferred Stock	Series C Preferred Stock	Series D Preferred Stock	Series E Preferred Stock	Series F Preferred Stock	Series G Preferred Stock	High Performance Units	Common Stock at Par	Warrants and Options	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Losses)	Treasury Stock	Total
Balance at December 31, 2000	$ 4	$ 2	$ 1	$ 4	$ —	$ —	$ —	$ —	$ 85	$ 16,943	$ 1,966,396	$ (154,789)	$ (20)	$ (40,741)	$1,787,885
Exercise of options	—	—	—	—	—	—	—	—	2	(835)	22,550	—	—	—	21,717
Dividends declared-preferred	—	—	—	—	—	—	—	—	—	—	330	(36,908)	—	—	(36,578)
Dividends declared-common	—	—	—	—	—	—	—	—	—	—	—	(213,089)	—	—	(213,089)
Acquisition of ACRE Partners	—	—	—	—	—	—	—	—	—	—	1,219	—	—	—	1,219
Restricted stock units issued to employees in lieu of cash bonuses	—	—	—	—	—	—	—	—	—	—	1,478	—	—	—	1,478
Restricted stock units granted to employees	—	—	—	—	—	—	—	—	—	—	1,250	—	—	—	1,250
Options granted to employees	—	—	—	—	—	—	—	—	—	4,348	—	—	—	—	4,348
Issuance of stock-DRIP plan	—	—	—	—	—	—	—	—	—	—	4,708	—	—	—	4,708
Net income for the period	—	—	—	—	—	—	—	—	—	—	—	229,912	—	—	229,912
Cumulative effect of change in accounting principle	—	—	—	—	—	—	—	—	—	—	—	—	(9,445)	—	(9,445)
Change in accumulated other comprehensive income	—	—	—	—	—	—	—	—	—	—	—	—	(5,627)	—	(5,627)
Balance at December 31, 2001	$ 4	$ 2	$ 1	$ 4	$ —	$ —	$ —	$ —	$ 87	$ 20,456	$ 1,997,931	$ (174,874)	$ (15,092)	$ (40,741)	$1,787,778
Exercise of options	—	—	—	—	—	—	—	—	2	(443)	16,170	—	—	—	15,729
Proceeds from equity offering	—	—	—	—	—	—	—	—	8	—	202,891	—	—	—	202,899
Dividends declared-preferred	—	—	—	—	—	—	—	—	—	—	330	(36,908)	—	—	(36,578)
Dividends declared-common	—	—	—	—	—	—	—	—	—	—	—	(231,257)	—	—	(231,257)
Restricted stock units granted to employees	—	—	—	—	—	—	—	—	—	—	19,048	—	—	—	19,048
Options granted to employees	—	—	—	—	—	—	—	—	—	309	—	—	—	—	309
High performance units sold to employees	—	—	—	—	—	—	—	1,359	—	—	—	—	—	—	1,359
Contributions from significant shareholder	—	—	—	—	—	—	—	—	—	—	506	—	—	—	506
Issuance of stock-DRIP plan	—	—	—	—	—	—	—	—	1	—	44,426	—	—	—	44,427
Purchase of treasury shares	—	—	—	—	—	—	—	—	—	—	334	—	—	(7,315)	(6,981)
Net income for the period	—	—	—	—	—	—	—	—	—	—	—	215,270	—	—	215,270
Change in accumulated other comprehensive income	—	—	—	—	—	—	—	—	—	—	—	—	12,791	—	12,791
Balance at December 31, 2002	$ 4	$ 2	$ 1	$ 4	$ —	$ —	$ —	$ 1,359	$ 98	$ 20,322	$ 2,281,636	$ (227,769)	$ (2,301)	$ (48,056)	$2,025,300
Exercise of options	—	—	—	—	—	—	—	—	1	373	27,754	—	—	—	28,128
Net proceeds from preferred	(4)	—	—	—	6	4	3	—	—	—	87,900	—	—	—	87,909

offering/exchange															
Proceeds from equity offering	—	—	—	—	—	—	—	—	5	—	190,931	—	—	—	190,936
Dividends declared-preferred	—	—	—	—	—	—	—	—	—	—	195	(36,908)	—	—	(36,713)
Dividends declared-common	—	—	—	—	—	—	—	—	—	—	—	(267,785)	—	—	(267,785)
Dividends declared-HPU's	—	—	—	—	—	—	—	—	—	—	—	(2,144)	—	—	(2,144)
Restricted stock units granted to employees	—	—	—	—	—	—	—	—	—	—	1,339	—	—	—	1,339
Options granted to employees	—	—	—	—	—	—	—	—	—	—	82	—	—	—	82
High performance units sold to employees	—	—	—	—	—	—	—	3,772	—	—	—	—	—	—	3,772
Issuance of stock-DRIP/Stock purchase plan	—	—	—	—	—	—	—	—	3	—	88,935	—	—	—	88,938
Net income for the period	—	—	—	—	—	—	—	—	—	—	—	292,157	—	—	292,157
Change in accumulated other comprehensive income (losses)	—	—	—	—	—	—	—	—	—	—	—	—	3,309	—	3,309
Balance at December 31, 2003	$ —	$ 2	$ 1	$ 4	$ 6	$ 4	$ 3	$ 5,131	$ 107	$ 20,695	$ 2,678,772	$ (242,449)	$ 1,008	$ (48,056)	$2,415,228

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

iStar Financial Inc.

Consolidated Statements of Cash Flows

(In thousands)

	For the Year Ended December 31,		
	2003	2002*	2001*
Cash flows from operating activities:			
Net income	$ 292,157	$ 215,270	$ 229,912
Adjustments to reconcile net income to cash flows provided by operating activities:			
Minority interest in consolidated entities	249	162	218
Non-cash expense for stock-based compensation	3,781	18,059	3,574
Depreciation and amortization	55,286	46,948	34,573
Depreciation and amortization from discontinued operations	793	1,093	1,069
Amortization of deferred financing costs	27,180	23,460	20,720
Amortization of discounts/premiums, deferred interest and costs on lending investments	(54,799)	(33,086)	(41,067)
Discounts, loan fees and deferred interest received	36,063	36,714	28,425
Equity in earnings from joint ventures and unconsolidated subsidiaries	4,284	(1,222)	(7,361)
Distributions from operations of joint ventures	2,839	5,802	4,802
Loss on early extinguishment of debt	—	12,166	1,620
Cumulative effect of change in accounting principle	—	—	282
Deferred operating lease income receivable	(15,366)	(15,265)	(10,923)
Gain from discontinued operations	(5,167)	(717)	(1,145)
Provision for loan losses	7,500	8,250	7,000
Change in investments in and advances to joint ventures and unconsolidated subsidiaries	(2,877)	(6,598)	(2,568)
Changes in assets and liabilities:			
(Increase) decrease in accrued interest and operating lease income receivable	(647)	3,809	5,083
(Increase) decrease in deferred expenses and other assets	(20,690)	1,763	(519)
Increase in accounts payable, accrued expenses and other liabilities	7,676	32,185	19,565
Cash flows provided by operating activities	338,262	348,793	293,260
Cash flows from investing activities:			
New investment originations	(2,086,890)	(1,812,993)	(924,455)
Add-on fundings under existing loan commitments	(46,164)	(21,619)	(99,626)
Net proceeds from sale of corporate tenant lease assets	47,569	3,702	26,306
Net proceeds from discontinued operations	—	17,500	—
Repayments of and principal collections on loans and other lending investments	1,119,743	671,965	650,970
Investments in and advances to unconsolidated joint ventures	—	(127)	(1,601)
Distributions from unconsolidated joint ventures	—	—	24,265
Capital improvements for build-to-suit projects	—	(1,064)	(14,266)
Capital improvement projects on corporate tenant lease assets	(3,487)	(2,277)	(6,629)
Other capital expenditures on corporate tenant lease assets	(5,125)	(4,157)	(4,489)

Cash flows used in investing activities	(974,354)	(1,149,070)	(349,525)
Cash flows from financing activities:			
Borrowings under secured revolving credit facilities	1,643,552	2,496,200	2,420,638
Repayments under secured revolving credit facilities	(2,220,715)	(2,122,994)	(2,285,892)
Borrowings under unsecured revolving credit facilities	130,000	—	—
Borrowings under term loans	233,000	115,099	277,664
Repayments under term loans	(107,723)	(18,279)	(120,333)
Borrowings under unsecured bond offerings	526,966	—	350,000
Repayments under unsecured notes	—	—	(100,000)
Borrowings under secured bond offerings	645,822	885,079	—
Repayments under secured bond offerings	(210,876)	(475,679)	(125,962)
Borrowings under other debt obligations	25,251	1,094	279
Repayments under other debt obligations	(7,064)	(1,668)	(56,008)
Contribution from minority interest partner	2,522	—	—
(Increase) decrease in restricted cash held in connection with debt obligations	(17,454)	(22,359)	2,590
Prepayment penalty on early extinguishment of debt	—	(3,950)	(1,037)
Payments for deferred financing costs	(35,609)	(45,702)	(30,382)
Distributions to minority interest in consolidated entities	(159)	(231)	(3,794)
Net proceeds from preferred offering/exchange	87,909	—	—
Common dividends paid(1)	(267,785)	(231,257)	(264,527)
Preferred dividends paid	(36,713)	(36,578)	(36,578)
Dividends on HPUs	(2,144)	—	—
HPUs issued	3,772	1,359	—
Purchase of treasury stock	—	(6,981)	—
Proceeds from equity offering	190,936	202,899	—
Contribution from significant shareholder	—	506	—
Proceeds from exercise of options and issuance of DRIP/Stock purchase shares	116,760	63,983	22,525
Cash flows provided by financing activities	700,248	800,541	49,183
Increase (decrease) in cash and cash equivalents	64,156	264	(7,082)
Cash and cash equivalents at beginning of period	15,934	15,670	22,752
Cash and cash equivalents at end of period	$ 80,090	$ 15,934	$ 15,670
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest, net of amount capitalized	$ 165,757	$ 157,618	$ 141,271

* ***Reclassified to conform to 2003 presentation.***

Explanatory Note:

(1) For the year ended December 31, 2001, the $264.5 million of common dividends shown in the table represents five quarters of dividends, of which $51.4 million relates to the fourth quarter 2000 dividend (paid in January 2001).

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

iStar Financial Inc.

Notes to Consolidated Financial Statements

Note 1—Business and Organization.

Business—iStar Financial Inc. (the "Company") is the leading publicly-traded finance company focused on the commercial real estate industry. The Company provides custom-tailored financing to private and corporate owners of real estate nationwide, including senior and junior mortgage debt, senior, mezzanine and subordinated corporate capital, and corporate net lease financing. The Company, which is taxed as a real estate investment trust ("REIT"), seeks to deliver strong dividends and superior risk-adjusted returns on equity to shareholders by providing innovative and value-added financing solutions to its customers.

The Company's primary product lines include:

- *Structured Finance.* The Company provides senior and subordinated loans that typically range in size from $20 million to $100 million. These loans may be either fixed or variable rate and are structured to meet the specific financing needs of the borrowers, including the acquisition or financing of large, quality real estate. The Company offers borrowers a wide range of structured finance options, including first mortgages, second mortgages, partnership loans, participating debt and interim facilities. The Company's structured finance transactions have maturities generally ranging from three to ten years. As of December 31, 2003, based on gross carrying values, the Company's structured finance assets represented

25.97% of its assets.

- *Portfolio Finance.* The Company provides funding to regional and national borrowers who own multiple facilities in geographically diverse portfolios. Loans are cross-collateralized to give the Company the benefit of all available collateral and underwritten to recognize inherent portfolio diversification. Property types include multifamily, suburban office, hotels and other property types where individual property values are less than $20 million on average. Loan terms are structured to meet the specific requirements of the borrower and typically range in size from $25 million to $150 million. The Company's portfolio finance transactions have maturities generally ranging from three to ten years. As of December 31, 2003, based on gross carrying values, the Company's portfolio finance assets represented 15.49% of its assets.

- *Corporate Finance.* The Company provides senior and subordinated capital to corporations engaged in real estate or real estate-related businesses. Financings may be either secured or unsecured and typically range in size from $20 million to $150 million. The Company's corporate finance transactions have maturities generally ranging from five to ten years. As of December 31, 2003, based on gross carrying values, the Company's corporate finance assets represented 8.29% of its assets.

- *Loan Acquisition.* The Company acquires whole loans and loan participations which present attractive risk-reward opportunities. Loans are generally acquired at a small discount to the principal balance outstanding. Loan acquisitions typically range in size from $5 million to $100 million and are collateralized by all major property types. The Company's loan acquisition transactions have maturities generally ranging from three to ten years. As of December 31, 2003, based on gross carrying values, the Company's loan acquisition assets represented 6.34% of its assets.

- *Corporate Tenant Leasing.* The Company provides capital to corporations and borrowers who control facilities leased to single creditworthy tenants. The Company's net leased assets are generally mission-critical headquarters or distribution facilities that are subject to long-term leases with rated corporate credit tenants, and which provide for all expenses at the property to be paid by the corporate tenant on a triple net lease basis. Corporate tenant lease ("CTL") transactions have terms generally ranging from ten to 20 years and typically range in size from $20 million to

$150 million. As of December 31, 2003, based on gross carrying values, the Company's CTL assets assets (including investments in and advances to joint ventures and unconsolidated subsidiaries and assets held for sale) represented 41.89% of its assets.

The Company's investment strategy targets specific sectors of the real estate credit markets in which it believes it can deliver value-added, flexible financial solutions to its customers, thereby differentiating its financial products from those offered by other capital providers.

The Company has implemented its investment strategy by:

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

- Avoiding commodity businesses in which there is significant direct competition from other providers of capital such as conduit lending and investment in commercial or residential mortgage-backed securities.

- Developing direct relationships with borrowers and corporate customers as opposed to sourcing transactions solely through intermediaries.

- Adding value beyond simply providing capital by offering borrowers and corporate customers specific lending expertise, flexibility, certainty and continuing relationships beyond the closing of a particular financing transaction.

- Taking advantage of market anomalies in the real estate financing markets when the Company believes credit is mispriced by other providers of capital, such as the spread between lease yields and the yields on corporate customers' underlying credit obligations.

Organization—The Company began its business in 1993 through private investment funds formed to capitalize on inefficiencies in the real estate finance market. In March 1998, these funds contributed their approximately $1.1 billion of assets to the Company's predecessor in exchange for a controlling interest in that company. Since that time, the Company has grown by originating new lending and leasing transactions, as well as through corporate acquisitions.

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

Concurrent with the TriNet Acquisition, the Company also acquired its former external advisor in exchange for shares of the Company's common stock ("Common Stock") and converted its organizational form to a Maryland corporation. As part of the conversion to a Maryland corporation, the Company replaced its former dual class common share structure with a single class of Common Stock. The Company's Common Stock began trading on the New York Stock Exchange on November 4, 1999. Prior to this date, the Company's common shares were traded on the American Stock Exchange.

Note 2—Basis of Presentation

The accompanying audited Consolidated Financial Statements have been prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP") for complete

financial statements. The Consolidated Financial Statements include the accounts of the Company, its qualified REIT subsidiaries, and its majority- owned and controlled partnerships.

Certain other investments in partnerships or joint ventures which the Company does not control are accounted for under the equity method (see Notes 5 and 6). All significant intercompany balances and transactions have been eliminated in consolidation.

Note 3—Summary of Significant Accounting Policies

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

Corporate tenant lease assets and depreciation—CTL assets are generally recorded at cost less accumulated depreciation. Certain improvements and replacements are capitalized when they extend the useful life, increase capacity or improve the efficiency of the asset. Repairs and maintenance items are expensed as incurred. Depreciation is computed using the straight-line method of cost recovery over estimated useful lives of 40.0 years for facilities, five years for furniture and equipment, the shorter of the remaining lease term or expected life for tenant improvements and the remaining life of the facility for facility improvements.

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

In accordance with the recent adoption of Statement of Financial Accounting Standards No. 141 ("SFAS No. 141"), "Business Combinations" regarding the Company's acquisition of facilities, purchase costs will be allocated to the tangible and intangible assets and liabilities acquired based on their estimated fair values. The value of the tangible assets, consisting of land, buildings and tenant improvements, will be determined as if vacant, that is, at replacement cost. Intangible assets including the above-market or below-market value of leases, the value of in-place leases and the value of customer relationships will be recorded at their relative fair values.

Above-market and below-market in-place lease values for owned CTL assets will be recorded based on the present value (using a discount rate reflecting the risks associated with the leases acquired) of the difference between: (1) the contractual amounts to be paid pursuant to the leases negotiated and in-place at the time of acquisition of the facilities; and (2) management's estimate of fair market lease rates for the facility or equivalent facility, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market (or below-market) lease value will be amortized as a reduction of (or, increase to) operating lease income over the remaining non-cancelable term of each lease plus any renewal periods with fixed rental terms that are considered to be below-market.

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

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

Capitalized interest—The Company capitalizes interest costs incurred during the construction period on qualified build-to-suit projects for corporate tenants, including investments in joint ventures accounted for under the equity method. No interest was capitalized during the 12 months ended December 31, 2003 and approximately $70,000 was capitalized during the 12 months ended December 31, 2002.

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

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

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

Loans and other lending investments: Management considers nearly all of its loans and other lending investments to be held-to-maturity, although a small number of investments may be classified as available-for-sale. The Company reflects held-to-maturity investments at amortized cost less allowance for loan losses, acquisition premiums or discounts, deferred loan fees and undisbursed loan funds. Unrealized gains and losses on available-for-sale investments are included in "Accumulated other comprehensive income (losses)" on the Company's Consolidated Balance Sheets and are not included in the Company's net income. On occasion, the Company may acquire loans at small premiums or discounts based on the credit characteristics of such loans. These premiums or

discounts are recognized as yield adjustments over the lives of the related loans. Loan origination or exit fees, as well as direct loan origination costs, are also deferred and recognized over the lives of the related loans as a yield adjustment. If loans with premiums, discounts, loan origination or exit fees are prepaid, the Company immediately recognizes the unamortized

portion as a decrease or increase in the prepayment gain or loss. Interest income is recognized using the effective interest method applied on a loan-by-loan basis.

A small number of the Company's loans provide for accrual of interest at specified rates 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 cumulative difference between lease revenue recognized under this method and contractual lease payment terms is recorded as "Deferred operating lease income receivable" on the Company's Consolidated Balance Sheets.

Provision for loan losses—The Company's accounting policies require that an allowance for estimated loan losses be maintained at a level that management, based upon an evaluation of known and inherent risks in the portfolio, considers adequate to provide for loan losses. In establishing loan loss provisions, management periodically evaluates and analyzes the Company's assets, historical and industry loss experience, economic conditions and trends, collateral values and quality, and other relevant factors. Specific valuation allowances are established for impaired loans in the amount by which the carrying value, before allowance for estimated losses, exceeds the fair value of collateral less disposition costs on an individual loan basis. Management considers a loan to be impaired when, based upon current information and events, it believes that it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement on a timely basis. Management measures these impaired loans at the fair value of the loans' underlying collateral less estimated disposition costs. Impaired loans may be left on accrual status during the period the Company is pursuing repayment of the loan; however, these loans are placed on non-accrual status at such time as: (1) management believes that the potential risk exists that scheduled debt service payments will not be met within the coming 12 months; (2) the loans become 90 days delinquent; (3) management determines the borrower is incapable of, or has ceased efforts toward, curing the cause of the impairment; or (4) the net realizable value of the loan's underlying collateral approximates the Company's carrying value of such loan. While on non-accrual status, interest income is recognized only upon actual receipt. Impairment losses are recognized as direct write-downs of the related loan with a corresponding charge to the provision for loan losses. Charge-offs occur when loans, or a portion thereof, are considered uncollectible and of such little value that further pursuit of collection is not warranted. Management also provides a loan portfolio reserve based upon its periodic evaluation and analysis of the portfolio, historical and industry loss experience, economic conditions and trends, collateral values and quality, and other relevant factors.

The Company's loans are generally secured by real estate assets or are corporate lending arrangements to entities with significant rental real estate operations (e.g., an unsecured loan to a company which operates residential apartments or retail, industrial or office facilities as rental real estate). While the underlying real estate assets for the corporate lending instruments may not serve as collateral for the Company's investments in all cases, the Company evaluates the underlying real estate assets when

estimating loan loss exposure because the Company's loans generally have preclusions as to how much senior and/or secured debt the customer may borrow ahead of the Company's position.

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

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

Upon adoption, on January 1, 2001, the Company recognized a charge to net income of approximately $282,000 and an additional charge of $9.4 million to "Accumulated other comprehensive income (losses)," on the Company's Consolidated Balance Sheets representing the cumulative effect of the change in accounting principle.

Income taxes—The Company is subject to federal income taxation at corporate rates on its "REIT taxable income"; however, the Company is allowed a deduction for the amount of dividends paid to its shareholders, thereby subjecting the distributed net income of the Company to taxation at the shareholder level only. In addition, the Company is allowed several other deductions in computing its "REIT taxable income," including non-cash items such as depreciation expense. These deductions allow the Company to shelter a portion of its operating cash flow from its dividend payout requirement under federal tax laws. The Company intends to operate in a manner consistent with and to elect to be treated as a REIT for tax purposes. iStar Operating Inc. ("iStar Operating") and TriNet Management Operating Company, Inc. ("TMOC"), the Company's REIT taxable subsidiaries, 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. Accordingly, except for the Company's taxable subsidiaries, no current or deferred taxes are provided for in the Consolidated Financial Statements. Prior to December 31, 2003, TMOC was liquidated. See Note 6 for a detailed discussion on the ownership structure and operations of iStar Operating and TMOC.

Earnings per common share—In accordance with the Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"), "Earning per Share," the Company presents both basic and diluted earnings per share ("EPS"). Basic earnings per share ("Basic EPS") excludes dilution and is computed by dividing net income allocable to common shareholders by the weighted average number of shares outstanding for the period. Diluted earnings per share ("Diluted EPS") reflects the potential dilution that could occur if

securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower earnings per share amount.

Reclassifications—Certain prior year amounts have been reclassified in the Consolidated Financial Statements and the related notes to conform to the 2003 presentation.

Use of estimates—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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

EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," issued during the third quarter of 2003, provides guidance on revenue recognition for revenues derived from a single contract that contain multiple products or services. EITF 00-21 also provides additional requirements to determine when these revenues may be recorded separately for accounting purposes. The Company adopted EITF 00-21 on July 1, 2003, as required, and it did not have a significant impact on the Company's Consolidated Financial Statements.

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

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities," an interpretation of ARB 51. FIN 46 provides guidance on identifying entities for which control is achieved through means other than through voting rights (a "variable interest entity" or "VIE"), and how to determine when and which business enterprise should consolidate a VIE. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The transitional disclosure requirements took effect immediately and were required for all financial statements initially issued or modified after January 31, 2003. Immediate consolidation is required for VIEs entered into or modified after February 1, 2003 in which the Company is deemed the primary beneficiary. For VIEs in which the Company entered into prior to February 1, 2003, the FASB recently issued FSP to defer FIN 46 for those older entities to the reporting period ending after March 15, 2004. The adoption of the additional consolidation provisions of FIN 46 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 ("SFAS No. 148"), "Accounting for Stock-Based Compensation—Transition and Disclosure," an amendment of FASB Statement No. 123 ("SFAS No. 123"). This statement provides alternative transition methods for a voluntary change to the fair value basis of accounting for stock-based employee compensation. However, this Statement does not permit the use of the original SFAS No. 123 prospective method of transition for changes to the fair value based method made in fiscal years beginning after December 15, 2003. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation, description of transition method utilized and the effect of the method used on reported results. The Company adopted SFAS No. 148 with retroactive application to grants made subsequent to January 1, 2002 with no material effect on the Company's Consolidated Financial Statements.

SFAS No. 148 disclosure requirements, including the effect on net income and earnings per share if the fair value-based method had been applied to all outstanding and unvested stock awards in each period, are presented below (in thousands except per share amounts):

	For the Years Ended December 31,		
	2003 Basic EPS	**2002 Basic EPS**	**2001 Basic EPS**
Net income allocable to common shareholders and HPU holders, as reported (1)	$ 255,249	$ 178,362	$ 193,004
Total stock-based compensation expense determined under fair value-based method for all awards, net of related tax effects	(289)	(565)	(705)
Pro forma net income allocable to common shareholders and HPU holders	$ 254,960	$ 177,797	$ 192,299

Earnings per share:						
Basic—as reported (2)	$	2.52	$	1.98	$	2.24
Basic—pro forma (2)		2.52		1.98		2.23
Diluted—as reported (2)(3)	$	2.43	$	1.93	$	2.19
Diluted—pro forma (2)(3)		2.43		1.92		2.18

Explanatory Notes:

(1) HPU holders are Company employees who purchased high performance common stock units under the Company's High Performance Unit Program.

(2) For the 12 months ended December 31, 2003, net income used to calculate earnings per basic and diluted common share excludes $2,066 and $1,994 of net income allocable to HPU holders, respectively.

(3) For the 12 months ended December 31, 2003, net income used to calculate earnings per diluted common share includes joint venture income of $167.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," an interpretation of Statement of Financial Accounting Standards No. 5 ("SFAS No. 5"), "Accounting for Contingencies," Statement of Financial Accounting Standards No. 57, "Related Party Disclosures," Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments" and rescinds FASB Interpretation No. 34, "Disclosure of Indirect Guarantees of

Indebtedness of Others, an Interpretation of SFAS No. 5." It requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee regardless if the Company receives separately identifiable consideration (e.g., a premium). The disclosure requirements became effective December 31, 2002. The adoption of FIN 45 did not have a material impact on the Company's Consolidated Financial Statements, nor is it expected to have a material impact in the future.

In September 2002, the FASB issued Statement of Financial Accounting Standards No. 147 ("SFAS No. 147"), "Acquisitions of Certain Financial Institutions," an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9. SFAS No. 147 provides guidance on the accounting for the acquisitions of financial institutions, except those acquisitions between two or more mutual enterprises. SFAS No. 147 removes acquisitions of financial institutions from the scope of both FASB No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," and FASB Interpretation No. 9, Applying APB Opinions No. 16 and 17, "When a Savings and Loan Association or a Similar Institution is Acquired in a Business Combination Accounted for by the Purchase Method," and requires that those transactions be accounted for in accordance with SFAS No. 141 and SFAS No. 142. SFAS No. 147 also amends SFAS No. 144 to include in its scope long-term, customer-relationship intangible assets of financial institutions such as depositor-relationship and borrower-relationship intangible assets and credit cardholder intangible assets. The Company adopted the provisions of this statement, as required, on October 1, 2002, and it did not have a significant financial impact on the Company's Consolidated Financial Statements.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146 ("SFAS No. 146"), "Accounting for Exit or Disposal Activities," to address significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force ("EITF") has set forth in EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The scope of SFAS No. 146 also includes: (1) costs related to terminating a contract that is not a capital lease; and (2) termination benefits received by employees involuntarily terminated under the terms of a one-time benefit arrangement that is not an on-going benefit arrangement or an individual deferred-compensation contract. The Company adopted the provisions of SFAS 146 on December 31, 2002, as required, and it did not have a material effect on the Company's Consolidated Financial Statements.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS No. 145"), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds both FASB Statements No. 4 ("SFAS No. 4"), "Reporting Gains and Losses from Extinguishment of Debt," and the amendment to SFAS No. 4, FASB Statement No. 64 ("SFAS No. 64"), "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." Through this rescission, SFAS No. 145 eliminates the requirement (in both SFAS No. 4 and SFAS No. 64) that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. An entity is not prohibited from classifying such gains and losses as extraordinary items, so long as they meet the criteria in paragraph 20 of Accounting Principles Board Opinion No. 30 ("APB 30"), "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions"; however, due to the nature of the Company's operations, such treatment may not be available to the Company. Any gains or losses on extinguishments of debt that were previously classified as extraordinary items in prior periods presented that do not meet the criteria in APB 30 for

classification as an extraordinary item will be reclassified to income from continuing operations. The provisions of SFAS No. 145 are effective for financial statements issued for fiscal years beginning after May 15, 2002. The Company adopted the provisions of this statement, as required, on January 1, 2003. For the years ended December 31, 2002 and 2001, the Company reclassified $12.2 million and $1.6 million, respectively from "Extraordinary loss from early extinguishment of debt" into "Loss on early extinguishment of debt" in income from continuing operations on the Company's Consolidated Statements of Operations.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS No. 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 provides guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of, and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 requires that current operations prior to the disposition of CTL assets and prior period results of such operations be presented in discontinued operations in the Company's Consolidated Statements of Operations. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning

after December 15, 2001, and must be applied at the beginning of a fiscal year. The Company adopted the provisions of this statement on January 1, 2002, as required, and it did not have a significant financial impact on the Company.

In July 2001, the FASB issued SFAS No. 141 and Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets." SFAS No. 141 requires the purchase method of accounting to be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also addresses the initial recognition and measurement of goodwill and other intangible assets acquired in business combinations and requires intangible assets to be recognized apart from goodwill if certain tests are met. SFAS No. 142 requires that goodwill not be amortized but instead be measured for impairment at least annually, or when events indicate that there may be an impairment. The Company adopted the provisions of both statements for transactions initiated after June 30, 2001, as required, and the adoption did not have a significant impact on the Company.

In July 2001, the SEC released Staff Accounting Bulletin No. 102 ("SAB 102"), "Selected Loan Loss Allowance and Documentation Issues." SAB 102 summarizes certain of the SEC's views on the development, documentation and application of a systematic methodology for determining allowances for loan and lease losses. Adoption of SAB 102 by the Company did not have a significant impact on the Company.

In September 2000, the FASB issued Statement of Financial Accounting Standards No. 140 ("SFAS No. 140"), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement is applicable for transfers of assets and extinguishments of liabilities occurring after June 30, 2001. The Company adopted the provisions of this statement as required for all transactions entered into on or after April 1, 2001. The adoption of SFAS No. 140 did not have a significant impact on the Company.

Note 4—Loans and Other Lending Investments

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

				Carrying Value as of						
Type of Investment	**Underlying Property Type**	**# of Borrowers In Class**	**Principal Balances Outstanding**	**December 31, 2003**	**December 31, 2002**	**Effective Maturity Dates**	**Contractual Interest Payment Rates(2)**	**Contractual Interest Accrual Rates(2)**	**Principal Amortization**	**Participation Features**
Senior Mortgages(3)	Office/Residential/ Retail/Industrial, R&D/ Conference Center/ Mixed Use/Hotel/ Entertainment, Leisure/Other	41	$ 2,143,326	$ 2,106,791	$ 1,675,797	2004 to 2022	Fixed: 7.03% to 12.00% Variable: LIBOR + 1.50% to LIBOR + 6.50%	Fixed: 7.03% to 12.00% Variable: LIBOR + 1.50% to LIBOR + 6.50%	Yes(4)	No
Subordinate Mortgages	Office/Residential/ Retail/Mixed Use/ Hotel	21	551,634	550,572	629,486	2004 to 2013	Fixed: 7.00% to 18.00% Variable: LIBOR + 1.79% to LIBOR + 7.47%	Fixed: 7.32% to 18.00% Variable: LIBOR + 1.79% to LIBOR + 7.47%	Yes(4)	No
Corporate/Partnership Loans	Office/Residential/Retail/Industrial, R&D/ Mixed Use/Hotel/Entertainment, Leisure/Other	27	740,529	710,469	441,028	2004 to 2013	Fixed: 6.00% to 15.00% Variable: LIBOR + 3.50% to LIBOR + 12.77%	Fixed: 7.33% to 17.50% Variable: LIBOR + 3.50% to LIBOR + 12.77%	Yes(4)	Yes(5)
Other Lending Investments—Loans	Office/Mixed Use/Hotel/Other	5	26,096	23,767	23,167	2004 to 2008	Fixed: 10.00% to 15.00% Variable: LIBOR + 4.75%	Fixed: 15.00% to 17.50% Variable: LIBOR + 4.75%	No	Yes(5)
Other Lending Investments—Securities(6)	Residential/Industrial, R&D/ Hotel/ Entertainment, Leisure/Other	11	364,050	344,511	310,114	2005 to 2030	Fixed: 6.75% to 10.00% Variable: LIBOR + 2.82% to LIBOR + 5.00%	Fixed: 6.75% to 10.00% Variable: LIBOR +2.82% to LIBOR + 5.00%	Yes(4)	No
Gross Carrying Value				$ 3,736,110	$ 3,079,592					
Provision for Loan Losses				(33,436)	(29,250)					
Total, Net				$ 3,702,674	$ 3,050,342					

Explanatory Notes:

(1) Details are for loans outstanding as of December 31, 2003.

(2) Substantially all variable-rate loans are based on 30-day LIBOR and reprice monthly. The 30-day LIBOR on December 31, 2003 was 1.12%. As of December 31, 2003, five loans with a combined carrying value of $95.9 million have a stated accrual rate that exceeds the stated pay rate, however, one of these loans, with a carrying value of $27.1 million, has been placed on non-accrual status and the Company is only recognizing income based on cash received for interest.

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

(4) 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.

(5) Under some of the loans, the lender receives additional payments representing additional interest from participation in available cash flow from operations of the property.

(6)

Generally consists of term preferred stock or debt interests that are specifically originated or structured to meet customer financing requirements and the Company's investment criteria. These investments do not typically consist of securities purchased in the open market or as part of broadly-distributed offerings.

During the 12 months ended December 31, 2003 and 2002, respectively, the Company and its affiliated ventures originated or acquired an aggregate of approximately $1,735.4 million and $1,403.8 million in loans and other lending investments, funded $46.1 million and $21.6 million under existing loan commitments, and received principal repayments of $1,120.0 million and $672.0 million.

As of December 31, 2003, the Company had 18 loans with unfunded commitments. The total unfunded commitment amount was approximately $208.6 million, of which $80.2 million was discretionary and $128.4 million was non-discretionary.

A portion of the Company's loans and other lending investments are pledged as collateral under either the iStar Asset Receivables secured notes, the secured revolving credit facilities or secured term loans (see Note 7 for a description of the Company's secured and unsecured debt).

The Company has reflected provisions for loan losses of approximately $7.5 million, $8.3 million and $7.0 million in its results of operations during the years ended December 31, 2003, 2002 and 2001, respectively. These provisions represent loan portfolio reserves based on management's evaluation of general market conditions, the Company's internal risk management policies and credit risk ratings system, industry loss experience, the likelihood of delinquencies or defaults and the credit quality of the underlying collateral. During the 12 months ended December 31, 2003, the Company took a $3.3 million direct impairment on a $30.4 million partnership loan on a class A building located in Pittsburgh, Pennsylvania. In August 2003 the borrower stopped making its debt service payments due to insufficient cash flow caused by vacancies at the property. After taking the impairment charge and lowering the book value of the asset to $27.1 million, management believes there is adequate collateral to support the book value of the asset.

Changes in the Company's provision for loan losses were as follows:

Provision for loan losses, December 31, 2000	$	14,000
Additional provision for loan losses		7,000
Provision for loan losses, December 31, 2001		21,000
Additional provision for loan losses		8,250
Provision for loan losses, December 31, 2002		29,250
Additional provision for loan losses		7,500
Impairment on loans		(3,314)
Provision for loan losses, December 31, 2003	$	33,436

Note 5—Corporate Tenant Lease Assets

During the 12 months ended December 31, 2003 and 2002, respectively, the Company acquired an aggregate of approximately $351.4 million and $409.1 million in CTL assets and disposed of CTL assets for net proceeds of approximately $47.6 million and $3.7 million.

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

		December 31, 2003		December 31, 2002
Facilities and improvements	$	2,210,592	$	1,959,309
Land and land improvements		468,708		428,365
Direct financing lease		35,472		32,640
Less: accumulated depreciation		(178,887)		(128,509)
Corporate tenant lease assets, net	$	2,535,885	$	2,291,805

The Company's CTL assets are leased to customers with initial term expiration dates from 2004 to 2023. Future operating lease payments under non-cancelable leases, excluding customer reimbursements of expenses, in effect at December 31, 2003, are approximately as follows (in thousands):

Year		Amount
2004	$	261,913
2005		253,886
2006		241,324
2007		219,331
2008		203,201
Thereafter		1,742,962

Under certain leases, the Company is entitled to receive additional participating lease payments to the extent gross revenues of the corporate tenant exceed a base amount. The Company earned $0, $0 and $0.4 million of such additional participating lease payments on these leases in the 12 months ended December 31, 2003, 2002 and 2001, respectively. In addition, the Company also receives reimbursements from customers for certain facility operating expenses including common area costs, insurance and real estate taxes. Customer expense reimbursements for the 12 months ended December 31, 2003, 2002 and 2001 were

approximately $31.9 million, $29.7 million and $25.2 million, respectively, and are included as a reduction of "Operating costs—corporate tenant lease assets" on the Company's Consolidated Statements of Operations.

The Company is subject to expansion option agreements with two existing customers which could require the Company to fund and to construct up to 161,000 square feet of additional adjacent space on which the Company would receive additional operating lease income under the terms of the option agreements. In addition, upon exercise of such expansion option agreements, the corporate tenants would be required to simultaneously extend their existing lease terms for additional periods ranging from six to ten years.

During the 12 months ended December 31, 2003, the Company sold nine CTL assets for net proceeds of approximately $47.6 million, and realized a gain of approximately $5.2 million.

As of December 31, 2003, there was one CTL asset with a book value of $24.8 million classified as "Assets held for sale" on the Company's Consolidated Balance Sheets.

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

On September 30, 2002, one of the Company's customers exercised an option to terminate its lease on 50.00% of the land leased from the Company. In connection with this termination, the Company realized $17.5 million in cash lease termination payments, offset by a $17.4 million impairment charge in connection with the termination, resulting in a net gain of approximately $123,000. In the fourth quarter of 2002, the customer completed a recapitalization transaction that significantly enhanced its credit. In connection with this recapitalization, the Company agreed to amend the customer's lease, effective October 1, 2002. In the lease amendment, the Company received $12.5 million in cash as prepaid lease payments and the customer agreed to fixed minimum increases on future lease payments. In exchange, the Company agreed to reduce the customer's lease obligations for a period not to exceed nine quarters.

Following the reduction period, the customer is required to make additional lease payments over a 10-year period sufficient to reimburse the Company for a portion of the temporary reduction in lease payments.

On May 30, 2002, the Company sold one CTL asset for net proceeds of $3.7 million, and realized a gain of approximately $595,000. As of December 31, 2002, there were two CTL assets with a combined book value of $28.5 million classified as "Assets held for sale" on the Company's Consolidated Balance Sheets.

Note 6—Joint Ventures, Unconsolidated Subsidiaries and Minority Interest

Income or loss generated from the Company's joint venture investments and unconsolidated subsidiaries is included in "Equity in (loss) earnings from joint ventures and unconsolidated subsidiaries" on the Company's Consolidated Statements of Operations.

The Company's ownership percentages, its investments in and advances to unconsolidated joint ventures and subsidiaries, the Company's pro rata share of its ventures' third-party, non-recourse debt as of December 31, 2003 and its respective income (loss) for the year ended December 31, 2003 are presented below (in thousands):

					Third-Party Debt	
	Ownership %	Equity Investment	JV Income (Loss) for the Year Ended December 31, 2003	Pro Rata Share of Third-Party Non-Recourse Debt(1)	Interest Rate	Scheduled Maturity Date
Unconsolidated Joint Ventures:						
Sunnyvale	44.70%	$ 11,815	$ 1,740	$ 10,728	LIBOR + 1.25%	November 2004(2)
CTC I	50.00%	8,178	(3,903)	59,578	7.66% – 7.87%	Various through 2011
ACRE Simon	20.00%	5,026	144	6,438	7.61% – 8.43%	Various through 2011
Unconsolidated Subsidiaries:						
iStar Operating	95.00%	N/A	(2,252)	N/A	N/A	N/A
TMOC	95.00%	N/A	(13)	N/A	N/A	N/A
Total		$ 25,019	$ (4,284)	$ 76,744		

Explanatory Notes:

(1) The Company reflects its pro rata share of third-party, non-recourse debt, rather than the total amount of the joint venture debt, because the third-party, non-recourse debt held by the joint ventures is not guaranteed by the Company nor does the Company have any additional commitments to fund such debt obligations.

(2) On October 13, 2003, the venture extended the final maturity of the loan to November 2004.

Investments in and advances to unconsolidated joint ventures: At December 31, 2003, the Company had investments in three unconsolidated joint ventures: (1) TriNet Sunnyvale Partners L.P. ("Sunnyvale"), whose external partners are John D. O'Donnell, Trustee, John W. Hopkins, and Donald S. Grant, Trustee; (2) Corporate Technology Centre Associates, LLC ("CTC I"), whose external member is Corporate Technology Centre Partners, LLC; and (3) ACRE Simon, LLC ("ACRE"), whose external partner is William E. Simon & Sons Realty Partners, L.P. These ventures were formed for the purpose of operating, acquiring and, in certain cases, developing CTL facilities.

At December 31, 2003, the ventures comprised 12 net leased facilities. The Company's combined investment in these joint ventures at December 31, 2003 was $25.0 million. The joint ventures' carrying value for the 12 facilities owned at December 31, 2003 was $193.1 million. In aggregate, the joint ventures

had total assets of $221.2 million and total liabilities of $180.6 million as of December 31, 2003, and a net loss of approximately $4.4 million for the 12 months ended December 31, 2003, respectively. The Company accounts for these investments under the equity method because the Company's joint venture partners have certain participating rights giving them shared control over the ventures.

On July 2, 2002, the Company paid approximately $27.9 million in cash to the former member of TriNet Milpitas Associates ("Milpitas") joint venture in exchange for its 50.00% ownership interest. Pursuant to the terms of the joint venture agreement, the former external member had the right to convert its interest into 984,476 shares of Common Stock of the Company at any time during the period February 1, 2002 through January 31, 2003. On May 2, 2002, the former Milpitas external member exercised this right. Upon the external member's exercise of its conversion right, the Company had the option to acquire the partner's interest for cash, instead of shares, for a payment equal to the value of 984,476 shares of Common Stock multiplied by the ten-day average closing stock price as of the transaction date. The Company made such election and, as of July 2, 2002, owns 100.00% of Milpitas, and therefore consolidates these assets for accounting purposes. The Company accounted for the acquisition of the external interest using the purchase method.

On April 1, 2002, the former Sierra Land Ventures ("Sierra") joint venture partner assigned its 50.00% ownership interest in Sierra to a wholly-owned subsidiary of the Company. There was no cash or shares exchanged in this transaction. As of April 1, 2002, the Company owns 100.00% of the CTL asset previously held by Sierra and therefore consolidates this asset for accounting purposes.

Effective September 29, 2000, iStar Sunnyvale Partners, LP, which is wholly owned by Sunnyvale, entered into an interest rate cap agreement limiting the venture's exposure to interest rate movements on its $24.0 million LIBOR-based mortgage loan to an interest rate of 9.00% through November 9, 2003. On September 29, 2003, in connection with the extension of the ventures' debt, the venture extended the cap through November 9, 2004. Currently, the limited partners of Sunnyvale have the option to convert their partnership interest into cash; however, the Company may elect to deliver 297,728 shares of Common Stock in lieu of cash.

Investments in and advances to unconsolidated subsidiaries: The Company has an investment in iStar Operating, a taxable subsidiary that, through a wholly-owned subsidiary, services the Company's loans and certain loan portfolios owned by third parties. The Company owns all of the non-voting preferred stock and a 95.00% economic interest in iStar Operating. The common shareholder, an entity controlled by a former director of the Company, is the owner of all the voting common stock and a 5.00% economic interest in iStar Operating. As of December 31, 2003, there have never been any distributions to the common shareholder, nor does the Company expect to make any in the future. At any time, the Company has the right to acquire all of the common stock of iStar Operating at fair market value, which the Company believes to be nominal.

iStar Operating has elected to be treated as a taxable REIT subsidiary for purposes of maintaining compliance with the REIT provisions of the Code and prior to July 1, 2003 was accounted for under the equity method for financial statement reporting purposes and was presented in "Investments in and advances to joint ventures and unconsolidated subsidiaries" on the Company's Consolidated Balance Sheets. As of July 1, 2003, the Company consolidates this entity as a VIE (see Note 3) with no material impact. Prior to its consolidation, the Company charged an allocated portion of its general overhead expenses to iStar Operating based on the number of employees at iStar Operating as a percentage of the Company's total employees. These general overhead expenses were in addition to the direct general and administrative costs of iStar Operating. As of December 31, 2003, iStar Operating had no debt obligations.

In addition, the Company had an investment in TMOC, an entity originally formed to make a $2.0 million investment in the convertible debt securities of a real estate company which trades on the Mexican Stock Exchange. This investment was made by TriNet prior to its acquisition by the Company in 1999. Prior to March 29, 2003, the Company owned 95.00% of the outstanding voting and non-voting common stock (representing 1.00% voting power and 95.00% of the economic interest) in TMOC. The owners of the remaining TMOC stock were two executives of the Company. On March 29, 2003, the Company purchased the remaining 5.00% interest from the executives for approximately $2,000, an amount that was equal to the carrying value, which was less than their original investment. Following this purchase, the Company owned 100.00% of TMOC and therefore consolidated the entity for accounting purposes. On June 30, 2003, the $2.0 million investment was fully repaid and prior to December 31, 2003, the entity was liquidated.

Minority Interest: On September 29, 2003 the Company acquired a 96.00% interest in iStar Harborside LLC, an infinite life partnership, with the external partner holding the remaining 4.00% interest. The Company consolidates this partnership for financial statement purposes and records the minority interest of the external partner in "Minority interest in consolidated entities" on the Company's Consolidated Balance Sheets.

The Company also holds a 98.00% interest in TriNet Property Partners, L.P with the external partners holding the remaining 2.00% interest. As of August 1999, the external partners have the option to convert their partnership interest into cash; however, the Company may elect to deliver 72,819 shares of Common Stock in lieu of cash. The Company consolidates this partnership for financial statement purposes and records the minority interest of the external partner in "Minority interest in consolidated entities" on the Company's Consolidated Balance Sheets.

Note 7—Debt Obligations

As of December 31, 2003 and 2002, the Company has debt obligations under various arrangements with financial institutions as follows (in thousands):

		Carrying Value as of			
	Maximum Amount Available	December 31, 2003	December 31, 2002	Stated Interest Rates(1)	Scheduled Maturity Date

Secured revolving credit facilities:					
Line of credit	$ 700,000	$ 88,640	$ 412,550	LIBOR + 1.75% — 2.25%	March 2005 (2)
Line of credit	700,000	310,364	462,920	LIBOR + 1.40% — 2.15%	January 2007 (2)
Line of credit	500,000	117,211	283,884	LIBOR + 1.75% — 2.25%	August 2005 (2) (3)
Line of credit	500,000	180,376	114,400	LIBOR + 1.50% — 2.25%	September 2005
Unsecured revolving credit facilities:					
Line of credit	300,000	130,000	—	LIBOR + 2.125%	July 2004 (4)
Total revolving credit facilities	$ 2,700,000	$ 826,591	$ 1,273,754		
Secured term loans:					
Secured by corporate tenant lease assets		193,000	193,000	LIBOR + 1.85%	July 2006 (5)
Secured by corporate tenant lease assets		140,440	144,114	7.44%	March 2009
Secured by corporate tenant lease assets		135,000	—	LIBOR + 1.75%	October 2008 (6)
Secured by corporate tenant lease assets		92,876	95,074	6.00% — 11.38%	Various through 2022
Secured by corporate lending investments		77,938	79,126	6.55%	November 2005
Secured by corporate lending investments		60,874	61,537	6.41%	January 2013
Secured by corporate lending investments		60,000	60,000	LIBOR + 2.50%	June 2004 (7)
Secured by corporate lending investments		—	50,000	LIBOR + 0.60%	October 2003 (8)
Secured by corporate lending investments		48,000	—	LIBOR + 2.125%	July 2008 (9)
Total term loans		808,128	682,851		
Less: debt discount		(128)	(236)		
Total secured term loans		808,000	682,615		
iStar Asset Receivables secured notes:					
STARs Series 2002-1:					
Class A1		40,011	236,694	LIBOR + 0.26%	June 2004 (10)
Class A2		381,296	381,296	LIBOR + 0.38%	December 2009 (10)
Class B		39,955	39,955	LIBOR + 0.65%	April 2011 (10)
Class C		26,637	26,637	LIBOR + 0.75%	May 2011(10)
Class D		21,310	21,310	LIBOR + 0.85%	January 2012(10)
Class E		42,619	42,619	LIBOR + 1.235%	January 2012(10)
Class F		26,637	26,637	LIBOR + 1.335%	January 2012(10)
Class G		21,309	21,309	LIBOR + 1.435%	January 2012(10)
Class H		26,637	26,637	6.35%	January 2012(10)
Class J		26,637	26,637	6.35%	May 2012(10)
Class K		26,637	26,637	6.35%	May 2012(10)
Total STARs Series 2002-1		679,685	876,368		
Less: debt discount		(4,090)	(4,425)		
STARs Series 2003-1:					
Class A1		235,808	—	LIBOR + 0.25%	October 28, 2005(11)
Class A2		248,206	—	LIBOR +0.35%	August 28, 2010(11)
Class B		18,452	—	LIBOR + 0.55%	July 28, 2011(11)
Class C		20,297	—	LIBOR + 0.65%	April 28, 2012(11)
Class D		12,916	—	LIBOR + 0.75%	October 28, 2012(11)
Class E		14,762	—	LIBOR + 1.05%	May 28, 2013(11)
Class F		14,762	—	LIBOR + 1.10%	June 28, 2013(11)
Class G		12,916	—	LIBOR + 1.25%	June 28, 2013(11)
Class H		12,916	—	4.97%	June 28, 2013(11)
Class J		14,761	—	5.07%	June 28, 2013(11)
Class K		25,833	—	5.56%	June 28, 2013(11)
Total STARS Series 2003-1		631,629	—		
Total iStar Asset Receivables secured notes		1.307,224	871,943		
Unsecured notes:					
6.00% Senior Notes (12)		350,000	—	6.10%	December 2010
6.50% Senior Notes (12)		150,000	—	6.60%	December 2013
6.75% Dealer Remarketable Securities (13)(14)(15)		—	125,000	6.75%	March 2013
7.00% Senior Notes (14)		185,000	—	7.00%	March 2008
7.70% Notes (13)(15)		100,000	100,000	7.70%	July 2017
7.95% Notes (13)(15)		50,000	50,000	7.95%	May 2006
8.75% Notes		350,000	350,000	8.75%	August 2008

Total unsecured notes	1,185,000	625,000		
Less: debt discount	(47,921)	(11,603)		
Plus: impact of pay-floating swap agreements(16)	690	3,920		
Total unsecured notes	1,137,769	617,317		
Other debt obligations	34,148	15,961	Various	Various
Total debt obligations	$ 4,113,732	$ 3,461,590		

Explanatory Notes:

(1) Substantially all variable-rate debt obligations are based on 30-day LIBOR and reprice monthly. The 30-day LIBOR rate on December 31, 2003 was 1.12% per annum.

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

(3) On November 4, 2003, this secured facility was amended to include subordinate and mezzanine lending investments as collateral at stated interest rates of LIBOR + 2.15%—2.25%. First mortgages remained at a stated interest rate of LIBOR + 1.75%.

(4) On May 14, 2003, the Company extended the final maturity on this facility to July 2004.

(5) Maturity date reflects two one-year extensions at the Company's option.

(6) On September 29, 2003, the Company closed a $135.0 million term loan secured by a CTL asset it acquired the same day. The loan has a five-year term and bears interest at LIBOR + 1.75%.

(7) On May 8, 2003, the Company extended the final maturity on this facility to June 2004.

(8) On April 9, 2003, the Company repaid the existing term loan financing a $75.0 million term preferred investment in a publicly-traded real estate company and simultaneously entered into another $50.0 million term loan with a leading financial institution. The new term loan bore interest at LIBOR + 0.60% and matured in October 2003.

(9) On July 24, 2003, the Company closed a $48.0 million term loan secured by a corporate lending investment it originated in the third quarter of 2003. The loan has a three-year primary term and two one-year extension options, and bears interest at LIBOR + 2.125%.

(10) Principal payments on these bonds are a function of the principal repayments on loan or CTL assets which collateralize these obligations. The dates indicated above represent the expected date on which the final payment would occur for such class based on the assumptions that the loans which collateralize the obligations are not voluntarily prepaid, the loans are paid on their effective maturity dates and no extensions of the effective maturity dates of any of the loans are granted. The final maturity date for the underlying indenture on class A1 is May 28, 2017 and the final maturity date for classes A2, B, C, D, E, F, G, H, J and K is May 28, 2020.

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

(12) On December 5, 2003, the Company issued $350.0 million of 6.00% Senior Notes due in 2010 and $150.0 million of 6.50% Senior Notes due in 2013. The Notes due 2010 were sold at 99.44% of their principal amount and the Notes due 2013 were sold at 99.23% of their principal amount.

(13) The Notes are callable by the Company at any time for an amount equal to the total of principal outstanding, accrued interest and the applicable make-whole prepayment premium.

(14) On March 14, 2003, the Company retired the 6.75% Dealer Remarketable Securities of its Leasing Subsidiary by exchanging those securities for newly issued $150.0 million 7.00% Senior Notes due March 2008. The covenants in the Senior Notes due 2008 are substantially identical to the covenants contained in the Company's 8.75% Notes. On April 8, 2003, the Company issued an additional $35.0 million of Senior Notes bringing the aggregate principal of the Senior Notes to $185.0 million. The additional $35.0 million of Senior Notes has identical terms to the Senior Notes issued on March 14, 2003, but were issued at 102.75% of their principal amount to yield 6.34% per annum.

(15) These obligations were assumed as part of the acquisition of TriNet. As part of the accounting for the purchase, these fixed-rate obligations were considered to have stated interest rates which were below the then-prevailing market rates at which the Leasing Subsidiary could issue new debt obligations and, accordingly, the Company ascribed a market discount to each obligation. Such discounts are amortized as an adjustment to interest expense using the effective interest method over the related term of the obligations. As adjusted, the effective annual interest rates on these obligations were 8.81%, 9.51% and 9.04% for the 6.75% Dealer Remarketable Securities, 7.70% Notes and 7.95% Notes, respectively.

(16) On December 19, 2003, the Company entered into three pay-floating interest rate swaps struck at 4.381%, 4.345% and 4.29% in the notional amounts of $200.0 million, $100.0 million and $50.0 million, respectively. On November 27, 2002, the Company entered into two pay-floating interest rate swaps struck at 3.8775% and 3.81% in the notional amounts of $100.0 million and $50.0 million, respectively. These swaps are intended to mitigate the risk of changes in the fair value of $350.0 million of 7-year Senior Notes and $150.0 million of 10-year Senior Notes attributable to changes in LIBOR. For accounting purposes, quarterly the Company adjusts the value of the swap to its fair value and adjusts the carrying amount of the hedged liability by an offsetting amount.

Availability of amounts under the secured revolving credit facilities are based on percentage borrowing base calculations. In addition, certain of the Company's debt obligations contain covenants. These covenants are both financial and non-financial in nature. Significant financial covenants include limitations on the Company's ability to incur indebtedness beyond specified levels, restrictions on the Company's ability to incur liens on assets and limitations on the amount and type of restricted payments, such as repurchases of its own equity securities, that the Company makes. Significant non-financial covenants include a requirement in its publicly-held debt securities that the Company offer to repurchase those securities at a premium if the Company undergoes a change of control. As of December 31, 2003, the Company believes it is in compliance with all financial and non-financial covenants on its debt obligations.

Subsequent to December 31, 2003, the Company issued $175.0 million of Senior Floating Rate Notes due 2007 which bear interest at three-month LIBOR + 1.25% and $250.0 million of 5.70% Senior Notes due 2014 (see Note 17).

In addition, on January 23, 2004, the Company issued $350.0 million of 4.875% Senior Notes due in 2009. The Notes were sold at 99.89% of their principal amount to yield 4.90%. The Notes are unsecured senior obligations of the Company. The Company used the proceeds to repay outstanding secured borrowings.

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

On December 5, 2003, the Company issued $350.0 million of 6.00% Senior Notes due in 2010 and $150.0 million of 6.50% Senior Notes due in 2013. The Notes due 2010 were sold at 99.44% of their principal amount and the Notes due 2013 were sold at 99.23% of their principal amount. The Notes are unsecured senior obligations of the Company. The Company used the net proceeds to partially repay outstanding borrowings under its secured credit facilities.

On November 4, 2003, one of the Company's $500.0 million secured facilities was amended to include subordinate and mezzanine leanding investments as collateral at stated interest rates of LIBOR+2.15%–2.25%.

On October 31, 2003, the Company's $50.0 million term loan bearing interest at LIBOR + 0.60% matured and was repaid.

On September 29, 2003, the Company closed a $135.0 million term loan secured by a CTL asset it acquired the same day. The loan has a five-year term and bears interest at LIBOR + 1.75%.

On July 24, 2003, the Company closed a $48.0 million term loan secured by a corporate lending investment it originated in the third quarter of 2003. The loan has a three-year primary term and two one-year extension options, and bears interest at LIBOR + 2.125%.

On May 21, 2003, a wholly-owned subsidiary of the Company issued iStar Asset Receivables ("STARs"), Series 2003-1, the Company's proprietary match funding program, consisting of $645.8 million of investment-grade bonds secured by the subsidiary's structured finance and CTL assets, which had an aggregate outstanding carrying value of approximately $738.1 million 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 weighted average interest rate on the bonds, on an all-floating rate basis, was approximately LIBOR + 0.47% at inception. For accounting purposes, this transaction was treated as a secured

financing: the underlying assets and STARs liabilities remained on the Company's Consolidated Balance Sheets, and no gain on sale was recognized.

On May 14, 2003, the Company extended the maturity on its $300.0 million unsecured facility to July 2004.

On May 8, 2003, the Company extended the maturity on its $60.0 million term loan to June 2004.

On April 9, 2003, the Company repaid the existing term loan financing a $75.0 million term preferred investment in a publicly-traded real estate company and simultaneously entered into another $50.0 million term loan with a leading financial institution. The new term loan bears interest at LIBOR + 0.60% and has a final maturity date of October 2003 with amortization payments in July 2003 and October 2003.

On April 8, 2003, the Company issued an additional $35.0 million of 7.00% Senior Notes due March 2008, bringing the aggregate principal amount of the Senior Notes to $185.0 million. The add-on Notes have identical terms to the Senior Notes issued in March 2003, although they were issued at 102.75% of their principal amount, to yield 6.34% per annum.

On March 14, 2003, the Company retired the 6.75% Dealer Remarketable Securities of its Leasing Subsidiary by exchanging those securities for newly issued $150.0 million 7.00% Senior Notes due March 2008.

On January 27, 2003, the Company extended the maturity on one of its $700.0 million secured facilities to January 2007, which includes a one-year "term-out" at the Company's option.

On December 11, 2002, the Company closed a $61.5 million term loan financing with a leading financial institution. The proceeds were used to fund a portion of an $82.1 million CTL investment. The non-recourse loan is fixed rate and bears interest at 6.412%, has a maturity date of December 2012 and amortizes over a 30-year schedule.

On September 30, 2002, the Company closed a $500.0 million secured revolving credit facility with a leading financial institution. The facility has a three-year term and bears interest at LIBOR + 1.50% to 2.25%, depending upon the collateral contributed to the borrowing base. The facility accepts a broad range of structured finance and corporate tenant assets and has a final maturity date of September 2005.

On July 2, 2002, the Company purchased the remaining interest in the Milpitas joint venture from the former Milpitas external member for $27.9 million. Upon purchase of the interest, the Milpitas joint venture became fully consolidated for accounting purposes and approximately $79.1 million of secured term debt is reflected on the Company's Consolidated Balance Sheets.

On May 28, 2002, the Company fully repaid the remaining $446.2 million of bonds outstanding under STARs, Series 2000-1. Simultaneously, a wholly-owned subsidiary of the Company issued STARs, Series 2002-1, consisting of $885.1 million of investment-grade bonds secured by the subsidiary's structured finance and CTL assets, which had an aggregate outstanding carrying value of approximately $1.1 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 weighted average interest rate on the bonds, on an all-floating rate basis, was approximately LIBOR + 0.56% at inception. For accounting purposes, this transaction was treated as a secured financing: the underlying assets and STARs liabilities remained on the Company's Consolidated Balance Sheets, and no gain on sale was recognized.

On March 29, 2002, the Company extended the maturity of its $500.0 million secured facility to August 2005, which includes a one-year "term-out" extension at the Company's option.

On August 9, 2001, the Company issued $350.0 million of 8.75% Senior Notes due in 2008. The Notes are unsecured senior obligations of the Company. The Company used the net proceeds to repay outstanding borrowings under its secured credit facilities.

On July 27, 2001, the Company completed a $300.0 million unsecured revolving credit facility with a group of leading financial institutions. The facility has an initial maturity of July 2003, with a one-year extension at the Company's option and another one-year extension at the lenders' option. The facility replaces two prior credit facilities maturing in 2002 and 2003, and bears interest at LIBOR + 2.125%. On May 14, 2003, the Company extended the maturity of this facility to July 2004.

On July 6, 2001, the Company financed a $75.0 million structured finance asset with a $50.0 million term loan bearing interest at LIBOR + 2.50%. The loan has a maturity of July 2006, including a one-year extension at the Company's option. This investment is a $75.0 million term preferred investment in a publicly-traded real estate company. The Company's investment carries an initial current yield of 10.50%, with annual increases of 0.50% in each of the next two years. In

addition, the Company's investment is convertible into the customer's common stock at a strike price of $25.00 per share. The investment is callable by the customer between months 13 and 30 of the term at a yield maintenance premium, and after month 30, at a premium sufficient to generate a 14.62% internal rate of return on the Company's investment. The investment is putable by the Company to the customer for cash after five years. On April 9, 2003, the Company repaid this term loan and simultaneously entered into another $50.0 million term loan bearing interest at LIBOR + 0.60% and with a final maturity of October 2003.

On June 14, 2001, the Company closed $193.0 million of term loan financing secured by 15 CTL assets. The variable-rate loan bears interest at LIBOR + 1.85% (not to exceed 10.00% in aggregate) and has two one-year extensions at the Company's option. The Company used these proceeds to repay a $77.8 million secured term loan maturing in June 2001 and to pay down a portion of its revolving credit facilities. In addition, the Company extended the maturity of its $500.0 million secured revolving credit facility to August 2003. On March 29, 2002, the Company again extended the final maturity of this facility to August 2005, which includes a one-year "term-out" extension at the Company's option.

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

On February 22, 2001, the Company extended the maturity of its $350.0 million unsecured revolving credit facility to May 2002. On July 27, 2001, the Company repaid this facility and replaced it with a $300.0 million unsecured revolving credit facility.

On January 11, 2001, the Company closed a $700.0 million secured revolving credit facility which is led by a major commercial bank. The facility has a three-year primary term and one-year "term-out" extension option, and bears interest at LIBOR + 1.40% to 2.15%, depending upon the collateral contributed to the borrowing base. The facility accepts a broad range of structured finance assets and has a final maturity of January 2005. On January 27, 2003, the Company extended the final maturity on this facility to January 2007.

During the years ended December 31, 2003, 2002 and 2001, the Company incurred an extraordinary loss of approximately $0, $12.2 million and $1.6 million, respectively, as a result of the early retirement of certain debt obligations. On January 1, 2003, in accordance with SFAS No. 145, these costs were reclassified from "Extraordinary loss on early extinguishments of debt" into income from continuing operations.

As of December 31, 2003, future expected/scheduled maturities of outstanding long-term debt obligations are as follows (in thousands)(1):

2004	$	264,158
2005		702,840
2006		243,000
2007		313,216
2008		718,000
Thereafter		1,923,967
Total principal maturities		4,165,181
Net unamortized debt discounts		(52,139)
Impact of pay-floating swap agreement		690
Total debt obligations	$	4,113,732

Explanatory Note:

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

Note 8—Shareholders' Equity

The Company's charter provides for the issuance of up to 200.0 million shares of Common Stock, par value $0.001 per share, and 30.0 million shares of preferred stock. The Company has 2.3 million shares of 9.375% Series B Cumulative Redeemable Preferred Stock, 1.5 million shares of 9.20% Series C Cumulative Redeemable Preferred Stock, 4.6 million shares of 8.00% Series D Cumulative Redeemable Preferred Stock, 5.6 million shares of 7.875% Series E Cumulative Redeemable Preferred Stock, 4.0 million shares of 7.80% Series F Cumulative Redeemable Preferred Stock and 3.2 million shares of 7.65% Series G Cumulative Redeemable Preferred Stock. The Series B, C, D, E, F and G Cumulative Redeemable Preferred Stock are redeemable without premium at the option of the Company at their respective liquidation preferences beginning on June 15, 2001, August 15, 2001, October 8, 2002, July 18, 2008, September 29, 2008 and December 19, 2008, respectively.

In December 2003, the Company completed an underwritten public offering of 5.0 million primary shares of the Company's Common Stock. The Company received approximately $191.1 million from the offering and used these proceeds to repay a portion of its secured debt.

In December 2003, the Company redeemed 1.6 million shares of the Company's 9.50% Series A Cumulative Redeemable Preferred Stock, having a liquidation preference of $50.00 per share by exchanging those securities for newly issued 3.2 million shares of 7.65% Series G Cumulative Redeemable Preferred Stock, having a liquidation preference of $25.00 per share and a redemption date beginning on December 19, 2008. Immediately following this transaction the Company no longer had any Series A Preferred Stock outstanding. The Company did not receive any cash proceeds from the offering.

In September 2003, the Company completed an underwritten public offering of 4.0 million shares of its 7.80% Series F Cumulative Redeemable Preferred Stock, having a liquidation preference of $25.00 per share and a redemption date beginning on September 29, 2008. The Company used the proceeds from the offering to repay a portion of its secured debt.

In July 2003, the Company redeemed 2.8 million shares of the Company's 9.50% Series A Cumulative Redeemable Preferred Stock, having a liquidation preference of $50.00 per share by exchanging those securities for newly issued 5.6 million shares of 7.875% Series E Cumulative Redeemable Preferred Stock,

having a liquidation preference of $25.00 per share and a redemption date beginning on July 18, 2008. The Company did not receive any cash proceeds from the offering.

On November 14, 2002, the Company completed an underwritten public offering of 8.0 million primary shares of the Company's Common Stock. The Company received approximately $202.9 million from the offering and used these proceeds to repay a portion of its secured debt.

On December 15, 1998, the Company issued warrants to acquire 6.1 million shares of Common Stock, as adjusted for dilution, at $34.35 per share. The warrants are exercisable on or after December 15, 1999 at a price of $34.35 per share and expire on December 15, 2005.

Concentration of Shareholder Ownership— On October 30, 2001, SOFI IV SMT Holdings, L.P. ("SOFI IV") and certain of its affiliates sold 18.975 million shares of Common Stock owned by them (including the subsequently-exercised 2.475 million share over-allotment option granted to the underwriters). In addition, on May 15, 2002, SOFI IV sold 10.808 million shares of Common Stock owned by them (including the subsequently-exercised 808,200 share over-allotment option granted to the underwriters). Further, on November 14, 2002, SOFI IV sold 3.5 million shares of Common Stock owned by them (including the subsequently-exercised 1.5 million over-allotment option granted to the underwriters). Lastly, on May 13, 2003, SOFI IV distributed approximately 15.9 million shares to its limited and general partners. Some of the partners then elected to sell 6.9 million of the shares distributed to them. Immediately following the secondary offerings and the distribution, SOFI IV owned approximately 3.88% of the Company's Common Stock (based on the diluted sharecount as of December 31, 2003). The Company did not sell any shares in the offerings, other than the November 2002 offering, in which the Company sold 8.0 million primary shares and received net proceeds of approximately $202.9 million.

DRIP/Stock Purchase Plan— The Company maintains a dividend reinvestment and direct stock purchase plan. Under the dividend reinvestment component of the plan, the Company's shareholders may purchase additional shares of Common Stock without payment of brokerage commissions or service charges by automatically reinvesting all or a portion of their Common Stock cash dividends. Under the direct stock purchase component of the plan, the Company's shareholders and new investors may purchase shares of Common Stock directly from the Company without payment of brokerage commissions or service charges. All purchases of shares in excess of $10,000 per month pursuant to the direct purchase component are at the Company's sole discretion. Shares issued under the plan may reflect a discount of up to 3.00% from the prevailing market price of the Company's Common Stock. The Company is authorized to issue up to 8.0 million shares of Common Stock pursuant to the dividend reinvestment and direct stock purchase plan. During the 12 months ended December 31, 2003 and 2002, the Company issued a total of approximately 2.6 million and 1.6 million shares of its Common Stock, respectively, through the direct stock purchase component of the plan. Net proceeds during the 12 months ended December 31, 2003 and 2002 were approximately $89.1 million and $44.4 million, respectively. There are approximately 3.6 million shares available for issuance under the plan as of December 31, 2003.

Stock Repurchase Program—The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets or loan repayments and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of December 31, 2003, the Company had repurchased a total of approximately 2.3 million shares at an aggregate cost of approximately $40.7 million. The Company has not repurchased any shares under the stock repurchase program since November 2000.

Note 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 lending investments that results from a property's, borrower's or corporate tenant's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of loans due to changes in interest rates or other market factors, including the rate of prepayments of principal and the value of the collateral underlying loans and the valuation of CTL facilities held by the Company.

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

The Company has entered into the following cash flow and fair value hedges that are outstanding as of December 31, 2003. The net value (liability) associated with these hedges is reflected on the Company's Consolidated Balance Sheets (in thousands).

Type of Hedge	Notional Amount	Strike Price or Swap Rate	Trade Date	Maturity Date	Estimated Value at December 31, 2003
Pay-Fixed Swap	$ 125,000	2.885%	1/23/03	6/25/06	$ (1,632)
Pay-Fixed Swap	125,000	2.838%	2/11/03	6/25/06	(1,486)
Pay-Fixed Swap	75,000	5.580%	11/4/99(1)	12/1/04	(3,227)
Pay-Floating Swap	200,000	4.381%	12/17/03	12/15/10	(1,472)
Pay-Floating Swap	100,000	4.345%	12/17/03	12/15/10	(958)
Pay-Floating Swap	100,000	3.878%	11/27/02	8/15/08	2,681

Pay-Floating Swap	50,000	3.810%	11/27/02	8/15/08		1,183
Pay-Floating Swap	50,000	4.290%	12/17/03	12/15/10		(649)
LIBOR Cap	345,000	8.000%	5/22/02	5/28/14		11,648
LIBOR Cap	135,000	6.000%	9/29/03	10/15/06		418
LIBOR Cap	75,000	7.750%	11/4/99(1)	12/1/04		—
LIBOR Cap	35,000	7.750%	11/4/99(1)	12/1/04		—
Total Estimated Value					$	6,506

Explanatory Note:

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

Between January 1, 2002 and December 31, 2003, the Company also had outstanding the following cash flow hedges that have expired or been settled (in thousands):

Type of Hedge		Notional Amount	Strike Price or Swap Rate	Trade Date	Maturity Date
Pay-Fixed Swap	$	125,000	7.058%	6/15/00	6/25/03
Pay-Fixed Swap		125,000	7.055%	6/15/00	6/25/03
Pay-Fixed Swap		100,000	4.139%	9/29/03	1/2/11
Pay-Fixed Swap		100,000	4.643%	9/29/03	1/2/14

During 2003, the Company entered into two 90-day forward starting swaps each having a $100.0 million notional amount. These pay-fixed swaps which were effective in September 2003, had rates of 4.139% and 4.643%, had seven-year and 10-year terms, respectively, and were used to lock-in swap rates related to a portion of planned future corporate unsecured fixed-rate bond issuances. These two swaps were settled in connection with the Company's issuance of $350.0 million of seven-year Senior Notes and $150.0 million of 10-year Senior Notes. In addition, effective in September 2003, the Company entered into a $135.0 million cap with a rate of 6.00% to hedge the Company's current outstanding floating-rate debt. This cap has a three-year term. Further, the Company entered into two $125.0 million forward starting swaps. These pay-fixed swaps were effective in June 2003 and replaced the two $125.0 million pay-fixed swaps mentioned above. The two new pay-fixed swaps have a three-year term and expire on June 25, 2006.

In addition, in connection with a portion of the Company's fixed-rate corporate bonds, the Company entered into three pay-floating interest rate swaps in December 2003 struck at 4.381%, 4.345% and 4.29% with notional amounts of $200.0 million, $100.0 million and $50.0 million, respectively, and maturing on December 15, 2010 and also entered into two pay-floating interest rate swaps in November 2002 struck at 3.8775% and 3.81% with notional amounts of $100.0 million and $50.0 million, respectively, and maturing on August 15, 2008. The Company pays six-month LIBOR on the swaps entered into in December 2003 and one-month LIBOR on the swaps entered into in November 2002 and receives the stated fixed rate in return. These swaps mitigate the risk of changes in the fair value of $350.0 million of seven-year Senior Notes and $150.0 million of 10-year Senior Notes attributable to changes in LIBOR. For accounting purposes, the difference between the fixed rate received and the LIBOR rate paid on the notional amount of the swap is recorded as "Interest expense" on the Company's Consolidated Statements of Operations. In addition, the Company adjusts the value of the swap to its fair value and adjusts the carrying amount of the hedged liability by an offsetting amount on a quarterly basis.

In connection with STARs, Series 2003-1 in May 2003, the Company entered into a LIBOR interest rate cap struck at 6.95% in the notional amount of $270.6 million, and simultaneously sold a LIBOR interest rate cap with the same terms. Since these instruments do not change the Company's net interest rate risk exposure, they do not qualify as hedges and changes in their respective values are charged to earnings. As the terms of these arrangements are substantially the same, the effects of a revaluation of these two instruments substantially offset one another.

In connection with STARs, Series 2002-1 in May 2002, the Company entered into a LIBOR interest rate cap struck at 8.00% in the notional amount of $345.0 million. The Company utilizes the provisions of SFAS No. 133 with respect to such instruments. SFAS No. 133 provides that the up-front fees paid on option-based products such as caps should be expensed into earnings based on the allocation of the

premium to the affected periods as if the agreement were a series of "caplets." These allocated premiums are then reflected as a charge to income (as part of interest expense) in the affected period. On May 28, 2002, in connection with the STARs, Series 2002-1 transaction, the Company paid a premium of $13.7 million for this interest rate cap. Using the "caplet" methodology discussed above, amortization of the cap premium is dependent upon the actual value of the caplets at inception.

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

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

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

All of the Company's CTL assets (including those held by joint ventures) and loans and other lending investments are collateralized by facilities located in the United States, with significant concentrations (i.e., greater than 10.00%) as of December 31, 2003 in California (19.39%) and New York (11.99%). As of December 31, 2003, the Company's investments also contain greater than 10.00% concentrations in the following asset types: office-CTL (27.48%), office-lending (17.16%), industrial (13.99%) and hotel-lending (12.06%).

The Company underwrites the credit of prospective borrowers and customers and often requires them to provide some form of credit support such as corporate guarantees, letters of credit and/or cash security deposits. Although the Company's loans and other lending investments and corporate customer lease assets are geographically diverse and the borrowers and customers operate in a variety of industries, to the extent the Company has a significant concentration of interest or operating lease revenues from any single borrower or customer, the inability of that borrower or customer to make its payment could have an adverse effect on the Company. As of December 31, 2003, the Company's five largest borrowers or corporate tenants collectively accounted for approximately 15.51% of the Company's aggregate annualized interest and operating lease revenue of which no single customer accounts for more than 3.84%.

Note 10—Stock-Based Compensation Plans and Employee Benefits

The Company's 1996 Long-Term Incentive Plan (the "Plan") is designed to provide incentive compensation for officers, other key employees and directors of the Company. The Plan provides for awards of stock options and shares of restricted stock and other performance awards. The maximum number of shares of Common Stock available for awards under the Plan is 9.00% of the outstanding shares of Common Stock, calculated on a fully diluted basis, from time to time; provided that the number of shares of Common Stock reserved for grants of options designated as incentive stock options is 5.0 million, subject to certain antidilution provisions in the Plan. All awards under the Plan, other than automatic

awards to non-employee directors, are at the discretion of the Board or a committee of the Board. At December 31, 2003, a total of approximately 10.1 million shares of Common Stock were available for awards under the Plan, of which options to purchase approximately 2.9 million shares of Common Stock were outstanding and approximately 422,000 shares of restricted stock were outstanding. A total of 1.9 million shares remain available for awards under the Plan as of December 31, 2003.

In March 1998, the Company issued approximately 2.5 million (as adjusted) fully vested and immediately exercisable options to purchase shares of Common Stock at $14.72 per share (as adjusted) to its former advisor with a term of ten years. The former advisor granted a portion of these options to its employees and the remainder was allocated to an affiliate. Upon the Company's acquisition of its former advisor, 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.

Changes in options outstanding during each of fiscal 2001, 2002 and 2003 are as follows:

	Number of Shares			
	Employees	Non-Employee Directors	Other	Weighted Average Strike Price
Options outstanding, December 31, 2000	3,259,761	520,432	946,168	$ 18.97
Granted in 2001	1,617,401	90,000	100,000	$ 20.31
Exercised in 2001	(1,131,595)	(26,900)	(149,492)	$ 16.48
Forfeited in 2001	(100,509)	—	—	$ 27.27
Options outstanding, December 31, 2001	3,645,058	583,532	896,676	$ 18.98
Granted in 2002	—	80,000	—	$ 27.83
Exercised in 2002	(488,674)	(190,650)	(164,683)	$ 18.63
Forfeited in 2002	(16,907)	(4,600)	—	$ 24.87
Options outstanding, December 31, 2002	3,139,477	468,282	731,993	$ 18.77
Granted in 2003	15,500	—	—	$ 14.72
Exercised in 2003	(843,624)	(235,746)	(389,594)	$ 18.99
Forfeited in 2003	(2,300)	(13,850)	—	$ 26.14
Transferred in 2003(1)	—	(63,692)	63,692	$ 27.15
Options outstanding, December 31, 2003	2,309,053	154,994	406,091	$ 18.59

Explanatory Note:

(1) Transfer of shares due to the down-size of Board of Directors on June 2, 2003.

The following table summarizes information concerning outstanding and exercisable options as of December 31, 2003:

Exercise Price Range	OPTIONS OUTSTANDING Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	OPTIONS EXERCISABLE Currently Exercisable	Weighted Average Exercise Price
$14.72—$15.00(1)	657,493	4.93	$ 14.72	641,993	$ 14.72
$16.69—$16.88	477,071	6.01	$ 16.88	477,071	$ 16.88
$17.38—$17.56	151,068	6.21	$ 17.38	151,068	$ 17.38
$19.63—$19.69	1,308,522	7.10	$ 19.69	754,929	$ 19.69
$20.00—$21.44	50,333	6.68	$ 20.94	50,333	$ 20.94
$23.32—$23.64	28,499	0.36	$ 23.53	28,499	$ 23.53
$24.13—$24.94	67,566	6.77	$ 24.86	67,233	$ 24.86
$25.10—$26.09	13,800	2.41	$ 26.09	13,800	$ 26.09
$26.30—$26.97	8,900	2.02	$ 26.45	8,234	$ 26.41
$27.00	25,000	7.48	$ 27.00	16,667	$ 27.00
$28.54—$29.82	76,792	8.05	$ 29.71	76,792	$ 29.71
$55.39	5,094	5.42	$ 55.39	5,094	$ 55.39
	2,870,138	6.28	$ 18.59	2,291,713	$ 18.32

Explanatory Note:

(1) Includes approximately 764,000 options which were granted, on a fully exercisable basis, in March 1998, and which are now held by an affiliate of SOFI IV. Beneficial interests in these options were subsequently regranted by that affiliate to employees of it and its affiliates, subject to vesting requirements. In the event that these employees forfeit such options, they revert to an affiliate of SOFI IV, which may regrant them at its discretion. As of December 31, 2003, approximately 727,000 of these options were exercisable by the beneficial owners and approximately 539,000 have been exercised.

In the third quarter 2002 (with retroactive application to the beginning of the calendar year), the Company adopted the fair value method for accounting for options issued to employees or directors, as allowed under Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation." Accordingly, the Company recognizes a charge equal to the fair value of these options at the date of grant multiplied by the number of options issued. This charge will be amortized over the related remaining vesting terms to individual employees as additional compensation. There were 15,500 options issued during the 12 months ended December 31, 2003 with a strike price of $14.72.

Prior to the third quarter 2002, the Company had elected to use the intrinsic method for accounting for options issued to employees or directors, as allowed under SFAS No. 123 and, accordingly, recognized no expense in connection with these options to the extent that the options' exercise prices equaled or exceeded the quoted prices of the Company's shares of Common Stock on the grant or investment dates. However, in connection with the acquisition of the Company's former external advisor, the Company recognized a deferred stock-based compensation charge of approximately $5.1 million. This deferred charge represents the difference between the Company's closing stock price on the date it acquired its former external advisor (which was $20.25), and the strike price of $14.72 per share (as adjusted) for the unvested portion of the options granted to the former external advisor's employees, who are now employees of the Company. This deferred charge is being amortized over the related remaining vesting terms to the individual employees as an additional expense under "General and administrative—stock-based compensation" on the Company's Consolidated Statements of Operations.

If the Company's compensation costs had been determined using the fair value method of accounting for stock options issued under the Plan to employees and directors prescribed by SFAS No. 123 prior to 2002, the Company's net income for the fiscal years ended December 31, 2003, 2002 and 2001, would have been reduced on a pro forma basis by approximately $289,000, $565,000 and $705,000, respectively. This would not have significantly impacted the Company's earnings per share.

The fair value of each significant option grant is estimated on the date of grant (January 10, 2003 for the 2003 options) using the Black-Scholes model. For the above SFAS No. 123 calculation, the following assumptions were used for the Company's fair value calculations of stock options:

	2003	2002	2001
Expected life (in years)	5	5	5
Risk-free interest rate	3.13%	4.38%	4.96%
Volatility	17.64%	16.23%	20.83%
Dividend yield	9.57%	8.45%	12.00%
Weighted average grant date fair value	$ 5.26	$ 1.38	$ 0.76

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

During the 12 months ended December 31, 2003, the Company granted 40,050 restricted shares to employees that vest proportionately over three years on the anniversary date of the initial grant of which 35,675 remain outstanding.

During the year ended December 31, 2002, the Company granted 199,350 restricted shares to employees. Of these shares, 44,350 will vest proportionately over three years on the anniversary date of the initial grant. Of the 44,350 shares granted, 22,382 remain outstanding as of December 31, 2003. The balance of 155,000 restricted shares granted to several employees will vest on March 31, 2004 if: (1) the employee remains employed until that date; and (2) the 60-day average closing price of the Company's Common Stock equals or exceeds a set floor price as of such date. Dividends will be paid on the restricted shares as dividends are paid on shares of the Company's Common Stock. Assuming the shares become fully vested on March 31, 2004 and the market price of the stock is $38.90 (which was the market price of the Common Stock on December 31, 2003), the Company would incur a one-time charge to earnings at that time of

approximately $6.0 million (the fair market value of the 155,000 shares at $38.90 per share). During the year ended December 31, 2002, the Company also granted 208,980 restricted shares to its Chief Financial Officer (see detailed information below).

During the year ended December 31, 2001, the Company granted 94,943 restricted shares to employees in lieu of cash bonuses for the year ended December 31, 2000 at the employees' election. These restricted shares were immediately vested on the date of grant and were not transferable for a period of one year following vesting.

For accounting purposes, the Company measures compensation costs for these shares, not including the contingently issuable shares, as of the date of the grant and expenses such amounts against earnings, either at the grant date (if no vesting period exists) or ratably over the respective vesting/service period. Such amounts appear on the Company's Consolidated Statements of Operations under "General and administrative—stock-based compensation expense."

During the year ended December 31, 2002, the Company entered into a three-year employment agreement with its new Chief Financial Officer. Under the agreement, the Chief Financial Officer receives an annual base salary of $225,000. She may also receive a bonus, which is targeted to be $325,000, subject to an annual review for upward or downward adjustment. In addition, the Company granted the Chief Financial Officer 108,980 contingently vested restricted stock awards. These awards become vested on December 31, 2005 if the executive's employment with the Company has not terminated before such date. Dividends will be paid on the restricted shares as dividends are paid on shares of the Company's Common Stock. These dividends are accounted for in a manner consistent with the Company's Common Stock dividends, as a reduction to retained earnings. For accounting purposes, the Company will take a total charge of approximately $3.0 million related to the restricted stock awards, which will be amortized over the period from November 6, 2002 through December 31, 2005. This charge is reflected on the Company's Consolidated Statements of Operations under "General and administrative—stock-based compensation."

Further, the Company granted the Chief Financial Officer 100,000 restricted shares which vest in whole or in part if the Company's shareholders realize certain total rates of return (dividends since November 6, 2002 plus share price appreciation since January 2, 2003), as of January 31, 2004. Vested shares would be subject to forfeiture if the executive's employment with the Company terminated under certain circumstances. The shares became fully vested on January 31, 2004 and the market price of the stock was $40.02, therefore; the Company will incur a one-time charge to earnings during the first quarter 2004 of approximately $4.0 million (the fair market value of the 100,000 shares at $40.02 per share). For accounting purposes, the employment arrangement described above is treated as a contingent, variable plan until January 31, 2004.

During the year ended December 31, 2001, the Company entered into a three-year employment agreement with its Chief Executive Officer. Under the agreement, the Chief Executive Officer receives an annual base salary of $1.0 million. He may also receive a bonus, which is targeted to be an amount equal to his base salary, if the Company achieves certain performance targets set by the Compensation Committee. The bonus award may be increased or reduced from the target depending upon the degree to which the performance goals are exceeded or are not met, and may not exceed 200.00% of his base salary. The bonus is reduced by the amount of any dividends paid to the Chief Executive Officer in respect of phantom shares (described below) which are awarded to him and have contingently vested. The Chief Executive Officer received approximately $2.1 million in such dividends in 2002 and $4.4 million in 2003. As such, no additional bonus was paid in either year. As part of this agreement, the Company confirmed a prior grant of 750,000 stock options made to the executive on March 2, 2001 with an exercise price of $19.69, which represented the market price at the date of the original contingent grant. However, because the grant required further approval by the Compensation Committee and the Board of Directors, no measurement date occurred for accounting purposes until such approvals were made, at which point the market price of the Company's Common Stock was $24.90. Accordingly, an aggregate charge of approximately $3.9 million is being recognized with respect to these options over the term of this agreement and is reflected on the Company's Consolidated Statements of Operations under "General and administrative—stock-based compensation." These options will vest in three equal annual installments of 250,000 shares in each successive January beginning in January 2002.

The Company also granted the executive 2.0 million unvested phantom shares, each of which represents one share of the Company's Common Stock. These shares will vest in installments of 350,000 shares, 650,000 shares, 600,000 shares and 400,000 shares on a contingent basis if the average closing price of the Company's Common Stock for a 60 calendar day period achieves thresholds of $25.00, $30.00,

$34.00 and $37.00, respectively. As of December 31, 2003 all thresholds have been attained, and a total of 2.0 million of these shares have contingently vested. Assuming that the market price of the Common Stock on March 30, 2004 is $38.90 (which was the market price of the Common Stock on December 31, 2003), the Company would incur a one-time charge to earnings in March 2004 of approximately $77.8 million (the fair market value of the 2.0 million shares at $38.90 per share). Shares that have contingently vested generally will not become fully vested until March 2004, except upon certain termination or change of control events. Further, if the average stock price drops below certain specified levels for a 60-day period prior to such date, such phantom shares would not fully vest and would be forfeited. If the Company is not authorized to issue shares to the executive upon full vesting of the phantom shares, then the vesting will be settled through a cash payment based upon the market price of the Common Stock during a recent trading period. The executive will receive dividends on shares that have contingently or fully vested and have not been forfeited under the terms of the agreement, if and when the Company declares and pays dividends on its Common Stock. Because no shares have been issued, dividends received on these phantom shares, if any, will be reflected as compensation expense by the Company. For accounting purposes, this arrangement will be treated as a contingent, variable plan and no additional compensation expense will be recognized until the shares, in whole or in part, become irrevocably vested, whereupon the Company will reflect a charge equal to the then fair value of the shares irrevocably vested.

In addition, during the year ended December 31, 2001, the Company entered into a three-year employment agreement with its former President. Under the agreement, in lieu of salary and bonus, the Company granted the executive 500,000 restricted shares. These shares became fully-vested on September 30, 2002 as a result of the Company achieving a 60.00% total shareholder rate of return (dividends plus share price appreciation) since January 1, 2001. Upon the restricted shares becoming fully vested, the Company withheld 250,000 of such shares from the executive to cover the tax obligations associated with the vesting of such shares. These shares are reflected as "Treasury stock", at a cost of approximately $7.4 million, on the Company's Consolidated Statements of Changes in Shareholders' Equity. For accounting purposes, the employment arrangement described above was treated as a contingent, variable plan until the April 29, 2002 contingent vesting date. The Company incurred a total charge of approximately $15.0 million related to the vesting of the shares, recognized ratably over the period from April 29, 2002 through September 30, 2002. The executive received dividends on the share grant from the date of the agreement as and when the

Company declared and paid dividends on its Common Stock. For financial statement purposes, such dividends were accounted for in a manner consistent with the Company's normal Common Stock dividends, as a reduction to retained earnings.

Certain affiliates of SOFI IV and the Company's Chief Executive Officer have agreed to reimburse the Company for the value of restricted shares awarded to the former President in excess of 350,000 shares, net of tax benefits realized by the Company or its shareholders on account of compensation expense deductions. The reimbursement obligation arose once the restricted share award became fully vested on September 30, 2002. The Company's Chief Executive Officer fulfilled his reimbursement obligation through the delivery of shares of the Company's Common Stock owned by him. In the case of the SOFI IV affiliates, the reimbursement payment must be made through the delivery of approximately $2.4 million in cash or 131,250 shares of Common Stock. As of December 31, 2003, the SOFI IV affiliates have paid approximately $506,000 in cash. The approximately $1.9 million remaining balance of the SOFI IV affiliates' reimbursement obligation is due on or before March 31, 2004. These reimbursement payments are reflected as "Additional paid-in capital" on the Company's Consolidated Balance Sheets, and not as an offset to the charge referenced above.

On July 28, 2000, the Company granted to its employees profits interests in a wholly-owned subsidiary of the Company called iStar Venture Direct Holdings, LLC. As of December 31, 2003, iStar Venture Direct Holdings, LLC had written off all of its investments. The profits interests have three-year vesting schedules, and are subject to forfeiture in the event of termination of employment for cause or a voluntary resignation. The Company currently estimates that the profits interests have no value.

High Performance Unit Program

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

Initially, there were three plans within the program: the 2002 plan, the 2003 plan, and the 2004 plan. Each plan has 5,000 shares of High Performance Common Stock associated with it. Each share of High Performance Common Stock carries 0.25 votes per share.

For these three plans, the Company's performance is measured over a one-, two-, or three-year valuation period, beginning on January 1, 2002 and ending on December 31, 2002, December 31, 2003 and December 31, 2004, respectively. The end of the valuation period (i.e., the "valuation date") will be accelerated if there is a change in control of the Company. The High Performance Common Stock has a nominal value unless the total rate of shareholder return for the relevant valuation period exceeds the greater of: (1) 10.00%, 20.00%, or 30.00% for the 2002 plan, the 2003 plan and the 2004 plan, respectively; and (2) a weighted industry index total rate of return consisting of equal weightings of the Russell 1000 Financial Index and the Morgan Stanley REIT Index for the relevant period.

If the total rate of return on the Company's Common Stock exceeds the threshold performance levels for a particular plan, then distributions will be paid on the shares of High Performance Common Stock related to that plan in the same amounts and at the same times as distributions are paid on a number of shares of the Company's Common Stock equal to the following: 7.50% of the Company's excess total rate of return (over the higher of the two threshold performance levels) multiplied by the weighted average market value of the Company's common equity capitalization during the measurement period, all as divided by the average closing price of a share of the Company's Common Stock for the 20 trading days immediately preceding the applicable valuation date.

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

Regardless of how much the Company's total rate of return exceeds the threshold performance levels, the dilutive impact to the Company's shareholders resulting from distributions on High Performance Common Stock in each plan is limited to the equivalent of 1.00% of the average monthly number of fully diluted shares of the Company's Common Stock outstanding during the valuation period.

The employee participants have purchased their interests in High Performance Common Stock through a limited liability company at purchase prices approved by the Company's Board of Directors. The Company's Board has established the prices of the High Performance Common Stock based upon, among other things, an independent valuation from a major securities firm. The aggregate initial purchase prices were set on June 25, 2002 and were approximately $2.8 million, $1.8 million and $1.3 million for the 2002, 2003 and 2004 plans, respectively. No employee is permitted to exchange his or her interest in the LLC for shares of High Performance Common Stock prior to the applicable valuation date.

The total shareholder return for the valuation period under the 2002 plan was 21.94%, which exceeded both the fixed performance threshold of 10.00% and the industry index return of (5.83%). As a result of this superior performance, the participants in the 2002 plan are entitled to receive cash distributions equivalent to the amount of cash dividends payable on 819,254 shares of the Company's Common Stock, as and when such dividends are paid. Such dividend payments began with the first quarter 2003 dividend. The Company will pay dividends on the 2002 plan shares in the same amount per equivalent share and on the same distribution dates that shares of the Company's Common Stock are paid. The Company has the right, but not the obligation, to repurchase at cost 50.00% of the interests earned by an employee in the 2002 plan if the employee breaches certain non-competition, non-solicitation and confidentiality covenants through January 1, 2005.

The total shareholder return for the valuation period under the 2003 plan was 78.29%, which exceeded the fixed performance threshold of 20.00% and the industry index return of 24.66%. The plan was fully funded and was limited to 1.00% of the average monthly number of fully diluted shares of the Company's Common Stock during the valuation period. As a result of the Company's superior performance, the participants in the 2003 plan are entitled to receive cash distributions equivalent to the amount of cash dividends payable on 987,149 shares of the Company's Common Stock, as and when such dividends are paid. Such

dividend payments will begin with the first quarter 2004 dividend. The Company will pay dividends on the 2003 plan shares in the same amount per equivalent share and on the same distribution dates that shares of the Company's Common Stock are paid.

A new 2005 plan has been established with a three-year valuation period ending December 31, 2005. Awards under the 2005 plan were approved on January 14, 2003. The 2005 plan has 5,000 shares of High Performance Common Stock with an aggregate initial purchase price of $573,000. The purchase price of the High Performance Common Stock was established by the Company's Board based upon, among other things, an independent valuation from a major securities firm. The provisions of the 2005 plan are substantially the same as the prior plans.

A new 2006 plan has been established with a three-year valuation period ending December 31, 2006. Awards under the 2006 plan were approved on January 23, 2004. The 2006 plan had 5,000 shares of High Performance Common Stock with an aggregate initial puchase price of $714,700. The purchase price of the High Performance Common Stock was established by the Company's Board based upon, among other things, an independent valuation from a major securities firm. The provisions of the 2006 plan are substantially the same as the prior plans.

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

401(k) Plan

Effective November 4, 1999, the Company implemented a savings and retirement plan (the "401(k) Plan"), which is a voluntary, defined contribution plan. All employees are eligible to participate in the 401(k) Plan following completion of three months of continuous service with the Company. Each participant may contribute on a pretax basis up to the maximum percentage of compensation and dollar amount permissible under Section 402(g) of the Internal Revenue Code not to exceed the limits of Code Sections 401(k), 404 and 415. At the discretion of the Board of Directors, the Company may make matching contributions on the participant's behalf of up to 50.00% of the first 10.00% of the participant's annual compensation. The Company made gross contributions of approximately $424,000, $356,000, and $320,000 to the 401(k) Plan for the years ended December 31, 2003, 2002 and 2001, respectively.

Note 11—Earnings Per Share

The following table presents a reconciliation of the numerators and denominators of the basic and diluted EPS calculations for the years ended December 31, 2003, 2002 and 2001, respectively (in thousands, except per share data):

	2003	2002	2001
Numerator:			
Net income from continuing operations	$ 285,074	$ 206,939	$ 218,338
Preferred dividend requirements	(36,908)	(36,908)	(36,908)
Net income allocable to common shareholders and HPU holders before income from discontinued operations and gain from discontinued operations(1)	248,166	170,031	181,430
Income from discontinued operations	1,916	7,614	10,429
Gain from discontinued operations	5,167	717	1,145
Net income allocable to common shareholders and HPU holders(1)	$ 255,249	$ 178,362	$ 193,004
Denominator:			
Weighted average common shares outstanding for basic earnings per common share	100,314	89,886	86,349
Add: effect of assumed shares issued under treasury stock method for stock options, restricted shares and warrants	1,897	1,645	1,680
Add: effect of contingent shares	1,667	1,118	205
Add: effect of joint venture shares	223	—	—
Weighted average common shares outstanding for diluted earnings per common share	104,101	92,649	88,234

Basic earnings per common share:			
Net income allocable to common shareholders before income from discontinued operations and gain from discontinued operations(2)	$ 2.45	$ 1.89	$ 2.10
Income from discontinued operations	0.02	0.08	0.13
Gain from discontinued operations	0.05	0.01	0.01
Net income allocable to common shareholders(2)	$ 2.52	$ 1.98	$ 2.24
Diluted earnings per common share:			
Net income allocable to common shareholders before income from discontinued operations and gain from discontinued operations(2)(3)	$ 2.36	$ 1.84	$ 2.06
Income from discontinued operations	0.02	0.08	0.12

Gain from discontinued operations	0.05	0.01	0.01
Net income allocable to common shareholders(2)(3)	$ 2.43	$ 1.93	$ 2.19

Explanatory Notes:

(1) HPU holders are Company employees who purchased high performance common stock units under the Company's High Performance Unit Program.

(2) For the 12 months ended December 31, 2003, net income used to calculate earnings per basic and diluted common share excludes $2,066 and $1,994 of net income allocable to HPU holders, respectively.

(3) For the year ended December 31, 2003, net income used to calculate earnings per diluted common share includes joint venture income of $167.

There were approximately 5,000, 167,000 and 261,000 stock options, 0, 6.1 million and 6.1 million warrants and 0, 371,000 and 373,000 joint venture shares that were antidilutive for the 12 months ended December 31, 2003, 2002 and 2001, respectively.

Note 12—Comprehensive Income

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130 ("SFAS No. 130"), "Reporting Comprehensive Income" 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 $295.5, $228.1 million and $214.8 million for the years ended December 31, 2003, 2002 and 2001, respectively. The primary components of comprehensive income other than net income consist of amounts attributable to the adoption and continued application of SFAS No. 133, to the Company's cash flow and fair value hedges and changes in the fair value of the Company's available-for-sale investments.

For the years ended December 31, 2003, 2002 and 2001, the change in fair market value of the Company's unrealized gains (losses) on available-for-sale investments and cash flow and fair value hedges was an increase of $3.3 million, an increase of $12.8 million and a decrease of $15.1 million, respectively, and was recorded as an adjustment to other comprehensive income. The reconciliation to other comprehensive income is as follows (in thousands):

	For the Years Ended December 31,		
	2003	2002	2001
Net income	$ 292,157	$ 215,270	$ 229,912
Other comprehensive income:			
Reclassification of gains on securities into earnings upon realization	(12,031)	—	—
Unrealized gains on available-for-sale investments	8,103	7,601	5,709
Cumulative effect of change in accounting principle (SFAS No. 133) on other comprehensive income	—	—	(9,445)
Unrealized gains (losses) on cash flow and fair value hedges	7,237	5,190	(11,336)
Comprehensive income	$ 295,466	$ 228,061	$ 214,840

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

As of December 31, 2003 and 2002, accumulated other comprehensive income reflected in the Company's shareholders' equity is comprised of the following (in thousands):

	As of December 31,	
	2003	2002
Unrealized gains on available-for-sale investments	$ 9,362	$ 13,290
Unrealized losses on cash flow and fair value hedges	(8,354)	(15,591)
Accumulated other comprehensive income (losses)	$ 1,008	$ (2,301)

Over time, the unrealized gains and losses held in other comprehensive income will be reclassified to earnings in the same period(s) in which the hedged items are recognized in earnings. The current balance held in other comprehensive income is expected to be reclassified to earnings over the lives of the current hedging instruments, or for the realized losses on forecasted debt transactions, over the related term of the debt obligation, as applicable. The Company expects that $6.6 million will be reclassified into earnings as an increase in interest expense over the next 12 months.

Note 13—Dividends

For the year ended December 31, 2003, total dividends declared by the Company aggregated $267.8 million, or $2.65 per share on Common Stock consisting of quarterly dividends of $0.6625 per share which were declared on April 1, 2003, July 1, 2003, October 1, 2003 and December 1, 2003. The Company also declared dividends aggregating $14.3 million, $4.7 million, $3.0 million, $8.0 million, $4.9 million,

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$1.7 million and $170,000, respectively, on its Series A, B, C, D, E, F and G preferred stock, respectively, for the year ended December 31, 2003. There are no divided arrearages on any of the preferred shares currently outstanding.

The Series A preferred stock has a liquidation preference of $50.00 per share and carries an initial dividend yield of 9.50% per annum. The dividend rate on the preferred shares will increase to 9.75% on December 15, 2005, to 10.00% on December 15, 2006 and to 10.25% on December 15, 2007 and thereafter. Dividends on the Series A preferred shares are payable quarterly in arrears and are cumulative. As of December 31, 2003, all Series A preferred shares have been exchanged for either Series E preferred stock or Series G preferred stock and therefore the Company will no longer pay dividends on the Series A preferred stock.

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

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

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

Holders of shares of the Series E preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 7.875% per annum of the $25.00 liquidation preference, equivalent to a fixed annual rate of $1.97 per share. The remaining terms relating to dividends of the Series E preferred stock are substantially identical to the terms of the Series B preferred stock described above.

Holders of shares of the Series F preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 7.80% per annum of the $25.00 liquidation preference, equivalent to a fixed annual rate of $1.95 per share. The remaining terms relating to dividends of the Series F preferred stock are substantially identical to the terms of the Series B preferred stock described above.

Holders of shares of the Series G preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 7.65% per annum of the $25.00 liquidation preference, equivalent to a fixed annual rate of $1.91 per share. The remaining terms relating to dividends of the Series G preferred stock are substantially identical to the terms of the Series B preferred stock described above.

The 2002 and 2003 High Performance Unit Program reached their valuation dates on December 31, 2002 and 2003, respectively. Based on the Company's 2002 and 2003 total rate of return, the participants are entitled to receive cash dividends on 819,254 shares and 987,149 shares, respectively, of the Company's Common Stock. The Company will pay dividends on these units in the same amount per equivalent share and on the same distribution dates as shares of the Company's Common Stock. Such dividend payments for the 2002 plan began with the first quarter 2003 dividend and such dividends for the 2003 plan will begin with the first quarter 2004 dividend. All dividends to HPU holders will reduce net income allocable to common shareholders when paid. Additionally, net income allocable to common shareholders will be reduced by the HPU holders' share of undistributed earnings, if any.

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

Note 14—Fair Values of Financial Instruments

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments" ("SFAS No. 107"), requires the disclosure of the estimated fair values of financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices, if available, are utilized as estimates of the fair values of financial instruments. Because no quoted market prices exist for a significant part of the Company's financial instruments, the fair values of such instruments have been derived based on management's assumptions, the amount and timing of future cash flows and estimated discount rates. The estimation methods for individual classifications of financial instruments are described more fully below. Different assumptions could significantly affect these estimates. Accordingly, the net realizable values could be materially different from the estimates presented below. The provisions of SFAS No. 107 do not require the disclosure of the fair value of non-financial instruments, including intangible assets or the Company's CTL assets.

In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the fair value of the Company as an operating business.

Short-term financial instruments—The carrying values of short-term financial instruments including cash and cash equivalents and short-term investments approximate the fair values of these instruments. These financial instruments generally expose the Company to limited credit risk and have no stated maturities, or have an average maturity of less than 90 days and carry interest rates which approximate market.

Loans and other lending investments—For the Company's interests in loans and other lending investments, the fair values were estimated by discounting the future contractual cash flows (excluding participation interests in the sale or refinancing proceeds of the underlying collateral) using estimated

current market rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities.

Marketable securities—Securities held for investment, securities available for sale, loans held for sale, trading account instruments, long-term debt and trust preferred securities traded actively in the secondary market have been valued using quoted market prices.

Other financial instruments—The carrying value of other financial instruments including, restricted cash, accrued interest receivable, accounts payable, accrued expenses and other liabilities approximate the fair values of the instruments.

Debt obligations—A portion of the Company's existing debt obligations bear interest at fixed margins over LIBOR. Such margins may be higher or lower than those at which the Company could currently replace the related financing arrangements. Other obligations of the Company bear interest at fixed rates, which may differ from prevailing market interest rates. As a result, the fair values of the Company's debt obligations were estimated by discounting current debt balances from December 31, 2003 and 2002 to maturity using estimated current market rates at which the Company could enter into similar financing arrangements.

Interest rate protection agreements—The fair value of interest rate protection agreements such as interest rate caps, floors, collars and swaps used for hedging purposes (see Note 9) is the estimated amount the Company would receive or pay to terminate these agreements at the reporting date, taking into account current interest rates and current creditworthiness of the respective counterparties.

The book and fair values of financial instruments as of December 31, 2003 and 2002 were (in thousands):

	2003		2002	
	Book Value	Fair Value	Book Value	Fair Value
Financial assets:				
Loans and other lending investments	$ 3,736,110	$ 3,978,715	$ 3,079,592	$ 3,301,452
Marketable securities	20,265	20,265	35	35
Provision for loan losses	(33,436)	(33,436)	(29,250)	(29,250)
Financial liabilities:				
Debt obligations	4,113,732	4,253,279	3,461,590	$ 3,500,927
Interest rate protection agreements	6,506	6,506	3,145	3,145

Note 15—Segment Reporting

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

The Company has two reportable segments: Real Estate Lending and Corporate Tenant Leasing. The Company does not have any foreign operations. The accounting policies of the segments are the same as those described in Note 3. The Company has no single customer that accounts for more than 3.51% 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:

	Real Estate Lending	Corporate Tenant Leasing	Corporate/ Other(1)	Company Total
		(In thousands)		
2003:				
Total revenues(2):	$ 338,946	$ 267,740	$ (137)	$ 606,549
Equity in (loss) earnings from joint ventures and unconcolidated subsidiaries:	—	(2,019)	(2,265)	(4,284)
Total operating and interest expense(3):	90,648	127,568	98,726	316,942
Net operating income(4):	248,298	138,153	(101,128)	285,323
Total long-lived assets(5):	3,702,674	2,535,885	N/A	6,238,559

Total assets:	3,810,679	2,729,716	120,195	6,660,590
2002:				
Total revenues(2):	$ 279,159	$ 241,432	$ (324)	$ 520,267
Equity in (loss) earnings from joint ventures and unconsolidated subsidiaries:	—	5,081	(3,859)	1,222
Total operating and interest expense(3):	94,273	104,182	115,933	314,388
Net operating income(4):	184,886	142,331	(120,116)	207,101
Total long-lived assets(5):	3,050,342	2,291,805	N/A	5,342,147
Total assets:	3,126,219	2,442,087	43,391	5,611,697
2001:				
Total revenues(2):	$ 282,802	$ 181,967	$ (371)	$ 464,398
Equity in (loss) earnings from joint ventures and unconsolidated subsidiaries:	—	9,617	(2,256)	7,361
Total operating and interest expense(3):	109,569	75,889	67,463	252,921
Net operating income(4):	173,233	115,695	(70,090)	218,838
Total long-lived assets(5):	2,377,763	1,781,565	N/A	4,159,328
Total assets:	2,448,493	1,889,879	42,268	4,380,640

Explanatory Notes:

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

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

(3) Total operating and interest expense represents provision for loan losses, loss on early extinguishment of debt for the Real Estate Lending business and operating costs on CTL assets for the Corporate Tenant Leasing business, as well as interest expense specifically related to each segment. Interest expense on unsecured notes, general and administrative expense and general and administrative-stock-based compensation is included in Corporate and Other for all periods. Depreciation and amortization of $55.3 million, $46.9 million and $34.6 million for the years ended December 31, 2003, 2002 and 2001, respectively, are included in the amounts presented above.

(4) Net operating income represents net income before minority interest, income from discontinued operations and gain from discontinued operations.

(5) Total long-lived assets is comprised of Loans and Other Lending Investments, net and Corporate Tenant Lease Assets, net, for each respective segment.

Note 16—Quarterly Financial Information (Unaudited)

The following table sets forth the selected quarterly financial data for the Company (in thousands, except per share amounts).

	Quarter Ended			
	December 31,	September 30,	June 30,	March 31,
2003:				
Revenue	$ 164,268	$ 152,057	$ 148,203	$ 142,021
Net income	79,580	74,878	69,746	67,953
Net income allocable to common shares	68,835	66,082	60,025	58,241
Net income per common share-basic	$ 0.67	$ 0.66	$ 0.60	$ 0.59
Weighted average common shares outstanding-basic	102,603	100,687	99,445	98,472
2002:				
Revenue	$ 139,908	$ 132,943	$ 129,651	$ 117,765
Net income	62,976	52,670	42,513	57,111
Net income allocable to common shares	53,749	43,443	33,286	47,884
Net income per common share-basic	$ 0.57	$ 0.49	$ 0.38	$ 0.55
Weighted average common shares outstanding-basic	93,671	89,431	88,656	87,724

Note 17—Subsequent Events

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

Hedging Transactions—On March 11, 2004, the Company entered into $635.0 million of pay-fixed interest rate swaps at a weighted average fixed rate of 1.14% and maturing September 2004.

On January 23, 2004, in connection with the Company's fixed-rate corporate bonds, the Company entered into four pay-floating interest rate swaps struck at 3.678%, 3.713%, 3.686% and 3.684% with notional amounts of $105.0 million, $100.0 million, $100.0 million and $45.0 million, respectively, and maturing on January 15, 2009. The Company pays six-month LIBOR and receives the stated fixed rate in return. These swaps mitigate the risk of changes in the fair value of $350.0 million of five-year Senior Notes attributable to changes in LIBOR.

In addition, on January 15, 2004, the Company entered into three forward starting swaps all with 10-year terms and rates of 4.484%, 4.502% and 4.500% and notional amounts of $100.0 million, $50.0 million and $50.0 million, respectively, and were used to lock-in swap rates related to a portion of planned future corporate unsecured fixed-rate bond issuances. These three swaps were settled in connection with the Company's issuance of $250.0 million of 10-year Senior Notes in March 2004 (see discussion below).

Capital Market Transactions—On March 12, 2004, the Company issued $175.0 million of Senior Floating Rate Notes due 2007. The Notes will bear interest at three-month LIBOR + 1.25%. The Company used the net proceeds to repay secured indebtedness.

On March 2, 2004, the Company issued $250.0 million of 5.70% Senior Notes due 2014. The Notes were sold at 99.66% of their principal amount to yield 5.75%. The Notes are unsecured senior obligations

of the Company. The Company used the proceeds for general corporate purposes, including to repay secured indebtedness and to fund investment activity.

On February 25, 2004, the Company completed an underwritten public offering of 5.0 million shares of its 7.50% Series I Cumulative Redeemable Preferred Stock, having a liquidation preference of $25.00 per share and a redemption date beginning March 1, 2009. The Company will use the net proceeds from the offering of $121.0 million to redeem approximately $110.0 million aggregate principal amount of its outstanding 8.75% Senior Notes due 2008 at a price of 108.75% of their principal amount plus accrued interest to the redemption date.

On January 23, 2004, the Company issued $350.0 million of 4.875% Senior Notes due in 2009. The Notes were sold at 99.89% of their principal amount to yield 4.90%. The Notes are unsecured senior obligations of the Company. The Company used the proceeds to repay outstanding secured borrowings.

On January 22, 2004, the Company completed a private placement of 3.3 million shares of its Series H Variable Rate Cumulative Redeemable Preferred Stock, having a liquidation preference of $25.00 per share and redeemable at par at any time from the purchase date through the first four months. The dividends on the Series H Preferred Stock will accrue at 7.65%, 8.15%, 8.65%, 9.15% and 9.65% for month one, two, three, four, five and thereafter, respectively. The Company specifically used the proceeds from this offering to redeem the Series B and C Cumulative Redeemable Preferred Stock on February 23, 2004. On January 27, 2004, the Company redeemed all Series H Preferred Stock using excess liquidity from its secured credit facilities.

New CEO Employment Agreement—The March 2001 employment agreement with the Company's Chief Executive Officer expires on March 30, 2004. Subsequent to December 31, 2003, the Company entered into a new employment agreement with its Chief Executive Officer which will take effect upon the expiration of the old agreement. The new agreement has an initial term of three years and provides for the following compensation:

- an annual salary of $1.0 million;
- a potential annual cash incentive award of up to $5.0 million if performance goals set by the Compensation Committee of the Board of Directors in consultation with the Chief Executive Officer are met; and
- a one-time award of Common Stock with a value of $10.0 million at March 31, 2004 (based upon the trailing 20-day average closing price of the Common Stock); the award will be fully vested when granted and dividends will be paid on the shares from the date of grant, but the shares cannot be sold for five years unless the price of the Common Stock during the 12 months ending March 31 of each year increases by at least 15.00%, in which case the sale restrictions on 25.00% of the shares awarded will lapse in respect of each 12-month period.

In addition, the Chief Executive Officer will purchase an 80.00% interest in the Company's 2006 high performance unit program for directors and executive officers. This performance program was approved by the Company's shareholders in 2003 and is described in detail in the Company's 2003 annual proxy statement. The purchase price to be paid by the Chief Executive Officer will be based upon a valuation prepared by an independent investment-banking firm. The interests purchased by the Chief Executive Officer will have no value to him unless the Company achieves total shareholder returns in excess of those achieved by peer group indices, all as more fully described in the Company's 2003 annual proxy statement.

Description	**Balance at Beginning of Period**	**Charged to Costs and Expenses**	**Additions Charges to Other Accounts**	**Deductions**	**Balance at End of Period**
For the Year Ended December 31, 2001					
Provision for loan losses(1)	$ 14,000	$ 7,000	$ —	$ —	$ 21,000
Allowance for doubtful accounts(2)	165	158	—	—	323
	$ 14,165	$ 7,158	$ —	$ —	$ 21,323
For the Year Ended December 31, 2002					
Provision for loan losses(1)	$ 21,000	$ 8,250	$ —	$ —	$ 29,250
Allowance for doubtful accounts(2)	323	284	—	—	607
	$ 21,323	$ 8,534	$ —	$ —	$ 29,857
For the Year Ended December 31, 2003					
Provision for loan losses(1)	$ 29,250	$ 7,500	$ —	$ (3,314)	$ 33,436
Allowance for doubtful accounts(2)	607	193	—	—	800
	$ 29,857	$ 7,693	$ —	$ (3,314)	$ 34,236

Explanatory Notes:

(1) See Note 4 to the Company's Consolidated Financial Statements.
(2) See Note 3 to the Company's Consolidated Financial Statements.

iStar Financial Inc.
Schedule III—Corporate Tenant Lease Assets and Accumulated Depreciation
As of December 31, 2003
(Dollars in thousands)

			Initial Cost to Company			Gross Amount Carried at Close of Period					
Location	**State**	**Encumbrances**	**Land**	**Building and Improvements**	**Cost Capitalized Subsequent to Acquisition**	**Land**	**Building and Improvements**	**Total**	**Accumulated Depreciation**	**Date Acquired**	**Depreciable Life (Years)**
OFFICE FACILITIES:											
Tempe	AZ	$ —	$ 1,512	$ 9,731	$ —	$ 1,512	$ 9,731	$ 11,243	$ 1,014	1999	40.0
Tempe	AZ	—	1,033	6,652	—	1,033	6,652	7,685	693	1999	40.0
Tempe	AZ	—	1,033	6,652	205	1,033	6,857	7,890	698	1999	40.0
Tempe	AZ	—	1,033	6,652	—	1,033	6,652	7,685	693	1999	40.0
Tempe	AZ	3,534	701	4,339	—	701	4,339	5,040	452	1999	40.0
Anaheim	CA	12,879	3,512	13,379	45	3,512	13,424	16,936	1,398	1999	40.0
Commerce	CA	9,693	3,454	12,915	—	3,454	12,915	16,369	1,345	1999	40.0
Cupertino	CA	17,093	7,994	19,037	2	7,994	19,039	27,033	1,983	1999	40.0
Dublin	CA	69,066	17,040	84,549	—	17,040	84,549	101,589	3,982	2002	40.0
Fremont	CA	—	880	4,846	—	880	4,846	5,726	505	1999	40.0
Milpitas	CA	8,516	9,526	11,655	785	9,526	12,440	21,966	792	2002	40.0
Milpitas	CA	5,418	4,139	5,064	529	4,139	5,593	9,732	509	2002	40.0
Milpitas	CA	19,939	9,802	12,116	115	9,802	12,231	22,033	856	2002	40.0
Mountain View	CA	—	12,834	28,158	—	12,834	28,158	40,992	2,933	1999	40.0
Mountain View	CA	—	5,798	12,720	—	5,798	12,720	18,518	1,325	1999	40.0
Palo Alto	CA	9,011	—	19,168	37	—	19,205	19,205	1,999	1999	40.0
Redondo Beach	CA	8,331	2,598	9,212	—	2,598	9,212	11,810	960	1999	40.0
San Diego	CA	3,572	1,530	3,060	—	1,530	3,060	4,590	319	1999	40.0
Thousand Oaks	CA	16,991	4,563	24,911	—	4,563	24,911	29,474	2,595	1999	40.0
Aurora	CO	2,928	580	3,677	—	580	3,677	4,257	184	2001	40.0
Englewood	CO	—	1,757	16,930	619	1,757	17,549	19,306	1,883	1999	40.0
Englewood	CO	—	2,967	15,008	7	2,967	15,015	17,982	1,563	1999	40.0
Englewood	CO	—	8,536	27,428	7,596	8,536	35,024	43,560	3,222	1999	40.0
Ft. Collins	CO	12,323	—	16,752	—	—	16,752	16,752	737	2002	40.0
Westminster	CO	—	307	3,524	—	307	3,524	3,831	367	1999	40.0
Westminster	CO	—	616	7,290	—	616	7,290	7,906	759	1999	40.0
Jacksonville	FL	—	1,384	3,911	—	1,384	3,911	5,295	407	1999	40.0
Jacksonville	FL	2,323	877	2,237	445	877	2,682	3,559	259	1999	40.0
Jacksonville	FL	6,279	2,366	6,072	1,095	2,366	7,167	9,533	692	1999	40.0
Plantation	FL	—	7,118	23,648	—	7,118	23,648	30,766	2	2003	40.0
Tampa	FL	11,367	1,920	18,435	—	1,920	18,435	20,355	909	2002	40.0
Alpharetta	GA	—	905	6,744	18	905	6,762	7,667	707	1999	40.0
Atlanta	GA	36,243	5,709	49,091	6,932	5,709	56,023	61,732	6,159	1999	40.0
Duluth	GA	7,612	1,655	14,484	48	1,655	14,532	16,187	1,513	1999	40.0
Lisle	IL	—	6,153	14,993	—	6,153	14,993	21,146	1,562	1999	40.0
Vernon Hills	IL	8,999	1,400	12,597	—	1,400	12,597	13,997	1,312	1999	40.0

iStar Financial Inc.
Schedule III—Corporate Tenant Lease Assets and Accumulated Depreciation (Continued)
As of December 31, 2003
(Dollars in thousands)

			Initial Cost to Company			Gross Amount Carried at Close of Period					
Location	**State**	**Encumbrances**	**Land**	**Building and Improvements**	**Cost Capitalized Subsequent to Acquisition**	**Land**	**Building and Improvements**	**Total**	**Accumulated Depreciation**	**Date Acquired**	**Depreciable Life (Years)**
OFFICE FACILITIES (Continued):											
New Orleans	LA	—	1,427	24,252	1,905	1,427	26,157	27,584	3,014	1999	40.0
New Orleans	LA	52,439	1,665	16,653	2,539	1,665	19,192	20,857	2,084	1999	40.0
Andover	MA	—	639	7,176	9	639	7,185	7,824	748	1999	40.0
Andover	MA	—	1,787	8,486	—	1,787	8,486	10,273	884	1999	40.0
Braintree	MA	—	792	4,929	44	792	4,973	5,765	517	1999	40.0
Braintree	MA	—	2,225	7,403	148	2,225	7,551	9,776	777	1999	40.0
Canton	MA	—	742	3,155	103	742	3,258	4,000	336	1999	40.0
Canton	MA	—	1,409	3,890	41	1,409	3,931	5,340	408	1999	40.0
Canton	MA	—	1,077	2,746	80	1,077	2,826	3,903	297	1999	40.0
Chelmsford	MA	20,451	1,600	21,947	24	1,600	21,971	23,571	966	2002	40.0
Concord	MA	11,019	1,656	—	8,476	1,656	8,476	10,132	839	1999	40.0
Concord	MA	8,218	1,852	10,839	622	2,303	11,010	13,313	1,139	1999	40.0
Concord	MA	5,828	1,302	7,864	281	1,302	8,145	9,447	836	1999	40.0
Concord	MA	7,984	1,834	10,483	146	1,834	10,629	12,463	1,103	1999	40.0
Concord	MA	—	1,928	8,218	1,251	1,928	9,469	11,397	954	1999	40.0
Foxborough	MA	2,852	1,218	3,756	1	1,218	3,757	4,975	391	1999	40.0
Mansfield	MA	719	584	1,443	42	584	1,485	2,069	153	1999	40.0
Norwell	MA	—	1,140	1,658	32	1,140	1,690	2,830	176	1999	40.0
Norwell	MA	1,797	506	2,277	522	506	2,799	3,305	369	1999	40.0
Quincy	MA	13,118	3,562	23,420	290	3,562	23,710	27,272	2,460	1999	40.0
Rockland	MA	—	2,011	11,761	83	2,011	11,844	13,855	1,229	1999	40.0
Westborough	MA	7,265	1,651	10,758	—	1,651	10,758	12,409	1,121	1999	40.0
Lanham	MD	10,435	2,486	12,047	164	2,486	12,211	14,697	1,271	1999	40.0
Largo	MD	18,851	1,800	18,706	21	1,800	18,727	20,527	742	2002	40.0
Arden Hills	MN	—	719	6,541	236	719	6,777	7,496	703	1999	40.0
Roseville	MN	3,533	1,113	4,452	157	1,113	4,609	5,722	480	1999	40.0
Jersey City	NJ	135,000	15,667	162,583	2	15,667	162,585	178,252	1,041	2003	40.0
Mt. Laurel	NJ	60,874	7,726	74,429	10	7,726	74,439	82,165	1,976	2002	40.0
Parsippany	NJ	26,640	8,242	31,758	—	8,242	31,758	40,000	610	2003	40.0
Las Vegas (1)	NV	26,249	2,103	32,640	729	2,103	33,369	35,472	—	2002	—

Columbus	OH	8,433	1,275	10,326	13	1,275	10,339	11,614	584	2001	40.0
Harrisburg	PA	17,261	690	26,098	—	690	26,098	26,788	1,489	2001	40.0
Spartanburg	SC	7,067	800	11,192	5	800	11,197	11,997	573	2001	40.0
Memphis	TN	17,387	2,702	25,129	—	2,702	25,129	27,831	2,618	1999	40.0
Dallas	TX	4,467	1,918	4,632	—	1,918	4,632	6,550	483	1999	40.0

iStar Financial Inc.
Schedule III—Corporate Tenant Lease Assets and Accumulated Depreciation (Continued)
As of December 31, 2003
(Dollars in thousands)

			Initial Cost to Company			Gross Amount Carried at Close of Period					
Location	**State**	**Encumbrances**	**Land**	**Building and Improvements**	**Cost Capitalized Subsequent to Acquisition**	**Land**	**Building and Improvements**	**Total**	**Accumulated Depreciation**	**Date Acquired**	**Depreciable Life (Years)**
OFFICE FACILITIES (Continued):											
Houston	TX	19,595	2,500	25,743	—	2,500	25,743	28,243	1,288	2001	40.0
Irving	TX	—	6,083	42,016	—	6,083	42,016	48,099	4,377	1999	40.0
Irving	TX	—	1,364	10,628	1,007	2,371	10,628	12,999	1,107	1999	40.0
Irving	TX	—	1,804	5,815	547	1,804	6,362	8,166	633	1999	40.0
Irving	TX	17,307	3,363	21,376	—	3,363	21,376	24,739	2,227	1999	40.0
Richardson	TX	—	1,233	15,160	36	1,233	15,196	16,429	1,296	1999	40.0
Richardson	TX	—	2,932	31,235	—	2,932	31,235	34,167	3,254	1999	40.0
Richardson	TX	—	1,230	5,660	256	1,230	5,916	7,146	598	1999	40.0
Salt Lake City	UT	—	1,179	12,861	—	1,179	12,861	14,040	1,340	1999	40.0
Dulles	VA	9,867	2,647	14,817	—	2,647	14,817	17,464	282	2003	40.0
McLean	VA	106,558	20,110	125,516	95	20,110	125,611	145,721	5,123	2002	40.0
Reston	VA	—	4,436	22,362	1,859	4,436	24,221	28,657	2,354	1999	40.0
Milwaukee	WI	10,833	1,875	13,914	—	1,875	13,914	15,789	1,449	1999	40.0
Subtotal		904,164	263,836	1,498,387	40,254	265,294	1,537,183	1,802,477	105,987		
INDUSTRIAL FACILITIES:											
Burlingame	CA	—	1,219	3,470	—	1,219	3,470	4,689	361	1999	40.0
City of Industry	CA	—	5,002	11,766	—	5,002	11,766	16,768	1,226	1999	40.0
East Los Angeles	CA	—	9,334	12,501	—	9,334	12,501	21,835	1,302	1999	40.0
Millbrae	CA	—	741	2,107	—	741	2,107	2,848	219	1999	40.0
Fremont	CA	—	1,086	7,964	—	1,086	7,964	9,050	830	1999	40.0
Fremont	CA	—	654	4,591	—	654	4,591	5,245	478	1999	40.0
Milpitas	CA	6,537	5,051	6,170	328	5,051	6,498	11,549	456	2002	40.0
Milpitas	CA	8,572	6,856	8,378	—	6,856	8,378	15,234	587	2002	40.0
Milpitas	CA	2,213	2,633	3,219	279	2,633	3,498	6,131	245	2002	40.0
Milpitas	CA	3,676	4,119	5,034	—	4,119	5,034	9,153	350	2002	40.0
Milpitas	CA	2,664	3,044	3,716	590	3,044	4,306	7,350	484	2002	40.0
Milpitas	CA	9,227	4,095	8,323	567	4,095	8,890	12,985	889	1999	40.0
Milpitas	CA	9,815	5,617	6,877	618	5,617	7,495	13,112	562	2002	40.0
Milpitas	CA	—	4,880	12,367	1,498	4,880	13,865	18,745	1,906	1999	40.0
Milpitas	CA	7,530	4,600	5,627	201	4,600	5,828	10,428	443	2002	40.0
Milpitas	CA	3,057	3,000	3,669	—	3,000	3,669	6,669	260	2002	40.0
San Jose	CA	—	9,677	23,288	661	9,677	23,949	33,626	2,429	1999	40.0
Walnut Creek	CA	8,175	808	8,306	552	808	8,858	9,666	958	1999	40.0
Walnut Creek	CA	—	571	5,874	—	571	5,874	6,445	612	1999	40.0
Jacksonville	FL	—	2,310	5,435	—	2,310	5,435	7,745	566	1999	40.0
Miami	FL	—	3,048	8,676	—	3,048	8,676	11,724	904	1999	40.0

iStar Financial Inc.
Schedule III—Corporate Tenant Lease Assets and Accumulated Depreciation (Continued)
As of December 31, 2003
(Dollars in thousands)

			Initial Cost to Company			Gross Amount Carried at Close of Period					
Location	**State**	**Encumbrances**	**Land**	**Building and Improvements**	**Cost Capitalized Subsequent to Acquisition**	**Land**	**Building and Improvements**	**Total**	**Accumulated Depreciation**	**Date Acquired**	**Depreciable Life (Years)**
INDUSTRIAL FACILITIES (Continued):											
Miami	FL	—	1,394	3,967	—	1,394	3,967	5,361	413	1999	40.0
Miami	FL	—	1,612	4,586	—	1,612	4,586	6,198	478	1999	40.0
Orlando	FL	—	1,475	4,198	—	1,475	4,198	5,673	437	1999	40.0
McDonough	GA	12,059	1,900	14,318	—	1,900	14,318	16,218	724	2001	40.0
Stockbridge	GA	14,681	1,350	18,393	—	1,350	18,393	19,743	929	2001	40.0
DeKalb	IL	22,021	1,600	28,015	—	1,600	28,015	29,615	1,416	2001	40.0
Dixon	IL	13,620	519	15,363	—	519	15,363	15,882	97	2003	40.0
Lincolnshire	IL	—	3,192	7,508	—	3,192	7,508	10,700	782	1999	40.0
Marion	IN	2,581	131	4,254	—	131	4,254	4,385	443	1999	40.0
Seymour	IN	16,376	550	22,240	120	550	22,360	22,910	1,680	2000	40.0
South Bend	IN	—	140	4,640	—	140	4,640	4,780	483	1999	40.0
Wichita	KS	—	213	3,189	—	213	3,189	3,402	332	1999	40.0
Campbellsville	KY	15,027	400	17,219	45	400	17,264	17,664	477	2002	40.0
Lakeville	MA	4,328	1,012	4,048	—	1,012	4,048	5,060	422	1999	40.0
Randolph	MA	2,247	615	3,471	—	615	3,471	4,086	362	1999	40.0
Baltimore	MD	5,740	1,535	9,324	124	1,535	9,448	10,983	979	1999	40.0
Bloomington	MN	—	403	1,147	—	403	1,147	1,550	119	1999	40.0
O'Fallon	MO	—	1,388	12,700	—	1,388	12,700	14,088	1,323	1999	40.0
Reno	NV	—	248	707	—	248	707	955	74	1999	40.0

Location	State	Encumbrances	Land	Building and Improvements	Cost Capitalized Subsequent to Acquisition	Land	Building and Improvements	Total	Accumulated Depreciation	Date Acquired	Depreciable Life (Years)
Astoria	NY	—	897	2,555	—	897	2,555	3,452	266	1999	40.0
Astoria	NY	—	1,796	5,109	—	1,796	5,109	6,905	532	1999	40.0
Garden City	NY	11,100	8,400	6,430	—	8,400	6,430	14,830	40	2003	40.0
Lockbourne	OH	14,366	2,000	17,320	—	2,000	17,320	19,320	875	2001	40.0
Richfield	OH	11,775	2,327	—	12,210	2,327	12,210	14,537	678	2000	40.0
Philadelphia	PA	—	620	1,765	—	620	1,765	2,385	184	1999	40.0
York	PA	24,957	2,850	30,713	—	2,850	30,713	33,563	1,552	2001	40.0
Spartanburg	SC	—	943	16,836	—	943	16,836	17,779	1,754	1999	40.0
Memphis	TN	15,495	1,486	23,279	100	1,486	23,379	24,865	2,426	1999	40.0
Allen	TX	—	1,238	9,224	—	1,238	9,224	10,462	961	1999	40.0
Farmers Branch	TX	6,935	1,314	8,903	18	1,314	8,921	10,235	928	1999	40.0
Richardson	TX	6,803	858	8,556	—	858	8,556	9,414	891	1999	40.0
Terrell	TX	16,778	400	22,163	—	400	22,163	22,563	1,120	2001	40.0
Seattle	WA	—	828	2,355	—	828	2,355	3,183	245	1999	40.0
Subtotal		278,355	123,979	491,853	17,911	123,979	509,764	633,743	40,489		

			Initial Cost to Company			Gross Amount Carried at Close of Period					
Location	**State**	**Encumbrances**	**Land**	**Building and Improvements**	**Cost Capitalized Subsequent to Acquisition**	**Land**	**Building and Improvements**	**Total**	**Accumulated Depreciation**	**Date Acquired**	**Depreciable Life (Years)**
GROUND LEASE:											
San Jose	CA	—	82,212	—	(41,106)	41,106	—	41,106	—	2000	
LAND:											
Concord	MA	—	1,267	—	—	1,267	—	1,267	—	1999	
Irving	TX	—	5,243	—	—	5,243	—	5,243	—	2002	
Subtotal	—	—	6,510	—	—	6,510	—	6,510			
PARKING GARAGE:											
New Orleans	LA	—	4,241	6,462	4	4,241	6,466	10,707	677	1999	40.0
ENTERTAINMENT:											
San Diego	CA	—	—	18,000	—	—	18,000	18,000	101	2003	40.0
Quincy	WA	—	1,500	6,500	—	1,500	6,500	8,000	37	2003	40.0
Subtotal		—	1,500	24,500	—	1,500	24,500	26,000	138		
HOTEL:											
Sacramento	CA	140,440	1,281	9,809	—	1,281	9,809	11,090	1,804	1998	40.0
San Diego	CA	—	4,394	27,030	—	4,394	27,030	31,424	5,112	1998	40.0
Sonoma	CA	—	3,308	20,623	—	3,308	20,623	23,931	3,893	1998	40.0
Durango	CO	—	1,242	7,865	—	1,242	7,865	9,107	1,482	1998	40.0
Boise	ID	—	968	6,405	—	968	6,405	7,373	1,199	1998	40.0
Missoula	MT	—	210	1,607	—	210	1,607	1,817	296	1998	40.0
Astoria	OR	—	269	2,043	—	269	2,043	2,312	376	1998	40.0
Bend	OR	—	233	1,726	—	233	1,726	1,959	319	1998	40.0
Coos Bay	OR	—	404	3,049	—	404	3,049	3,453	562	1998	40.0
Eugene	OR	—	361	2,721	—	361	2,721	3,082	501	1998	40.0
Medford	OR	—	609	4,668	—	609	4,668	5,277	858	1998	40.0
Pendleton	OR	—	556	4,245	—	556	4,245	4,801	781	1998	40.0
Salt Lake City	UT	—	5,620	32,695	—	5,620	32,695	38,315	6,233	1998	40.0
Kelso	WA	—	502	3,779	—	502	3,779	4,281	696	1998	40.0
Seattle	WA	—	5,101	32,080	—	5,101	32,080	37,181	6,048	1998	40.0
Vancouver	WA	—	507	3,981	—	507	3,981	4,488	730	1998	40.0
Wenatchee	WA	—	513	3,825	—	513	3,825	4,338	706	1998	40.0
Subtotal		140,440	26,078	168,151	—	26,078	168,151	194,229	31,596		
Total corporate tenant lease assets		$ 1,322,959	$ 508,356	$ 2,189,353	$ 17,063	$ 468,708	$ 2,246,064	$ 2,714,772	$ 178,887		

Explanatory Note:

(1) Represents Direct Financing Lease

iStar Financial Inc.
Notes to Schedule III
December 31, 2003
(Dollars in thousands)

1. Reconciliation of Corporate Tenant Lease Assets:

The following table reconciles CTL assets from January 1, 2001 to December 31, 2003:

	2003	2002	2001
Balance at January 1	$ 2,420,314	$ 1,861,786	$ 1,639,062
Additions	335,776	606,653	248,804
Dispositions	(41,318)	(3,106)	(26,080)
Assets classified as held for sale	—	(45,019)	—
Balance at December 31	$ 2,714,772	$ 2,420,314	$ 1,861,786

2. Reconciliation of Accumulated Depreciation:

The following table reconciles Accumulated Depreciation from January 1, 2001 to December 31, 2003:

	2003	2002	2001
Balance at January 1	$ (128,509)	$ (80,221)	$ (46,975)
Additions	(53,777)	(48,615)	(33,898)
Dispositions	3,399	131	652
Assets classified as held for sale	—	196	—
Balance at December 31	$ (178,887)	$ (128,509)	$ (80,221)

iStar Financial Inc.
Schedule IV-Loans and Other Lending Investments
As of December 31, 2003
(Dollars in thousands)

Type of Loan/Borrower	Description/Location	Interest Accrual Rates	Interest Payment Rates	Final Maturity Date	Periodic Payment Terms(1)	Prior Liens(2)	Face Amount of Loans	Carrying Amount of Loans
Senior Mortgages:								
Borrower A(3)	Office, Detroit, MI	7.03%	7.03%	9/11/09	P&I	$ —	$ 174,881	$ 160,410
All other senior mortgages individually < 3%						—	1,968,445	1,946,381
						—	2,143,326	2,106,791
Subordinate Mortgages:								
Subordinate mortgages individually < 3%						1,924,773	551,634	550,572
						1,924,773	551,634	550,572
Corporate/Partnership Loans:								
Borrower A(3)	Office, Detroit, MI	12.67%	12.67%	9/11/09	IO	—	6,729	6,617
Borrower B(3)	Residential, Various States	LIBOR + 5.00%	LIBOR + 5.00%	3/01/05	IO	672,720	30,716	30,716
All other corporate/partnership loans individually < 3%						3,627,366	703,084	673,136
						4,300,086	740,529	710,469
Other Lending Investments-Loans:								
Other lending investments-loans individually < 3%						63,000	26,096	23,767
						63,000	26,096	23,767
Other Lending Investments-Securities:								
Borrower B(3)	Residential, Various States	10.00%	10.00%	8/15/05	IO	—	150,000	138,189
All other lending investments-securities individually < 3%						4,908,669	214,050	206,322
						4,908,669	364,050	344,511
Subtotal						11,196,528	3,825,635	3,736,110
Provision for Loan Losses						—	—	(33,436)
Total:						$ 11,196,528	$ 3,825,635	$ 3,702,674

Explanatory Notes:

(1) P&I = principal and interest, IO = interest only.

(2) Represents only third-party liens and excludes senior loans held by the Company from the same borrower on the same collateral.
(3) Loan is a part of a common borrowing provided by the Company (see corresponding letter reference).

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9a. Controls and Procedures

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

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the disclosure committee and other members of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to timely alert them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's Exchange Act filings.

There have been no significant changes during the last fiscal quarter in the Company's internal controls that could significantly affect internal controls.

PART III

Item 10. Directors and Executive Officers of the Registrant

Portions of the Company's definitive proxy statement for the 2004 annual meeting of shareholders to be filed within 120 days after the close of the Company's fiscal year are incorporated herein by reference.

Item 11. Executive Compensation

Portions of the Company's definitive proxy statement for the 2004 annual meeting of shareholders to be filed within 120 days after the close of the Company's fiscal year are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Portions of the Company's definitive proxy statement for the 2004 annual meeting of shareholders to be filed within 120 days after the close of the Company's fiscal year are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Portions of the Company's definitive proxy statement for the 2004 annual meeting of shareholders to be filed within 120 days after the close of the Company's fiscal year are incorporated herein by reference.

Item 14. Principal Accountants Fees and Services

Portions of the Company's definitive proxy statement for the 2004 annual meeting of shareholders to be filed within 120 days after the close of the Company's fiscal year are incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

a. and (d). Financial statements and schedules—see Index to Financial Statements and Schedules included in Item 8.

b. Reports on Form 8-K.

On October 23, 2003, a Current Report on Form 8-K was filed in order to file the Company's Earnings Release in connection with the quarter ended September 30, 2003.

On December 9, 2003 a Current Report on Form 8-K was filed in order to file the underwriting agreement in connection with the issuance of the Company's 6.0% $350.0 million Senior Notes and 6.5% $150.0 million Senior Notes.

On December 10, 2003 a Current Report on Form 8-K was filed in order to file the Purchase Agreement between iStar Financial Inc. and Bear, Stearns & Co., the Articles Supplementary relating to the Series G Preferred Stock, the Form of 7.65% Series G Cumulative Redeemable Preferred Stock Certificate and the Opinion of Clifford Chance US LLP relating to the legality of the Preferred Stock.

On December 12, 2003 a Current Report on Form 8-K was filed in order to file the Global Notes evidencing the Company's 6.0% Senior Notes due 2010, the Global Notes evidencing the Company's 6.5% Senior Notes due 2013 and the Opinion of Clifford Chance US LLP.

On December 18, 2003 a Current Report on Form 8-K was filed in order to file the underwriting agreement in connection with the sale of 5,000,000 shares of Common Stock.

c. Exhibits—see index on following page.

INDEX TO EXHIBITS

Exhibit Number	Document Description
1.1	Underwriting Agreement dated August 9, 2001 relating to the Company's $8^{3}/4$% Senior Notes due 2008. (9)
1.2	Purchase Agreement dated November 14, 2002. (13)
2.1	Agreement and Plan of Merger, dated as of June 15, 1999, by and among Starwood Financial Trust, ST Merger Sub, Inc. and TriNet Corporate Realty Trust, Inc. (4)
2.2	Agreement and Plan of Merger, dated as of June 15, 1999, by and among Starwood Financial Trust, Starwood Financial, Inc. and to the extent described therein, TriNet Corporate Realty Trust, Inc. (4)
2.3	Agreement and Plan of Merger, dated as of June 15, 1999, by and among Starwood Financial Trust, SA Merger Sub, Inc., STW Holdings I, Inc., the Stockholders named therein, Starwood Capital Group, L.L.C. and, to the extent described therein, TriNet Corporate Realty Trust, Inc. (4)
3.1	Amended and Restated Charter of the Company (including the Articles Supplementary for the Series A, B, C and D Preferred Stock). (6)
3.2	Bylaws of the Company. (7)
3.3	Articles Supplementary for the High Performance Common Stock—Series 1. (12)
3.4	Articles Supplementary for the High Performance Common Stock—Series 2. (12)
3.5	Articles Supplementary for the High Performance Common Stock—Series 3. (12)
3.6	Articles Supplementary for the High Performance Common Stock—Series 4.
3.7	Articles Supplementary relating to the Series E Preferred Stock. (16)
3.8	Articles Supplementary relating to the Series F Preferred Stock. (17)
3.9	Articles Supplementary relating to the Series G Preferred Stock. (18)
3.10	Articles Supplementary relating to the Series H Preferred Stock.
4.1	Amended and Restated Registration Rights Agreement dated March 18, 1998 among Starwood Financial Trust and Starwood Mezzanine Investors, L.P., SAHI Partners and SOFI-IV SMT Holdings, L.L.C. (2)
4.2	Investor Rights Agreement, dated as of December 15, 1998 among Starwood Financial Trust, a Maryland real estate investment trust, Starwood Mezzanine Investors, L.P., a Delaware limited partnership, SOFI-IV SMT Holdings, L.L.C., a Delaware limited liability company, B Holdings, L.L.C., a Delaware limited liability company, and Lazard Freres Real Estate Fund II, L.P., a Delaware limited partnership, Lazard Freres Real Estate Offshore Fund II L.P., a Delaware limited Partnership, and LF Mortgage REIT, a Maryland real estate investment trust. (3)
4.3	Form of warrant certificates. (3)
4.4	Form of stock certificate for the Company's Common Stock. (5)
4.5	Form of certificate for Series A Preferred Shares of beneficial interest. (3)
4.6	Form of Supplemental Indenture, dated as of August 16, 2001. (9)
4.7	Form of Global Note evidencing $8^{3}/4$% Senior Notes 2008. (9)

Exhibit Number	Document Description
4.8	Registration Rights Agreement dated March 24, 2003 between iStar Financial Inc. and Teachers Insurance and Annuity Association of America. (15)
4.9	Form of $7^{7}/8$% Series E Cumulative Redeemable Preferred Stock Certificate. (16)
4.10	Registration Rights Agreement dated January 22, 2004 between iStar Financial Inc. and Bear, Stearns & Co. Inc.
4.11	Form of 7.8% Series F Cumulative Redeemable Preferred Stock Certificate. (17)
4.12	Form of 7.65% Series G Cumulative Redeemable Preferred Stock Certificate. (18)
4.13	Form of Variable Rate Series H Preferred Stock Certificate.
10.1	Starwood Financial Trust 1996 Share Incentive Plan. (2)
10.2	Second Amended and Restated Shareholder's Agreement dated March 18, 1998 among B Holdings, L.L.C., SAHI Partners, Starwood Mezzanine Investors, L.P., SOFI-IV SMT Holdings, L.L.C., and Starwood Financial Trust. (2)
10.3	Indenture, dated May 17, 2000, among iStar Asset Receivables Trust, La Salle Bank National Association and ABN AMRO BANK N.V.(8)
10.4	Purchase Agreement dated October 14, 2001. (10)
10.5	Master Agreement between iStar DB Seller, LLC, Seller and Deutsche Bank AG, New York Branch, Buyer dated January 11, 2001. (11)
10.6	Employment Agreement, dated November 1, 2002, by and between iStar Financial Inc. and Catherine D. Rice. (14)
10.7	iStar Financial Inc. Code of Conduct.
10.8	Employment Agreement dated February 11, 2004, by and between iStar Financial Inc. and Jay Sugarman.

10.9	Performance Retention Grant Agreement dated February 11, 2004.
10.10	Purchase Agreement dated January 22, 2004 by and between iStar Financial Inc. and Bear, Stearns & Co. Inc.
12.1	Computation of Ratio of EBITDA to interest expense.
12.2	Computation of Ratio of EBITDA to combined fixed charges.
12.3	Computation of Ratio of Earnings to fixed charges and Earnings to fixed charges and preferred stock dividends.
21.1	Subsidiaries of the Company.
23.1	Consent of PricewaterhouseCoopers LLP.
31.0	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act.
32.0	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act.

Explanatory Notes:

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(1) Incorporated by reference from the Company's Registration Statement on Form S-4 filed on May 12, 1998.

(2) Incorporated by reference from the Company's Annual Report on Form 10- K for the year ended December 31, 1997 filed on April 2, 1998.

(3) Incorporated by reference from the Company's Form 8-K filed on December 23, 1998.

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(4) Incorporated by reference to the Company's Current Report on Form 8-K filed on June 22, 1999.

(5) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1999 filed on March 30, 2000.

(6) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000 filed on May 15, 2000.

(7) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 filed on August 14, 2000.

(8) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2000 filed on March 30, 2001.

(9) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 filed on November 14, 2001.

(10) Incorporated by reference from the Company's Form 8-K filed on November 5, 2001.

(11) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 filed on May 15, 2001.

(12) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.

(13) Incorporated by reference from the Company's Form 8-K filed on November 19, 2002.

(14) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2002 filed on March 30, 2003.

(15) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.

(16) Incorporated by reference from the Company's Form 8-A filed on July 8, 2003.

(17) Incorporated by reference from the Company's Form 8-A filed on September 25, 2003.

(18) Incorporated by reference from the Company's Form 8-A filed on December 10, 2003.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

iSTAR FINANCIAL INC.
Registrant

Date: March 15, 2004 — /s/ JAY SUGARMAN

Jay Sugarman
Chairman of the Board of Directors and
Chief Executive Officer

Date: March 15, 2004 — /s/ CATHERINE D. RICE

Catherine D. Rice
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following person on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 15, 2004 — /s/ JAY SUGARMAN

Jay Sugarman
Chief Executive Officer and Director

Date: March 15, 2004 — /s/ WILLIS ANDERSEN JR.

Willis Andersen Jr.
Director

Date: March 15, 2004	/s/ ROBERT W. HOLMAN, JR.
	Robert W. Holman, Jr. *Director*
Date: March 15, 2004	/s/ ROBIN JOSEPHS
	Robin Josephs *Director*
Date: March 15, 2004	/s/ MATTHEW J. LUSTIG
	Matthew J. Lustig *Director*

Date: March 15, 2004	/s/ JOHN G. MCDONALD
	John G. McDonald *Director*
Date: March 15, 2004	/s/ GEORGE R. PUSKAR
	George R. Puskar *Director*
Date: March 15, 2004	/s/ JEFFREY WEBER
	Jeffrey Weber *Director*

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Exhibit 3.6

iSTAR FINANCIAL INC.

Articles Supplementary

iStar Financial Inc., a Maryland corporation, (the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: Under a power contained in Article V of the Charter of the Corporation (the "Charter"), the Board by duly adopted resolutions classified and designated 5,000 shares of authorized but unissued shares of Common Stock (as defined in the Charter) as shares of High Performance Common Stock-Series 4, with the following preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, and terms and conditions of redemption, which, upon any restatement of the Charter, shall become part of Article V of the Charter, with any necessary or appropriate renumbering or relettering of the sections or subsections hereof.

High Performance Common Stock- Series 4

1. *DESIGNATION AND NUMBER.* A series of Common Stock, designated High Performance Common Stock-Series 4 ("HP Series 4 Stock"), is hereby established. The number of shares of HP Series 4 Stock shall be 5,000. The number of shares of HP Series 4 Stock may be increased or decreased (but not below the number of shares of HP Series 4 Stock then issued and outstanding) from time to time by resolution of the Board. HP Series 4 Stock repurchased by the Corporation shall be canceled and shall revert to authorized but unissued shares of Common Stock, undesignated as to class or series, subject to reclassification and reissuance by the Corporation in accordance with the Charter.

2. *RANK.* The HP Series 4 Stock shall, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Corporation, rank (a) on a parity with the Common Stock; and (b) junior to the Corporation's 9.5% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock"), $9^{3}/8$% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred Stock"), 9.2% Series C Cumulative Redeemable Preferred Stock (the "Series C Preferred Stock") and 8% Series D Cumulative Redeemable Preferred Stock (the "Series D Preferred Stock"), and all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank senior to the HP Series 4 Stock.

3. *VOTING RIGHTS.* Each share of HP Series 4 Stock (voting together as a single class with all Common Stock (including any High Performance Common Stock-Series 1, High Performance Common Stock-Series 2, High Performance Common Stock-Series 3, and High Performance Common Stock-Series 5) and all Preferred Stock entitled to vote) will be entitled to cast twenty-five one-hundredths of one vote with respect to all matters on which the holders of Common Stock are entitled to vote. Shares of HP Series 4 Stock shall not have cumulative voting rights.

4. *DIVIDENDS*

(a) Each share of HP Series 4 Stock shall be entitled to receive dividends in the same amount and at the same times as regular quarterly cash dividends are paid on a number of shares of Common Stock equal to the Common Stock Equivalent, as defined below. For the avoidance of doubt, shares of HP Series 4 Stock shall not be entitled to receive dividends in respect of any dividend or other distribution paid on the Common Stock other than regular quarterly cash dividends.

(b) Each dividend will be payable to holders of record of the HP Series 4 Stock on a date (a "Record Date") selected by the Board which is the same date as the Record Date for the payment of the related dividend or other distribution on the Common Stock.

(c) Except as otherwise provided in paragraph (d), the Common Stock Equivalent shall be 0.01 shares of Common Stock.

(d) If the Cumulative Total Return of the Common Stock during the Measurement Period exceeds the Threshold Return, then with respect to each dividend declared after the Valuation Date, the Common Stock Equivalent shall be deemed to equal: (1) the product of (w) 7.5% of the amount by which the Cumulative Total Return of the Common Stock during the Measurement Period exceeds the Threshold Return multiplied by (x) the Average Market Capitalization of the Common Stock for the Measurement Period; divided by (2) the product of (y) the Security Price of one share of Common Stock as of the Valuation Date and (z) the number of shares of HP Series 4 Stock Outstanding at the close of business, New York time, on the Valuation Date; *provided*, *however*, that in no event shall the Common Stock Equivalent exceed the quotient of (A) 1.0% of the average number of shares of Common Stock outstanding on the last day of each full calendar month during the Measurement Period, on a fully diluted basis, divided by (B) the number of shares of HP Series 4 Stock outstanding on the Valuation Date.

5. *RIGHTS UPON LIQUIDATION, DISSOLUTION OR WINDING UP.* In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, each share of HP Series 4 Stock shall be entitled, on the same basis as the Common Stock Equivalent and any other class of stock hereafter classified or reclassified that does not have a preference on distributions in the liquidation, dissolution or winding up of the Company, to share ratably in the net assets of the Company remaining, after payment or provision for payment of the debts and other liabilities of the Company and the amount to which the holders of any class of stock of the Company that has a preference on distributions in the liquidation, dissolution or winding up of the Company shall be entitled. The consolidation or merger of the Corporation with or into any other corporation, trust or entity or of any other corporation with or into the Corporation, or the sale, lease or conveyance of all or substantially all of the property or business of the Corporation, shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation.

6. *REDEMPTION.* The HP Series 4 Stock is not redeemable, except in the following instances:

(a) In order to ensure that the Corporation remains a qualified real estate investment trust for Federal income tax purposes, the HP Series 4 Stock will be subject to the provisions of Article IX of the Charter. Without limiting the generality of the foregoing, pursuant to Article IX, HP Series 4 Stock, together with other equity stock of the Corporation, owned by a stockholder in excess of the Ownership Limit will automatically be transferred to a Charitable Trust for the benefit of a Charitable Beneficiary and the Corporation will have the right to purchase such transferred shares from the Charitable Trust.

(b) The Corporation shall have the right, but not the obligation, to redeem shares of HP Series 4 Stock held by iStar HPU 2005, L.L.C. (the "LLC") upon receipt of a written notice (an "LLC Redemption Notice") from the managing member of the LLC of a proposed redemption by the LLC of units of interest in the LLC pursuant to the LLC's operating agreement. The LLC Redemption Notice shall specify the number of units of LLC interest to be redeemed, the redemption price and the date on which the redemption shall take place. The number of shares of HP Series 4 Stock that may be redeemed by the Corporation and the redemption price to be paid by the Corporation shall be the same as the number of units of LLC interest proposed to be redeemed and the redemption price to be paid for such units, in each case as set forth in the LLC Redemption Notice. In order for the Corporation to exercise its right of redemption hereunder, the Corporation shall advise the LLC in writing, as promptly as practicable and in any event within 10 business days after receipt of the LLC Redemption Notice, of its intent to redeem HP Series 4 Stock in response to the LLC Redemption Notice and shall specify a date for such redemption, which date shall be no later than 10:00 a.m., New York time, on the redemption date specified in the LLC Redemption Notice.

(c) Notice of redemption of HP Series 4 Stock having been given in accordance with the previous paragraph, on or before the redemption date, the LLC shall surrender the certificates representing the

shares of HP Series 4 Stock to be redeemed to the Corporation. Promptly after the certificates representing HP Series 4 Stock are surrendered to the Corporation, the Corporation will deliver to the LLC the consideration for such shares.

(d) The Corporation shall redeem for cash all outstanding shares of HP Series 4 Stock at a redemption price per share equal to the Security Price of the Common Stock as of the first date on which the Corporation is no longer treated as a real estate investment trust for U.S. federal income tax purposes. Such redemption shall take place no later than 60 days after the first date on which the Corporation is no longer treated as a real estate investment trust for U.S. federal income tax purposes.

(e) At the close of business on the redemption date for shares of HP Series 4 Stock, the holders of the shares called for redemption will cease to be stockholders with respect to those shares, will have no interest in or claims against the Corporation by virtue of the shares and will have no voting or other rights with respect to the shares (except the right to receive the redemption price, and except the right to receive dividends or distributions payable thereafter to the holder of the HP Series 4 Stock as of a Record Date preceding such redemption date) and, from and after the close of business on the redemption date the shares of HP Series 4 Stock to be redeemed or exchanged will no longer be deemed outstanding.

(f) If a Record Date occurs prior to a redemption date for shares of HP Series 4 Stock but the corresponding dividend payment date occurs after the redemption date, the dividend payable on such dividend payment date will be payable on the dividend payment date to the holder of record of the shares of HP Series 4 Stock on the Record Date notwithstanding the redemption of the shares of HP Series 4 Stock on the redemption date.

7. *CONVERSION.* If the Corporation consolidates or merges with or into any person, or sells, assigns, transfers, leases or otherwise disposes of all or substantially all of its consolidated assets to another person, in a single transaction or a series of related transactions in which (1) the Corporation is not the surviving or continuing person and (2) the common stock of the Corporation is converted or exchanged into cash or other property or securities of the surviving or continuing person (a "Change of Control"), then at the effective time of the completion of such Change of Control transaction, each share of HP Series 4 Common Stock shall automatically be converted into the same type and amount of consideration as a number of shares of common stock equal to the Common Stock Equivalent in effect at the effective time of the completion of the transaction.

8. *DEFINITIONS.* As used herein, the following terms shall have the following meanings:

"*Average Market Capitalization*" means the weighted average of the common equity market capitalization of the Corporation for each calendar month of the Measurement Period, as calculated by multiplying the number of basic shares of Common Stock outstanding on the last day of each calendar month by the average daily closing price of the Common Stock for each such month.

"*Change of Control*" means, a transaction of the type contemplated by paragraph 7 "Conversion" of these Articles.

"*Change of Control Price*" means, if the Common Stock is publicly traded on a U.S. national securities exchange or automated quotation system prior to the occurrence of a Change of Control, then the closing price of the Common Stock at the end of regular trading on the last trading day prior to the occurrence of the Change of Control, and otherwise shall mean the fair market value of the Common Stock on the day prior to the occurrence of the Change of Control as determined by the Board.

"*Cumulative Total Return*" means, for any security and for any period, the cumulative total return for such security over such period, as measured by (1) the sum of (a) the cumulative amount of dividends paid in respect of such security for such period (assuming that all cash dividends are

reinvested in such security as of the payment date for such dividend based on the Security Price as of the dividend payment date), and (b) an amount equal to (x) the Change of Control Price or, if no Change of Control has occurred, the Security Price as of the last day of the Measurement Period, minus (y) the closing price of the security, as reported by the principal stock exchange or automated quotation system on which the security is then traded, on the last trading day prior to the first day of the Measurement Period, divided by (2) the closing price of the security, as reported by the principal stock exchange or automated quotation system on which the security is then traded, on the last trading day prior to the first day of the Measurement Period; provided, however, that if the foregoing calculation results in a negative number, the "Cumulative Total Return" shall be equal to zero.

"*Index Return*" means the Cumulative Total Return, expressed as a percentage, achieved by the Peer Group Index during the Measurement Period.

"*Security Price*" means, for any security, the average of the closing prices for such security on the principal securities exchange or automated quotation system on which the security is traded or listed for the 20 trading days ended on the trading date immediately preceding the date as of which the Security Price is being determined; provided, however, that if the security is not publicly-traded, then the Security Price shall be equal to the fair market value of the security as determined by the Board.

"*Measurement Period*" means the period from and including January 1, 2005 to and including the Valuation Date.

"*Peer Group Index*" means, initially, a combination of The Morgan Stanley Dean Witter REIT Index and the Russell 1000 Financial Index, with each such index being accorded equal weighting. The Board may select one or more different indices to serve as the Peer Group Index from time to time if the Board determines that the applicable indices no longer serve as an appropriate comparison for the Company, or if they are not maintained throughout the Measurement Period or for any other reason the Board may determine.

"*Threshold Return*" means the greater of (1) 10% and (2) the Index Return.

"*Valuation Date*" means the earlier of (1) December 31, 2005, (2) the date of the occurrence of a Change of Control of the Company and (3) the date of any liquidation, dissolution or winding up of the Company.

SECOND: The shares of High Performance Common Stock-Series 4 have been classified and designated by the Board of Directors under the authority contained in the Charter.

THIRD: These Articles Supplementary have been approved by the Board of Directors in the manner and by the vote required by law.

FOURTH: The undersigned Chairman and Chief Executive Officer of the Corporation acknowledges these Articles Supplementary to be the corporate act of the Corporation and, as to all matters or facts required to be verified under oath, the undersigned Chairman and Chief Executive Officer acknowledges that, to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Corporation has caused these Articles Supplementary to be signed in its name and on its behalf by its Chairman and attested to by its Secretary on this 22 day of January, 2003.

ATTEST:			iSTAR FINANCIAL INC.		
By:	/s/ CATHERINE D. RICE		By:	/s/ JAY S. SUGARMAN	(SEAL)
	Name:	Catherine D. Rice		Name:	Jay S. Sugarman
	Title:	*Chief Financial Officer and Secretary*		Title:	*Chairman and Chief Executive Officer*

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iSTAR FINANCIAL INC. Articles Supplementary

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Exhibit 3.10

iSTAR FINANCIAL INC.

Articles Supplementary

Series H Variable Rate

Preferred Stock

iStar Financial Inc., a Maryland corporation (the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: Under a power contained in Article V of the Charter of the Corporation (the "Charter"), the Board of Directors by duly adopted resolutions classified and designated 3,300,000 shares of authorized but unissued Preferred Stock (as defined in the Charter) as shares of Series H Variable Rate Preferred Stock, with the following preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, and terms and conditions of redemption, which, upon any restatement of the Charter, shall become part of Article V of the Charter, with any necessary or appropriate renumbering or relettering of the sections or subsections hereof.

Series H Preferred Stock

(1) *DESIGNATION AND NUMBER.* A series of Preferred Stock, designated the "Series H Variable Rate Preferred Stock" (the "Series H Preferred Stock"), is hereby established. The number of shares of the Series H Preferred Stock shall be 3,300,000.

(2) *RANK.* The Series H Preferred Stock shall, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Corporation, rank: (a) senior to all classes or series of Common Stock of the Corporation, and to all equity securities the terms of which specifically provide that such equity securities rank junior to such Series H Preferred Stock; (b) on a parity with the Corporation's $9^{3}/8$% Series B Cumulative Redeemable Preferred Stock, 9.2% Series C Cumulative Redeemable Preferred Stock, 8% Series D Cumulative Redeemable Preferred Stock, $7^{7}/8$% Series E Cumulative Redeemable Preferred Stock, 7.8% Series F Cumulative Redeemable Preferred Stock, and 7.65% Series G Cumulative Redeemable Preferred Stock; and all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank on a parity with the Series H Preferred Stock; and (c) junior to all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank senior to the Series H Preferred Stock. The term "equity securities" shall not include convertible debt securities.

(3) *DIVIDENDS.*

(a) Holders of the then outstanding shares of Series H Preferred Stock shall be entitled to receive, when and as authorized by the Board of Directors, out of funds legally available for the payment of dividends, cumulative quarterly preferential cash dividends at the rate per annum set forth below with respect to the $25.00 liquidation preference per share:

Time Period	Dividend Rate
January 22, 2004 (the "Purchase Date") to but excluding February 22, 2004	7.650%
February 22, 2004 to but excluding March 22, 2004	8.150%
March 22, 2004 to but excluding April 22, 2004	8.650%
April 22, 2004 to but excluding May 22, 2004	9.150%
May 22, 2004 (the "Reset Date") and thereafter	9.650%

Such dividends shall be cumulative from the first date on which any Series H Preferred Stock is issued and shall be payable quarterly in arrears on or before March 15, June 15, September 15 and December 15 of each year beginning on March 15, 2004 or, if not a business day, the next succeeding business day (each, a "Dividend Payment Date").

Any dividend payable on the Series H Preferred Stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months (it being understood that the dividend payable on March 15, 2004 will be for less than the full quarterly dividend period). Dividends will be payable to holders of record as they appear in the stock records of the Corporation at the close of business on the applicable record date, which shall be the first day of the calendar month in which the applicable Dividend Payment Date falls or on such other date designated by the Board of Directors of the Corporation for the payment of dividends that is not more than 30 nor less than 10 days prior to such Dividend Payment Date (each, a "Dividend Record Date").

(b) No dividends on shares of Series H Preferred Stock shall be declared by the Corporation or paid or set apart for payment by the Corporation at such time as the terms and provisions of any agreement of the Corporation, including any agreement relating to its indebtedness, prohibit such declaration, payment or setting apart for payment or provide that such declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such declaration or payment shall be restricted or prohibited by law.

(c) Notwithstanding the foregoing, dividends on the Series H Preferred Stock shall accrue whether or not the terms and provisions set forth in Section 3(b) hereof at any time prohibit the current payment of dividends, whether or not the Corporation has earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are declared. Accrued but unpaid dividends on the Series H Preferred Stock will accumulate as of the Dividend Payment Date on which they first become payable.

(d) Except as provided in Section 3(e) below, unless full cumulative dividends on the Series H Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods and the then current dividend period, no dividends (other than in shares of Common Stock or in shares of any series of Preferred Stock ranking junior to the Series H Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment nor shall any other distribution be declared or made upon the Common Stock, or any Preferred Stock of the Corporation ranking junior to or on a parity with the Series H Preferred Stock as to dividends or upon liquidation, nor shall any shares of Common Stock, or any shares of Preferred Stock of the Corporation ranking junior to or on a parity with the Series H Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by the Corporation (except by conversion into or exchange for other capital stock of the Corporation ranking junior to the Series H Preferred Stock as to dividends and upon liquidation and except for transfers made pursuant to the provisions of Article IX of the Charter).

(e) When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) on the Series H Preferred Stock and the shares of any other series of Preferred Stock ranking on a parity as to dividends with the Series H Preferred Stock, all dividends declared upon the Series H Preferred Stock and any other series of Preferred Stock ranking on a parity as to dividends with the Series H Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series H Preferred Stock and such other series of Preferred Stock shall in all cases bear to each other the same ratio that accrued dividends per share on the Series H Preferred Stock and such other series of Preferred Stock (which shall not include any

accrual in respect of unpaid dividends for prior dividend periods if such Preferred Stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on Series H Preferred Stock which may be in arrears.

(f) Any dividend payment made on shares of the Series H Preferred Stock shall first be credited against the earliest accrued but unpaid dividend due with respect to such shares which remains payable. Holders of the Series H Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock in excess of full cumulative dividends on the Series H Preferred Stock as described above.

(4) *LIQUIDATION PREFERENCE.*

(a) Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of shares of Series H Preferred Stock then outstanding are entitled to be paid out of the assets of the Corporation, legally available for distribution to its stockholders, a liquidation preference of $25.00 per share, plus an amount equal to any accrued and unpaid dividends to the date of payment, before any distribution of assets is made to holders of Common Stock or any series of Preferred Stock of the Corporation that ranks junior to the Series H Preferred Stock as to liquidation rights.

(b) In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, the available assets of the Corporation are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series H Preferred Stock and the corresponding amounts payable on all shares of other classes or series of capital stock of the Corporation ranking on a parity with the Series H Preferred Stock in the distribution of assets, then the holders of the Series H Preferred Stock and all other such classes or series of capital stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

(c) After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series H Preferred Stock will have no right or claim to any of the remaining assets of the Corporation.

(d) Written notice of any such liquidation, dissolution or winding up of the Corporation, stating the payment date or dates when, and the place or places where, the amounts distributable in such circumstances shall be payable, shall be given by first class mail, postage pre-paid, not less than 30 nor more than 60 days prior to the payment date stated therein, to each record holder of the Series H Preferred Stock at the respective addresses of such holders as the same shall appear on the stock transfer records of the Corporation.

(e) The consolidation or merger of the Corporation with or into any other corporation, trust or entity or of any other corporation with or into the Corporation, or the sale, lease or conveyance of all or substantially all of the assets or business of the Corporation, shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation.

(5) *REDEMPTION.*

(a) Series H Preferred Stock is not redeemable at any time at the option of the holders thereof.

(b) *Right of Optional Redemption by the Company Prior to the Reset Date.* On and after the Purchase Date to but excluding the Reset Date, the Corporation at its option and upon not less than one nor more than 30 days' written notice, may redeem shares of the Series H Preferred Stock in whole and not in part, at any time or from time to time for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends thereon to and including the date fixed for

redemption (except as provided in Section 5(e) below), without interest. Holders of shares of Series H Preferred Stock to be redeemed pursuant to Section 5(b) shall surrender such shares of Series H Preferred Stock at the place designated in such notice and shall be entitled to the redemption price and any accrued and unpaid dividends payable upon such redemption.

(c) *Right of Optional Redemption by the Company On and After May 22, 2009.* On and after May 22, 2009, the Corporation, at its option and upon not less than 30 nor more than 60 days' written notice, may redeem shares of the Series H Preferred Stock, in whole or in part, at any time or from

time to time, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends thereon to and including the date fixed for redemption (except as provided in Section 5(e) below), without interest. If less than all of the outstanding Series H Preferred Stock is to be redeemed, the Series H Preferred Stock to be redeemed shall be selected pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method determined by the Corporation.

(d) *Limitations on Redemption.* Unless full cumulative dividends on all shares of Series H Preferred Stock shall have been, or contemporaneously are, declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no shares of Series H Preferred Stock shall be redeemed unless all outstanding shares of Series H Preferred Stock are simultaneously redeemed, and the Corporation shall not purchase or otherwise acquire directly or indirectly any shares of Series H Preferred Stock (except by exchange for capital stock of the Corporation ranking junior to the Series H Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase by the Corporation of shares transferred to a Charitable Trust pursuant to Article IX in order to ensure that the Corporation remains qualified as a REIT for Federal income tax purposes or the purchase or acquisition of shares of Series H Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series H Preferred Stock.

(e) *Rights to Dividends on Shares Called for Redemption.* Immediately prior to any redemption of Series H Preferred Stock, the Corporation shall pay, in cash, any accumulated and unpaid dividends to and including the redemption date, unless a redemption date falls after a Dividend Record Date and prior to the corresponding Dividend Payment Date, in which case each holder of Series H Preferred Stock at the close of business on such Dividend Record Date shall be entitled to the dividend payable on such shares on the corresponding Dividend Payment Date notwithstanding the redemption of such shares before such Dividend Payment Date. Except as provided above, the Corporation will make no payment or allowance for unpaid dividends, whether or not in arrears, on Series H Preferred Stock which is redeemed.

(f) *Procedures for Redemption.*

(i) Notice of redemption will be mailed by the Corporation, postage prepaid, not less than one nor more than 30 days prior to the redemption date in the case shares of Series H Preferred Stock are to be redeemed pursuant to Section 5(b), and not less than 30 nor more than 60 days prior to the redemption date in the case shares of Series H Preferred Stock are to be redeemed pursuant to Section 5(c), addressed to the respective holders of record of the Series H Preferred Stock to be redeemed at their respective addresses as they appear on the stock transfer records of the Corporation. No failure to give such notice or any defect thereto or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series H Preferred Stock except as to the holder to whom notice was defective or not given.

(ii) In addition to any information required by law or by the applicable rules of any exchange upon which Series H Preferred Stock may be listed or admitted to trading, such

notice shall state: (A) the redemption date; (B) the redemption price; (C) the number of shares of Series H Preferred Stock to be redeemed; (D) the place or places where the Series H Preferred Stock is to be surrendered for payment of the redemption price; and (E) that dividends on the shares to be redeemed will cease to accrue on such redemption date. If less than all of the Series H Preferred Stock held by any holder is to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series H Preferred Stock held by such holder to be redeemed.

(iii) If notice of redemption of any shares of Series H Preferred Stock has been given and if the funds necessary for such redemption have been set aside by the Corporation in trust for the benefit of the holders of any shares of Series H Preferred Stock so called for redemption, then, from and after the redemption date, dividends will cease to accrue on such shares of Series H Preferred Stock, such shares of Series H Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price. Holders of Series H Preferred Stock to be redeemed shall surrender such Series H Preferred Stock at the place designated in such notice and, upon surrender in accordance with said notice of the certificates for shares of Series H Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Corporation shall so require and the notice shall so state), such shares of Series H Preferred Stock shall be redeemed by the Corporation at the redemption price plus any accrued and unpaid dividends payable upon such redemption. In case less than all the shares of Series H Preferred Stock represented by any such certificate are redeemed, a new certificate or certificates shall be issued representing the unredeemed shares of Series H Preferred Stock without cost to the holder thereof.

(iv) The deposit of funds with a bank or trust corporation for the purpose of redeeming Series H Preferred Stock shall be irrevocable except that:

(a) the Corporation shall be entitled to receive from such bank or trust corporation the interest or other earnings, if any, earned on any money so deposited in trust, and the holders of any shares redeemed shall have no claim to such interest or other earnings; and

(b) any balance of monies so deposited by the Corporation and unclaimed by the holders of the Series H Preferred Stock entitled thereto at the expiration of two years from the applicable redemption dates shall be repaid, together with any interest or other earnings thereon, to the Corporation, and after any such repayment, the holders of the shares entitled to the funds so repaid to the Corporation shall look only to the Corporation for payment without interest or other earnings.

(g) *Application of Article IX.* The shares of Series H Preferred Stock are subject to the provisions of Article IX of the Charter, including, without limitation, the provision for the redemption of shares transferred to the Charitable Trust (as defined in such Article). For this purpose, the Market Price of the Series H Preferred Stock shall equal $25.00 per share, plus all accrued and unpaid dividends on the shares of Series H Preferred Stock.

(h) *Status of Redeemed Shares.* Any shares of Series H Preferred Stock that shall at any time have been redeemed or otherwise acquired by the Corporation shall, after such redemption or acquisition, have the status of authorized but unissued Preferred Stock, without designation as to series until such shares are once more classified and designated as part of a particular series by the Board of Directors.

(6) *VOTING RIGHTS.*

(a) Holders of the Series H Preferred Stock will not have any voting rights, except as set forth below.

(b) Whenever dividends on any shares of Series H Preferred Stock shall be in arrears for six or more quarterly periods (a "Preferred Dividend Default"), the holders of such shares of Series H Preferred Stock (voting separately as a class with all other series of Preferred Stock ranking on a parity with the Series H Preferred Stock as to dividends or upon liquidation ("Parity Preferred"), upon which like voting rights have been conferred and are exercisable), will be entitled to vote for the election of a total of two additional directors of the Corporation (the "Preferred Stock Directors"), and the number of directors on the Board of Directors shall increase by two, at a special meeting called by the holders of record of at least 20% of the Series H Preferred Stock or the holders of any other series of Parity Preferred so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of stockholders) or at the next annual meeting of stockholders, and at each subsequent annual meeting until all dividends accumulated on such shares of Series H Preferred Stock for the past dividend periods and the dividend for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment.

(c) If and when all accumulated dividends and the dividend for the then current dividend period on the Series H Preferred Stock shall have been paid in full or set aside for payment in full, the holders of shares of Series H Preferred Stock shall be divested of the voting rights set forth in Section 6(b) hereof (subject to revesting in the event of each and every subsequent Preferred Dividend Default) and, if all accumulated dividends and the dividend for the current dividend period have been paid in full or set aside for payment in full on all other series of Parity Preferred upon which like voting rights have been conferred and are exercisable, the term of office of each Preferred Stock Director so elected shall terminate and the number of directors on the Board of Directors shall decrease by two. Any Preferred Stock Director may be removed at any time with or without cause by the vote of, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of the Series H Preferred Stock when they have the voting rights set forth in Section 6(b) (voting separately as a class with the Parity Preferred upon which like voting rights have been conferred and are exercisable). So long as a Preferred Dividend Default shall continue, any vacancy in the office of a Preferred Stock Director may be filled by written consent of the Preferred Stock Director remaining in office, or, if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series H Preferred Stock when they have the voting rights set forth in Section 6(b) (voting separately as a class with all other series of Parity Preferred upon which like voting rights have been conferred and are exercisable). The Preferred Stock Directors shall each be entitled to one vote per director on any matter.

(d) So long as any shares of Series H Preferred Stock remain outstanding, the Corporation shall not, without the affirmative vote of the holders of at least two thirds of the shares of the Series H Preferred Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting separately as a class, together with all other series of Parity Preferred upon which like voting rights have been conferred and are exercisable), (i) authorize or create, or increase the authorized or issued amount of, any class or series of capital stock ranking prior to the Series H Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, or reclassify any authorized capital stock of the Corporation into any such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares or (ii) amend, alter or repeal the provisions of the Charter, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series H Preferred

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Stock or the holders thereof; provided, however, that with respect to the occurrence of any event set forth in (ii) above, so long as the Series H Preferred Stock remains outstanding with the terms thereof materially unchanged, the occurrence of any such event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers of the Series H Preferred Stock and; provided, further, that any increase in the amount of the authorized Preferred Stock, including the Series H Preferred Stock, or the creation or issuance of any additional Series H Preferred Stock or any other series of Preferred Stock, or any increase in the amount of authorized shares of such series, in each case ranking on a parity with or junior to the Series H Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

(e) The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series H Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

(7) *CONVERSION.* The Series H Preferred Stock is not convertible into or exchangeable for any other property or securities of the Corporation.

SECOND: The shares of Series H Preferred Stock have been classified and designated by the Board of Directors under the authority contained in the Charter.

THIRD: These Articles Supplementary have been approved by the Board of Directors in the manner and by the vote required by law.

FOURTH: The undersigned Executive Vice President of the Corporation acknowledges these Articles Supplementary to be the corporate act of the Corporation and, as to all matters or facts required to be verified under oath, the undersigned Executive Vice President acknowledges that, to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties of perjury.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Corporation has caused these Articles Supplementary to be signed in its name and on its behalf by its Executive Vice President and attested to by its Secretary on January 22, 2004.

ATTEST: iSTAR FINANCIAL INC.

By:	/s/ GEOFFREY M. DUGAN	By:	/s/ ANDREW C. RICHARDSON	(SEAL)
	Name: Geoffrey M. Dugan		Name: Andrew C. Richardson	
	Title: *Secretary*		Title: *Executive Vice President*	

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Exhibit 4.10

REGISTRATION RIGHTS AGREEMENT

Dated as of January 22, 2004

between

ISTAR FINANCIAL INC.

and

BEAR, STEARNS & CO. INC.

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (the "Agreement") is made and entered into this 22nd day of January, 2004, among iStar Financial Inc., a Maryland corporation (the "Company"), and Bear, Stearns & Co. Inc. (the "Initial Purchaser"). Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Purchase Agreement.

This Agreement is made pursuant to the Purchase Agreement, dated January 22, 2004, among the Company and the Initial Purchaser (the "Purchase Agreement"), which provides for the sale by the Company to the Initial Purchaser of 3,300,000 shares of its Series H Variable Rate Preferred Stock, par value $.0001 per share, with a liquidation preference of $25.00 per share (the "Securities"). In order to induce the Initial Purchaser to enter into the Purchase Agreement, the Company has agreed to provide to the Initial Purchaser and its direct and indirect transferees the registration rights set forth in this Agreement. The execution of this Agreement is a condition to the closing under the Purchase Agreement.

In consideration of the foregoing, the parties hereto agree as follows:

1. *Definitions.* As used in this Agreement, the following capitalized defined terms shall have the following meanings:

"*1933 Act*" shall mean the Securities Act of 1933, as amended from time to time.

"*1934 Act*" shall mean the Securities Exchange Act of 1934, as amended from time to time.

"*Additional Amounts*" shall have the meaning set forth in Section 2.4.

"*Articles Supplementary*" shall mean the Articles Supplementary of the Series H Variable Rate Preferred Stock, dated as of January 22, 2004 (the "Articles Supplementary"), as the same may be amended from time to time.

"*Blackout Condition*" shall have the meaning set forth in Section 3(e).

"*Blackout Default*" shall have the meaning set forth in Section 2.4(a).

"*Charter*" shall mean the Restated Certificate of Incorporation of the Corporation, as the same may be amended from time to time.

"*Closing Date*" shall mean the Closing Time as defined in the Purchase Agreement.

"*Company*" shall have the meaning set forth in the preamble and shall also include the Company's successors.

"*Default Day*" shall have the meaning set forth in Section 2.5.

"*Depositary*" shall mean The Depository Trust Company, or any other depositary appointed by the Company, *provided, however*, that such depositary must have an address in the Borough of Manhattan, in the City of New York.

"*Effectiveness Period*" shall have the meaning set forth in Section 2.1(b).

"*Holder*" shall mean the Initial Purchaser, for so long as it owns any Registrable Securities, and each of its successors, assigns and direct and indirect transferees who become registered owners of Registrable Securities.

"*Initial Purchaser*" shall have the meaning set forth in the preamble.

"*Majority Holders*" shall mean the Holders of a majority of the outstanding Registrable Securities; *provided*, that whenever the consent or approval of Holders of a specified percentage of Registrable Securities is required hereunder, Registrable Securities held by the Company and other obligors or any affiliate of the Company shall be disregarded in determining whether such consent or approval was given by the Holders of such required percentage amount.

"*Person*" shall mean an individual, partnership (general or limited), corporation, limited liability company, trust or unincorporated organization, or a government or agency or political subdivision thereof.

"*Prospectus*" shall mean the prospectus included in a Registration Statement, including any preliminary prospectus, and any such prospectus as amended or supplemented by any prospectus supplement, including any such prospectus supplement with respect to the terms of the offering of any portion of the Registrable Securities covered by a Shelf Registration Statement, and by all other amendments and supplements to a prospectus, including post-effective amendments, and in each case including all material incorporated by reference therein.

"*Purchase Agreement*" shall have the meaning set forth in the preamble.

"*Registrable Securities*" shall mean the Securities; *provided, however*, the Securities shall cease to be Registrable Securities when (i) a Registration Statement with respect to such Securities shall have been declared effective under the 1933 Act and such Securities shall have been disposed of pursuant to such Registration Statement, (ii) such Securities have been sold to the public pursuant to Rule 144 (or any similar provision then in force, but not Rule 144A) under the 1933 Act or (iii) such Securities shall have ceased to be outstanding.

"*Registration Expenses*" shall mean any and all expenses incident to performance of or compliance by the Company with this Agreement, including without limitation: (i) all SEC, New York Stock Exchange ("NYSE") or National Association of Securities Dealers, Inc. (the "NASD") registration and filing fees, including, if applicable, the fees and expenses of any "qualified independent underwriter" (and its counsel) that is required to be retained by any holder of Registrable Securities in accordance with the rules and regulations of the NASD, (ii) all fees and expenses incurred in connection with compliance with state securities or blue sky laws and compliance with the rules of the NASD (including reasonable fees and disbursements of counsel for any underwriters or Holders in connection with the blue sky qualification of any of the Registrable Securities and any filings with the NASD), (iii) all expenses of any Persons in preparing or assisting in preparing, word processing, printing and distributing any Registration Statement, any Prospectus, any amendments or supplements thereto, any underwriting agreements, securities sales agreements and other documents relating to the performance of and compliance with this Agreement, (iv) all fees and expenses incurred in connection with the listing, if any, of any of the Registrable Securities on the NYSE, (v) all rating agency fees, (vi) the fees and disbursements of counsel for the Company and of the independent public accountants of the Company, including the expenses of any special audits or "cold comfort" letters required by or incident to such performance and compliance, (vii) the fees and expenses of any escrow agent or custodian, (viii) the reasonable fees and expenses of the Initial Purchaser in connection with the Shelf Registration, including the reasonable fees and expenses of counsel to the Initial Purchaser in connection therewith, (ix) the reasonable fees and disbursements of one firm of special counsel representing the Holders of Registrable Securities, and (x) any fees and disbursements of the underwriters customarily required to be paid by issuers or sellers of securities and the fees and expenses of any special experts retained by the Company in connection with any Registration Statement, but excluding underwriting discounts and commissions and transfer taxes, if any, relating to the sale or disposition of Registrable Securities by a Holder.

"*Registration Statement*" shall mean any registration statement of the Company which covers any of the Registrable Securities pursuant to the provisions of this Agreement, and all amendments and supplements to any such Registration Statement, including post-effective amendments, in each case including the Prospectus contained therein, all exhibits thereto and all material incorporated by reference therein.

"*SEC*" shall mean the Securities and Exchange Commission or any successor agency or government body performing the functions currently performed by the United States Securities and Exchange Commission.

"*Securities*" shall have the meaning set forth in the preamble.

"*Shelf Registration*" shall mean a registration effected pursuant to Section 2.1 hereof.

"*Shelf Registration Statement*" shall mean a "shelf" registration statement on Form S-3 of the Company pursuant to the provisions of Section 2.1 of this Agreement which covers all of the Registrable Securities under Rule 415(a)(i)(x) under the 1933 Act, or any similar rule that may be adopted by the SEC, and all amendments and supplements to such registration statement, including post-effective amendments, in each case including the Prospectus contained therein, all exhibits thereto and all material incorporated by reference therein.

2. *Registration Under the 1933 Act.*

2.1 *Shelf Registration.*

(a) The Company shall, for the benefit of the Holders, at the Company's cost, prepare and, as soon as reasonably practicable but not later than March 31, 2004, file with the SEC, and thereafter shall use its reasonable best efforts to cause to be declared effective under the 1933 Act as promptly as practicable on or before May 21, 2004, a Shelf Registration Statement relating to the offer and sale of the Registrable Securities by the Holders from time to time in accordance with the methods of distribution elected by the Majority Holders participating in the Shelf Registration and set forth in such Shelf Registration Statement, including, without limitation, a public underwritten offering of the Registrable Securities.

(b) Use its reasonable best efforts to keep the Shelf Registration Statement continuously effective in order to permit the Prospectus forming part thereof to be usable by Holders for a period of two years from the date the Shelf Registration Statement is declared effective by the SEC, or for such shorter period that will terminate when all Registrable Securities covered by the Shelf Registration Statement have been sold pursuant to the Shelf Registration Statement or cease to be outstanding or otherwise to be Registrable Securities (the "Effectiveness Period"); *provided, however,* that the Effectiveness Period in respect of the Shelf Registration Statement shall be extended to the extent required to permit dealers to comply with the applicable prospectus delivery requirements of Rule 174 under the 1933 Act and as otherwise provided herein.

(c) Notwithstanding any other provisions hereof, use its reasonable best efforts to ensure that (i) any Shelf Registration Statement and any amendment thereto and any Prospectus forming part thereof and any supplement thereto complies in all material respects with the 1933 Act and the rules and regulations thereunder, (ii) any Shelf Registration Statement and any amendment thereto does not, when it becomes effective, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (iii) any Prospectus forming part of any Shelf Registration Statement, and any supplement to such Prospectus (as amended or supplemented from time to time), does not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

No Holder of Registrable Securities shall be entitled to include any of its Registrable Securities in any Shelf Registration pursuant to this Agreement unless and until such Holder agrees in writing to be bound by all of the provisions of this Agreement applicable to such Holder and furnishes to the Company in writing within 15 days after receipt of a request therefor, such

information as the Company may, after conferring with counsel, reasonably request for inclusion in any Shelf Registration Statement or Prospectus included therein. Each Holder as to which any Shelf Registration is being effected agrees to furnish to the Company all information with respect to such Holder necessary to make the information previously furnished to the Company by such Holder not materially misleading.

The Company shall not permit any securities other than Registrable Securities to be included in the Shelf Registration Statement. The Company further agrees, if necessary, to supplement or amend the Shelf Registration Statement, as required by Section 3(b) below, and to furnish to the Holders of Registrable Securities copies of any such supplement or amendment promptly after its being used or filed with the SEC.

2.2 *Expenses.* The Company shall pay all Registration Expenses in connection with the registration pursuant to Section 2.1. Each Holder shall pay all underwriting discounts and commissions and transfer taxes, if any, relating to the sale or disposition of such Holder's Registrable Securities pursuant to the Shelf Registration Statement.

2.3 *Effectiveness.*

(a) A Shelf Registration Statement pursuant to Section 2.1 hereof shall not be deemed to have become effective unless it has been declared effective by the SEC; *provided, however*, that if, after it has been declared effective, the offering of Registrable Securities pursuant to a Shelf Registration Statement is interfered with by any stop order, injunction or other order or requirement of the SEC or any other governmental agency or court, such Registration Statement shall be deemed not to have become effective during the period of such interference, until the offering of Registrable Securities pursuant to such Registration Statement may legally resume.

If the Company fails to keep the Shelf Registration Statement continuously effective or useable for resales pursuant to the preceding paragraph, it shall give the Holders notice to suspend the sale of the Securities and shall extend the relevant period referred to above during which the Company is required to keep effective the Shelf Registration Statement by the number of days during the period from and including the date of the giving of such notice to and including the date when Holders shall have received copies of the supplemental or amended prospectus necessary to permit resales of the Securities or to and including the date on which the Company has given notice that the sale of Securities may be resumed, as the case may be.

2.4 *Additional Amounts.*

(a) The Company and the Initial Purchaser agree that the Holders will suffer damages if the Company fails to fulfill its obligations under Section 2.1(a) hereof and that it would not be feasible to ascertain the extent of such damages with precision. Accordingly, the Company agrees to pay, as liquidated damages, additional amounts to the Holders ("Additional Amounts") under the circumstances and to the extent set forth below (each of which shall be given independent effect):

(i) if the Shelf Registration Statement has not been filed on or prior to March 31, 2004, then, commencing on April 1, 2004, Additional Amounts will accrue on the liquidation preference of the Securities at a rate of 0.25% per annum for the first 90 days immediately following March 31, 2004, and such Additional Amounts rate shall increase by an additional 0.25% per annum at the beginning of each subsequent 90-day period; or

(ii) if the Shelf Registration Statement is not declared effective by the SEC on or prior to May 21, 2004, then, commencing on May 22, 2004, Additional Amounts shall accrue on the liquidation preference of the Securities at a rate of 0.25% per annum for

the first 90 days immediately following May 22, 2004, and such Additional Amounts rate shall increase by an additional 0.25% per annum at the beginning of each subsequent 90-day period; or

(iii) if the Shelf Registration Statement is suspended as a result of a Blackout Condition, as hereinafter defined, for more than 90 days or more than two times in any twelve-month period for an aggregate of more than 90 days (a "Blackout Default"), Additional Amounts will accrue on the liquidation preference of the Securities at a rate of 0.25% per annum for the first 90 days immediately following a Blackout Default, and such Additional Amounts rate shall increase by an additional 0.25% per annum at the beginning of each subsequent 90-day period;

provided, however, that the Additional Amounts rate on the Securities may not accrue under more than one of the foregoing clauses (i), (ii) and (iii) at any one time and at no time shall the aggregate amount of Additional Amounts accruing exceed in the aggregate 1.0% per annum; *provided, further, however*, that (1) upon the filing of the applicable Shelf Registration Statement as required hereunder (in the case of clause (i) above of this Section 2.4), (2) upon the effectiveness of the Shelf Registration Statement as required hereunder (in the case of clause (ii) of this Section 2.4), or (3) upon the termination of any suspension which resulted in a Blackout Default (in the case of clause (iii) of this Section 2.4). Additional Amounts on the Securities in respect of which such events relate as a result of such clause (or the relevant subclause thereof), as the case may be, shall cease to accrue.

(b) The Company shall notify the Initial Purchaser within one business day after each and every date on which an event occurs in respect of which Additional Amounts are required to be paid. Any Additional Amounts due pursuant to (a)(i), (a)(ii) or (a)(iii) of this Section 2.4 will be payable in cash on the same dates that regular dividends are paid on the Securities (to the Holders of record entitled to receive such dividends), commencing with the first such date occurring after any such Additional Amounts commence to accrue. The amount of Additional Amounts will be determined by multiplying the applicable Additional Amounts rate by the liquidation preference of the Securities, multiplied by a fraction, the numerator of which is the number of days such Additional Amounts rate was applicable during such period (determined on the basis of a 360-day

year comprised of twelve 30-day months and, in the case of a partial month, the actual number of days elapsed), and the denominator of which is 360.

3. *Registration Procedures.* In connection with the obligations of the Company with respect to Registration Statements pursuant to Section 2.1 hereof, the Company shall:

(a) prepare and file with the SEC a Registration Statement, within the relevant time period specified in Section 2.1, on Form S-3 under the 1933 Act, which form (i) shall be available for the sale of the Registrable Securities by the selling Holders thereof, (ii) shall comply as to form in all material respects with the requirements of Form S-3 and include or incorporate by reference all financial statements required by the SEC to be filed therewith or incorporated by reference therein, and (iii) shall use its reasonable best efforts to cause such Registration Statement to become effective and remain effective in accordance with Section 2.1 hereof;

(b) prepare and file with the SEC such amendments and post-effective amendments to each Registration Statement as may be necessary under applicable law to keep such Registration Statement continuously effective for the applicable period; and cause each Prospectus to be supplemented by any required prospectus supplement, and as so supplemented to be filed pursuant to Rule 424 (or any similar provision then in force) under the 1933 Act and comply with the provisions of the 1933 Act, the 1934 Act and the rules and regulations thereunder applicable to them with respect to the disposition of all securities covered by each Registration Statement during

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the applicable period in accordance with the intended method or methods of distribution by the selling Holders thereof;

(c) (i) notify each Holder of Registrable Securities, at least five business days prior to filing, that a Shelf Registration Statement with respect to the Registrable Securities is being filed and advise such Holders that the distribution of Registrable Securities shall be made in accordance with the method selected by the Majority Holders participating in the Shelf Registration; (ii) furnish to each Holder of Registrable Securities and to each underwriter of an underwritten offering of Registrable Securities, if any, without charge, as many copies of each Prospectus, including each preliminary Prospectus, and any amendment or supplement thereto and such other documents as such Holder or underwriter may reasonably request, including financial statements and schedules and, if the Holder so requests, all exhibits in order to facilitate the public sale or other disposition of the Registrable Securities; and (iii) hereby consent to the use of the Prospectus or any amendment or supplement thereto by each of the selling Holders of Registrable Securities in connection with the offering and sale of the Registrable Securities covered by the Prospectus or any amendment or supplement thereto;

(d) use its best efforts to register or qualify the Registrable Securities under all applicable state securities or "blue sky" laws of such jurisdictions as any Holder of Registrable Securities covered by a Registration Statement and each underwriter of an underwritten offering of Registrable Securities shall reasonably request by the time the applicable Registration Statement is declared effective by the SEC, and do any and all other acts and things which may be reasonably necessary or advisable to enable each such Holder and underwriter to consummate the disposition in each such jurisdiction of such Registrable Securities owned by such Holder; *provided, however*, that the Company shall not be required to (i) qualify as a foreign corporation or as a dealer in securities in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(d), or (ii) take any action which would subject it to general service of process or taxation in any such jurisdiction where it is not then so subject;

(e) notify promptly each Holder of Registrable Securities under the Shelf Registration in writing promptly (i) when a Registration Statement has become effective and when any post-effective amendments and supplements thereto become effective, (ii) of any request by the SEC or any state securities authority for post-effective amendments and supplements to a Registration Statement and Prospectus or for additional information after the Registration Statement has become effective, (iii) of the issuance by the SEC or any state securities authority of any stop order suspending the effectiveness of a Registration Statement or the initiation or threatening of any proceedings for that purpose, (iv) if, between the effective date of a Registration Statement and the closing of any sale of Registrable Securities covered thereby, the representations and warranties of the Company contained in any underwriting agreement, securities sales agreement or other similar agreement, if any, relating to the offering cease to be true and correct in all material respects, (v) of the happening of any event or the discovery of any facts during the period the Shelf Registration Statement is effective which makes any statement made in such Registration Statement or the related Prospectus untrue in any material respect or which requires the making of any changes in such Registration Statement or Prospectus in order to make the statements therein not misleading, (vi) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Registrable Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose, (vii) of the determination of the Board of Directors of the Company in good faith to suspend the availability of the Shelf Registration Statement and the related Prospectus because the disclosure required thereby would adversely affect a material financing, acquisition, disposition, reorganization or other material transaction involving the Company or any of its subsidiaries (such condition, a "Blackout

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Condition"), and (viii) of any determination by the Company that a post-effective amendment to such Registration Statement would be appropriate;

(f) furnish counsel for the Holders of Registrable Securities copies of any comment letters received from the SEC or any other request by the SEC or any state securities authority for amendments or supplements to a Registration Statement and Prospectus or for additional information;

(g) make every reasonable effort to obtain the withdrawal of any order suspending the effectiveness of a Registration Statement at the earliest possible moment;

(h) furnish to each Holder of Registrable Securities, and each underwriter, if any, without charge, at least one conformed copy of each Registration Statement and any post-effective amendment thereto, including financial statements and schedules (without documents incorporated therein by reference and all exhibits thereto, unless requested);

(i) cooperate with the selling Holders of Registrable Securities to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold and not bearing any restrictive legends; and enable such Registrable Securities to be in such denominations (consistent

with the provisions of the Charter or Articles Supplementary) and registered in such names as the selling Holders or the underwriters, if any, may reasonably request at least two business days prior to the closing of any sale of Registrable Securities;

(j) upon the occurrence of any event or the discovery of any facts, each as contemplated by Section 3(e)(v) and Section 3(e)(vi) hereof, as promptly as practicable after the occurrence of such an event, use its reasonable best efforts to prepare a supplement or post-effective amendment to the Registration Statement or the related Prospectus or any document incorporated therein by reference or file any other required document so that, as thereafter delivered to the purchasers of the Registrable Securities, such Prospectus shall not contain at the time of such delivery any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading or shall remain so qualified. At such time as such public disclosure is otherwise made or the Company determines that such disclosure is not necessary, in each case to correct any misstatement of a material fact or to include any omitted material fact, the Company agrees promptly to notify each Holder of such determination and to furnish each Holder such number of copies of the Prospectus as amended or supplemented, as such Holder may reasonably request;

(k) a reasonable time prior to the filing of any Registration Statement, any Prospectus, any amendment to a Registration Statement or amendment or supplement to a Prospectus or any document which is to be incorporated by reference into a Registration Statement or a Prospectus after initial filing of a Registration Statement, provide copies of such document to the Initial Purchaser on behalf of such Holders; and make representatives of the Company as shall be reasonably requested by the Holders of Registrable Securities available for discussion of such document;

(l) provide printed certificates for the Registrable Securities;

(m) enter into agreements (including underwriting agreements) and take all other customary and appropriate actions in order to expedite or facilitate the disposition of such Registrable Securities and in such connection whether or not an underwriting agreement is entered into and whether or not the registration is an underwritten registration:

(i) make such representations and warranties to the Holders of such Registrable Securities and the underwriters, if any, in form, substance and scope as are customarily made

by issuers to underwriters in similar underwritten offerings as may be reasonably requested by them;

(ii) obtain opinions of counsel to the Company and updates thereof (which counsel and opinions (in form, scope and substance) shall be reasonably satisfactory to the managing underwriters and their counsel, if any, and the Holders of a majority of the Registrable Securities being sold) addressed to each selling Holder and the underwriters, if any, covering the matters customarily covered in opinions requested in sales of securities or underwritten offerings and such other matters as may be reasonably requested by such Holders and underwriters;

(iii) obtain "cold comfort" letters and updates thereof from the Company's independent certified public accountants (and, if necessary, any other independent certified public accountants of any subsidiary of the Company or of any business acquired by the Company for which financial statements are, or are required to be, included in the Registration Statement) addressed to the underwriters, if any, and use reasonable efforts to have such letter addressed to the selling Holders of Registrable Securities (to the extent consistent with Statement on Auditing Standards No. 72 of the American Institute of Certified Public Accounts), such letters to be in customary form and covering matters of the type customarily covered in "cold comfort" letters to underwriters in connection with similar underwritten offerings;

(iv) enter into a securities sales agreement with the Holders and an agent of the Holders providing for, among other things, the appointment of such agent for the selling Holders for the purpose of soliciting purchases of Registrable Securities, which agreement shall be in form, substance and scope customary for similar offerings;

(v) if an underwriting agreement is entered into, cause the same to set forth indemnification provisions and procedures substantially equivalent to the indemnification provisions and procedures set forth in Section 4 hereof with respect to the underwriters and all other parties to be indemnified pursuant to said Section or, at the request of any underwriters, in the form customarily provided to such underwriters in similar types of transactions; and

(vi) deliver such documents and certificates as may be reasonably requested and as are customarily delivered in similar offerings to the Holders of the Registrable Securities being sold and the managing underwriters, if any.

The above shall be done at (A) the effectiveness of such Registration Statement (and each post-effective amendment thereto) and (B) each closing under any underwriting or similar agreement as and to the extent required thereunder;

(n) make available for inspection by representatives of the Holders of the Registrable Securities or any underwriters participating in any disposition pursuant to the Shelf Registration Statement and any counsel or accountant retained by any of the foregoing, all financial and other records, pertinent corporate documents and properties of the Company reasonably requested by any such persons, and cause the respective officers, directors, employees, and any other agents of the Company to supply all information reasonably requested by any such representative, underwriter, special counsel or accountant in connection with a Registration Statement, and make such representatives of the Company available for discussion of such documents as shall be reasonably requested by the Holders. Records which the Company determines in good faith to be confidential and any records which the Company notifies such representatives are confidential (collectively, "Records") shall not be disclosed by such representatives unless (i) the disclosure of such Records is necessary to avoid or correct a material misstatement or omission in such Registration Statement, (ii) the release of such Records is ordered pursuant to a subpoena or

other order from a court of competent jurisdiction or is necessary in connection with any action, suit or proceeding; (iii) the information in such Records has been made generally available to the public; or (iv) such information becomes available to any such representatives from a source other than the Company and such source is not bound by a confidentiality agreement. Each selling Holder of such Registrable Securities shall be required to agree in

writing that information obtained by it as a result of such inspections shall be deemed confidential, shall not be communicated to any third-party (other than its agents and affiliates (who shall also be subject to the confidentially requirements of this paragraph) on a "need-to-know" basis and except as provided in clauses (i), (ii), (iii) and (iv) of the preceding sentence) and shall not be used by it as the basis for any market transaction in the securities of the Company unless and until such is made generally available to the public. Each selling holder of such Registrable Securities shall be required to further agree in writing that it shall, upon learning that disclosure of such Records is sought in a court of competent jurisdiction, give notice to the Company and allow the Company at its expense to undertake appropriate action to prevent disclosure of the Records deemed confidential;

(o) a reasonable time prior to filing any Shelf Registration Statement, any Prospectus forming a part thereof, any amendment to such Shelf Registration Statement or amendment or supplement to such Prospectus, provide copies of such document to the Holders of Registrable Securities, to counsel for the Holders and to the underwriter or underwriters of an underwritten offering of Registrable Securities, if any, make such changes in any such document prior to the filing thereof as the counsel to the Holders or the underwriter or underwriters reasonably request and not file any such document in a form to which the Majority Holders, counsel for the Holders of Registrable Securities or any underwriter shall not have previously been advised and furnished a copy of or to which the Majority Holders, counsel to the Holders of Registrable Securities or any underwriter shall reasonably object, and make the representatives of the Company available for discussion of such document as shall be reasonably requested by the Holders of Registrable Securities, counsel for the Holders of Registrable Securities or any underwriter;

(p) otherwise comply with all applicable rules and regulations of the SEC and make available to its security holders, as soon as reasonably practicable, an earnings statement covering at least 12 months which shall satisfy the provisions of Section 11(a) of the 1933 Act and Rule 158 thereunder; and

(q) cooperate and assist in any filings required to be made with the NASD and in the performance of any due diligence investigation by any underwriter and its counsel (including any "qualified independent underwriter" that is required to be retained in accordance with the rules and regulations of the NASD).

The Company may (as a condition to such Holder's participation in the Shelf Registration) require each Holder of Registrable Securities to furnish to the Company such information regarding the Holder and the proposed distribution by such Holder of such Registrable Securities as the Company may from time to time reasonably request in writing or as the SEC may require. The Company shall have no obligation to register under the Securities Act the Registrable Securities of a seller who so fails to furnish such information.

Each Holder agrees that, upon receipt of any notice from the Company of the happening of any event or the discovery of any facts, each of the kind described in Section 3(e)(v) hereof, or upon a determination by the Board of Directors of the Company of a Blackout Condition pursuant to Section 3(e)(vii) hereof, such Holder shall forthwith discontinue disposition of Registrable Securities pursuant to the Shelf Registration Statement until (a) in the case of a notice pursuant to Section 3(e)(v), such Holder's receipt of the copies of the supplemented or amended Prospectus contemplated by Section 3(j) hereof, and, if so directed by the Company, such Holder shall deliver to

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the Company (at the Company's expense) all copies in such Holder's possession, other than permanent file copies then in such Holder's possession, of the Prospectus covering such Registrable Securities current at the time of receipt of such notice and (b) in the case of a notice pursuant to Section 3(e)(vii), until the expiration of 90 days from delivery of the notice. Notwithstanding anything contained herein to the contrary, in connection with a Blackout Condition, the Company may only suspend the Shelf Registration Statement twice in any twelve (12) month period for an aggregate of ninety (90) days from the delivery of the relevant deferral notices.

If any of the Registrable Securities covered by the Shelf Registration Statement are to be sold in an underwritten offering, the underwriter or underwriters and manager or managers that will manage such offering shall be selected by the Majority Holders of such Registrable Securities included in such offering and shall be acceptable to the Company. No Holder of Registrable Securities may participate in any underwritten registration hereunder unless such Holder (a) agrees to sell such Holder's Registrable Securities on the basis provided in any underwriting arrangements approved by the persons entitled hereunder to approve such arrangements and (b) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwriting arrangements.

4. *Indemnification; Contribution.*

(a) The Company agrees to indemnify and hold harmless each Holder, each Person who participates as an underwriter (any such Person being an "Underwriter") and each Person, if any, who controls any Holder or Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement (or any amendment or supplement thereto) pursuant to which Registrable Securities were registered under the 1933 Act, including all documents incorporated therein by reference, or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading, or arising out of any untrue statement or alleged untrue statement of a material fact contained in any Prospectus (or any amendment or supplement thereto) or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission; provided that (subject to Section 4(d) below) any such settlement is effected with the written consent of the Company; and

(iii) against any and all expense whatsoever, as incurred (including the fees and any and all disbursements of counsel chosen by any indemnified party), reasonably incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue

statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under subparagraph (i) or subparagraph (ii) above;

provided, however, that this indemnity agreement shall not apply to any loss, liability, claim, damage or expense to the extent arising out of or based upon any untrue statement or omission or alleged

untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by the Holder or Underwriter expressly for use in a Registration Statement (or any amendment thereto) or any Prospectus (or any amendment or supplement thereto).

(b) Each Holder severally, but not jointly, agrees to indemnify and hold harmless the Company, each underwriter and the other selling Holders, and each of their respective directors and officers, and each Person, if any, who controls the Company, any Underwriter or any other selling Holder within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, against any and all loss, liability, claim, damage and expense described in the indemnity contained in Section 4(a) hereof, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the Shelf Registration Statement (or any amendment thereto) or any Prospectus included therein (or any amendment or supplement thereto) in reliance upon and in conformity with written information with respect to such Holder furnished to the Company by such Holder expressly for use in the Shelf Registration Statement (or any amendment thereto) or such Prospectus (or any amendment or supplement thereto); *provided, however*, that no such Holder shall be liable for any claims hereunder in excess of the amount of net proceeds received by such Holder from the sale of Registrable Securities pursuant to such Shelf Registration Statement.

(c) Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action or proceeding commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof, and in any event shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. An indemnifying party may participate at its own expense in the defense of such action; *provided, however*, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. Notwithstanding the foregoing, the indemnified party or parties shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such indemnified party or parties unless (i) the employment of such counsel shall have been authorized in writing by one of the indemnifying parties in connections with the defense of such action, (ii) the indemnifying parties shall not have employed counsel to have charge of the defense of such action within a reasonable time after notice of commencement of the action, (iii) the indemnifying party does not diligently defend the action after assumption of the defense, or (iv) such indemnified party or parties shall have reasonably concluded that there may be defenses available to it or them which are different from or additional to those available to one or all of the indemnifying parties (in which case the indemnifying parties shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by the indemnifying parties. In no event shall the indemnifying party or parties be liable for the fees and expenses of more than one counsel (in addition to any local counsel) separate from their own counsel for all indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances. No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 4 (whether or not the indemnified parties are actual or potential parties thereto), unless (x) such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim, and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party,

and (y) the indemnifying party confirms in writing its indemnification obligations hereunder with respect to such settlement, compromise or judgment.

(d) If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 4(a)(ii) effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

(e) If the indemnification provided for in this Section 4 is for any reason unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, liabilities, claims, damages and expenses incurred by such indemnified party, as incurred, in such proportion as is appropriate to reflect the relative fault of the Company on the one hand and the Holders on the other hand in connection with the statements or omissions which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations.

The relative fault of the Company on the one hand and the Holders on the other hand shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company, the Holders and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Holders agree that it would not be just and equitable if contributions pursuant to this Section 4 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 4. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above in this Section 4 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission.

Notwithstanding the provisions of this Section 4, no Holder shall be required to contribute any amount in excess of the amount by which the total price at which the Securities sold by it were offered exceeds the amount of any damages which such Holder has otherwise been required to pay by reason of such untrue

or alleged untrue statement or omission or alleged omission.

No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

For purposes of this Section 4, each Person, if any, who controls a Holder within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as such Holder, and each director of the Company, and each Person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as the Company. The Holder's respective obligations to contribute pursuant to this Section 4 are several in proportion to the liquidation value of Securities set forth opposite their respective name in Schedule A to the Purchase Agreement and not joint.

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5. *Miscellaneous.*

5.1 *Rule 144 and Rule 144A.* For so long as the Company is subject to the reporting requirements of Section 13 or Section 15 of the 1934 Act, the Company covenants that it shall file the reports required to be filed by it under the 1933 Act and Section 13(a) or Section 15(d) of the 1934 Act and the rules and regulations adopted by the SEC thereunder. If the Company ceases to be so required to file such reports, the Company covenants that it shall upon the request of any Holder of Registrable Securities (a) make publicly available such information as is necessary to permit sales pursuant to Rule 144 under the 1933 Act, (b) deliver such information to a prospective purchaser as is necessary to permit sales pursuant to Rule 144A under the 1933 Act and it shall take such further action as any Holder of Registrable Securities may reasonably request, and (c) take such further action that is reasonable in the circumstances, in each case, to the extent required from time to time to enable such Holder to sell its Registrable Securities without registration under the 1933 Act within the limitation of the exemptions provided by (i) Rule 144 under the 1933 Act, as such Rule may be amended from time to time, (ii) Rule 144A under the 1933 Act, as such Rule may be amended from time to time, or (iii) any similar rules or regulations hereafter adopted by the SEC. Upon the request of any Holder of Registrable Securities, the Company shall deliver to such Holder a written statement as to whether it has complied with such requirements.

5.2 *No Inconsistent Agreements.* The Company has not entered into and the Company shall not after the date of this Agreement enter into any agreement which is inconsistent with the rights granted to the Holders of Registrable Securities in this Agreement or otherwise conflicts with the provisions hereof. The rights granted to the Holders hereunder do not and shall not for the term of this Agreement in any way conflict with the rights granted to the Holders of the Company's other issued and outstanding securities under any such agreements.

5.3 *Amendments and Waivers.* The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given unless the Company has obtained the written consent of the Majority Holders affected by such amendment, modification, supplement, waiver or departure.

5.4 *Notices.* All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, registered first-class mail, telex, telecopier, or any courier guaranteeing overnight delivery (a) if to a Holder, at the most current address given by such Holder to the Company by means of a notice given in accordance with the provisions of this Section 5.4, which address initially is the address set forth in the Purchase Agreement with respect to the Initial Purchaser; and (b) if to the Company, initially at the Company's address set forth in the Purchase Agreement, and thereafter at such other address of which notice is given in accordance with the provisions of this Section 5.4.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; two business days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; when receipt is acknowledged, if telecopied; and on the next business day if timely delivered to an air courier guaranteeing overnight delivery.

5.5 *Successor and Assigns.* This Agreement shall inure to the benefit of and be binding upon the successors, assigns and transferees of each of the parties, including, without limitation and without the need for an express assignment, subsequent Holders; *provided*, that nothing herein shall be deemed to permit any assignment, transfer or other disposition of Registrable Securities in violation of the terms of the Purchase Agreement or the Articles Supplementary. If any transferee of any Holder shall acquire Registrable Securities, in any manner, whether by operation of law or

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otherwise, such Registrable Securities shall be held subject to all of the terms of this Agreement, and by taking and holding such Registrable Securities such person shall be conclusively deemed to have agreed to be bound by and to perform all of the terms and provisions of this Agreement, including the restrictions on resale set forth in this Agreement and, if applicable, the Purchase Agreement, and such person shall be entitled to receive the benefits hereof.

5.6 *Specific Enforcement.* Without limiting the remedies available to the Holders, the Company acknowledges that any failure by the Company to comply with its obligations under Section 2.1 through Section 2.3 hereof may result in material irreparable injury to the Holders for which there is no adequate remedy at law, that it would not be possible to measure damages for such injuries precisely and that, in the event of any such failure, the Initial Purchaser or any Holder may obtain such relief as may be required to specifically enforce the Company's obligations under Section 2.1 through Section 2.3 hereof.

5.7 *Counterparts.* This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

5.8 *Headings.* The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

5.9 ***GOVERNING LAW.*** **THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK WITHOUT REGARD TO THE PRINCIPLES OF CONFLICT OF LAWS THEREOF.**

5.10 *Severability.* In the event that any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

iSTAR FINANCIAL INC.

By: /s/ CATHERINE D. RICE

Name: Catherine D. Rice
Title: *Chief Financial Officer*

CONFIRMED AND ACCEPTED
AS OF THE DATE FIRST ABOVE
WRITTEN:

BEAR, STEARNS & CO. INC.

By: /s/ CHRIS O'CONNOR

Name: Chris O'Connor
Title: *Authorized Signatory*

QuickLinks

REGISTRATION RIGHTS AGREEMENT

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 4.13

NUMBER	SHARES
1	3,300,000

iStar Financial Inc.
Series H Variable Rate
Preferred Stock,
Par Value $0.001

This Certifies that Bear, Stearns & Co. Inc. is the owner of Three Million, Three Hundred Thousand fully paid and non-assessable Shares of the above Corporation transferable only on the books of the Corporation by the holder hereof in person or by duly authorized Attorney upon surrender of this Certificate properly endorsed.

In Witness Whereof, the said Corporation has caused this Certificate to be signed by its duly authorized officers and to be sealed with the Seal of the Corporation.

Dated January 22, 2004

/s/ CATHERINE RICE	/s/ JAY SUGARMAN
Chief Executive Officer	Chief Financial Officer

The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended (the "*Act*"), and may not be offered, sold or otherwise transferred, pledged or hypothecated unless and until such securities are registered under the Act or, except as otherwise permitted pursuant to Rule 144 under the Act or another exemption from registration under the Act and an opinion of counsel reasonably satisfactory to the Company is obtained to the effect that such registration is not required.

The securities represented by this certificate are subject to certain restrictions against transfer contained in the issuer's Charter, as in effect from time to time. A copy of the Charter is available for inspection, without charge, at the office of the issuer.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON OWNERSHIP AND TRANSFER FOR THE PURPOSE OF THE COMPANY'S MAINTENANCE OF ITS STATUS AS A REAL ESTATE INVESTMENT TRUST UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED. EXCEPT AS OTHERWISE PROVIDED PURSUANT TO THE CHARTER OF THE COMPANY, NO PERSON MAY BENEFICIALLY OR CONSTRUCTIVELY OWN SHARES OF CAPITAL STOCK IN EXCESS OF 9.8% (OR SUCH GREATER PERCENTAGE AS MAY BE DETERMINED BY THE BOARD OF DIRECTORS OF THE COMPANY) OF THE NUMBER OR VALUE OF THE OUTSTANDING SHARES OF CAPITAL STOCK OF THE COMPANY (UNLESS SUCH PERSON IS AN EXISTING HOLDER). ALL CAPITALIZED TERMS IN THIS LEGEND HAVE THE MEANINGS DEFINED IN THE CHARTER OF THE COMPANY, A COPY OF WHICH, INCLUDING THE RESTRICTIONS ON TRANSFER, WILL BE FURNISHED TO EACH SHAREHOLDER ON REQUEST AND WITHOUT CHARGE. IF THE RESTRICTIONS ON TRANSFER ARE VIOLATED, THE SECURITIES REPRESENTED HEREBY WILL BE DESIGNATED AND TREATED AS EXCESS SHARES WHICH WILL BE HELD IN TRUST BY THE EXCESS SHARE TRUSTEE FOR THE BENEFIT OF THE CHARITABLE BENEFICIARY.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations. Additional abbreviations may also be used though not in the list.

TEN COM	—as tenants in common	UNIF GIFT MIN ACT —______ Custodian ______ (Minor) under Uniform Gifts to Minors Act ______ (State)
TEN ENT	—as tenants by the entireties	UNIF TRF MIN ACT —______ Custodian ______ (Minor) under ______ (State) Uniform Transfer to Minors Act
JT TEM	—as joint tenants with right of survivorship and not as tenants in common	

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

For value received, the undersigned hereby sells, assigns and transfers unto

PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS OF ASSIGNEE

Shares represented by the within Certificate, and hereby irrevocably constitutes and appoints

Attorney to transfer the said shares on the books of the within-named Corporation will full power of substitution in the premises.

Dated, ______________________________ ______________________________

In presence of

____

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the certificate in every particular without alteration or enlargement or any change whatever.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON OWNERSHIP AND TRANSFER FOR THE PURPOSE OF THE COMPANY'S MAINTENANCE OF ITS STATUS AS A REAL ESTATE INVESTMENT TRUST UNDER THE INTERNAL REVENUE OF 1986, AS AMENDED. EXCEPT AS OTHERWISE PROVIDED PURSUANT TO THE CHARTER OF THE COMPANY, NO PERSON MAY BENEFICIALLY OR CONSTRUCTIVELY OWN SHARES OF CAPITAL STOCK IN EXCESS OF 9.8% (OR SUCH GREATER PERCENTAGE AS MAY BE DETERMINED BY THE BOARD OF DIRECTORS OF THE COMPANY) OF THE NUMBER OR VALUE OF THE OUTSTANDING SHARES OF CAPITAL STOCK OF THE COMPANY (UNLESS SUCH PERSON IS AN EXISTING HOLDER). ALL CAPITALIZED TERMS IN THIS LEGEND HAVE THE MEANINGS DEFINED IN THE CHARTER OF THE COMPANY, A COPY OF WHICH, INCLUDING THE RESTRICTIONS ON TRANSFER, WILL BE FURNISHED TO EACH STOCKHOLDER ON REQUEST AND WITHOUT CHARGE. IF THE RESTRICTIONS ON TRANSFER ARE VIOLATED, THE SECURITIES REPRESENTED HEREBY WILL BE DESIGNATED AND TREATED AS EXCESS SHARES WHICH WILL BE HELD IN TRUST BY THE EXCESS SHARE TRUSTEE FOR THE BENEFIT OF THE CHARITABLE BENEFICIARY.

QuickLinks

iStar Financial Inc. Series H Variable Rate Preferred Stock, Par Value $0.001

Exhibit 10.7

CODE OF CONDUCT

CODE OF CONDUCT

INTRODUCTION

It is the policy of iStar Financial Inc. that our business shall be conducted in accordance with the highest moral, legal and ethical standards. Our reputation for integrity is our most important asset and each employee and director must contribute to the care and preservation of that asset.

This reputation for integrity is the cornerstone of the public's faith and trust in our Company; it is what provides us an opportunity to serve our investors, customers and other stakeholders. A single individual's misconduct can do much to damage a hard-earned reputation. No code of business conduct or ethics can effectively substitute for the thoughtful behavior of an ethical director, officer or employee. This Code of Conduct is presented to assist you in guiding your conduct to enhance the reputation of our Company. The Code supersedes all previous codes and policy statements.

The Code is drafted broadly. In that respect, it is the Company's intent to exceed the minimum requirements of the law and industry practice. Mere compliance with the letter of the law is not sufficient to attain the highest ethical standards. Good judgment and great care must also be exercised to comply with the *spirit* of the law and of this Code.

The provisions of the Code apply to you, your spouse and members of your immediate family. In addition, it covers any partnership, trust, or other entity, which you, your spouse or members of your immediate family control.

The Company intends to enforce the provisions of this Code vigorously. Violations could lead to sanctions, including dismissal in the case of an employee, as well as, in some cases, civil and criminal liability.

Inevitably, the Code addresses questions and situations that escape easy definition. No corporate code can cover every possible question of business practice. There will be times when you are unsure about how the Code applies. When in doubt, ask before you act.

The Company has established a Compliance Committee that administers the Company's overall compliance program, including the Code of Conduct. The Committee consists of Nina Matis, the Company's Executive Vice President and General Counsel, Tim O'Connor, Executive Vice President and Chief Operating Officer, and Geoff Dugan, Senior Vice President and Assistant General Counsel.

Upholding the Code is the responsibility of every employee and director. Department heads are responsible for Code enforcement in their departments and managers are accountable for the employees who report to them.

QUESTIONS ABOUT THE CODE; REPORTING SUSPECTED VIOLATIONS

Any questions about how to interpret the Code of Conduct should be raised with the Compliance Committee. Geoff Dugan, Senior Vice President and Assistant General Counsel, has been designated as Compliance Officer for purposes of enforcing the Code and he may be contacted by telephone at (415) 263-8639, by confidential fax at (415) 391-3092, or by e-mail at *gdugan@istarfinancial.com*.

If you know of or suspect any illegal or unethical conduct, or any other violation of the Code, you should promptly report this to your supervisor or the Compliance Officer. If you are not comfortable doing so for any reason, or if you feel appropriate action is not being taken, you should contact any other member of the Compliance Committee, or the Chief Executive Officer, or the Chairman of the Audit Committee of the Board of Directors. You are not required to identify yourself when reporting a violation.

To the extent possible, we will endeavor to keep confidential the identity of anyone reporting a violation of the Code of Conduct. We will also keep confidential the identities of employees about

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whom allegations of violations are brought, unless or until it is established that a violation has occurred. It is the Company's policy that retaliation against employees who report actual or suspected Code violations is prohibited; anyone who attempts to retaliate will be subject to disciplinary action, up to and including dismissal.

CONFLICTS OF INTEREST

The Company relies on the integrity and undivided loyalty of our employees and directors to maintain the highest level of objectivity in performing their duties. Each employee is expected to avoid any situation in which your personal interests conflict, or have the appearance of conflicting, with those of the Company. Individuals must not allow personal considerations or relationships to influence them in any way when representing the Company in business dealings.

A conflict situation can arise when an employee or director takes actions or has interests that may make it difficult to perform work on behalf of the Company objectively and effectively. Conflicts also arise when an employee or director, or a member of his or her family, receives improper personal benefits as

a result of his or her position with the Company. Loans to, or guarantees of obligations of, such persons are of special concern.

All employees and directors must exercise great care any time their personal interests might conflict with those of the Company. The *appearance* of a conflict often can be as damaging as an *actual* conflict. *Prompt and full disclosure is always the correct first step towards identifying and resolving any potential conflict of interest*. Non-employee directors are expected to make appropriate disclosures to the Board and to take appropriate steps to recuse themselves from Board decisions with respect to transactions or other matters involving the Company as to which they are interested parties or with respect to which a real or apparent conflict of interest exists.

The following sections review several common problems involving conflicts of interest. The list is not exhaustive. Each individual has a special responsibility to use his or her best judgment to assess objectively whether there might be even the appearance of acting for reasons other than to benefit the Company, and to discuss any conflict openly and candidly with the Company.

Payments and Gifts

Employees who deal with the Company's borrowers, tenants, suppliers or other third parties are placed in a special position of trust and must exercise great care to preserve their independence. As a general rule, no employee should ever receive a payment or anything of value in exchange for a decision involving the Company's business. Similarly, no employee of the Company should ever offer anything of value to government officials or others to obtain a particular result for the Company. Bribery, kickbacks or other improper payments have no place in the Company's business.

The Company recognizes exceptions for token gifts of nominal value (less than $250) or customary business entertainment, when a clear business purpose is involved. If you are in doubt about the policy's application, the Compliance Committee should be consulted.

Personal Financial Interests; Outside Business Interests

Employees should avoid any outside financial interests that might be in conflict with the interests of the Company. No employee may have any significant direct or indirect financial interest in, or any business relationship with, a person or entity that does business with the Company or is a competitor of the Company. A financial interest includes any interest as an owner, creditor or debtor. Indirect interests include those through an immediate family member or other person acting on his or her behalf. This policy does not apply to an employee's arms-length purchases of goods or services for personal or family use, or to the ownership of shares in a publicly held corporation.

Employees should not engage in outside jobs or other business activities that compete with the Company in any way. Further, any outside or secondary employment ("moonlighting") may interfere with the job being performed for the Company and is discouraged. Under no circumstances may employees have outside interests that are in any way detrimental to the best interests of the Company.

You must disclose to the Compliance Committee any personal activities or financial interests that could negatively influence, or give the appearance of negatively influencing, your judgment or decisions as a Company employee. The Compliance Committee will then determine if there is a conflict and, if so, how to resolve it without compromising the Company's interests.

Corporate Boards

The director of an organization has access to sensitive information and charts the course of the entity. If you are invited to serve as a director of an outside organization, the Company must take safeguards to shield both the Company and you from even the appearance of impropriety. For that reason, any employee invited to join the Board of Directors of another organization (including a nonprofit or other charitable organization) must obtain the approval of the Compliance Committee. Directors who are invited to serve on other Boards should promptly notify the Chairman.

Corporate Opportunities

An employee or director must not divert for personal gain any business opportunity available to the Company. The duty of loyalty to the Company is violated if the employee or director personally profits from a business opportunity that rightfully belongs to the Company. This problem could arise, for example, if an employee or director becomes aware through the use of corporate property, information or position of an investment opportunity (either a loan or equity transaction) in which the Company is or may be interested, and then participates in the transaction personally or informs others of the opportunity before the Company has the chance to participate in the transaction. An employee or director also is prohibited from using corporate property, information or position for personal gain. Employees and directors owe a duty to the Company to advance its legitimate interests when the opportunity to do so arises and, in the case of a non-employee director, such director is aware of the Company's possible interest through use of corporate property, information or position.

USE AND PROTECTION OF COMPANY ASSETS

Proper use and protection of the Company's assets is the responsibility of all employees. Company facilities, materials, equipment, information and other assets should be used only for conducting the Company's business and are not to be used for any unauthorized purpose. Employees should guard against waste and abuse of Company assets in order to improve the Company's productivity.

CONFIDENTIALITY

One of the Company's most important assets is its confidential corporate information. The Company's legal obligations and its competitive position often mandate that this information remain confidential.

Confidential corporate information relating to the Company's financial performance (e.g. quarterly financial results of the Company's operations) or other transactions or events can have a significant impact on the value of the Company's securities. Premature or improper disclosure of such information may expose the individual involved to onerous civil and criminal penalties.

You must not disclose confidential corporate information to anyone outside the Company, except for a legitimate business purpose (such as contacts with the Company's accountants or its outside lawyers). Even within the Company, confidential corporate information should be discussed only with

those who have a need to know the information. Your obligation to safeguard confidential corporate information continues even after you leave the Company.

The same rules apply to confidential information relating to other companies with which we do business. In the course of the many pending or proposed transactions that this Company has under consideration at any given time, there is a great deal of non-public information relating to other companies to which our employees may have access. This could include "material" information that is likely to affect the value of the securities of the other companies.

Employees and directors who learn material information about suppliers, customers, venture partners, acquisition targets or competitors through their work at the Company must keep it confidential and must not buy or sell stock in such companies until after the information becomes public. Employees and directors must not give tips about such companies to others who may buy or sell the stocks of such companies.

The Company has issued a detailed "Statement of Policy Concerning Insider Trading and Special Trading Procedures" regarding the use of confidential information in connection with trading in securities. You should become familiar with this policy and the procedures it requires. If you have any questions regarding trading in the Company's securities or on the basis of confidential information, you should contact Geoff Dugan, the Compliance Officer.

DEALINGS WITH THE PRESS AND COMMUNICATIONS WITH THE PUBLIC

The Company's Chief Executive Officer and Chief Financial Officer are the Company's principal spokesmen. If someone outside the Company asks you questions or requests information regarding the Company, its business or financial results, do not attempt to answer. All requests for information—from reporters, securities analysts, shareholders or the general public—should be referred to the Chief Financial Officer, who will handle the request or delegate it to an appropriate person.

ACCOUNTING MATTERS

Internal Accounting Controls

The Company places the highest priority on "best practices" disclosure. Our annual reports, quarterly reports and press releases, and other public disclosure of the Company's financial results, reflect how seriously we take this responsibility.

To this end, we have established an internal Disclosure Committee, which includes key members of senior management responsible for our internal financial and risk management controls. This Committee, which currently consists of Spencer Haber, Tim O'Connor, Andy Richardson, Colette Tretola, Steven Sinnett and Geoff Dugan, meets on a quarterly basis, and additionally when issues arise, to discuss the state of the Company's internal controls, reporting systems and the integrity of our financial information relative to our disclosure obligations. This Committee assists senior management and the Audit Committee of the Board in overseeing the Company's internal control systems and evaluating our public disclosure processes.

Each employee shares this responsibility with senior management and the Board of Directors and must help maintain the integrity of the Company's financial records. We trust that every employee understands that protecting the integrity of our information gathering, information quality, internal control systems and public disclosures is one of the highest priorities we have as a firm.

If you ever observe conduct that causes you to question the integrity of our internal accounting controls and/or disclosure, or you otherwise have reason to doubt the accuracy of our financial reporting, it is imperative that you bring these concerns to our attention immediately. You should promptly report any concerns to any member of the Disclosure Committee. If you are not comfortable

providing your name, you may report anonymously. Any kind of retaliation against an employee for raising these issues is strictly prohibited and will not be tolerated.

Improper Influence on the Conduct of Audits

It is unlawful for any officer or director of the Company, or any other person acting under the direction of such person, to take any action to fraudulently influence, coerce, manipulate, or mislead the independent accountants engaged in the performance of an audit of the Company's financial statements for the purpose of rendering such financial statements materially misleading. Any such action is a violation of this Code of Conduct. Types of conduct that might constitute improper influence include the following:

- Offering or paying bribes or other financial incentives, including offering future employment or contracts for non-audit services,
- Providing an auditor with inaccurate or misleading legal analysis,
- Threatening to cancel or canceling existing non-audit or audit engagements if the auditor objects to the Company's accounting practices or procedures,
- Seeking to have a partner removed from the audit engagement because the partner objects to the Company's accounting practices or procedures,
- Blackmailing, and
- Making physical threats.

Any employee or director who engages in such conduct will be subject to sanctions under the Code, including dismissal in the case of an employee, in addition to potential civil and criminal liability.

RECORDS RETENTION

You should retain documents and other records for such period of time as you and your colleagues will reasonably need such records in connection with the Company's business activities. All documents not required to be retained for business or legal reasons, including draft work product, should not be retained and should be destroyed in order to reduce the high cost of storing and handling the vast amounts of material that would otherwise accumulate. However, under unusual circumstances, such as litigation, governmental investigation or if required by applicable state and federal law and regulations, the Compliance Committee may notify you if retention of documents or other records is necessary.

LEGAL COMPLIANCE

Pertinent laws of every jurisdiction in which the Company operates must be followed. Each employee is charged with the responsibility of acquiring sufficient knowledge of the laws relating to his or her particular duties in order to recognize potential dangers and to know when to seek legal advice. In any instance where the law is ambiguous or difficult to interpret, the matter should be reported to the Company's management who in turn will seek legal advice from the Company's legal counsel as appropriate.

FAIR DEALING

It is the Company's policy to deal fairly with its customers, suppliers, competitors and employees. In the course of business dealings on behalf of the Company, no employee should take advantage of another person or party through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair business practice.

ENFORCEMENT

The conduct of each employee matters vitally to the Company. A misstep by a single employee can cost the Company dearly; it undermines all of our reputations. For these reasons, violations of this Code of Conduct may lead to significant penalties, including dismissal.

WAIVERS

Any waiver of this Code of Conduct for executive officers or directors of the Company may be made only by the Board of Directors, or by a Board Committee specifically authorized for this purpose, and must be promptly disclosed to the Company's shareholders.

QuickLinks

CODE OF CONDUCT

Exhibit 10.8

EXECUTION COPY

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made as of February 11, 2004 by and between iStar Financial Inc., a Maryland corporation (together with its successors and assigns, the "**Company**"), and Jay Sugarman ("**Executive**").

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

WHEREAS, Executive has been employed as Chief Executive Officer of the Company pursuant to an employment agreement made as of March 31, 2001 between Executive and the Company (the "**Old Agreement**"); and

WHEREAS, the term of the Old Agreement is due to end on March 30, 2004; and

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

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

1. ***Employment Period.*** The Company shall continue to employ Executive, and Executive shall continue to serve the Company, on the terms and conditions set forth in this Agreement. The term of Executive's employment shall continue under the Old Agreement through and including 12:00 a.m., New York time, on March 30, 2004, at which time the Executive's term of employment under the Old Agreement shall expire. The term of Executive's employment under this Agreement shall commence at 12:01 a.m., New York time, on March 31, 2004 (the "**Effective Date**") and, unless earlier terminated in accordance with Section 5, shall continue through the later of March 30, 2007 and the first anniversary of the last "Change of Control" (as defined in Section 6(a)) that occurs on or before March 30, 2007 (the "**Initial Employment Period**"). Upon the expiration of the Initial Employment Period and upon each anniversary thereof, the term of Executive's employment hereunder, if not previously ended, shall automatically be extended for an additional employment period ending at the later of the first anniversary of the date of extension and the first anniversary of the last Change of Control that occurs on or before that first anniversary of the date of extension, subject to earlier termination in accordance with Section 4 (collectively, the "**Additional Employment Period**"), unless either Party shall have given written notice to the other Party of its decision not to extend the Initial Employment Period or to further extend the Additional Employment Period at least ninety (90) days prior to the scheduled expiration of the Initial Employment Period or the Additional Employment Period, as the case may be. (The Initial Employment Period and Additional Employment Period together are the **"Employment Period.")**

2. ***Position and Duties.***

(a) During the term of his employment hereunder (the "**Term**"), Executive shall serve as Chief Executive Officer of the Company and (subject to Executive's re-election to the Board of Directors of the Company (the "**Board**") by the Company's shareholders) as a member of, and the Chairman of, the Board. Executive shall have the authorities, duties and responsibilities that are customarily assigned to the chief executive officer and chairman of the board of a company of the size and nature of the Company; and shall have such other duties and responsibilities, not inconsistent therewith, as may from time to time reasonably be assigned to him by the Board. The Company shall use all reasonable efforts to maintain Executive as a member of, and Chairman of, the Board, and as Chief Executive Officer of the Company, throughout the Term. Executive agrees that upon the termination of his employment as Chief Executive Officer of the Company, his chairmanship of, and membership on, the Board shall immediately and automatically terminate

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and he shall promptly execute any documents evidencing such termination that the Company may reasonably request him to execute.

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

(c) During the Term, and excluding any periods of vacation and sick leave to which Executive is entitled, Executive shall perform, faithfully and diligently, his duties and responsibilities hereunder. It shall not be considered a violation of the foregoing for Executive to: **(i)** serve on corporate, industry, civic, social or charitable boards or committees or engage in charitable activities and community affairs; *provided* that Executive shall obtain approval of the Board before commencing service on a board of directors or other governing body of a publicly-traded entity organized for profit; **(ii)** accept and fulfill a reasonable number of speaking engagements; or **(iii)** manage his own personal investments and affairs; *provided* that the foregoing activities do not materially interfere with the performance of Executive's responsibilities hereunder.

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

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

3. ***Compensation.***

(a) ***Base Salary.*** During the Term, Executive shall receive a base salary ("**Base Salary**") at a rate of $1,000,000 per annum, subject to upward (but not downward) adjustment by the Board, or its compensation committee (the "**Compensation Committee**"), in their sole discretion. The Base Salary shall be paid in accordance with the Company's customary payroll practices for its senior executives. For the fiscal year ending December 31, 2004, Executive's Base Salary under this Agreement and the Old Agreement shall be prorated based upon the term of Executive's employment under each agreement during that fiscal year, such that Executive's aggregate Base Salary under this Agreement and the Old Agreement for the fiscal year ending December 31, 2004 is $1,000,000.

(b) *Annual Bonus.* Executive shall, to the extent provided in this Section 3(b), be entitled to an opportunity to earn an annual incentive award (the "**Incentive Award**") in respect of each fiscal year of the Company that ends during the Term. Executive's annual incentive award for any such year shall be an amount up to $5.0 million (including for the fiscal year ending December 31, 2004); however, no payment is to be made under Section 6(d) of the Old Agreement, which is superseded. An annual Incentive Award of $5.0 million shall be awarded for a fiscal year if Executive meets specified levels of performance in the following three areas, (1) Total Shareholder Rate of Return (as defined below); (2) the Company's' financial position (balance sheet) and results of operations (income statement and adjusted earnings) and (3) qualitative factors including, but not limited to, succession planning, investor relations, personnel management and relations, and attainment of strategic goals. The three areas of performance evaluation shall each carry an equal weighting of one-third and the performance criteria within each area of evaluation may include both objective and subjective criteria. The Compensation Committee shall, in good-faith consultation with Executive, select the performance criteria and establish the levels of performance that, if achieved, will result in an award of a full $5.0 million Incentive Award. Such criteria and performance levels will be set for each fiscal year prior to the sixtieth (60th) day of such fiscal year (except in the case of fiscal year 2004, for which the day shall be July 15, 2004). To

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the extent that the actual performance for a fiscal year, so measured, falls short of the specified levels so established, a lesser amount than the $5.0 million target amount may be awarded; *provided*, however, that the Company and Executive agree that if a Total Rate of Shareholder Return of at least 15% is achieved for a fiscal year, the Incentive Award to be awarded in respect of that year shall be equal to at least $1,650,000.00. Executive shall be paid his annual Incentive Award (if any) for a fiscal year no later than the earlier of (x) the date that other senior executives of the Company are paid their annual incentive awards (if any) for such year and (y) the sixtieth (60th) day following the last day of such year; *provided* that payment may be deferred, upon Executive's prior written election, in accordance with any compensation deferral program of the Company then available to Executive or to senior executives of the Company generally.

For purposes of this Agreement, the term "**Total Shareholder Rate of Return**" in respect of a fiscal year shall mean the quotient of (i) the sum of (A) the total amount of dividends per share of common stock declared and paid from January 1 through December 31 of such fiscal year and (B) the net gain or loss per share on the common stock between the Base Price and relevant Determination Price for such fiscal year divided by (ii) the Base Price for such fiscal year. For these purposes, (1) the term "**Base Price**" shall mean the average closing price of the Company's common stock on the New York Stock Exchange for the first 20 full trading days in the relevant fiscal year, and (2) the term "**Determination Price**" shall mean the average closing price of the Company's common stock on the New York Stock Exchange for the last 20 full trading days in the relevant fiscal year, in each case assuming a fiscal year beginning on January 1 and ending on December 31.

For the purpose of determining the amount of dividends per share of common stock to be used in calculating Total Shareholder Rate of Return, all dividends on a share of common stock shall be assumed to be invested in additional shares of common stock ("**Deemed Purchase Shares"**) at the per-share closing price one trading day prior to the dividend payment date. Such Deemed Purchase Shares shall be deemed to generate additional dividends, at the same time and at the same rate as dividends are paid on actual shares of common stock (and such deemed dividends shall be deemed invested in additional Deemed Purchase Shares).

(c) *Performance Retention Grant.* As of the Effective Date, the Company grants to Executive an award of shares of the Company's common stock ("**Common Stock**"), pursuant to the Company's Amended and Restated Long-Term Incentive Plan, which award shall have a value of $10.0 million, based upon the average closing price of the Company's common stock on the New York Stock Exchange for the 20 trading days ending on and including March 30, 2004. Concurrently with the execution of this Agreement, the Parties shall memorialize this Performance Retention Grant of shares by entering into an agreement in substantially the form attached hereto as Exhibit A (the "**Performance Retention Grant Agreement**").

(d) *Purchase of High Performance Units.* The Company confirms that on the date of this Agreement, the Company has sold to Executive, and Executive has purchased, an 80% interest in the Company's 2006 Executive and Director High Performance Unit Plan at a purchase price of $286,080.00 in cash, which purchase price has been fully paid by Executive to the Company.

(e) *Fringe Benefits.*

(i) *Reimbursement of Expenses and Administrative Support.* The Company shall promptly pay or reimburse Executive, upon the presentation of appropriate documentation of such expenses, for all reasonable travel and other expenses incurred by Executive in the course of performing services for or on behalf of the Company. The Company further agrees to furnish Executive with office space, administrative support and any other assistance and accommodations as shall be reasonably required by Executive in the performance of services for or on behalf of the Company.

(ii) *Participation in Benefit Plans.* Executive shall be entitled to participate, during the Term, in all welfare and retirement benefit plans, programs and arrangements that are generally available to senior executives of the Company, including but not limited to qualified and non-qualified pension and retirement plans, supplemental pension and retirement plans, group hospitalization, health, medical, vision, dental care, death benefit, disability, and post-retirement welfare plans, and other present and future welfare and retirement benefit plans, programs and arrangements (collectively, the "**Benefit Plans**"), on no less favorable terms than those that apply to other senior executives of the Company generally, but without duplication of benefits under multiple benefit plans. Executive shall continue to be credited with seven years of deemed service prior to the Effective Date, as well as with his actual service on and after the Effective Date, for purposes of determining his entitlements and benefits under any such Benefit Plans; provide that in the event that the grant of such deemed service would cause any of the Benefit Plans to lose its tax qualified or tax favored status, the Executive shall receive the after-tax cash equivalent of such benefit in lieu thereof. For avoidance of doubt, the foregoing shall not be construed as a guaranty of, or as an obligation on the part of the Company to provide, any future awards (including, but not limited to, stock options, restricted stock, phantom shares, or other performance awards) under any Company incentive plan from time to time in effect for its senior executives or other employees.

(iii) *Life Insurance.* In addition to and without limiting the generality of the foregoing, the Company shall continue to maintain a term life insurance policy on Executive's life in the face amount of $10,000,000, which policy shall be owned by Executive or his designee, from a

nationally-recognized insurance carrier reasonably acceptable to Executive. Upon termination of Executive's employment with the Company for any reason, the Company shall have no further obligation to pay premiums on such policy.

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

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

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

4. ***Termination of Employment.***

(a) ***Death or Disability.*** Executive's employment with the Company shall terminate automatically upon Executive's death. Either Party shall be entitled to terminate Executive's employment with the Company in the event of Executive's Disability. "**Disability**" shall mean that Executive shall have been unable, as determined by an "Approved Physician" (as defined below), for a period of not less than (x) 120 consecutive days, or (y) 180 days within any 12 month period, to perform his duties for the Company, as a result of physical or mental illness, injury or impairment. A termination of Executive's employment by either Party for Disability shall be communicated to the other Party by written notice, and shall be effective on the 30th day after receipt of such notice by the other Party (such 30th day being the "**Disability Effective Date**"),

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unless Executive returns to full-time performance of his duties for the Company before the Disability Effective Date. For purposes of this Agreement, "**Approved Physician**" shall mean an independent medical doctor selected by the Parties; *provided* that if the Parties cannot promptly agree on such a doctor, each Party shall promptly select an independent medical doctor and the two medical doctors thus selected shall promptly select a third independent medical doctor who shall be the "Approved Physician".

(b) ***By the Company.***

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

(ii) A termination of Executive's employment for Cause may only be effected in accordance with the following procedures. The Board shall give Executive written notice ("**Notice of Potential Termination for Cause**") of its intention to terminate Executive's employment for Cause, setting forth in reasonable detail the specific circumstances that it considers constitute Cause and the specific provision(s) of this Agreement on which it relies, and stating the date, time and place of a special meeting of the Board called and held specifically for the purpose of considering Executive's termination for Cause. Such special meeting shall take place not less than ten (10), and not more than twenty (20), days after Executive receives the Notice of Potential Termination for Cause. At such special meeting, Executive shall be given an opportunity, together with his counsel, to demonstrate to the Board that Cause does not exist (including, in the case of clause (z) of Section 4(b)(i), an opportunity to demonstrate that Executive has fully cured the abandonment that would otherwise constitute Cause). A termination of Executive's employment with the Company for Cause shall be effective when and if a resolution is duly adopted at such special meeting of the Board, by the affirmative vote of three quarters ($^3/4$) of the members of the Board other than Executive, terminating Executive's employment for Cause, subject to *de novo* review of the question whether Cause existed through arbitration in accordance with Section 11 (*provided*, for avoidance of doubt, that if Cause is determined through such arbitration not to have existed, the termination of Executive's employment shall not be reversed and shall instead be treated as a termination "Without Cause" as such term is defined in Section 4(b)(iii)).

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

(c) ***By Executive.***

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

(A) failure by the Company, the Board, and/or the holders of the Company's "Voting Securities" (as defined in Section 6(a)(ii)) to maintain Executive as the Chief Executive Officer of the Company and as a member of the Board;

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

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

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

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

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

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

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

(iii) A termination of his employment with the Company by Executive "**Without Good Reason**" (that is, neither with Good Reason nor for Disability, in each case determined in accordance with this Agreement, and not by notice of non-extension in accordance with Section 1) shall be effected by his giving the Company prior written notice, no less than thirty (30) days before the Date of Termination, specifying the Date of Termination. Termination of Executive's employment in accordance with this Section 4(c)(iii) shall not constitute a breach of this Agreement.

(d) ***No Waiver.*** The failure to set forth any fact or circumstance in a Notice of Potential Termination for Cause or a Notice of Termination for Good Reason shall not constitute a waiver

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of the right to assert, and shall not preclude the Party giving notice from asserting, such fact or circumstance in an attempt to enforce any right under, or in connection with, this Agreement.

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

5. ***Obligations of the Company upon Termination.***

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

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

(ii) the Company shall continue to provide Executive's spouse and eligible dependents, at its expense, with the medical benefits and insurance coverages (including, without limitation, dental, vision, prescription drug and hospital benefits and coverages) then provided generally to spouses and eligible dependents of senior executives of the Company through the earlier of the first anniversary of the date of his death and the date that Executive's spouse and eligible dependents receive equivalent coverages and benefits under any plans, programs and/or arrangements of another entity. Benefits provided pursuant to this Section 5(a)(ii) shall be included as part of any required COBRA coverage.

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

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

(ii) the Company shall continue to provide Executive and his spouse and eligible dependents, at its expense, with the medical benefits and insurance coverages (including, without limitation, dental, vision, prescription drug and hospital benefits and insurance coverages) then provided generally to senior executives of the Company and their spouses and eligible dependents through the earlier of the first anniversary of the Disability Effective Date and the date that Executive's spouse and eligible dependents receive equivalent coverages and benefits under any plans, programs and/or arrangements of another entity. Benefits provided pursuant to this Section 5(b)(ii) shall be included as part of any required COBRA coverage.

(c) ***Without Cause by the Company or with Good Reason by Executive.*** In the event that Executive's employment hereunder is terminated (x) Without Cause by the Company or (y) with Good Reason by Executive in accordance with this Agreement, then:

(i) the Company shall, within seven (7) days following the Date of Termination, pay Executive a lump-sum amount of (A) $2,000,000 in the case of a termination Without Cause or with Good Reason pursuant to Section 4(c)(i)(G) and (B) $5,000,000 in the case of a termination with Good Reason other than pursuant to Section 4(c)(i)(G); and

(ii) the Company shall continue to provide Executive, his spouse and his eligible dependents, at its expense, with the medical benefits and insurance coverages (including, without limitation, dental, vision, prescription drug and hospital benefits and insurance coverages) then provided generally to senior executives of the Company and their spouses and eligible dependents, through the earlier of the first anniversary of the Date of Termination and

the date that Executive, his spouse, and his dependents receive equivalent coverages and benefits under any plans, programs and/or arrangements of a subsequent employer. Benefits provided pursuant to this Section 5(c)(ii) shall be included as part of any required COBRA coverage.

Except as otherwise provided in this Agreement, if Executive's employment is terminated by the Company Without Cause or by Executive with Good Reason neither Executive nor the Company shall have any further rights or obligations under this Agreement other than those provided for in this Section 5.

(d) ***For Cause by the Company or Without Good Reason by Executive or by Expiration of the Employment Period.*** In the event that Executive's employment hereunder is terminated (x) by the Company for Cause in accordance with this Agreement, (y) by Executive Without Good Reason or (z) by expiration of the Employment Period pursuant to a notice of non-extension in accordance with Section 1, then Executive shall be entitled solely to the benefits described in Section 5(e) below, except that in the event of a termination that is described in clause (z) of this sentence, Executive shall, in addition, be entitled to an amount, in lieu of any annual Incentive Award for the fiscal year in which his employment hereunder terminates, determined and paid in accordance with Section 3(b) based on the Company's performance for the entire fiscal year in which the Employment Period ended, but prorated based on the portion of that fiscal year in which Executive remained employed hereunder.

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

(i) Base Salary through the Date of Termination;

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

(iii) other or additional benefits in accordance with applicable plans, programs and arrangements of the Company and its affiliates (including, without limitation, under Sections 3(e), 3(f), 6, 10 and 11, under any stock option grant or agreement and under the Old Agreement); and

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

(f) ***General Release.*** The Company's obligation to make any payment pursuant to Section 5(c)(i) shall be contingent upon, and is the consideration for, Executive delivering to the Company, within thirty (30) days following the Date of Termination, a general release (the "**Release**"), in customary form, releasing the Company, its affiliates and all current and former members, officers and employees of the Company (collectively, the "**Releasees**") from any claims relating to his employment hereunder, other than claims relating to continuing obligations under, or preserved by, (x) this Agreement or (y) any compensation or benefit plan, program or arrangement in which Executive was participating as of the Date of Termination (including, without limitation, any stock option grant or agreement and the agreements referred to in Section 3(b) of the Old Agreement); *subject to* no Releasee initiating or maintaining any proceeding or claim against Executive or any of his heirs, beneficiaries or legal representatives or against his estate, other than proceedings and claims relating solely to enforcing Executive's continuing obligations under this Agreement or under any of the agreements, plans, programs and arrangements referred to in clause (y) of this Section 5(f).

(g) ***Survival of Obligations.*** The respective obligations of the Parties under Sections 4 through 15 shall survive any termination of Executive's employment.

(h) ***No Offset, Etc.*** The Company's obligation to make the payments provided for in, and otherwise to perform its obligations under, this Agreement shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that the Company or any Releasee may have against Executive or others. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement, and such amounts shall not be reduced, regardless of whether Executive obtains other employment or receives benefits or compensation in connection therewith, other than as expressly provided in Sections 5(a)(ii), 5(b)(ii) and 5(c)(ii). Amounts due under this Section 5 are considered to be reasonable by the Company and are not in the nature of a penalty. The payments and benefits provided for in this Section 6 are intended to constitute both liquidated damages and, in the case of the payment described in Section 5(c)(i), consideration for the general release described in this Section 5(f).

6. ***Change of Control.***

(a) ***Change of Control.*** For purposes of this Agreement, a "**Change of Control**" shall be deemed to have taken place if:

(i) individuals who, as of the Effective Date, are members of the Board (the "**Incumbent Directors**") cease for any reason to constitute at least a majority of the members of the Board, *provided* that (x) any individual becoming a member of the Board subsequent to the Effective Date whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without prior written

objection to such nomination) shall be deemed to be an Incumbent Director; and (y) no individual initially elected or nominated as a member of the Board as a result of an actual or threatened election contest with respect to members of the Board or as a result of any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board shall be deemed to be an Incumbent Director;

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

(iii) (x) the Company combines with another entity and is the surviving entity, or (y) all or substantially all of the business or assets of the Company is disposed of pursuant to a sale, merger, consolidation or other transaction or series of transactions, *unless* the holders of Voting Securities of the Company immediately prior to such combination, sale, merger, consolidation or other transaction or series of transactions (each a "**Triggering Event**") immediately after such Triggering Event own, directly or indirectly, by reason of their

ownership of Voting Securities of the Company immediately prior to such Triggering Event, more than fifty percent (50%) of the Voting Securities (measured both by value and by voting power) of: (q) in the case of a combination in which the Company is the surviving entity, the surviving entity and (r) in any other case, the entity (if any) that succeeds to substantially all of the business and assets of the Company;

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

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

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

(b) ***Additional Payments by the Company.***

(i) If it is determined (as hereafter provided) that any payment, benefit or distribution that relates to Executive's employment with the Company or any termination of such employment, or that is made by the Company (or any of its affiliates) to or for the benefit of Executive (or any of his successors, assigns, beneficiaries or family members), whether paid or payable or distributed or distributable pursuant to the terms of this Agreement, the Performance Retention Grant Agreement, the Performance Retention Grant Agreement or otherwise, including without limitation any stock option, restricted share, stock appreciation right or similar right, or the lapse or termination of any restriction on or the vesting or exercisability of any of the foregoing (a "**Payment**"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code (or any successor provision thereto) or to any similar tax imposed by foreign, state or local law, or any interest or penalties with respect to such excise or similar tax (such tax or taxes, together with any such interest and penalties, hereinafter being collectively referred to as the "**Excise Tax**"), then Executive shall be entitled to receive, prior to the time any such Excise Tax is paid through withholding (pursuant to Section 8 or otherwise) or is due to be paid by Executive, an additional payment or payments (a "**Gross-Up Payment**") in an amount such that, after payment by Executive of all income, excise, employment and other taxes (including any interest or penalties imposed with respect to such taxes and taking into account any loss of deductions attributable to any Gross-Up Payment) imposed by any jurisdiction upon or by reason of any Gross-Up Payment (assuming in each case application of the highest applicable marginal tax rates), Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon or by reason of the Payments.

(ii) Subject to the provisions of this Section 6(b), all determinations required to be made under this Section 6(b), including whether an Excise Tax is payable by Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required and the amount of such Gross-Up Payment, shall initially be made by a "Big Four" firm of certified public accountants (the "**Accounting Firm**") selected by the Company reasonably and in good faith, which Accounting Firm may be the Company's regular outside auditors. The Company shall direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and Executive (x) within thirty (30) days after the date of the transaction or event giving rise to a possible Excise Tax liability and (y) at any other time or times as may be requested by the Company or Executive. The Company shall pay any required Gross-Up Payment to Executive no later than five (5) days prior to the date that the corresponding

Excise Tax is paid or due to be paid. Any withholding of amounts in respect of Excise Tax, pursuant to Section 7 or otherwise, shall be deemed to be a payment of Excise Tax for purposes of this Section 6(b). If the Accounting Firm determines that no Excise Tax is payable by Executive, it shall, at the same time as it makes such determination, furnish Executive with an opinion that he has substantial authority not to report any Excise Tax on his foreign, Federal, state and local income and other tax returns. If the Accounting Firm determines that an Excise Tax is payable by Executive, it shall, at the same time it makes such determination, furnish Executive with a written opinion that he has substantial authority not to report Excise Tax in excess of the amount so determined on his foreign, Federal, state and local income and other tax returns. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable foreign, state or local tax law at the time of any determination by the Accounting Firm hereunder, it is possible that one or more Gross-Up Payments will not have been made by the Company that should have been made (an "**Underpayment**"). In the event that Executive believes

that an Underpayment has occurred, Executive shall so notify the Company, which shall then promptly direct the Accounting Firm to determine the amount of the Underpayment (if any) that has occurred and to submit its determination and detailed supporting calculations to both the Company and Executive as promptly as possible, subject to *de novo* review of such determination and calculations, at Executive's election, through arbitration in accordance with Section 11 below. Any such Underpayment shall be promptly paid by the Company to, or for the benefit of, Executive within seven (7) days after receipt of such determination and calculations.

(iii) The Company and Executive shall (at the Company's sole expense) each provide the Accounting Firm access to, and copies of, any books, records and documents in the possession of the Company or Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate reasonably and in good faith with the Accounting Firm in connection with the preparation and issuance of the determinations and opinions contemplated by Section 6(b)(ii).

(iv) The foreign, Federal, state and local income and other tax returns filed by Executive shall be prepared and filed on a basis consistent with the written opinions of the Accounting Firm with respect to the Excise Tax payable by Executive. Executive shall, upon receipt from the Company of the full Gross-Up Payment relating thereto, make proper payment of the amount of any Excise Tax, and shall at the request of the Company, provide to the Company true and correct copies (with any amendments) of any Federal income tax return reflecting any Excise Tax as filed with the Internal Revenue Service and of corresponding foreign, state and local tax returns, if relevant, as filed with the applicable taxing authorities, together with such other documents evidencing any Excise Tax payment to any taxing authority as the Company may reasonably request. If prior to the earlier of (x) the payment to a tax authority of any Excise Tax to which a Gross-Up Payment previously paid to Executive relates and (y) the filing by Executive of any Federal income tax return, or corresponding foreign, state or local tax return, reflecting any Excise Tax to which a Gross-Up Payment previously paid to Executive relates, the Accounting Firm determines that the amount of such Gross-Up Payment should be reduced and delivers to Executive a reasoned written opinion to that effect, Executive shall within ten (10) days thereafter pay to the Company the amount of such reduction on an after-tax basis.

(v) All fees and expenses of the Accounting Firm, and all legal, accounting, copying and other fees and expenses reasonably incurred by Executive, in connection with any Excise Tax, any Gross-Up Payment, or any determination or calculation contemplated by Section 6(b)(ii) or 6(b)(iv) shall be paid by the Company, with payments of fees and expenses reasonably

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incurred by Executive being paid on a fully grossed-up after-tax basis. To the extent that any fees or expenses are initially advanced by Executive, the Company shall reimburse Executive, on a fully grossed-up after-tax basis, for the full amount of such fees and expenses within seven (7) days after receipt from Executive of a statement therefor and reasonable evidence of his payment thereof.

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

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

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

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

(D) permit the Company to participate (at the Company's sole expense) in any proceedings relating to such claim; *provided*, *however*, that the Company shall bear and pay directly all costs and expenses (including attorneys' and accountants' fees, interest and penalties) incurred by the Company or Executive in connection with such claim and shall indemnify and hold harmless Executive, on a fully grossed-up after-tax basis, for and against any Excise Tax or income or other tax, including interest and penalties with respect thereto, imposed in connection with such claim or in connection with any payment of fees, costs or expenses, or any provision of services, pursuant to this Section 6(b). Subject to the provisions of this Section 6(b), the Company may control the defense and/or prosecution of any claim described in the first sentence of this Section 6(b)(vi) and, in its reasonable good-faith discretion, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, in its reasonable good-faith discretion, either direct Executive to pay the amounts claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest (at the Company's sole expense) to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company may reasonably determine;

provided, *however*, that if the Company directs Executive to pay any Excise Tax or other amounts claimed and sue for a refund, the Company shall advance the amount of such payment to Executive on an interest-free basis and shall indemnify and hold Executive harmless, on a fully grossed-up after-tax basis, from any Excise Tax or income or other tax, including interest or penalties with respect thereto, imposed with respect to such advance; and

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provided further, *however*, that any extension of the statute of limitations relating to payment of taxes for a tax year of Executive with respect to which any claim or claims described in the first sentence of this Section 6(b)(vi) is made shall, unless Executive otherwise consents, be limited

solely to such claim or claims. Furthermore, the Company's control of any such contested claim shall be limited solely to issues directly relevant to the amount of any Excise Tax or Gross-Up Payment that would be payable hereunder and Executive shall be entitled, in his sole discretion, to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(vii) If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 6(b)(vi), Executive receives any refund with respect to any Excise Tax previously paid with funds provided by the Company, Executive shall (subject to the Company's complying with all of the requirements of this Section 6(b)) promptly pay to the Company, on an after-tax basis, the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 6(b)(vi) in respect of a claim described in the first sentence of Section 6(b)(vi), a determination is made that Executive is not entitled to any refund with respect to such claim and, in the event that such determination is made by a tax authority or a court, the Company does not notify Executive in writing of its intent to contest such determination prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, on a dollar-for-dollar basis, the amount of Gross-Up Payment otherwise required to be paid pursuant to this Section 6(b). For purposes of this Agreement, "**after-tax basis**" shall each mean (x) when used in respect of a repayment by Executive, that the amount of any such repayment shall be limited to the net after-tax amount or benefit realized by Executive from receipt of any payment or benefit to which such repayment relates, after deducting therefrom all foreign, Federal, state and local taxes thereon and adding back any reduction in any such taxes attributable to any deduction on account of such repayment by Executive, assuming in each case application of the highest applicable marginal tax rates, and (y) when used in respect of a payment or benefit provided by the Company, that the amount of such payment or benefit shall be fully grossed up, assuming application of the highest applicable marginal tax rates, for all foreign, Federal, state and local taxes imposed on or by reason of (A) such payment or benefit or (B) any gross-up thereon.

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

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

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

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

(a) during the Term and (*provided* that the Company shall not, after the Date of Termination, have remained in material breach of any of its material obligations to Executive, under this Agreement or otherwise, for more than ten (10) days after Executive shall have given the Company written notice requesting cure of such material breach) for twelve (12) months thereafter: **(i)** engage, directly or indirectly, whether as principal, agent, representative, consultant, employee, partner, stockholder, limited partner or other investor (other than a passive investment of not more than (x) five percent (5%) of the stock or equity of any corporation the capital stock of which is publicly traded or (y) five percent (5%) of the ownership interest of any limited partnership or other entity) or otherwise, within the United States of America, in any business that competes directly and materially with the business conducted by the Company as of the Date of Termination or **(ii)** solicit or entice, or attempt to solicit or entice, away from the Company, either for his own account or for any individual, firm or corporation, any person known by him to have been, at any time during the twelve (12) months prior to such solicitation, enticement or attempt, a borrower from, a lender to, or a direct and material participant in a substantial financial transaction with, the Company, or to have been actively solicited by the Company to become a borrower from, a lender to, or a direct and material participant in a substantial financial transaction with, the Company; *provided*, however, that the provisions of this Section 9(a)(ii) shall not apply to, and thus shall not be deemed to restrict, any solicitation, enticement or attempt made on behalf of a venture or business that does not compete directly and materially with the Company in investment activities relating to the real estate industry; and *provided*, further, that the restrictions set forth in this Section 9(a) shall not apply after the Date of Termination if Executive's employment with the Company is terminated by the Company Without Cause, or by Executive with Good Reason in accordance with this Agreement, *and* the Company fails to pay Executive, within seven (7) days following the Date of Termination, a lump-sum amount that—when added to the amount paid to him under Section 5(c)(i) and disregarding any other amount paid to him—results in his receiving an aggregate lump-sum amount of $5,000,000 within seven (7) days following the Date of Termination; or

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

Executive understands that the provisions of this Section 9 may limit his ability to earn a livelihood in a business similar to the business of the Company but nevertheless agrees and hereby acknowledges that **(A)** such provisions do not impose a greater restraint than is necessary to protect the goodwill or

other business interests of the Company, **(B)** such provisions contain reasonable limitations as to time and scope of activity to be restrained, **(C)** such provisions are not harmful to the general public, **(D)** such provisions are not unduly burdensome to Executive, and **(E)** the consideration provided hereunder is sufficient to compensate Executive for the restrictions contained in such provisions. In consideration thereof and in light of Executive's education, skills and abilities, Executive agrees that Executive will not assert in any forum that such provisions prevent Executive from earning a living or otherwise are void or unenforceable or should be held void or unenforceable.

10. ***Indemnification.***

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

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

(c) For the purposes of this Section 10, **(i)** the term "**Proceeding**" shall mean any action, suit or proceeding, whether civil, criminal, administrative, investigative or other, in which Executive is made, or is threatened to be made, a party or a witness by reason of the fact that he is or was an officer or employee of the Company or is or was serving as an officer, director, member, employee, trustee or agent of any other entity at the request of, or on behalf of, the Company, whether or not the basis of such Proceeding arises out of or in connection with Executive's alleged action or omission in an official capacity, and **(ii)** the term "**Claim**" shall mean any claim, demand, investigation, discovery request, or request for testimony or information that arises out of or relates to Executive's service as an officer, employer, agent or representative of the Company or service at the Company's request, or on the Company's behalf, as a director, officer, employee, agent, manager, consultant, advisor, or representative of any other entity.

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

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

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

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

11. ***Arbitration.*** Any claim or dispute arising out of or relating to this Agreement, any other agreement between Executive and the Company or any of its affiliates, Executive's employment with the Company or the termination thereof (collectively, "Covered Claims") shall be resolved by binding arbitration, to be held in the Borough of Manhattan, in accordance with the Commercial Arbitration Rules (and not the National Rules for the Resolution of Employment Disputes) of the American Arbitration Association and this Section 11. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. The Company shall promptly pay all costs and expenses (including without limitation attorneys' fees and other charges of counsel) incurred by Executive or his beneficiaries in resolving any such Covered Claim, subject to receiving a written undertaking from the recipient to repay any such reimbursed costs or expenses to the extent that it is finally determined that such recipient failed to substantially prevail with respect to such Covered Claim. Pending the resolution of any Covered Claim, Executive (and his beneficiaries) shall, consistent with Section 4(b) and except to the extent that the arbitrator(s) otherwise expressly provide, continue to receive all payments and benefits then due under this Agreement or otherwise.

12. ***Successors; Beneficiaries.***

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

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

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

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

(e) Except to the extent otherwise provided in Sections 12(a) and 12(d), the rights and benefits of Executive under this Agreement may not be anticipated, assigned, alienated or subjected to attachment, garnishment, levy, execution or other legal or equitable process. Any attempt by Executive to anticipate, alienate, assign, sell, transfer, pledge, encumber or charge such rights or benefits, except as required by law or court order or as provided in Sections 12(a) and 12(d), shall be void. Payments hereunder shall not be considered assets of Executive in the event of insolvency or bankruptcy unless and until paid, or due to be paid, to Executive.

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13. *Representations.*

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

(b) Executive represents and warrants that, to the best of his knowledge and belief, **(i)** delivery and performance of this Agreement by him does not violate any applicable law, regulation, order, judgment or decree or any agreement to which he is a party or by which he is bound and **(ii)** upon the execution and delivery of this Agreement by the Parties, this Agreement shall be the valid and binding obligation of Executive, enforceable against him in accordance with its terms, except to the extent enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

14. *Miscellaneous.*

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

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

If to Executive:

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

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

If to the Company:

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

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with copy each to:

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

and

Clifford Chance US LLP
200 Park Avenue
New York, NY 10166
Attn: Kathleen L. Werner, Esq.

or to such other address or addresses as either Party furnishes to the other in writing in accordance with this Section 14(b). Notices and other communications shall be effective when actually received by the addressee.

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

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

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

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

[Rest of Page Intentionally Left Blank]

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

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

Executive

/s/ JAY SUGARMAN

Jay Sugarman

iStar Financial Inc.

By: /s/ CATHERINE D. RICE

Name: Catherine D. Rice
Title: *Chief Financial Officer*

QuickLinks

EMPLOYMENT AGREEMENT

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.9

EXECUTION COPY

PERFORMANCE RETENTION GRANT

THIS PERFORMANCE RETENTION GRANT AGREEMENT (the "Agreement") is dated as of the 11th day of February, 2004 (the "Award Date") and entered into by and between iSTAR FINANCIAL INC. (the "Company") and Jay Sugarman (the "Participant");

WITNESSETH:

WHEREAS, in connection with the effectiveness on March 31, 2004 (the "Effective Date") of a new employment agreement entered into on the date hereof between the Company and the Participant (the "New Employment Agreement"), the Company wishes to award shares of common stock, $0.001 par value per share, of the Company (the "Common Stock") to the Participant, subject to certain restrictions on transferability, pursuant to the iStar Financial Inc. 1996 Long-Term Incentive Plan, as amended and restated (the "Plan");

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

1. *Award.*

(a) Subject to the terms of this Agreement and the Plan, the Participant is hereby awarded a number of shares of Common Stock (the "Shares") equal to the quotient obtained by dividing 10.0 million by the average closing price of the Company's Common Stock for the 20 trading days ending on and including March 30, 2004. Except as otherwise defined herein, capitalized terms used in this Agreement have the respective meanings set forth in the Plan.

(b) The parties agree that on March 31, 2004, Schedule A hereto shall be amended to specify the number of Shares.

2. *Vesting.*

(a) The Shares shall be fully vested when issued on March 31, 2004, if the Participant's employment as Chairman and Chief Executive Officer of the Company has not terminated before such vesting date. If the Participant's employment as Chairman and Chief Executive Officer of the Company terminates prior to March 31, 2004, this Agreement shall terminate and be of no force and effect, and neither party shall have any obligation to the other party hereunder.

(b) Once the Shares have vested, they shall not be subject to forfeiture under any circumstances.

3. *Restrictions on Shares.*

(a) Except as provided in Section 3(b), the "Restricted Period" with respect to the Shares is the period commencing on the Effective Date and ending on the earlier of (1) March 31, 2009 and (2) the occurrence of a Change of Control (as such term is defined under the New Employment Agreement).

(b) In addition to the events described in Section 3(a), the Restricted Period shall terminate on March 31 of each year during the Restricted Period with respect to a number of Shares equal to 25% of the Shares awarded to Participant on the Effective Date if, during the 12 month period ending on March 31 of such year, the price of the Common Stock has increased by 15% or more. For purposes of determining whether the price of the Common Stock has increased by 15% or more, the average closing price of the Common Stock on the principal United States securities exchange on which the Common Stock is traded shall be compared for the first 20 trading days at the beginning of such 12 month period and the last 20 trading days in such 12-month period.

(c) During the Restricted Period, Shares are not transferable except as designated by the Participant by will or by the laws of descent and distribution or, subject to such procedures as the Administrator may establish, to or for the benefit of the Participant's family. Except as provided in this Section 3, Shares may not be sold, assigned, transferred, pledged, hypothecated, encumbered or otherwise disposed of (whether by operation of law and otherwise) or be subject to execution, attachment or similar process. Any attempt to so sell, transfer, assign, pledge, hypothecate, voluntarily encumber or otherwise dispose of the Shares shall be null and void.

(d) Shares shall be evidenced by a certificate registered in the name of the Participant. The certificate shall bear a legend to the effect that the Shares are subject to contractual restrictions on transfer under this Agreement. In addition, for so long as the Participant is an affiliate of the Company within the meaning of Rule 144 under the Securities Act of 1933, as amended (the "Securities Act"), the certificate representing the Shares may bear a legend to the effect that the Shares must be sold pursuant to an effective registration statement or pursuant to an exemption from the registration requirements of the Securities Act.

(e) During the Restricted Period, the Participant shall be entitled to vote and receive dividends with respect to all of the Shares.

4. *Adjustments to Number of Shares.* In the event of any change in the outstanding Shares by reason of any stock dividend, split, spinoff, recapitalization or other similar change, the terms and the number of any outstanding Shares shall be equitably adjusted by the Administrator in its discretion to the extent the Administrator determines that such adjustment is necessary to preserve the benefit of this Agreement for the Participant and the Company. Any additional shares resulting from such adjustment shall be subject to restrictions on transferability hereunder to the same extent as the underlying shares.

5. *Agreement Not Contract of Employment.* This Agreement does not constitute a contract of employment, and does not give the Participant the right to be retained in the employ of the Company.

6. *Successors and Assigns.* This Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business.

7. *Administration.* The authority to administer and interpret this Agreement shall be vested in the Administrator, and the Administrator shall have all the powers with respect to this Agreement as it has with respect to the Plan. Any interpretation of the Agreement by the Administrator and any decision made by it with respect to the Agreement are final and binding on all persons.

8. *Representations.* The Company represents that the offer and sale of the Shares by the Company is registered under the Securities Act, and any applicable state securities laws, pursuant to an effective registration statement; however, they may be subject to restrictions on resale for so long as the Participant is an affiliate of the Company. The Participant hereby represents and covenants that any subsequent sale of any such Shares shall be made either pursuant to an effective registration statement under the Securities Act and any applicable state securities laws, or pursuant to an exemption from registration under the Securities Act and such state securities laws.

9. *Plan Governs.* The terms of this Agreement shall be subject to the terms of the Plan, a copy of which may be obtained by the Participant from the office of the Secretary of the Company.

10. *Amendment and Termination.* The Board of Directors of the Company may at any time amend or terminate the Plan, provided that no such amendment or termination may materially adversely affect the rights of the Participant awarded hereunder without the written agreement of the Participant.

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11. *Arbitration.* Any controversy, dispute or claim arising out of or related to this Agreement, a Participant's rights or obligations hereunder or pursuant hereto or a Participant's employment by the Company shall be resolved in accordance with the terms and conditions set forth in a separate agreement between the parties regarding arbitration of disputes relating to incentive awards and employment, the terms of which are incorporated herein by this reference.

12. *Waiver of Responsibility.* Participant understands that the Company has assumed no responsibility for advising Participant as to the tax consequences to Participant of the grant of Shares under this Agreement. Participant should consult with his individual tax advisor concerning the applicability of Federal, state and local tax laws to the Shares and to his personal tax circumstances.

13. *Counterparts.* This Agreement may be executed in counterparts.

IN WITNESS WHEREOF, Participant and the Company have executed this Agreement, as of the date first above written.

PARTICIPANT

/s/ JAY SUGARMAN

Jay Sugarman

iSTAR FINANCIAL INC.

By: /s/ CATHERINE D. RICE

Catherine D. Rice

SCHEDULE A

Number of Shares

QuickLinks

PERFORMANCE RETENTION GRANT
SCHEDULE A

Exhibit 10.10

PURCHASE AGREEMENT

Dated as of January 22, 2004

among

iSTAR FINANCIAL INC.

and

BEAR, STEARNS & CO. INC.

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iSTAR FINANCIAL INC.
(a Maryland corporation)

3,300,000 Shares of Series H Variable Rate Preferred Stock

Liquidation Preference $25.00 per share

PURCHASE AGREEMENT

January 22, 2004

Bear, Stearns & Co. Inc.
383 Madison Avenue
New York, New York 10179

Ladies and Gentlemen:

iStar Financial Inc., a Maryland corporation (the "Company") confirms its agreement with Bear, Stearns & Co. Inc. (the "Initial Purchaser") with respect to the issue and sale by the Company and the purchase by the Initial Purchaser of 3,300,000 shares of its Series H Variable Rate Preferred Stock, par value $.001 per share, with a liquidation preference of $25.00 per share (the "Preferred Stock").

The Preferred Stock will be authorized by, and subject to the terms and conditions of, the Company's Articles Supplementary, as defined herein.

The Initial Purchaser and its direct and indirect transferees shall be entitled to the benefits of a Registration Rights Agreement, to be dated as of the Closing Time (as hereinafter defined) and to be substantially in the form attached hereto as Exhibit A (the "Registration Rights Agreement").

All references in this Agreement to financial statements and schedules and other information which is "contained," "included" or "stated" in the SEC Documents (as hereinafter defined) (or other references of like import) shall be deemed to mean and include all such financial statements and schedules and other information which are incorporated by reference in the SEC Documents, and all references in this Agreement to amendments or supplements to the SEC Documents shall be deemed to mean and include the filing of any document under the Securities Exchange Act of 1934, as amended (the "1934 Act"), which is incorporated by reference in the SEC Documents.

The term "subsidiary" means a corporation, partnership or other entity, a majority of the outstanding voting stock, partnership interests or other equity interests, as the case may be, of which is owned or controlled, directly or indirectly, by the Company or by one or more other subsidiaries of the Company.

SECTION 1. *Representations and Warranties.*

(a) *Representations and Warranties by the Company.* The Company represents and warrants to the Initial Purchaser, as of the date hereof and as of the Closing Time (as defined below) (in each case, a "Representation Date"), and agrees with the Initial Purchaser, as follows:

(1) *SEC Documents.* The Company has filed all documents with the Securities Exchange Commission (the "Commission") that it is required to file under the Securities Act of 1933 (the "1933 Act") and the 1934 Act, as applicable (the "SEC Documents"), and, at the time so filed, such documents conformed in all material respects to the requirements of the 1933 Act or the 1934 Act, as applicable, and the rules and regulations of the Commission thereunder and, at the time so filed, none of such documents contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and for so long as the Initial Purchaser owns any shares of the Preferred Stock, any further documents so filed and incorporated by reference in the documents filed with the Commission or any further amendment or supplement thereto, when such documents become effective or are filed with the Commission, as the case may be, will conform in all material respects to the requirements of the 1933 Act or the 1934 Act, as applicable, and the rules and regulations of the Commission thereunder and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(2) *No Material Liabilities.* Subsequent to the respective dates as of which information is given in the SEC Documents (x) the Company and its subsidiaries, taken as a whole, have not incurred any material liability or obligation, direct or contingent, nor entered into any material transaction not in the ordinary course of business; (y) the Company has not purchased any of its outstanding capital stock; and (z) there has not been any material change in the capital stock of the Company, or in the short-term or long-term debt of the Company and its subsidiaries, taken as a whole, except in each case as described in or contemplated by the SEC Documents.

(3) *Capitalization.* The Company has an authorized, issued and outstanding capitalization as set forth in the SEC Documents. All of the issued shares of capital stock of the Company have been duly authorized and validly issued and are fully paid and non-assessable.

(4) *No Registration Rights.* No holder of securities of the Company or any of its subsidiaries will be entitled to have such securities registered under the registration statement required to be filed by the Company pursuant to the Registration Rights Agreement.

(5) *No Equity Interests.* Except for the shares of capital stock of each of the subsidiaries owned by the Company and such subsidiaries, neither the Company nor any such subsidiary owns any shares of stock or any other equity securities of any corporation or has any equity interest in any firm, partnership, association or other entity, except in connection with an investment in its ordinary course of business, or as otherwise described in or contemplated by the SEC Documents.

(6) *Market Manipulation.* Neither the Company nor any of its affiliates, nor any person acting on behalf of any of them has, directly or indirectly, taken any action designed to cause or to result in, or that has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of the Preferred Stock.

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(7) *Power and Authority.* The Company has been duly incorporated and is validly existing as a corporation in good standing under the law of its jurisdiction of incorporation with full power and authority to own, lease and operate its properties and assets and conduct its business as described in the SEC Documents, is duly qualified to transact business and is in good standing in each jurisdiction in which its ownership, leasing or operation of its properties or assets or the conduct of its business requires such qualification, except where the failure to be so qualified does not amount to a material liability or disability to the Company and its subsidiaries, taken as a whole, and has full power and authority to execute and perform its obligations under this Agreement and the Registration Rights Agreement; each subsidiary of the Company is duly organized and validly existing and in good standing under the laws of its jurisdiction of organization and is duly qualified to transact business and is in good standing in each jurisdiction in which its ownership, leasing or operation of its properties or assets or the conduct of its business requires such qualification, except where the failure to be so qualified does not amount to a material liability or disability to the Company and its subsidiaries, taken as a whole, and each has full power and authority to own, lease and operate its properties and assets and conduct its business as described in the SEC Documents; all of the issued and outstanding shares of capital stock of each of the Company's subsidiaries have been duly authorized and are fully paid and non-assessable and, except for SFT II, Inc., pledges made in connection with the Company's $300 million revolving credit facility maturing in July 2004 and as otherwise set forth in the SEC Documents, are owned beneficially by the Company free and clear of any security interests, liens, encumbrances, equities or claims. The only subsidiaries of the Company are the subsidiaries listed on Schedule A hereto.

(8) *Authorization of this Agreement.* The execution and delivery of this Agreement has been duly authorized by all necessary corporate action of the Company, and this Agreement has been duly executed and delivered by the Company and, assuming due authorization, execution and delivery by the other parties hereto, will be the valid and binding agreement of the Company, enforceable against the Company in accordance with its terms.

(9) *Authorization of Registration Rights Agreement.* The execution and delivery of the Registration Rights Agreement has been duly authorized by all necessary corporate action of the Company, and the Registration Rights Agreement has been duly executed and delivered by the Company and, assuming due authorization, execution and delivery by the other parties hereto, will be the valid and binding agreement of the Company, enforceable against the Company in accordance with its terms.

(10) *Authorization and Description of Securities.* The shares of Preferred Stock to be purchased by the Initial Purchaser from the Company have been duly authorized for issuance and sale to the Initial Purchaser pursuant to this Agreement and, when issued and delivered by the Company pursuant to this Agreement against payment of the consideration set forth herein, the Preferred Stock will be validly issued and fully paid and non-assessable; at or prior to the date hereof, the Company will have executed and filed the Articles Supplementary (the "Articles Supplementary") to the Company's Charter establishing the terms of the Preferred Stock with the State Department of Assessments and Taxation of Maryland; no holder of the Preferred Stock will be subject to personal liability by reason of being such a holder; and the issuance of the Preferred Stock is not subject to the preemptive or other similar rights of any securityholder of the Company.

(11) *Absence of Defaults and Conflicts.* The execution and delivery by the Company of, and the performance by the Company of its obligations under, this Agreement and the Registration Rights Agreement, the compliance by the Company with the provisions of this Agreement

and the Registration Rights Agreement and the consummation of the transactions herein and therein contemplated do not (x) require the consent, approval, authorization,

registration or qualification of or with any governmental authority, except such as have been obtained or made or such as may be required by the state securities or Blue Sky laws of the various states of the United States of America or other U.S. jurisdictions in connection with resales of the Preferred Stock by the Initial Purchaser, or (y) conflict with or result in a breach or violation of any of the terms and provisions of, or constitute a default under, any indenture, mortgage, deed of trust, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries or any of their respective properties are bound, or the charter documents or bylaws of the Company or any of its subsidiaries, or any statute or any judgment, decree, order, rule or regulation of any court or other governmental authority or any arbitrator applicable to the Company or any of its subsidiaries.

(12) *No Violations.* Neither the Company nor any of its subsidiaries is in violation of any term or provision of its charter documents or bylaws, or in breach of or in default under any statute or any judgment, decree, order, rule or regulation of any court or other governmental authority or any arbitrator applicable to the Company or any of its subsidiaries, the consequence of which violation, breach or default would have a materially adverse effect on or constitute a materially adverse change in, or constitute a development involving a prospective materially adverse effect on or change in, the condition (financial or otherwise), earnings, properties, business affairs or business prospects, net worth or results of operations of the Company or of its subsidiaries, taken as a whole (a "Material Adverse Effect").

(13) *Investment Company Act.* The Company is not an "investment company" and, after giving effect to the offering of the Preferred Stock contemplated by this Agreement and the application of the proceeds therefrom to redeem the Company's outstanding 9^{3}/8% Series B Cumulative Redeemable Preferred Stock and its 9.20% Series C Cumulative Redeemable Preferred Stock, will not be an "investment company", as such term is defined in the Investment Company Act of 1940, as amended (the "1940 Act").

(14) *Title to Property.* The Company and each of its subsidiaries have good and marketable title in fee simple to all items of real property and marketable title to all personal property owned by each of them, in each case free and clear of any security interests, liens, encumbrances, equities, claims and other defects, except such as do not materially and adversely affect the value of such property and do not interfere with the use made or proposed to be made of such property by the Company or such subsidiary, and any real property and buildings held under lease by the Company or any such subsidiary are held under valid, subsisting and enforceable leases, with such exceptions as are not material and do not interfere with the use made or proposed to be made of such property and buildings by the Company or such subsidiary, in each case except as described in or contemplated by the SEC Documents.

(15) *Possession of Intellectual Property.* The Company and its subsidiaries own or possess, or can acquire on reasonable terms, all material patents, patent applications, trademarks, service marks, trade names, licenses, know-how, copyrights, trade secrets and proprietary or other confidential information necessary to operate the business now operated by them, and neither the Company nor any such subsidiary has received any notice of infringement of or conflict with asserted rights of any third party with respect to any of the foregoing which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a Material Adverse Effect, except as described in or contemplated by the SEC Documents.

(16) *Possession of Licenses and Permits.* The Company and its subsidiaries possess all consents, licenses, certificates, authorizations and permits issued by the appropriate federal,

state or foreign regulatory authorities necessary to conduct their respective businesses, and neither the Company nor any such subsidiary has received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a Material Adverse Effect, except as described in or contemplated by the SEC Documents.

(17) *Independent Accountants.* PriceWaterhouseCoopers LLP, who has certified certain financial statements of the Company and its consolidated subsidiaries and delivered their report with respect to the audited consolidated financial statements and schedules included or incorporated in the SEC Documents, are independent public accountants as required by the 1933 Act and the 1933 Act Regulations.

(18) *Financial Statements.* The consolidated financial statements and schedules of the Company and its consolidated subsidiaries included or incorporated in the SEC Documents were prepared in accordance with generally accepted accounting principles ("GAAP") consistently applied throughout the periods involved (except as otherwise noted therein) and they present fairly the financial condition of the Company as at the dates at which they were prepared and the results of operations of the Company in respect of the periods for which they were prepared. The financial information included in the SEC Documents complies with the requirements of Regulation G and Item 10 of Regulation S-K of the Commission.

(19) *Internal Accounting Controls.* The Company and each of its subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (w) transactions are executed in accordance with management's general or specific authorizations; (x) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability; (y) access to assets is permitted only in accordance with management's general or specific authorization; and (z) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(20) *Litigation.* No legal or governmental proceedings are pending or threatened to which the Company or any of its subsidiaries is a party or to which the property of the Company or any of its subsidiaries is subject that would be required to be described in a prospectus filed pursuant to the 1933 Act and are not described therein; and no statutes, regulations, contracts or other documents that are required to be described or incorporated in the SEC Documents are not described or incorporated therein as required.

(21) *Dividends and Distributions.* The Company is not currently prohibited, directly or indirectly, from paying any dividends or making any other distribution on its capital stock, in each case except for restrictions upon the occurrence of a default or failure to meet financial covenants or conditions under existing agreements.

(22) *REIT Status.* The Company is organized in conformity with the requirements for qualification as a real estate investment trust ("REIT") under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), and its method of operation as described in the SEC Documents has enabled it since January 1, 1998, and will enable it to continue, to meet the requirements for taxation as a REIT under the Code.

(23) *Taxes.* The Company has filed all foreign, federal, state and local tax returns that are required to be filed or has requested extensions thereof (except in any case in which the failure so to file would not have a Material Adverse Effect) and has paid all taxes required to be paid by it and any other assessment, fine or penalty levied against it (except in any case in which the failure so to pay would not have a Material Adverse Effect), to the extent that any of the foregoing is due and payable, except for any such assessment, fine or penalty that is

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currently being contested in good faith or as described in or contemplated by the SEC Documents.

(24) *Insurance.* The Company and each of its subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged; neither the Company nor any such subsidiary has been refused any insurance coverage sought or applied for; and neither the Company nor any such subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not have a Material Adverse Effect, except as described in or contemplated by the SEC Documents.

(25) *Pension Plans.* The Company and each of its subsidiaries are in compliance in all material respects with all presently applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA"); no "reportable event" (as defined in ERISA) has occurred with respect to any "pension plan" (as defined in ERISA) for which the Company would reasonably be expected to have any liability; the Company has not incurred and does not expect to incur liability under (x) Title IV of ERISA with respect to termination of, or withdrawal from, any "pension plan" or (y) Sections 412 or 4971 of the Code or the regulations and published interpretations thereunder; and each "pension plan" for which the Company would have any liability that is intended to be qualified under Section 401(a) of the Code has received a determination letter from the Internal Revenue Service to the effect that it is so qualified in all material respects and nothing has occurred, whether by action or by failure to act, which would cause the plan to not be adversely affected by such determination.

(26) *Absence of Labor Dispute.* No labor dispute with the employees of the Company or any of its subsidiaries exists or is threatened or imminent that could have a Material Adverse Effect, except as described in or contemplated by the SEC Documents.

(27) *Environmental Laws.* Except as described in or contemplated by the SEC Documents, and except as would not otherwise reasonably be expected to have a Material Adverse Effect, (A) the Company and each of its subsidiaries is in compliance with and not subject to any known liability under applicable Environmental Laws (as defined below), (B) the Company and each of its subsidiaries has made all filings and provided all notices required under any applicable Environmental Law, (C) there is no civil, criminal or administrative action, suit, demand, claim, hearing, notice of violation, investigation, proceeding, notice or demand letter or request for information pending or, to the best knowledge of the Company, threatened against the Company or any of its subsidiaries under any Environmental Law, (D) no lien, charge, encumbrance or restriction has been recorded under any Environmental Law with respect to any assets, facility or property owned, operated or leased by the Company or any of its subsidiaries, (E) neither the Company nor any of its subsidiaries has received notice that it has been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), or any comparable law, (F) no property owned or operated by the Company or any of its subsidiaries is (i) listed or, to the best knowledge of the Company, proposed for listing on the National Priorities List under CERCLA or (ii) listed in the Comprehensive Environmental Response, Compensation and Liability Information System List promulgated pursuant to CERCLA, or on any comparable list maintained by any governmental authority, (G) neither the Company nor any of its subsidiaries is subject to any order, decree or agreement requiring, or otherwise obligated or required to perform any response or corrective action under any Environmental Law, (H) there are no past or present

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actions, occurrences or operations which could reasonable be expected to prevent or interfere with compliance by the Company with any applicable Environmental Law or to result in liability under any applicable Environmental Law. For purposes of this Agreement, "Environmental Laws" means the common law and all applicable foreign, federal, provincial, state and local laws or regulations, codes, orders, decrees, judgments or injunctions issued, promulgated, approved or entered thereunder, relating to pollution or protection of public or employee health and safety or the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata), including, without limitation, laws relating to (i) emissions, discharges, releases or threatened releases of Hazardous Materials into the environment, (ii) the manufacture, processing, distribution, use, generation, treatment, storage, disposal, transport or handling of Hazardous Materials and (iii) underground and aboveground storage tanks and related piping, and emissions, discharges, releases or threatened releases therefrom. "Hazardous Material" means any pollutant, contaminant, waste, chemical, substance or constituent, including, without limitation, petroleum or petroleum products subject to regulation or which can give rise to liability under any Environmental Laws.

(28) *Other Agreements.* No default exists, and no event has occurred which, with notice or lapse of time or both, would constitute a default in the due performance and observance of any term, covenant or condition of any indenture, mortgage, deed of trust, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries or any of their respective properties is bound, except any default that would not have a Material Adverse Effect.

(29) *Absence of Materially Adverse Change.* Subsequent to the respective dates as of which information is given in the SEC Documents, neither the Company nor any of its subsidiaries has sustained any material loss or interference with their respective businesses or properties from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from any labor dispute or any legal or governmental proceeding, and there has been no materially adverse change (including, without limitation, a change in management or control), or development involving a prospective materially adverse change, in the condition (financial or otherwise), management, earnings, property, business affairs or business prospects, stockholders' equity, net worth or results of operations of the Company or any of its subsidiaries, taken as a whole, other than as described in or contemplated by the SEC Documents.

(30) *No Receiver or Liquidator.* No receiver or liquidator (or similar person) has been appointed in respect of the Company or any subsidiary of the Company or in respect of any part of the assets of the Company or any subsidiary of the Company; no resolution, order of any court, regulatory body, governmental body or otherwise, or petition or application for an order, has been passed, made or presented for the winding up of the Company or any subsidiary of the Company or for the protection of the Company or any such subsidiary from its creditors; and the Company has not, and no subsidiary of the Company has, stopped or suspended payments of its debts, become unable to pay its debts or otherwise become insolvent.

(31) *Rule 144A Eligibility.* No securities of the Company or any of its subsidiaries are of the same class (within the meaning of Rule 144A under the 1933 Act) as the Preferred Stock and listed on a national securities exchange registered under Section 6 of the 1934 Act, or quoted in a U.S. automated inter-dealer quotation system.

(32) *Integration; No General Solicitation.* None of the Company, or any of its subsidiaries or any of their respective Affiliates (as defined in Rule 501(b) of Regulation D

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under the 1933 Act) has directly, or through any agent, (i) sold, offered for sale, solicited offers to buy or otherwise negotiated in respect of, any "security" (as defined in the 1933 Act) that is or could be integrated with the sale of the Preferred Stock in a manner that would require the registration under the 1933 Act of the Preferred Stock or (ii) engaged in any form of general solicitation or general advertising (as those terms are used in Regulation D under the 1933 Act) in connection with the offering of the Preferred Stock or in any manner involving a public offering within the meaning of Section 4(2) of the 1933 Act. Assuming the accuracy of the representations and warranties of the Initial Purchaser in Section 2(c) hereof, it is not necessary in connection with the offer, sale and delivery of the Preferred Stock to the Initial Purchaser in the manner contemplated by this Agreement to register any of the Preferred Stock under the 1933 Act.

(b) *Officers' Certificates.* Any certificate signed by any officer of the Company or any of its subsidiaries delivered to the Initial Purchaser or to counsel for the Initial Purchaser shall be deemed a representation and warranty by the Company to the Initial Purchaser as to the matters covered thereby.

SECTION 2. *Sale and Delivery to the Initial Purchaser; Closing.*

(a) *Preferred Stock.* On the basis of the representations and warranties contained herein and subject to the terms and conditions herein set forth, the Company agrees to sell the Preferred Stock to the Initial Purchaser and the Initial Purchaser agrees to purchase the Preferred Stock from the Company, at a price of $25.00 per share, or $82,500,000.00 in the aggregate.

(b) *Payment.* Payment of the purchase price for, and delivery of, the Preferred Stock shall be made at the office of Clifford Chance US LLP, 200 Park Avenue, New York, New York 10166-0153, or at such other place as shall be agreed upon by the Initial Purchaser and the Company, at 11:00 A.M. (Eastern time) on January 22, 2004 (such time and date of payment and delivery being herein called "Closing Time").

Payment shall be made to the Company by wire transfer of same day funds payable to the order of the Company, against delivery to the Initial Purchaser or its designee.

(c) *Qualified Institutional Buyer; Accredited Investor.* The Initial Purchaser represents and warrants to, and agrees with, the Company that it is a "qualified institutional buyer" within the meaning of Rule 144A under the 1933 Act and an "accredited investor" within the meaning of Rule 501(a) under the 1933 Act.

(d) *Denominations; Registration.* The Preferred Stock shall be registered in the name of the Initial Purchaser. The Preferred Stock shall be made available for examination by the Initial Purchaser in The City of New York at Closing Time.

SECTION 3. *Covenants of the Company.*

The Company covenants with the Initial Purchaser as follows:

(a) *Notice and Effect of Material Events.* The Company shall comply with the 1933 Act, and 1934 Act and the rules and regulations of the Commission promulgated thereunder and immediately notify the Initial Purchaser, and confirm such notice in writing, of (x) any filing made by the Company of information relating to the offering of the Preferred Stock with the Commission, the National Association of Securities Dealers, Inc. (the "NASD"), the New York Stock Exchange (the "NYSE") or any securities exchange or any other regulatory body in the United States or any other jurisdiction, and (y) so long as the Initial Purchaser owns Preferred Stock, any material changes in or affecting the condition, financial or otherwise, or the earnings, business affairs or business prospects of the Company which (i) make any statement in the SEC Documents false or misleading or (ii) are not disclosed in the SEC Documents. In such event or if

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during such time any event shall occur as a result of which it is necessary, in the reasonable opinion of any of the Company, its counsel, the Initial Purchaser or counsel for the Initial Purchaser, to amend or supplement the SEC Documents in order that the SEC Documents not include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in the light of the

circumstances then existing, the Company shall forthwith amend or supplement the SEC Documents by preparing and furnishing to the Initial Purchaser an amendment or amendments of, or a supplement or supplements to, the SEC Documents (in form and substance satisfactory in the reasonable opinion of counsel for the Initial Purchaser) so that, as so amended or supplemented, the SEC Documents shall not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances, not misleading.

(b) *Blue Sky Qualifications.* The Company shall use its best efforts, in cooperation with the Initial Purchaser, to qualify the Preferred Stock for offering and sale under the applicable securities laws of such states and other jurisdictions (domestic or foreign) as the Initial Purchaser may designate and to maintain such qualifications in effect for a period of not less than one year from the date of this Agreement; *provided, however*, that the Company shall not be obligated to file any general consent to service of process or to qualify or register as a foreign partnership or as a dealer in securities in any jurisdiction in which it is not so qualified or registered, or provide any undertaking or make any change in its Charter or by-laws that the Board of Directors of the Company reasonably determines to be contrary to the best interests of the Company or to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject. In each jurisdiction in which the Preferred Stock have been so qualified or registered, the Company shall file such statements and reports as may be required by the laws of such jurisdiction to continue such qualification in effect for a period of not less than one year from the date of this Agreement.

(c) *Rule 158.* The Company shall timely file such reports pursuant to the 1934 Act as are necessary in order to make generally available to its securityholders as soon as practicable an earnings statement for the purposes of, and to provide the benefits contemplated by, the last paragraph of Section 11(a) of the 1933 Act.

(d) *Reporting Requirements.* The Company, during the period when the shares of Preferred Stock are outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the 1933 Act, shall file all documents required to be filed with the Commission pursuant to the 1934 Act within the time periods required by the 1934 Act and the 1934 Act Regulations.

(e) *Qualification as a REIT.* The Company shall use its best efforts to continue to meet the requirements to qualify as a REIT under the Code, subject to the fiduciary duties of the Board of Directors of the Company to direct the management of the business of the Company in the best interest of the Company.

(f) *Ratings.* If the Preferred Stock is still outstanding on May 22, 2004 (the "Reset Date"), the Company shall take all reasonable action necessary to enable Standard & Poor's Ratings Services ("S&P"), Moody's Investors Service, Inc. ("Moody's") or any other nationally recognized statistical rating organization, as that term is defined by the Commission for purposes of Rule 436(g)(2) under the 1933 Act, to provide their respective credit ratings of the Preferred Stock.

(g) *Registration Rights Agreement.* The Company shall comply with all of the terms and conditions of the Registration Rights Agreement.

(h) *Liquidity.* During the period prior to the Reset Date, unless and until the Preferred Stock is redeemed by the Company, the Company will maintain a minimum liquidity amount equal

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to no less than the par amount of the Preferred Stock of $82,500,000 (the "Liquidity Covenant"). The Liquidity Covenant can be satisfied through a combination of cash and cash equivalents, marketable securities and/or any withdrawn liquidity under any of the Company's existing credit facilities.

SECTION 4. *Payment of Expenses.*

(a) *Expenses.* The Company shall pay all expenses incident to the performance of its obligations under this Agreement and the Registration Rights Agreement, including (i) the preparation, printing and delivery to the Initial Purchaser of this Agreement, the Registration Rights Agreement and such other documents as may be required in connection with the offering, purchase, sale and delivery of the Preferred Stock, (ii) the preparation, issuance and delivery of certificates for the Preferred Stock to the Initial Purchaser, including any transfer taxes, any stamp or other duties payable upon the sale, issuance and delivery of the Preferred Stock to the Initial Purchaser in connection herewith, (iii) the fees and disbursements of the Company's counsel, accountants and other advisors or agents (including transfer agents and registrars), (iv) the qualification of the Preferred Stock under state securities and real estate syndication laws in accordance with the provisions of Section 3(b) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Initial Purchaser in connection therewith and in connection with the preparation, printing and delivery of a blue sky survey, (v) the fees charged by nationally recognized statistical rating organizations for the rating of the Preferred Stock, if applicable, and (vi) the reasonable fees and disbursements of counsel for the Initial Purchaser.

(b) *Termination of Agreement.* If this Agreement is terminated by the Initial Purchaser in accordance with the provisions of Section 5(g) or Section 9(a) hereof, the Company shall reimburse the Initial Purchaser for all of their out-of-pocket expenses, including the reasonable fees and disbursements of counsel for the Initial Purchaser.

SECTION 5. *Conditions of Initial Purchaser's Obligations.*

The obligations of the Initial Purchaser are subject to the accuracy of the representations and warranties of the Company contained in Section 1 hereof or in certificates of any officer of the Company delivered pursuant to the provisions hereof, to the performance by the Company of their covenants and other obligations hereunder, and to the following further conditions:

(a) *Execution of Registration Rights Agreement.* At Closing Time, the Company shall have executed and delivered the Registration Rights Agreement, substantially in the form attached hereto as Exhibit A.

(b) *Opinions of Counsel for Company.* At Closing Time, the Initial Purchaser shall have received the favorable opinion, dated as of Closing Time, of Clifford Chance US LLP, special counsel for the Company, in form and substance satisfactory to counsel for the Initial Purchaser, to the effect set forth in Exhibit B hereto, and the favorable opinion of Venable LLP, Maryland counsel for the Company, in form and substance satisfactory to counsel for the Initial Purchaser.

(c) *Opinion of Counsel for Initial Purchaser.* At Closing Time, the Initial Purchaser shall have received the favorable opinion, dated as of Closing Time, of Skadden, Arps, Slate, Meagher & Flom LLP, counsel for the Initial Purchaser with respect to certain legal matters relating to this Agreement and such other related matters as the Initial Purchaser may reasonably require. In giving such opinion such counsel need not opine as to matters governed by the laws of jurisdictions other than the law of the State of New York and the federal law of the United States. Such counsel may also state that, insofar as such opinion involves factual matters, they have relied, to the extent they deem proper, upon certificates of officers of the Company and its subsidiaries and certificates of public officials.

(d) *Officers' Certificate.* At Closing Time, there shall not have been, since the date hereof or since the respective dates as of which information is given in the SEC Documents, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, and the Initial Purchaser shall have received a certificate of the Chief Executive Officer of the Company and of the Chief Financial Officer of the Company, dated as of Closing Time, to the effect that (i) there has been no such material adverse change, (ii) the representations and warranties in Section 1(a) hereof are true and correct with the same force and effect as though expressly made at and as of the Closing Time, as applicable, and (iii) the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied at or prior to the Closing Time.

(e) *Maintenance of Rating.* If the Preferred Stock is still outstanding at the Reset Date, the Preferred Stock shall be rated at least "Ba3" by Moody's and "B+" by S&P, and the Company shall deliver to the Initial Purchaser a letter dated the Reset Date, from each such rating agency, or other evidence satisfactory to the Initial Purchaser, confirming that the Preferred Stock has such ratings; and at the Closing Time, since the date of this Agreement, there shall not have occurred a downgrading in the rating assigned to any of the Company's other securities by any "nationally recognized statistical rating organization," as that term is defined by the Commission for purposes for Rule 436(g)(2) under the 1933 Act, and no such securities rating agency shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Company's other securities.

(f) *Additional Documents.* At Closing Time, counsel for the Initial Purchaser shall have been furnished with such documents and opinions as they may require for the purpose of enabling them to pass upon the issuance and sale of the Preferred Stock as herein contemplated, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company in connection with the issuance and sale of the Preferred Stock as herein contemplated shall be satisfactory in form and substance to the Initial Purchaser and counsel for the Initial Purchaser.

(g) *Termination of this Agreement.* If any condition specified in this Section 5 shall not have been fulfilled when and as required to be fulfilled, this Agreement may be terminated by the Initial Purchaser by notice to the Company at any time at or prior to the Closing Time, and such termination shall be without liability of any party to any other party except as provided in Section 4 hereof, and except that Sections 1, 6 and 7 hereof shall survive any such termination and remain in full force and effect.

SECTION 6. *Indemnification.*

(a) *Indemnification of the Initial Purchaser by the Company.* The Company shall indemnify and hold harmless the Initial Purchaser and each person, if any, who controls the Initial Purchaser within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, (i) against any and all losses, liabilities, claims, damages and expenses whatsoever as incurred (including but not limited to attorneys' fees and any and all expenses whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever, and any and all amounts paid in settlement of any claim or litigation), joint or several, to which they or any of them may become subject under the 1933 Act, the 1934 Act or otherwise, insofar as such losses, liabilities, claims, damages or expenses (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the SEC Documents, as originally filed or any amendment thereof, or in any supplement thereto or amendment thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein,

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in the light of the circumstances under which such statements were made, not misleading or (ii) against any and all losses, liabilities, claims, damages and expenses whatsoever as incurred (including but not limited to attorneys' fees and any and all expenses whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever, and any and all amounts paid in settlement of any claim or litigation) arising out of a breach by the Company of the representations and warranties contained in Section 1 hereof. This indemnity agreement will be in addition to any liability which the Company may otherwise have, including but not limited to other liability under this Agreement.

(b) *Actions against Parties; Notification.* Promptly after receipt by an indemnified party under subsection (a) above of notice of any claims or the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the Company under such subsection, notify the Company in writing of the claim or the commencement thereof (but the failure so to notify the Company shall not relieve the Company from any liability which it may have under this Section 6 to the extent that it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability that the Company may have otherwise than on account of the indemnity agreement hereunder). In case any such claim or action is brought against any indemnified party, and it notifies the Company of the commencement thereof, the Company will be entitled to participate, at its own expense in the defense of such action, and to the extent it may elect by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from the indemnified party, to assume the defense thereof with counsel reasonably satisfactory to such indemnified party; *provided however*, that counsel to the Company shall not (except with the written consent of the indemnified party) also be counsel to the indemnified party. Notwithstanding the foregoing, the indemnified party or parties shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such indemnified party or parties unless (i) the employment of such counsel shall have been authorized in writing by one of the indemnifying parties in connection with the defense of such action, (ii) the Company shall not have employed counsel to have charge of the defense of such action within a reasonable time after notice of commencement of the action, (iii) the Company does not diligently defend the action after assumption of the defense, or (iv) such indemnified party or parties shall have reasonably concluded that there may be defenses available to it or them which are different from or additional to those available to the Company (in which case the Company shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by the Company. In no event shall the

Company be liable for fees and expenses of more than one counsel (in addition to any local counsel) separate from its own counsel for all indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances. The Company shall not, without the prior written consent of the Company, effect any settlement or compromise of, or consent to the entry of judgment with respect to, any pending or threatened claim, investigation, action or proceeding in respect of which indemnity or contribution may be or could have been sought by an indemnified party under this Section 6 or Section 7 hereof (whether or not the indemnified party is an actual or potential party thereto), unless (x) such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such claim, investigation, action or proceeding and (ii) does not include a statement as to or an admission of fault, culpability or any failure to act, by or on behalf of the indemnified party, and (y) the Company confirms in writing its indemnification obligations hereunder with respect to such settlement, compromise or judgment.

SECTION 7. *Contribution.* In order to provide for contribution in circumstances in which the indemnification provided for in Section 6 hereof is for any reason held to be unavailable from the Company or is insufficient to hold harmless a party indemnified thereunder, the Company and the

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Initial Purchaser shall contribute to the aggregate losses, claims, damages, liabilities and expenses of the nature contemplated by such indemnification provision (including any investigation, legal and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claims asserted, but after deducting in the case of losses, claims, damages, liabilities and expenses suffered by the Company, any contribution received by the Company from persons, other than the Initial Purchaser, who may also be liable for contribution, including persons who control the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, officers of the Company who signed the applicable SEC Documents and directors of the Company) as incurred to which the Company and the Initial Purchaser may be subject, in such proportions as is appropriate to reflect the relative benefits received by the Company and the Initial Purchaser from the sale of the Preferred Stock contemplated herein or, if such allocation is not permitted by applicable law, in such proportions as are appropriate to reflect not only the relative benefits referred to above but also the relative fault of the Company and the Initial Purchaser in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company shall be deemed to equal the total proceeds from the sale of the Preferred Stock contemplated herein received by the Company and (y) the relative benefits received by the Initial Purchaser shall be deemed to equal the difference, if any, between (i) the total proceeds received by the Initial Purchaser upon the resale of the Preferred Stock and (ii) the amount the Initial Purchaser paid for the Preferred Stock pursuant to Section 2(a) hereof (the relative benefits defined in this clause (y), the "Initial Purchaser Relative Benefits"). The relative fault of each of the Company and of the Initial Purchaser shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Initial Purchaser and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Initial Purchaser agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above in this Section 7 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any judicial, regulatory or other legal or governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission. Notwithstanding the provisions of this Section 7, (i) the Initial Purchaser shall not be required to contribute any amount in excess of the amount the Initial Purchaser Relative Benefits exceed the amount of any damages which the Initial Purchaser has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission and (ii) no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 7, each person, if any, who controls the Initial Purchaser within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as the Initial Purchaser, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, each officer of the Company who shall have signed the applicable SEC Documents and each director of the Company shall have the same rights to contribution as the Company, subject in each case to clauses (i) and (ii) of the immediately preceding sentence. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party or parties, notify each party or parties from whom contribution may be sought, but the omission to so notify such party or parties shall not relieve the party or parties from whom contribution may be sought from any obligation it or they may have under this Section 7 or otherwise.

SECTION 8. *Representations, Warranties and Agreements to Survive Delivery.*

All representations, warranties and agreements contained in this Agreement or in certificates of officers of the Company or authorized representatives of the Company submitted pursuant hereto or thereto shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of the Initial Purchaser or any controlling person, or by or on behalf of the Company, and shall survive delivery of and payment for the Preferred Stock.

SECTION 9. *Termination.*

(a) *Termination; General.* The Initial Purchaser may terminate this Agreement, by notice to the Company, at any time after the date hereof and at or prior to the Closing Time (i) if there has been, since the time of execution of this Agreement or since the respective dates as of which information is given in the SEC Documents, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, or (ii) if any domestic or international event or act or occurrence has materially disrupted, or in the opinion of the Initial Purchaser will in the immediate future materially disrupt, the market for the Company's securities or securities in general; or (iii) if trading on The New York Stock Exchange ("the NYSE") or The NASDAQ National Market (the "NASDAQ") shall have been suspended or been made subject to material limitations, or minimum or maximum prices for trading shall have been fixed, or maximum ranges for prices for securities shall have been required, on the NYSE or the NASDAQ or by order of the Commission or any other governmental authority having jurisdiction; or (iv) if a banking moratorium has been declared by any state or federal authority or if any material disruption in commercial banking or securities settlement or clearance services shall have occurred; or (v) if any downgrading shall have occurred in the Company's corporate credit rating or the rating accorded the Company's debt securities or preferred stock by any "nationally recognized statistical rating organization" (as defined for purposes of Rule 436(g) under the 1933 Act) or if any such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Company's debt securities or preferred stock; or (vi) (A) if there shall have occurred any outbreak or escalation of hostilities or acts of terrorism involving the United States or there is a declaration of a national emergency or war by the United States or (B) if there shall have been any other calamity or crisis or any change in political,

financial or economic conditions if the effect of any such event in (ii) or (iii), in the judgment of the Initial Purchaser, makes it impracticable or inadvisable to proceed with the sale and purchase of the Preferred Stock on the terms and in the manner contemplated by this Agreement.

(b) *Liabilities.* If this Agreement is terminated pursuant to this Section 9, such termination shall be without liability of any party to any other party except as provided in Section 4 hereof, and provided further that Sections 1, 6, 7 and 8 hereof shall survive such termination and remain in full force and effect.

SECTION 10. *Default by the Company.* If the Company shall fail to sell and deliver the Preferred Stock which the Company is obligated to sell hereunder, then the Initial Purchaser may, at its option, by notice to the Company, terminate this Agreement without any liability on the part of any non-defaulting party except that the provisions of Sections 1, 4, 6, 7 and 8 hereof shall remain in full force and effect. No action taken pursuant to this Section 10 shall relieve the Company so defaulting from liability, if any, in respect of such default.

In the event of a default by the Company as referred to in this Section 10, each of the Initial Purchaser and the Company shall have the right to postpone Closing Time for a period not exceeding seven days in order to effect any required change in the SEC Documents or in any other documents or arrangements.

SECTION 11. *Notices.*

All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the Initial Purchaser shall be directed to the Initial Purchaser at Bear, Stearns & Co. Inc., 383 Madison Avenue, New York, New York 10179, and notices to the Company shall be directed to iStar Financial Inc., 1114 Avenue of the Americas, 27th Floor, New York, New York 10036.

SECTION 12. *Parties.*

This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the Initial Purchaser and the Company and their respective successors and the controlling persons and officers and directors referred to in Sections 6 and 7 hereof and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the parties hereto and thereto and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Preferred Stock from the Initial Purchaser shall be deemed to be a successor by reason merely of such purchase.

SECTION 13. *GOVERNING LAW AND TIME.*

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED IN SAID STATE. SPECIFIED TIMES OF DAY REFER TO NEW YORK CITY TIME.

SECTION 14. *Effect of Headings.*

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this Agreement, along with all counterparts, shall become a binding agreement between the Initial Purchaser, and the Company in accordance with its terms.

Very truly yours,

iSTAR FINANCIAL INC.

By: /s/ CATHERINE D. RICE

Name: Catherine D. Rice
Title: *Chief Financial Officer*

CONFIRMED AND ACCEPTED,
as of the date first
above written:

BEAR, STEARNS & CO. INC.

By: /s/ CHRIS O'CONNOR

Name: Chris O'Connor
Title: *Authorized Signatory*

Schedule A

SUBSIDIARIES

767 STARS LLC
1001 East Palm, LLC
7555-7575 Colshire LLC
Acquest Government Holdings, L.L.C.
Acquest Government Holdings II, LLC
Acquest Holdings FC, LLC
ACRE CLS, LLC
ACRE Dublin, LLC
ACRE HPC, LLC
ACRE IDG, LLC
ACRE IDG Manager, LLC
ACRE Partners, LLC
ACRE Seymour, LLC
ACRE Simon, L.L.C.
American Corporate Real Estate, Inc.
BM Center, LLC
Corporate Technology Centre Associates LLC
Corporate Technology Centre Associates II LLC
CTC Associates I, L.P.
CTC Associates II, L.P.
CTC Associates I GenPar, LLC
CTC Associates II GenPar, LLC
CTL I Maryland, Inc.
FMAC Starfund, L.L.P.
F/S Subsidiary, L.L.C.
iStar 85 10th L/C LLC
iStar 100 LLC
iStar 100 Management Inc.
iStar 100 Riverview LLC
iStar 200-300 LLC
iStar 200-300 Management Inc.
iStar 200-300 Riverview LLC
iStar Asset Receivables Trust
iStar Asset Services, Inc.
iStar BEST Finance LLC
iStar Bishops Gate LLC
iStar Campbellsville LLC
iStar CTL I, L.P
iStar CTL I GenPar, Inc.
iStar DB Seller, LLC
iStar D.C., Inc.
iStar Denver Place, L.L.C.
iStar Dixon LLC
iStar Eagle GenPar LLC
iStar Eagle LP
iStar Finance Sub 1000T LLC
iStar Finance Sub V LLC

iStar Fort Collins USGS LLC
iStar Funding, LLC
iStar GT GenPar, LLC
iStar GT, L.P.
iStar Harborside LLC
iStar Harborside Member LLC
iStar Harrisburg Business Trust
iStar Harrisburg GenPar LLC
iStar Harrisburg, L.P.
iStar HQ 2003 LP
iStar HQ 2003 GenPar LLC
iStar HQ 2003 Inc.
iStar HQ I, Inc.
iStar HQ I, L.P.
iStar HQ I GenPar, Inc.
iStar HQ I Maryland, Inc.
iStar HQ GT Illinois, Inc.
iStar HQ GT, Inc.

iStar Las Vegas LLC
iStar Merger Co. I
iStar Merger Co. II
iStar NG Gen Par Inc.
iStar NG LP
iStar Operating, Inc.
iStar Poydras, LLC
iStar Preferred Holdings, LLC
iStar Real Estate Services, Inc.
iStar Safeguard Preferred Holdings LLC
iStar San Jose, L.L.C.
iStar Square 24 LLC
iStar Sterling LLC
iStar Sunnyvale, LLC
iStar Sunnyvale Partners, L.P.
iStar Ventures, Inc.
iStar Ventures Direct Holdings, LLC
iStar Walden, LLC
MD3 Cayman L.P.
NewPar, LLC
NewPar/New LLC
P Funding, Inc.
Red Lion G.P., Inc.
RLH Partnership, LLP
SFI I, LLC
SFT I, Inc.
SFT II, Inc.
SFT/RLH, Inc.
SFT Starbonds Inc.
SFT Venturer, LLC
SFT Whole Loans A, Inc.
Starwood Financial Advisors II, LLC
STARS I Corp.

STARS Investment I Corp.
STW Holdings I, Inc.
TriNet Concord Farms Partners III Limited Partnerships
TriNet Corporate Partners II, L.P.
TriNet Corporate Partners III, L.P.
TriNet Corporate Realty Trust, Inc.
TriNet Essential Facilities III, Inc.
TriNet Essential Facilities VII, Inc.
TriNet Essential Facilities VIIIR, Inc.
TriNet Essential Facilities X, Inc.
TriNet Essential Facilities XI, Inc.
TriNet Essential Facilities XII, Inc.
TriNet Essential Facilities XVIII, Inc.
TriNet Essential Facilities XIX, Inc.
TriNet Essential Facilities XX, Inc.
TriNet Essential Facilities XXIII, Inc.
TriNet Essential Facilities XXIV, Inc.
TriNet Essential Facilities XXVI, Inc.
TriNet Essential Facilities XXVII, Inc.
TriNet Essential Facilities XXVIII, Inc.
TriNet Essential Facilities XXIX, Inc.
TriNet Management Operating Company, Inc.
TriNet Milpitas Associates, LLC
TriNet Property Partners, L.P.
TriNet Realty Capital, Inc.
TriNet Realty Investors I, Inc.
TriNet Realty Investors II, Inc.
TriNet Realty Investors III, Inc.
TriNet Realty Investors IV, Inc.
TriNet Realty Investors V, Inc.
TriNet Sunnyvale Partners, L.P.
W9/TriNet Poydras, LLC

FORM OF REGISTRATION RIGHTS AGREEMENT

(Please see attached copy of the Registration Rights Agreement.)

Exhibit B

FORM OF OPINION OF SPECIAL COUNSEL
FOR THE COMPANY
TO BE DELIVERED PURSUANT TO SECTION 5(b)

(1) The SEC Documents and each amendment thereto (in each case, including the documents incorporated by reference therein but not including the financial statements and other financial information contained therein, as to which such counsel need express no opinion) comply as to form in all material respects with the applicable requirements of the 1933 Act, the 1934 Act, the 1933 Act Regulations and the 1934 Act Regulations.

(2) Such counsel has no reason to believe that (other than the financial statements and other financial information contained therein, as to which such counsel need express no opinion) the SEC Documents, as of the dates of the respective SEC Documents or the date of such opinion, included or includes any untrue statement of a material fact or omitted or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(3) The Company and each of its "significant subsidiaries" (as defined in Rule 1.02(w) of Regulation S-X under the 1934 Act) have been duly organized and are validly existing as corporations in good standing under the laws of their respective jurisdictions of incorporation and are duly qualified to transact business as foreign corporations and are in good standing under the laws of all other jurisdictions where such counsel has been advised that the failure to be so qualified would amount to a material liability or disability to the Company and its subsidiaries, taken as a whole; the Company and each of its significant subsidiaries have full power and authority to own, lease and operate their respective properties and assets and conduct their respective businesses as described in the SEC Documents, and the Company has corporate power to enter into this Agreement and the Registration Rights Agreement and to carry out all the terms and provisions hereof and thereof and of the Preferred Stock to be carried out by it; all of the issued and outstanding shares of capital stock of each of the Company's significant subsidiaries, except as otherwise set forth in the SEC Documents, are owned beneficially by the Company free and clear of any perfected security interests or, to the best knowledge of such counsel, any other security interests, liens, encumbrances, equities or claims, except for pledges of subsidiary stock under debt instruments.

(4) The execution and delivery of the Agreement and the Registration Rights Agreement have been duly authorized by all necessary corporate action of the Company and the Agreement and the Registration Rights Agreement have been duly executed and delivered by the Company.

(5) The shares of Preferred Stock to be purchased by the Initial Purchaser from the Company have been duly authorized for issuance and sale to the Initial Purchaser pursuant to the Purchase Agreement and, when issued and delivered by the Company pursuant to the Purchase Agreement against payment of the consideration set forth in the Purchase Agreement, will be validly issued and fully paid and non-assessable and no holder of the Preferred Stock is or will be subject to personal liability by reason of being such a holder; the Preferred Stock conforms to the provisions of the Articles Supplementary; and the relative rights, preferences, interests and powers of the Preferred Stock are as set forth in the Articles Supplementary relating thereto, and all such provisions are valid under the laws of the State of Maryland.

(6) The Company has an authorized, issued and outstanding capitalization as set forth in the SEC Documents; the shares of issued and outstanding capital stock of the Company have been duly authorized and validly issued and are fully paid and non-assessable; and none of the outstanding

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shares of capital stock of the Company was issued in violation of the preemptive or other similar rights of any securityholder of the Company.

(7) The issuance and sale of the Preferred Stock by the Company to the Initial Purchaser is not subject to the preemptive or other similar rights of any securityholder of the Company under the charter or bylaws of the Company or Maryland law.

(8) The form of certificate used to evidence the Preferred Stock complies in all material respects with all applicable statutory requirements and with any applicable requirements of the charter and bylaws of the Company.

(9) No holder of securities of the Company has any right which has not been fully exercised or waived to require the Company to register the offer or sale of any securities owned by such holder under the 1933 Act in connection with the registration statement to be filed under the Registration Rights Agreement.

(10) The Registration Rights Agreement has been duly authorized by the Company and, when duly executed and delivered by the Company (assuming due authorization, execution and delivery thereof by the Initial Purchaser), will be a legal, valid and binding agreement of the Company, enforceable against the Company in accordance with its terms (subject, as to enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally from time to time in effect and except that any rights to indemnity or contribution thereunder may be limited by federal and state securities laws and public policy considerations).

(11) The execution and delivery by the Company of, and the performance by the Company of its obligations under, this Agreement and the Registration Rights Agreement and the Preferred Stock, the issuance, offering and sale of the Preferred Stock to the Initial Purchaser by the Company pursuant to this Agreement, the compliance by the Company with the other provisions of this Agreement and the Registration Rights Agreement and the consummation of the other transactions herein and therein contemplated, including the application of the proceeds from the sale of the Preferred Stock to redeem the Company's outstanding $9^{3}/8$% Series B Cumulative Redeemable Preferred Stock and its 9.20% Series C Cumulative Redeemable Preferred Stock, and the Company's right, pursuant to the Articles Supplementary, to redeem the Preferred Stock at any time prior to the Reset Date do not (x) require the consent, approval, authorization, registration or qualification of or with any governmental authority, except such as have been obtained or made (and specified in such opinion) or such as may be required by the securities or Blue Sky laws of the various states of the United States of America and other U.S. jurisdictions in connection with resales of the Preferred Stock by the Initial Purchaser, or (y) conflict with or result in a breach or violation of any of the

terms and provisions of, or constitute a default under, any indenture, mortgage, deed of trust, lease or other material agreement or instrument, known to such counsel, to which the Company or any of its significant subsidiaries is a party or by which the Company or any of its significant subsidiaries or any of their respective properties are bound, or the charter documents or by-laws of the Company or any of its significant subsidiaries, or any statute or any judgment, decree, order, rule or regulation of any court or other governmental authority or any arbitrator known to such counsel and applicable to the Company or its significant subsidiaries;

(12) The Company is not an "investment company" and, after giving effect to the sale of the Preferred Stock to the Initial Purchaser and the application of the proceeds therefrom, will not be an "investment company," as such term is defined in the 1940 Act.

(13) Such counsel does not know of any legal or governmental proceedings pending or threatened to which the Company or any of its subsidiaries is a party or to which the property of the Company or any of its subsidiaries is subject that would be required to be described in a prospectus pursuant

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to the 1933 Act that are not described in the SEC Documents, or any statutes, regulations, contracts or other documents that would be required to be described in a prospectus pursuant to the 1933 Act that are not described or incorporated in the SEC Documents.

(14) Commencing with the Company's taxable year ended December 31, 1998, the Company has been organized in conformity with the requirements for qualification as a real estate investment trust ("REIT") under the Code, and its method of operation, as described in the SEC Documents and set forth in the Company's amended and restated charter, has enabled the Company to meet and, provided that the Company continues to meet the applicable asset composition, source of income, shareholder diversification, distribution, record keeping and other requirements of the Code necessary for a corporation to qualify as a REIT, will enable it to continue to meet the requirements for qualification and taxation as a REIT under the Code.

(15) Assuming the accuracy of the representation of the Initial Purchaser in Section 2(c) of the Agreement, no registration under the 1933 Act of the Preferred Stock is required in connection with the sale of the Preferred Stock to the Initial Purchaser as contemplated by this Agreement.

In rendering any such opinion, such counsel may rely, as to matters of fact, to the extent such counsel deems proper, on certificates of responsible officers of the Company and public officials and, as to matters involving the application of laws of any jurisdiction other than the State of New York or the United States or the General Corporation Law of the State of Delaware, to the extent satisfactory in form and scope to counsel for the Underwriter, upon the opinion of Venable LLP.

QuickLinks

PURCHASE AGREEMENT

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Exhibit 12.1

Computation of Ratio of EBITDA to interest expense

	For the 12 Months Ended December 31,				
	2003	2002	2001	2000	1999
EBITDA:					
Net income	$ 292,157	$ 215,270	$ 229,912	$ 217,586	$ 38,886
Add: Interest expense	194,999	185,375	169,974	173,549	91,112
Add: Depreciation and amortization	55,286	46,948	34,573	33,529	10,219
Add: Minority interest in consolidated entities	249	162	218	195	41
Add: Cumulative effect of change in accounting principle	—	—	282	—	—
Add: Costs incurred in acquiring external advisor	—	—	—	—	94,476
Less: (Loss) income from discontinued operations	(1,916)	(7,614)	(10,429)	(7,960)	(853)
Less: Gain from discontinued operations	(5,167)	(717)	(1,145)	(2,948)	—
Total EBITDA	$ 535,608	$ 439,424	$ 423,385	$ 413,951	$ 233,881
Interest expense	$ 194,999	$ 185,375	$ 169,974	$ 173,549	$ 91,112
EBITDA/Interest expense	2.75x	2.37x	2.49x	2.39x	2.57x

QuickLinks

Computation of Ratio of EBITDA to interest expense

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 12.2

Computation of Ratio of EBITDA to combined fixed charges

	For the 12 Months Ended December 31,				
	2003	2002	2001	2000	1999
EBITDA:					
Net income	$ 292,157	$ 215,270	$ 229,912	$ 217,586	$ 38,886
Add: Interest expense	194,999	185,375	169,974	173,549	91,112
Add: Depreciation and amortization	55,286	46,948	34,573	33,529	10,219
Add: Minority interest in consolidated entities	249	162	218	195	41
Add: Cumulative effect of change in accounting principle	—	—	282	—	—
Add: Costs incurred in acquiring external advisor	—	—	—	—	94,476
Less: (Loss) income from discontinued operations	(1,916)	(7,614)	(10,429)	(7,960)	(853)
Less: Gain from discontinued operations	(5,167)	(717)	(1,145)	(2,948)	—
Total EBITDA	$ 535,608	$ 439,424	$ 423,385	$ 413,951	$ 233,881
Combined fixed charges					
Interest expense	$ 194,999	$ 185,375	$ 169,974	$ 173,549	$ 91,112
preferred dividends	36,908	36,908	36,908	36,908	23,843
Total combined fixed charges	$ 231,907	$ 222,283	$ 206,882	$ 210,457	$ 114,955
EBITDA/Combined fixed charges	2.31x	1.98x	2.05x	1.97x	2.03x

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Computation of Ratio of EBITDA to combined fixed charges

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Exhibit 12.3

Computation of Ratio of Earning to fixed charges and Earnings to fixed charges and prefered stock dividends

	For the 12 Months Ended December 31,				
	2003	2002	2001	2000	1999
Earnings:					
Net income before quity in (loss) earnings from joint ventures and unconsolidated subsidiaries, minority interest and other items	$ 289,607	$ 205,879	$ 211,477	202,077	37,839
Add: Interest expense	194,999	185,375	169,974	173,549	91,112
Add: Implied interest component on the Company's rent obligations	824	678	572	568	68
Add: Distributions from operations of joint ventures	2,839	5,802	4,802	4,511	470
Add: Costs incurred in acquiring former external advisor	—	—	—	—	94,476
Total earnings	$ 488,269	$ 397,734	$ 386,825	$ 380,705	$ 223,965
Fixed charges:					
Interest expense	$ 194,999	$ 185,375	$ 169,974	$ 173,549	$ 91,112
Implied interest component on the Company's rent obligations	824	678	572	568	68
Capitalized interest	—	70	1,010	513	377
Fixed charges	$ 195,823	$ 186,123	$ 171,556	$ 174,630	$ 91,557
Preferred dividend requirements	36,908	36,908	36,908	36,908	23,843
Fixed charges and prefered stock dividends	$ 232,731	$ 223,031	$ 208,464	$ 211,538	$ 115,400
Earnings to fixed charges	2.49x	2.14x	2.25x	2.18x	2.45x
Earnings to fixed charges and preferred stock dividends	2.10x	1.78x	1.86x	1.80x	1.94x

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Computation of Ratio of Earning to fixed charges and Earnings to fixed charges and prefered stock dividends

List of Subsidiaries **Exhibit 21.1**

Subsidiary	State of Organization / Incorporation	Other Names Used
767 STARS LLC	Delaware	None
1001 East Palm, LLC	Delaware	None
Acquest Government Holdings, L.L.C.	New York	None
Acquest Government Holdings II, LLC	New York	None
Acquest Holdings FC, LLC	New York	None
ACRE CLS, LLC	Delaware	None
ACRE HPC, LLC	Delaware	None
ACRE IDG, LLC	Delaware	None
ACRE IDG Manager, LLC	Delaware	None
ACRE Seymour, LLC	Delaware	None
ACRE Simon, L.L.C.	Delaware	None
Corporate Technology Centre Associates LLC	California	None
Corporate Technology Centre Associates II LLC	California	None
CTC Associates I, L.P.	Delaware	None
CTC Associates II, L.P.	Delaware	None
CTC Associates I GenPar, LLC	Delaware	None
CTC Associates II GenPar, LLC	Delaware	None
CTL I Maryland, Inc.	Delaware	None
F/S Subsidiary, L.L.C.	Delaware	None
iStar 85 10th L/C LLC	Delaware	None
iStar 100 LLC	Delaware	None
iStar 100 Management Inc.	Delaware	None
iStar 100 Riverview LLC	Delaware	None
iStar 200-300 LLC	Delaware	None
iStar 200-300 Management Inc.	Delaware	None
iStar 200-300 Riverview LLC	Delaware	None
iStar Asset Receivables Trust	Delaware	None
iStar Asset Services, Inc.	Delaware	None
iStar BEST Finance LLC	Delaware	None
iStar Bishops Gate LLC	Delaware	None
iStar Blue LLC	Delaware	None
iStar CTL I, L.P.	Delaware	None
iStar CTL I GenPar, Inc.	Delaware	None
iStar Daly City I LLC	Delaware	None
iStar DB Seller, LLC	Delaware	None
iStar Denver Place, L.L.C.	Delaware	None
iStar Dixon LLC	Delaware	None
iStar Finance Sub 1000T LLC	Delaware	None
iStar Finance Sub V LLC	Delaware	None
iStar Fort Collins USGS LLC	Delaware	None
iStar Funding, LLC	Delaware	None
iStar Garden City LLC	Delaware	None
iStar GT GenPar, LLC	Delaware	None
iStar GT, L.P.	Delaware	None
iStar Harborside LLC	Delaware	None
iStar Harborside Member LLC	Delaware	None
iStar Harrisburg Business Trust	Delaware	None
iStar Harrisburg GenPar LLC	Delaware	None
iStar Harrisburg, L.P.	Delaware	None
iStar HQ 2003 LP	Delaware	None
iStar HQ 2003 GenPar LLC	Delaware	None
iStar HQ 2003 Inc.	Delaware	None
iStar HQ I, Inc.	Delaware	None
iStar HQ I, L.P.	Delaware	None
iStar HQ I GenPar, Inc.	Delaware	None
iStar HQ I Maryland, Inc.	Delaware	None
iStar HQ GT Illinois, Inc.	Delaware	None
iStar HQ GT, Inc.	Delaware	None
iStar Las Vegas LLC	Delaware	None
iStar Merger Co. I	Delaware	None
iStar NG GenPar Inc.	Delaware	None
iStar NG Inc.	Delaware	None
iStar NG LP	Delaware	None
iStar Operating, Inc.	Delaware	None
iStar Plantation LLC	Delaware	None
iStar Poydras, LLC	Delaware	None
iStar Preferred Holdings, LLC	Delaware	None
iStar Real Estate Services, Inc.	Maryland	None
iStar Safeguard Preferred Holdings LLC	Delaware	None

iStar San Jose, L.L.C.	Delaware	None
iStar Sunnyvale, LLC	Delaware	None
iStar Sunnyvale Partners, L.P.	Delaware	None
iStar Ventures, Inc.	Delaware	None
iStar Ventures Direct Holdings, LLC	Delaware	None
iStar Walden, LLC	Delaware	None
NewPar, LLC	Delaware	None
NewPar/New LLC	Delaware	None
Red Lion G.P., Inc.	Delaware	None
RLH Partnership, L.P.	Delaware	None
SFI I, LLC	Delaware	None
SFT I, Inc.	Delaware	None
SFT II, Inc.	Delaware	None
SFT/RLH, Inc.	Delaware	None
SFT Venturer, LLC	Delaware	None
SFT Whole Loans A, Inc.	Delaware	None
STARS I Corp.	Delaware	None
STARS Investment I Corp.	Delaware	None
TriNet Concord Farms Partners III LP	Massachusetts	None
TriNet Corporate Partners II, L.P.	Delaware	None
TriNet Corporate Partners III, L.P.	Delaware	None
TriNet Corporate Realty Trust, Inc.	Maryland	None
TriNet Essential Facilities III, Inc.	Maryland	None
TriNet Essential Facilities VII, Inc.	Maryland	None
TriNet Essential Facilities X, Inc.	Maryland	None
TriNet Essential Facilities XI, Inc.	Maryland	None
TriNet Essential Facilities XII, Inc.	Maryland	None
TriNet Essential Facilities XVIII, Inc.	Maryland	None
TriNet Essential Facilities XIX, Inc.	Maryland	None
TriNet Essential Facilities XX, Inc.	Maryland	None

TriNet Essential Facilities XXIII, Inc.	Maryland	None
TriNet Essential Facilities XXIV, Inc.	Maryland	None
TriNet Essential Facilities XXVI, Inc.	Maryland	None
TriNet Essential Facilities XXVII, Inc.	Maryland	None
TriNet Essential Facilities XXVIII, Inc.	Maryland	None
TriNet Essential Facilities XXIX, Inc.	Maryland	None
TriNet Milpitas Associates, LLC	Delaware	None
TriNet Property Partners, L.P.	Delaware	None
TriNet Realty Investors I, Inc.	Maryland	None
TriNet Realty Investors II, Inc.	Maryland	None
TriNet Realty Investors III, Inc.	Maryland	None
TriNet Realty Investors IV, Inc.	Maryland	None
TriNet Realty Investors V, Inc.	Maryland	None
TriNet Sunnyvale Partners, L.P.	Delaware	None
W9/TriNet Poydras, LLC	Delaware	None

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Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-32946, 333-38486, 333-73592, 333-83646, 333-109599, 333-105945) and the Registration Statement on Form S-8 (No. 333-34300) of iStar Financial Inc. of our report dated February 20, 2004, except for Note 17 which is as of March 12, 2004, relating to the financial statements and financial statement schedules, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

New York, NY
March 15, 2004

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CONSENT OF INDEPENDENT ACCOUNTANTS

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Exhibit 31.0

CERTIFICATIONS

I, Jay Sugarman, certify that:

1. I have reviewed this annual report on Form 10-K of iStar Financial Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

   (c) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2004

/s/ JAY SUGARMAN

Name: Jay Sugarman
Title: Chief Executive Officer

Exhibit 31.0

CERTIFICATION

I, Catherine D. Rice, certify that:

1. I have reviewed this annual report on Form 10-K of iStar Financial Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within

those entities, particularly during the period in which this annual report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

(c) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2004

/s/ CATHERINE D. RICE

Name: Catherine D. Rice
Title: Chief Financial Officer

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CERTIFICATIONS
CERTIFICATION

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Exhibit 32.0

Certification of Chief Executive Officer

Pursuant to–906 of The Sarbanes-Oxley Act of 2002

The undersigned, the Chief Executive Officer of iStar Financial Inc. (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. 1350(a), as adopted pursuant to–906 of The Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K for the year ended December 31, 2003 (the "Form 10-K"), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JAY SUGARMAN

Name: Jay Sugarman
Title: Chief Executive Officer

Certification of Chief Financial Officer

Pursuant to–906 of The Sarbanes-Oxley Act of 2002

The undersigned, the Chief Financial Officer of iStar Financial Inc. (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. 1350(a), as adopted pursuant to–906 of The Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-K for the year ended December 31, 2003 (the "Form 10-K"), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ CATHERINE D. RICE

Name: Catherine D. Rice
Title: Chief Financial Officer

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