UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001
OR

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

FOR THE TRANSITION PERIOD FROM ______________ TO ______________

COMMISSION FILE NO. 1-10150

ISTAR FINANCIAL INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

As of November 5, 2001, there were 86,760,229 shares of common stock of iStar Financial Inc., $0.001 par value per share, outstanding ("Common Stock").

ISTAR FINANCIAL INC.
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PART I--CONSOLIDATED FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ISTAR FINANCIAL INC.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

(UNAUDITED)

AS OF AS OF SEPTEMBER 30, DECEMBER 31, 2001 2000 -------- ----- ------------ ASSETS Loans and other lending investments, net................... $2,392,605 $2,225,183 Corporate tenant lease assets, net......................... 1,659,637 1,670,169 Cash and cash equivalents................................. 15,155 22,752 Restricted cash.. 10,853 20,441 Accrued interest and operating lease income receivable...... 20,843 20,167 Deferred operating lease income receivable................. 17,632 10,236 Deferred expenses and other assets......................... 77,728 62,224 Investment in iStar Operating.............................. 2,100 3,603 ---------- ---------- Total assets... $4,196,553 $4,034,775 ========== ========== LIABILITIES AND SHAREHOLDERS' EQUITY Liabilities: Accounts payable, accrued expenses and other liabilities.... $ 75,478 $ 52,038 Dividends payable.. 5,225 56,661 Debt obligations... 2,291,774 2,131,967 ---------- ---------- Total liabilities.. 2,372,477 2,240,666 ---------- ---------- Commitments and contingencies.............................. -- -- Minority interest in consolidated entities................. 2,650 6,224 Shareholders' equity: Series A Preferred Stock, $0.001 par value, liquidation preference $50.00 per share, 4,400 shares issued and outstanding at September 30, 2001 and December 31, 2000, respectively.. 4 4 Series B Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 2,000 shares issued and outstanding at September 30, 2001 and December 31, 2000, respectively..

2 2 Series C Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 1,300 shares issued and outstanding at September 30, 2001 and December 31, 2000, respectively...
1 1 Series D Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 4,000 shares issued and outstanding at September 30, 2001 and December 31, 2000, respectively...
4 4 Common Stock, $0.001 par value, 200,000 shares authorized, 86,568 and 85,726 shares issued and outstanding at September 30, 2001 and December 31, 2000, respectively.... 87 85 Warrants and options...................................... 20,953 16,943 Additional paid in capital................................. 1,981,400 1,966,396 Retained earnings (deficit)............................... (117,230) (154,789) Accumulated other comprehensive income (losses) (See Note 12)... (23,054) (20) Treasury stock (at cost).................................. (40,741) (40,741) ---------- ---------- Total shareholders' equity.............................. 1,821,426 1,787,885 ---------- ---------- Total liabilities and shareholders' equity................ $4,196,553 $4,034,775 ========== ==========

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

ISTAR FINANCIAL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

(UNAUDITED)

FOR THE FOR THE THREE MONTHS ENDED NINE MONTHS ENDED SEPTEMBER 30, SEPTEMBER 30, ------------------ ------------------ 2001 2000 2001 2000 -------- -------- -------- -------- REVENUE: Interest income................................. $ 62,389 $ 70,148 $193,205 $197,095 Operating lease income.......................... 49,912 46,327 148,678 139,822 Other income.................................... 8,529 4,208 22,389 12,568 -------- -------- -------- -------- Total revenue................................. 120,830 120,683 364,272 349,485 -------- -------- -------- -------- COSTS AND EXPENSES: Interest expense................................ 41,177 46,470 128,905 127,029 Operating costs--corporate tenant lease assets.... 3,210 3,284 9,720 9,568 Depreciation and amortization.................... 8,669 8,705 26,255 26,575 General and administrative....................... 6,131 5,859 18,731 20,570 Provision for possible credit losses............. 1,750 1,750 5,250 4,750 Stock-based compensation expense................. 520 569 2,580 1,703 -------- -------- -------- -------- Total costs and expenses...................... 61,457 66,637 191,441 190,195 -------- -------- -------- -------- Net income before minority interest, gains/(losses) on sales of corporate tenant lease assets, extraordinary loss and cumulative effect of change in accounting principle......................... 59,373 54,046 172,831 159,290 Minority interest in consolidated entities.......... (41) (41) (177) (123) Gains/(losses) on sales of corporate tenant lease assets...

(1,196) 1,974 403 2,948 -------- -------- -------
- -------- Net income before extraordinary loss
and cumulative effect of change in accounting
principle.......... 58,136 55,979 173,057 162,115
Extraordinary loss on early extinguishment of
debt..
(583) (388) (1,620) (705) Cumulative effect of
change in accounting principle (See Note
3)..................................... -- --
(282) -- -------- -------- -------- -------- Net
income..
$ 57,553 $ 55,591 $171,155 $161,410 Preferred
dividend requirements....................
(9,227) (9,227) (27,681) (27,681) -------- ------
-- -------- -------- Net income allocable to
common shareholders......... $ 48,326 $ 46,364
$143,474 $133,729 ======== ======== ========
======== Basic earnings per common
share..................... $ 0.56 $ 0.54 $ 1.67 $
1.57 ======== ======== ======== ======== Diluted
earnings per common share.................. $
0.54 $ 0.54 $ 1.63 $ 1.55 ======== ========
======== ========

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

ISTAR FINANCIAL INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001
(IN THOUSANDS)
(UNAUDITED)

SERIES A SERIES B SERIES C
SERIES D COMMON WARRANTS
ADDITIONAL RETAINED
PREFERRED PREFERRED
PREFERRED PREFERRED STOCK
AND PAID-IN EARNINGS STOCK
STOCK STOCK STOCK AT PAR
OPTIONS CAPITAL (DEFICIT) -
-------- --------- --------
- --------- -------- ------
-- ---------- ---------
Balance at December 31,
2000........................
$ 4 $ 2 $ 1 $ 4 $ 85
$16,943 $1,966,396
$(154,789) Exercise of
options........... -- -- --
-- 2 -- 11,762 -- Dividends
declared--preferred
stock.......................
-- -- -- -- -- -- 247
(27,681) Dividends
declared--common
stock.......................
-- -- -- -- -- -- (105,915)
Restricted stock units
issued to employees in lieu
of cash
bonuses.....................
-- -- -- -- -- -- 1,478 --
Restricted stock units
granted to
employees................ -
- -- -- -- -- -- 1,038 --
Options granted to
employees..................
-- -- -- -- -- 4,010 --
Issuance of stock--DRIP
plan........................
-- -- -- -- -- -- 479 --
Net income for the
period..... -- -- -- -- --
-- -- 171,155 Cumulative
effect of change in
accounting
principle........ -- -- --
-- -- -- -- Change in

accumulated other
comprehensive
income........ -- -- -- --
-- -- -- -- ---- ---- ----
---- ---- ------- ---------
- --------- Balance at
September 30,
2001........................
$ 4 $ 2 $ 1 $ 4 $ 87
$20,953 $1,981,400
$(117,230) ==== ==== ====
==== ==== =======
========== =========
ACCUMULATED OTHER
COMPREHENSIVE TREASURY
INCOME (LOSSES) STOCK TOTAL
----------------- --------
---------- Balance at
December 31,
2000........................
$ (20) $(40,741) $1,787,885
Exercise of
options........... -- --
11,764 Dividends declared--
preferred
stock.......................
-- -- (27,434) Dividends
declared--common
stock.......................
-- -- (105,915) Restricted
stock units issued to
employees in lieu of cash
bonuses.....................
-- -- 1,478 Restricted
stock units granted to
employees................ -
- -- 1,038 Options granted
to
employees...................
-- -- 4,010 Issuance of
stock--DRIP
plan........................
-- -- 479 Net income for
the period..... -- --
171,155 Cumulative effect
of change in accounting
principle........ (9,445) -
- (9,445) Change in
accumulated other
comprehensive
income........ (13,589) --
(13,589) -------- --------
---------- Balance at
September 30,
2001........................
$(23,054) $(40,741)
$1,821,426 ========
======== ==========

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

ISTAR FINANCIAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)
(UNAUDITED)

FOR THE FOR THE THREE MONTHS ENDED NINE MONTHS ENDED
SEPTEMBER 30, SEPTEMBER 30, ------------------- -------
-------------- 2001 2000* 2001 2000* -------- --------
--------- --------- Cash flows from operating
activities: Net
income..
$ 57,553 $ 55,591 $ 171,155 $ 161,410 Adjustments to
reconcile net income to cash flows provided by
operating activities: Minority
interest... 41 41

177 123 Non-cash expense for options
issued...................... 520 569 2,580 1,703
Depreciation and
amortization............................ 13,616 12,662
41,412 35,642 Amortization of discounts/premiums,
deferred interest and costs on lending
investments.......................... (11,742)
(6,007) (31,043) (17,758) Equity in earnings of
unconsolidated joint ventures and
subsidiaries..
(1,957) (1,415) (5,646) (3,826) Distributions from
operating joint ventures.............. 983 996 3,899
3,374 Deferred operating lease income
receivable............... (2,320) (2,348) (7,303)
(6,879) Realized (gains)/losses on sales of
securities........... -- -- -- 229 (Gains)/losses on
sale of corporate tenant lease assets... 1,196 (1,974)
(403) (2,948) Extraordinary loss on early
extinguishment of debt........ 583 388 1,620 705
Cumulative effect of change in accounting
principle....... -- -- 282 -- Provision for possible
credit losses..................... 1,750 1,750 5,250
4,750 Changes in assets and liabilities: (Increase)
decrease in accrued interest and operating lease income
receivable............................. (3,582) 398
(430) (1,783) (Increase) decrease in deferred expenses
and other
assets...
2,179 (2,663) (49) (12,631) Increase (decrease) in
accounts payable, accrued expenses and other
liabilities....................... 5,640 552 2,896
(3,784) -------- -------- --------- --------- Cash
flows provided by operating activities...............
64,460 58,540 184,397 158,327 -------- -------- -------
-- --------- Cash flows from investing activities: New
investment originations.............................
(154,038) (227,300) (701,509) (670,473) Principal
fundings on existing loan commitments...........
(20,739) (12,768) (45,181) (50,577) Net proceeds from
sale of corporate tenant lease assets... 12,452 --
20,286 146,265 Repayments of and principal collections
from loans and other lending
investments............................. 10,206
210,388 567,185 373,620 Investments in and advances to
unconsolidated joint
ventures..
(169) -- (656) (13,943) Distributions from
unconsolidated joint ventures......... -- 14,812
24,265 16,782 Capital expenditures for build-to-suit
activities......... (4,098) (707) (10,517) (717)
Capital improvement projects on corporate tenant lease
assets..
(2,146) (516) (4,229) (2,859) Other capital
expenditures on corporate tenant lease
assets..
(987) (3,321) (2,559) (4,050) -------- -------- -------
-- --------- Cash flows used in investing
activities................. (159,519) (19,412)
(152,915) (205,952) -------- -------- --------- -------
-- Cash flows from financing activities: Net borrowings
(repayments) under revolving credit
facilities..
(256,257) 154,587 (73,204) (342,539) Borrowings under
term loans............................ 67,624 --
277,664 90,000 Repayments under term
loans.............................. (1,055) (4,759)
(117,270) (245,114) Repayments under unsecured
notes........................ -- -- (100,000) --
Borrowings under repurchase
agreements.................. 65 220 432 28,201
Repayments under repurchase
agreements.................. -- (3,594) (56,008)
(5,986) Borrowings under secured bond
offerings................. -- 5,000 -- 863,254
Repayments under secured bond
offerings.................. (22,011) (120,445)
(123,909) (121,684) Borrowings under unsecured bond
offerings................ 350,000 -- 350,000 -- Common
dividends paid..................................
(53,264) (51,429) (157,351) (151,040) Preferred
dividends paid................................

(9,145) (9,144) (27,433) (27,433) (Increase) decrease
in restricted cash held in connection with debt
obligations................................ 16,946
(178) 9,588 (6,121) Distributions to minority interest
in consolidated
entities..
(41) (41) (3,752) (123) Extraordinary loss on early
extinguishment of debt........ -- -- (1,037) (317)
Payments for deferred financing
costs.................... (12,624) (491) (29,083)
(26,286) Purchase of treasury
stock.............................. -- -- -- (106)
Proceeds from exercise of options and issuance of DRIP
shares..
3,675 6,013 12,284 6,096 -------- -------- --------- --
------- Cash flows provided by (used in) financing
activities..... 83,913 (24,261) (39,079) 60,802 -------
- -------- --------- --------- Increase (decrease) in
cash and cash equivalents........... (11,146) 14,867
(7,597) 13,177 Cash and cash equivalents at beginning
of period........... 26,301 32,718 22,752 34,408 -----
--- -------- --------- --------- Cash and cash
equivalents at end of period................. $ 15,155
$ 47,585 $ 15,155 $ 47,585 ======== ======== =========
========= Supplemental disclosure of cash flow
information: Cash paid during the period for interest,
net of amounts
capitalized...
$ 33,824 $ 39,674 $ 111,790 $ 111,287 ======== ========
========= =========

- ---------------------------------
* RECLASSIFIED TO CONFORM TO 2001 PRESENTATION.

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 structured financing to private and corporate owners of real estate nationwide, including senior and junior mortgage debt, corporate mezzanine and subordinated capital, and corporate net lease financing. The Company seeks to deliver superior risk-adjusted returns on equity for shareholders by providing innovative and value-added financing solutions to its customers.

The Company has implemented its investment strategy by: (1) focusing on the origination of large, highly structured mortgage, corporate and lease financings where customers require flexible financial solutions, and avoiding commodity businesses in which there is significant direct competition from other providers of capital; (2) developing direct relationships with borrowers and corporate tenants as opposed to sourcing transactions through intermediaries; (3) adding value beyond simply providing capital by offering borrowers and corporate tenants specific lending expertise, flexibility, certainty and continuing relationships beyond the closing of a particular financing transaction; and (4) taking advantage of market anomalies in the real estate financing markets when the Company believes credit is mispriced by other providers of capital, such as the spread between lease yields and the yields on corporate tenants' underlying credit obligations.

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

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, Starwood Financial Trust, in exchange for a controlling interest in that company (collectively, the "Recapitalization Transactions"). 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"), which was then the largest publicly traded company specializing in the net leasing of corporate office and industrial facilities (the "TriNet Acquisition"). The TriNet Acquisition was structured as a stock-for-stock merger of TriNet with a subsidiary of the Company. Concurrent with the TriNet Acquisition, the Company also acquired its external advisor (the "Advisor Transaction") in exchange for shares of common stock of the Company ("Common Stock") and converted its organizational form to a Maryland corporation (the "Incorporation Merger"). As part of the conversion to a Maryland corporation, the Company replaced its dual class common share structure with a single class of Common Stock. The Company's Common Stock began trading on the New York Stock Exchange under the symbol "SFI" in November 1999.

The Company was eligible and elected to be taxed as a REIT for the taxable year beginning January 1, 1998.

NOTE 2--BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements have been prepared in conformity with the instructions to Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and footnotes required by generally

NOTE 2--BASIS OF PRESENTATION (CONTINUED)

accepted accounting principles ("GAAP"). The Consolidated Financial Statements include the accounts of the Company, its qualified REIT subsidiaries, and its majority-owned and controlled partnerships. Certain third-party mortgage servicing operations are conducted through iStar Operating, Inc. ("iStar Operating"), a taxable corporation which is not consolidated with the Company for financial reporting or income tax purposes. The Company owns all of the non-voting preferred stock and a 95% economic interest in iStar Operating, which is accounted for under the equity method for financial reporting purposes. The Company does not own any of the outstanding voting stock of iStar Operating. In addition, the Company has an investment in TriNet Management Operating Company, Inc. ("TMOC"), a taxable noncontrolled subsidiary of the Company, which is also accounted for under the equity method. Further, certain other investments in partnerships or joint ventures which the Company does not control are also accounted for under the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying Consolidated Financial Statements contain all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company's consolidated financial position at September 30, 2001 and December 31, 2000 and the results of its operations, changes in shareholders' equity and its cash flows for the three- and nine-month periods ended September 30, 2001 and 2000, respectively. Such operating results are not necessarily indicative of the results that may be expected for any other interim periods or the entire year.

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

LOANS AND OTHER LENDING INVESTMENTS, NET--As described in Note 4, "Loans and Other Lending Investments," includes the following investments: senior mortgages, subordinate mortgages, corporate/ partnership loans/unsecured notes, loan participations and other lending or similar investments. In general, management considers its investments in this category as held-to-maturity and, accordingly, reflects such items at amortized historical cost.

CORPORATE TENANT LEASE ASSETS AND DEPRECIATION--Corporate tenant lease assets are generally recorded at cost. Certain improvements and replacements are capitalized when they extend the useful life, increase capacity or improve the efficiency of the asset. Repairs and maintenance items are expensed as incurred. Depreciation is computed using the straight line method of cost recovery over estimated useful lives of 40.0 years for buildings, 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 building for building improvements.

Corporate tenant lease 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, corporate tenant lease assets to be held and used are not carried at amounts in excess of

their estimated recoverable amounts.

CAPITALIZED INTEREST--The Company capitalizes interest costs incurred during the land development or construction period on qualified development projects, including investments in joint ventures accounted for under the equity method. Interest capitalized was approximately $852,000 and $338,000 during the nine-month periods ended September 30, 2001 and 2000, respectively, and was

approximately $365,000 and $0 during the three-month periods ended September 30, 2001 and 2000, respectively.

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.

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

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

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

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

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

PROVISION FOR POSSIBLE CREDIT LOSSES--The Company's accounting policies require that an allowance for estimated credit losses be maintained at a level that management, based upon an evaluation of known and inherent risks in the portfolio, considers adequate to provide for possible credit losses. Specific valuation allowances are established for impaired loans in the amount by which the carrying value, before allowance for estimated losses, exceeds the fair value of collateral less disposition costs on an individual loan basis. Management considers a loan to be impaired when, based upon current information and events, it believes that it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement on a timely basis. Management measures these impaired loans at the fair value of the loans' underlying collateral less estimated

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
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 either: (1) the loans become 90 days delinquent; or (2) management determines the borrower is incapable of, or has ceased efforts toward, curing the cause of the impairment. While on non-accrual status, interest income is recognized only upon actual receipt. Impairment losses are recognized as direct write-downs of the related loan with a corresponding charge to the provision for possible credit losses. Charge-offs occur when loans, or a portion thereof, are considered uncollectible and of such little value that further pursuit of collection is not warranted. Management also provides a 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.

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

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

RECLASSIFICATIONS--Certain prior year amounts have been reclassified in the Consolidated Financial Statements and the related notes to conform to the 2001 presentation.

USE OF ESTIMATES--The preparation of financial statements in conformity with generally accepted accounting principles 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.

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

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
foreign currency exposure. The Company adopted this pronouncement, as amended by Statement of Financial Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities-deferral of the Effective Date of FASB Statement No. 133" and Statement of Financial Accounting Standards No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities-an Amendment of FASB Statement No. 133," on January 1, 2001. Because the Company has primarily used derivatives as cash flow hedges of interest rate risk only, the adoption of SFAS No. 133 did not have a material financial impact on the

financial position and results of operations of the Company. However, should the Company change its current use of such derivatives (see Note 8), the adoption of SFAS No. 133 could have a more significant effect on the Company prospectively.

Upon adoption, the Company recognized a charge to net income of approximately $282,000 and an additional charge of $9.4 million to other comprehensive income, representing the cumulative effect of the change in accounting principle.

OTHER NEW ACCOUNTING STANDARDS--In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." In June 2000, the SEC staff amended SAB 101 to provide registrants with additional time to implement SAB 101. The Company adopted SAB 101, as required, in the fourth quarter of fiscal 2000. The adoption of SAB 101 did not have a material financial impact on the financial position or the results of operations of 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 is not expected to have a material impact on the Company's Consolidated Financial Statements.

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

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 March 31, 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.

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. The Company does not believe the adoption of SFAS No. 141 will have a material impact on the Company's financial position or results of operations. 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. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Early application is permitted for companies with fiscal years beginning after March 15, 2001.

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 new 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. The Company is currently evaluating this statement to assess its impact on the financial statements. 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 will adopt the provisions of this statement on January 1, 2002. The Company does not believe the adoption of SFAS No. 144 will 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) (unaudited):

TYPE OF INVESTMENT	# OF BORROWERS IN CLASS(1)	ORIGINAL COMMITMENT AMOUNT(1)	PRINCIPAL BALANCES OUTSTANDING(1)	CARRYING VALUE AS OF SEPTEMBER 30, 2001	CARRYING VALUE AS OF DECEMBER 31, 2000	EFFECTIVE MATURITY DATES
Senior Mortgages	19	$1,260,193	$1,155,711	$1,139,316	$1,210,992	2001 to 2019
Subordinated Mortgages	14	423,730	371,282	367,990	325,558	2002 to 2011
Corporate Loans/Partnership Loans/Unsecured Notes	18	614,066	581,417	553,561	398,978	2001 to 2011
Loan Participations	3	127,497	111,351	111,254	111,251	2003 to 2005
Other Lending Investments	8	N/A	270,045	239,734	192,404	2002 to 2013
Gross Carrying Value				$2,411,855	$2,239,183	
Provision for Possible Credit Losses				(19,250)	(14,000)	
Total, Net				$2,392,605	$2,225,183	

TYPE OF CONTRACTUAL INTEREST CONTRACTUAL INTEREST

PRINCIPAL
PARTICIPATION
INVESTMENT
PAYMENT RATES(2)
ACCRUAL RATES(2)
AMORTIZATION
FEATURES - -----

--- ------------
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Senior Mortgages
Fixed: 6.13% to
14.25% Fixed:
6.13% to 18.25%
Yes (3) No
Variable: LIBOR
+ 1.50%
Variable: LIBOR
+ 1.50% to 6.00%
to 6.00%
Subordinated
Mortgages Fixed:
7.00% to 15.25%
Fixed: 7.32% to
17.00% Yes (3)
Yes (4)
Variable: LIBOR
+ 5.50%
Variable: LIBOR
+ 5.50% to 5.80%
to 5.80%
Corporate Fixed:
6.13% to 15.00%
Fixed: 6.13% to
17.50% Yes Yes
(4)
Loans/Partnership
Variable: LIBOR
+ 2.78%
Variable: LIBOR
+ 2.78%
Loans/Unsecured
Notes to 7.50%
to 7.50% Loan
Participations
Fixed: 10.00% to
13.60% Fixed:
13.60% to 14.00%
Yes Yes (4)
Variable: LIBOR
+ 4.50%
Variable: LIBOR
+ 4.50% Other
Lending Fixed:
6.75% to 12.75%
Fixed: 6.75% to
12.75% No Yes
(4) Investments
Variable: LIBOR
+ 7.56%
Variable: LIBOR
+ 7.56% to 9.36%
to 9.36% Gross
Carrying Value
Provision for
Possible Credit
Losses Total,
Net

EXPLANATORY NOTES:

- --

(1) Amounts and details are for loans outstanding as of September 30, 2001.

(2) Substantially all variable-rate loans are based on 30-day LIBOR and reprice monthly. The 30-day LIBOR rate on September 30, 2001 was 2.63%.

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

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

NOTE 4--LOANS AND OTHER LENDING INVESTMENTS (CONTINUED)

During the nine-month periods ended September 30, 2001 and 2000, respectively, the Company and its affiliated ventures originated or acquired an aggregate of approximately $701.5 million and $670.5 million in loans and other lending investments, funded $45.2 million and $50.6 million under existing loan commitments, and received principal repayments of $567.2 million and $373.6 million.

As of September 30, 2001, the Company had ten loans with unfunded commitments. The total unfunded commitment amount was approximately $124.2 million, of which $56.4 million was discretionary (i.e., at the Company's option) and $67.8 million was non-discretionary.

The Company's loans and other lending investments are predominantly pledged as collateral under either the iStar Asset Receivables secured notes, the secured revolving facilities or secured term loans (see Note 6).

The Company has reflected provisions for possible credit losses of approximately $1.8 million and $1.8 million in its results of operations during the three months ended September 30, 2001 and 2000, respectively, and $5.3 million and $4.8 million during the nine months ended September 30, 2001 and 2000, respectively. These provisions represent portfolio reserves based on management's evaluation of general market conditions, the Company's internal risk management policies and credit risk ratings system, industry loss experience, the likelihood of delinquencies or defaults, and the underlying collateral. No direct impairment reserves on specific loans were considered necessary. Management may transfer reserves between general and specific reserves as considered necessary.

NOTE 5--CORPORATE TENANT LEASE ASSETS

The Company's investments in corporate tenant lease assets, at cost, were as follows (in thousands) (unaudited):

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
Buildings and improvements	$1,330,317	$1,294,572
Land and land improvements	343,759	344,490
Less: accumulated depreciation	(71,658)	(46,975)
	1,602,418	1,592,087
Investments in unconsolidated joint ventures	57,219	78,082
Corporate tenant lease assets, net	$1,659,637	$1,670,169

Under certain leases, the Company receives additional participating lease payments to the extent gross revenues of the tenant exceed a base amount. The Company earned no such additional participating lease payments in the three- and nine-month periods ended September 30, 2001 and 2000, respectively. In addition, the Company also receives reimbursements from tenants for certain facility operating expenses.

INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED JOINT VENTURES--At September 30, 2001, the Company had investments in five 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; (2) Corporate Technology Associates LLC ("CTC I"), whose external member is Corporate Technology Centre Partners LLC; (3) Sierra Land Ventures ("Sierra"), whose

external joint venture partner is Sierra-LC Land, Ltd.; (4) TriNet Milpitas Associates, LLC ("Milpitas"), whose external member is The Prudential Insurance Company of America; and (5) ACRE Simon, L.L.C. ("ACRE"), whose external

NOTE 5--CORPORATE TENANT LEASE ASSETS (CONTINUED)

partner is William E. Simon & Sons Realty Investments, L.L.C. These ventures were formed for the purpose of operating, acquiring and in certain cases, developing corporate tenant lease facilities. At September 30, 2001, all facilities held by CTC II and TN-CP had been sold. The Company previously had an equity investment in CTC II, which was sold for approximately $66.0 million in September 2000. In connection with this sale, the note receivable from the venture was modified to mature on December 31, 2001. The note receivable and related accrued interest are included in Loans and Other Lending Investments at September 30, 2001 and December 31, 2000.

At September 30, 2001, the ventures comprised 23 net leased facilities. Additionally, 17.7 acres of land are held for sale. The Company's combined investment in these joint ventures at September 30, 2001 was $57.2 million. The joint ventures' purchase price for the 23 facilities owned at September 30, 2001 was $345.4 million. The purchase price of the land held for sale was $6.8 million. In the aggregate, the joint ventures had total assets of $386.0 million and total liabilities of $281.1 million as of September 30, 2001, and net income of $4.5 million and $12.5 million for the three and nine months ended September 30, 2001. The Company accounts for these investments under the equity method because the Company's joint venture partners have certain participating rights which limit the Company's control. The Company's ownership percentages, its investments in and advances to unconsolidated joint ventures, its respective income and the Company's pro rata share of its ventures' third-party debt as of September 30, 2001 are presented below (in thousands) (unaudited):

	OWNERSHIP %	EQUITY INVESTMENT	JOINT VENTURE INCOME	PRO RATA SHARE OF UNCONSOLIDATED JOINT VENTURE THIRD-PARTY DEBT
Operating:				
Sunnyvale	44.7%	$12,657	$ 667	$ 10,728
CTC I	50.0%	11,416	3,241	60,732
Milpitas	50.0%	24,089	3,007	40,253
ACRE Simon	20.0%	5,325	133	6,595
Development:				
Sierra	50.0%	3,732	101	724
Total		$57,219	$7,149	$119,032

Effective September 29, 2000, iStar Sunnyvale Partners, LP (the entity which is controlled 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 9.0% through November 9, 2003.

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. Additionally, commencing in February 2002, subject to acceleration under certain circumstances, the venture interest held by the external member of Milpitas may be converted into 984,476 shares of Common Stock.

Income generated from the above joint venture investments is included in Operating Lease Income in the Consolidated Statements of Operations.

NOTE 6--DEBT OBLIGATIONS

As of September 30, 2001 and December 31, 2000, the Company has debt obligations under various arrangements with financial institutions as follows

(in thousands) (unaudited):

CARRYING VALUE AS OF MAXIMUM -----------
----------------- STATED SCHEDULED
AMOUNT SEPTEMBER 30, DECEMBER 31,
INTEREST MATURITY AVAILABLE 2001 2000
RATES DATE ---------- ------------ ----
-------- -------------------------- ---
------------- SECURED REVOLVING CREDIT
FACILITIES: Line of
credit..................... $ 700,000 $
242,300 $ 284,371 LIBOR + 1.75% -- 2.25%
March 2005 (1) Line of
credit..................... 700,000
324,947 -- LIBOR + 1.40% -- 2.15%
January 2005 (1) Line of
credit..................... 500,000
125,348 307,978 LIBOR + 1.50% -- 1.75%
August 2003 (1) UNSECURED REVOLVING
CREDIT FACILITIES: Line of
credit..................... 300,000 -- -
- LIBOR + 2.125% July 2004 (2) Line of
credit..................... N/A --
173,450 LIBOR + 1.55% May 2002 (2) Line
of credit..................... N/A -- --
LIBOR + 2.25% January 2003 (2) ---------
- ---------- ---------- Total revolving
credit facilities......................
$2,200,000 692,595 765,799 ==========
SECURED TERM LOANS: Secured by corporate
tenant lease assets....... 148,339
150,678 7.44% March 2009 Secured by
corporate lending investments.......
60,000 60,000 LIBOR + 2.50% June 2004
(3) Secured by corporate lending
investments....... 50,000 -- LIBOR +
2.50% July 2006 (4) Secured by corporate
tenant lease assets....... -- 77,860
LIBOR + 1.38% June 2001 Secured by
corporate tenant lease assets.......
58,062 60,471 6.00%-11.38% Various
through 2011 Secured by corporate tenant
lease assets....... 193,000 -- LIBOR +
1.85% July 2006 (5) ---------- ---------
- Total term
loans..............................
509,401 349,009 Plus: debt
premium............................ 327
51 ---------- ---------- Total secured
term loans......................
509,728 349,060 iStar Asset Receivables
secured notes: Class
A.......................................
83,205 207,114 LIBOR + 0.30% August 2003
(6) Class
B.......................................
94,055 94,055 LIBOR + 0.50% October 2003
(6) Class
C.......................................
105,813 105,813 LIBOR + 1.00% January
2004 (6) Class
D.......................................
52,906 52,906 LIBOR + 1.45% June 2004
(6) Class
E.......................................
123,447 123,447 LIBOR + 2.75% January
2005 (6) Class
F.......................................
5,000 5,000 LIBOR + 3.15% January 2005
(6) ---------- ---------- Total iStar
Asset Receivables secured notes....
464,426 588,335 UNSECURED NOTES: 6.75%
Dealer Remarketable Securities (7)
(8).... 125,000 125,000 6.75% March 2013
7.30% Notes
(7)............................... --
100,000 7.30% May 2001 7.70% Notes
(7)...............................
100,000 100,000 7.70% July 2017 7.95%
Notes
(7)...............................

50,000 50,000 7.95% May 2006 8.75%
Notes....................................
350,000 -- 8.75% August 2008 ----------
---------- Total unsecured
notes.......................... 625,000
375,000 Less: debt discount
(9)........................ (16,664)
(18,490) ---------- ---------- Total
unsecured
notes.......................... 608,336
356,510 OTHER DEBT
OBLIGATIONS...........................
16,689 72,263 Various Various ----------
---------- TOTAL DEBT
OBLIGATIONS...........................
$2,291,774 $2,131,967 ==========
==========

EXPLANATORY NOTES:_______________

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

(2) On July 27, 2001, the Company replaced both unsecured facilities with a new $300.0 million revolving credit facility bearing interest at LIBOR + 2.125%. The new 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.

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

(4) 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 an initial maturity of July 2005 with a one-year extension at the Company's option.

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

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

(7) 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.

(8) Subject to mandatory tender on March 1, 2003, to either the dealer or the Leasing Subsidiary. The initial coupon of 6.75% applies to first five-year term through the mandatory tender date. If tendered to the dealer, the notes must be remarketed. The rates reset to market rates upon remarketing.

(9) These obligations were assumed as part of the TriNet Acquisition. As part of the accounting for the purchase, these fixed-rate obligations were considered to have stated interest rates which were below the then-prevailing market rates at which the Leasing Subsidiary could issue new debt obligations and, accordingly, the Company ascribed a market discount to each obligation. Such discounts 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%, 8.75%, 9.51% and 9.04%, for the 6.75% Dealer Remarketable Securities, 7.30% Notes, 7.70% Notes and 7.95% Notes, respectively.

NOTE 6--DEBT OBLIGATIONS (CONTINUED)

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 financial covenants.

On May 17, 2000, the Company closed the inaugural offering under its proprietary matched funding program, STARs, Series 2000-1. In the initial transaction, a wholly-owned subsidiary of the Company issued $896.5 million of investment grade bonds secured by the subsidiary's assets, which had an aggregate outstanding principal balance of approximately $1.2 billion at inception. Principal payments received on the assets will be utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funds the maturity of the underlying assets financed under the program. For accounting purposes, this transaction was treated as secured financing.

On January 11, 2001, the Company closed a new $700.0 million secured revolving credit facility which is led by a major commercial bank. The new facility has a three-year primary term and one-year "term-out" extension option, and bears interest at LIBOR plus 1.40% to 2.15%, depending upon the collateral contributed to the borrowing base. The new facility accepts a broad range of structured finance assets and has a final maturity of January 2005. In addition, on February 22, 2001, the Company extended the maturity of its $350.0 million unsecured revolving credit facility to May 2002.

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 June 14, 2001, the Company closed $193.0 million of financing secured by 15 corporate tenant lease assets. The floating-rate loan bears interest at LIBOR plus 1.85% (not to exceed 10.00%) 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 final maturity of its $500.0 million secured revolving credit facility to August 12, 2003.

On July 6, 2001, the Leasing Subsidiary 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 Leasing Subsidiary's option.

On July 27, 2001, the Company completed a $300.0 million revolving credit facility with a group of leading financial institutions. The new 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 new facility replaces two prior credit facilities maturing in 2002 and 2003, and bears interest at LIBOR + 2.125%.

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.

During the nine-month period ended September 30, 2001, the Company incurred an extraordinary loss of approximately $1.6 million as a result of the early retirement of certain secured debt obligations of its Leasing Subsidiary.

As of September 30, 2001, future expected/scheduled maturities of outstanding long-term debt obligations are as follows (in thousands) (unaudited) (1):

2001 (remaining three months)	$ 16,688
2002	14,711
2003	302,609
2004	218,719
2005	699,261
Thereafter	1,056,123
Total principal maturities	2,308,111
Net unamortized debt discounts	(16,337)
Total debt obligations	$2,291,774

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

NOTE 7--SHAREHOLDERS' EQUITY

The Company's charter provides for the issuance of up to 200.0 million shares of Common Stock, par value $0.001 per share, and 30.0 million shares of preferred stock. The Company has 4.4 million shares of 9.5% Series A Cumulative Redeemable Preferred Stock, 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, and 4.6 million shares of 8.0% Series D Cumulative Redeemable Preferred Stock. The Series A, B, C and D Cumulative Redeemable Preferred Stock are redeemable without premium at the option of the Company at their respective liquidation preferences beginning on December 15, 2003, June 15, 2001, August 15, 2001 and October 8, 2002, respectively.

STOCK REPURCHASE PROGRAM: The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of both September 30, 2001 and December 31, 2000, the Company had repurchased approximately 2.3 million shares at an aggregate cost of approximately $40.7 million.

NOTE 8--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS

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

USE OF DERIVATIVE FINANCIAL INSTRUMENTS--The Company's use of derivative financial instruments is primarily limited to the utilization of interest rate agreements or other instruments to manage interest

NOTE 8--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

In connection with the TriNet Acquisition, the Company acquired LIBOR interest rate caps currently struck at 7.75%, and 7.75% in notional amounts of $75.0 million and $35.0 million, respectively, which both expire in December 2004. In connection with the closing of STARs, Series 2000-1 in May 2000, the Company entered into a LIBOR interest rate cap struck at 10.00% in the notional amount of $312.0 million, and simultaneously sold a LIBOR interest rate cap with the same terms. Since these instruments do not reduce the Company's net interest rate risk exposure, they do not qualify as hedges and changes in their respective values are charged to earnings. As the significant terms of these arrangements are substantially the same, the effects of a revaluation of these two instruments are expected to substantially offset one another. At September 30, 2001 and December 31, 2000, the net fair value of the Company's interest rate caps were $0.3 million and $0.4 million, respectively.

The Company has entered into LIBOR interest rate swaps struck at 7.055% and 7.058%, both with notional amounts of $125.0 million that expire in June 2003.

These swaps effectively fix the interest rate on a portion of the Company's floating-rate term loan obligations. In connection with the TriNet Acquisition, the Company acquired an interest rate swap which, together with certain existing interest rate cap agreements, effectively fix the interest rate on $75.0 million of the Leasing Subsidiary's LIBOR-based borrowings at 5.58% plus the applicable margin through December 1, 2004. Management expects that it will have aggregate LIBOR-based borrowings at the Leasing Subsidiary in excess of the notional amount for the duration of the swap. The actual borrowing cost to the Company with respect to indebtedness covered by the swap will depend upon the applicable margin over LIBOR for such indebtedness, which will be determined by the terms of the relevant debt instruments. At September 30, 2001 and December 31, 2000, the fair value (liability) of the Company's interest rate swaps was ($21.4) million and ($7.7) million, respectively.

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

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.

Substantially all of the Company's corporate tenant lease 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 10.0%) as of September 30, 2001 in California (25.0%), Texas (14.4%) and New York (11.1%). As of September 30, 2001, the Company's investments also contain significant concentrations in the following asset types: office (49.2%) and hotel lending (13.0%).

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

NOTE 9--INCOME TAXES

The Company qualified for REIT status and elected to be taxed as a REIT for the tax years commencing on January 1, 1998.

NOTE 10--STOCK OPTION PLANS AND EMPLOYEE BENEFITS

The Company's 1996 Long-Term Incentive Plan (the "Plan") is designed to provide incentive compensation for officers, other key employees and directors of the Company. The Plan provides for awards of stock options and shares of restricted stock and other performance awards. The maximum number of shares of Common Stock available for awards under the Plan is 9.0% of the outstanding shares of Common Stock, calculated on a fully diluted basis, from time to time; provided that the number of shares of Common Stock reserved for grants of options designated as incentive stock options is 5.0 million, subject to certain antidilution provisions in the Plan. All awards under the Plan, other than

automatic awards to non-employee directors, are at the discretion of the Board or a committee of the Board. At September 30, 2001, a total of approximately 7.9 million shares of Common Stock were available for awards under the Plan, of which options to purchase approximately 5.8 million shares of Common Stock were outstanding and approximately 651,000 shares of restricted stock were outstanding.

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

NOTE 10--STOCK OPTION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

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

Changes in options outstanding during the nine months ended September 30, 2001 are as follows:

	NUMBER OF SHARES			AVERAGE STRIKE PRICE
	EMPLOYEES	NON-EMPLOYEE DIRECTORS	OTHER	
OPTIONS OUTSTANDING, DECEMBER 31, 2000 (UNAUDITED)........	3,535,572	226,379	961,163	$18.97
Granted in 2001..	1,618,400	90,000	100,000	$20.07
Exercised in 2001......................................	(615,733)	(20,000)	(25,000)	$17.55
Forfeited in 2001......................................	(103,688)	--	--	$27.59
OPTIONS OUTSTANDING, SEPTEMBER 30, 2001 (UNAUDITED).......	4,434,551	296,379	1,036,163	

The following table summarizes information concerning outstanding and exercisable options as of September 30, 2001 (unaudited):

OPTIONS
OUTSTANDING
OPTIONS
EXERCISABLE

--- -------

WEIGHTED
AVERAGE
WEIGHTED
WEIGHTED
REMAINING
AVERAGE
AVERAGE
OPTIONS
CONTRACTUAL
EXERCISE
CURRENTLY
EXERCISE

EXERCISE
PRICE RANGE
OUTSTANDING
LIFE PRICE
EXERCISABLE
PRICE - ---

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

$14.72 -
$15.00
1,648,537(1)
6.46 $14.73
1,100,173
$14.72
$16.69 -
$16.88
1,062,490
8.27 $16.86
327,900
$16.88
$17.38 -
$17.56
537,500
8.47 $17.39
170,835
$17.38
$19.50 -
$19.75
1,694,650
9.33 $19.69
2,083
$19.54
$20.33 -
$21.44
255,750
6.18 $20.99
146,635
$21.04
$22.44
20,000 9.01
$22.44 -- $
-- $23.32 -
$23.64
68,309 2.63
$23.57
48,824
$23.54
$24.13 -
$24.94
217,500
6.35 $24.53
216,500
$24.53
$25.10 -
$26.09
21,700 4.89
$26.04
20,700
$26.09
$26.30 -
$26.97
91,700 2.83
$26.73
89,700
$26.72
$27.00
25,000 9.73
$27.00 -- $
-- $28.26 -
$28.54
41,238 2.13
$28.37
41,238
$28.37
$30.33
67,275 1.65

$30.33
57,217
$30.33
$33.15 -
$33.70
10,350 1.22
$33.39
8,913
$33.43
$55.39
5,094 7.67
$55.39
3,396
$55.39 ----
----- -----
- ------ --
------- ---

5,767,093
7.62 $18.24
2,234,114
$18.18
=========
======
======
=========
======

EXPLANATORY NOTE:
- ------------------------------

(1) Includes approximately 764,000 options which were granted, on a fully exercisable basis, in connection with the Recapitalization Transactions, and which are now held by a privately-owned affiliate of Starwood Capital Group. Beneficial interests in these options were subsequently regranted by that affiliate to employees of Starwood Capital Group and its affiliates, subject to vesting requirements. In the event that these employees forfeit such options, they revert to the affiliate of Starwood Capital Group, which may regrant them at its discretion. As of September 30, 2001, less than 2,000 of these options are currently exercisable by the beneficial owners.

The Company has elected to use the intrinsic method for accounting for options issued to employees or directors, as allowed under Statement of Financial Accounting Standards No. 123 "Accounting for Stock Based Compensation" ("SFAS No. 123") and, accordingly, recognizes no compensation charge in connection with these options to the extent that the options exercise price

equals or exceeds the quoted price of the Company's common shares at the date of grant or measurement date. In connection with the Advisor Transaction, as part of the computation of the one-time charge to earnings, the Company calculated a deferred compensation charge of approximately $5.1 million. This deferred charge represents the difference of the closing sales price of the shares of Common Stock on the date of the Advisor Transaction of $20.25 over the strike price of the options of $14.72 per share (as adjusted) for the unvested portion of the options granted to former employees of the Advisor who are now employees of the Company. This deferred charge will be amortized over the related remaining vesting terms to the individual employees as additional compensation expense.

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

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

During the nine-month period ended September 30, 2001, the Company granted 94,859 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 are not transferable for a period of one year following vesting. In addition, the Company entered into a three-year employment agreement with an executive in connection with his appointment as president of the Company. Under the agreement, in lieu of salary and bonus, the Company granted the executive 500,000 unvested restricted shares. The vesting of these shares is a function of the total rate of return (dividends and price appreciation) on the Company's Common Stock, although none of the shares vest (regardless of the total return to shareholders) if the executive voluntarily terminates his employment without good reason prior to September 30, 2002. Until shares under the agreement are otherwise vested or forfeited, the executive will receive dividends on the share grant during the term of the agreement if and when the Company declares and pays dividends on its Common Stock. None of these restricted shares were vested at September 30, 2001.

During the nine months ended September 30, 2001, the Company also entered into a new three-year employment agreement with its chief executive officer. As part of this agreement, the Company confirmed a prior grant of 750,000 stock options made to the executive on March 2, 2001. The options will vest in equal installments of 250,000 shares in each January beginning with January 2002. The Company also granted the executive 2,000,000 unvested phantom shares, each of which represents one share of the Company's Common Stock. These shares will vest in installments on a contingent basis if the average closing price of the Company's Common Stock achieves certain levels ($25.00 to $37.00 per share) over specified periods of time. Shares that have contingently vested generally will not become fully vested until the end of the three-year term of the agreement, except upon certain termination or change of control events. Further, if the stock price drops below certain specified levels for the 60-day average before such date, they would also not fully vest and be forfeited.

NOTE 10--STOCK OPTION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

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.

During the year ended December 31, 2000, the Company granted 143,646 restricted shares to employees. Of this total, 74,996 restricted shares were granted in lieu of cash bonuses at the employees' election, were immediately vested on the date of grant, and were not transferable for a period of one year following vesting. An additional 68,650 of such restricted shares vest over periods ranging from one to three years following the date of grant and are transferable upon vesting.

Effective November 4, 1999, the Company implemented a savings and retirement plan (the "401(k) Plan"), which is a voluntary, defined contribution plan. All employees are eligible to participate in the 401 (k) Plan following completion of six months of continuous service with the Company. Each participant may contribute on a pretax basis between 2% and 15% of such participant's compensation. At the discretion of the Board of Directors, the Company may make matching contributions on the participant's behalf of up to 50% of the first 10% of the participant's annual contribution. The Company made contributions of approximately $61,000 and $48,000 to the 401(k) Plan for the three-month periods ended September 30, 2001 and 2000, respectively and approximately $246,000 and $223,000 to the 401(k) Plan for the nine-month periods ended September 30, 2001 and 2000, respectively.

NOTE 11--EARNINGS PER SHARE

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

NOTE 11--EARNINGS PER SHARE (CONTINUED)

As described in Note 1, in the Incorporation Merger, the class B shares were converted into shares of Common Stock on a 49-for-one basis (the same ratio at which class B shares were previously convertible into class A shares), and the class A shares were converted into shares of Common Stock on a one-for-one basis. As a result, the Company no longer has multiple classes of common shares. Basic and diluted earnings per share are based upon the following weighted average shares outstanding during the three- and nine-month periods ended September 30, 2001 and 2000, respectively (in thousands):

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(UNAUDITED)			
Weighted average common shares outstanding for basic earnings per common share	86,470	85,662	86,130	85,345
Add: effect of assumed shares issued under treasury stock method for stock options and restricted shares	2,004	982	1,713	676
Add: effect of contingent shares	350	--	156	--
Weighted average common shares outstanding for diluted earnings per common share	88,824	86,644	87,999	86,021

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 $148.1 million and $161.6 million for the nine-month periods ended September 30, 2001 and 2000, respectively, and $49.0 million and $55.6 million for the three-month periods ended September 2001 and 2000, respectively. The primary component of comprehensive income other than net income was the adoption and continued application of SFAS No. 133.

For the three and nine months ended September 30, 2001, the change in fair market value of the Company's interest rate swaps was $(8.5) million and $(13.6) million and was recorded as a reduction

NOTE 12--COMPREHENSIVE INCOME (CONTINUED)

to other comprehensive income. The reconciliation to other comprehensive income is as follows (in thousands) (unaudited):

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
Net income	$57,553	$55,591	$171,155	$161,410
Other comprehensive income (loss):				
Unrealized gains (losses) on securities for the period	--	(34)	--	195
Cumulative effect of change in accounting principle (SFAS No. 133) on other comprehensive income	--	--	(9,445)	--
Unrealized derivative gains (losses) on cash flow hedges				

(8,515) -- (13,589) -- ------- ------- -------- -
------- Comprehensive
income................................ $49,038
$55,557 $148,121 $161,605 ======= =======
======== ========

NOTE 13--DIVIDENDS

In order to maintain its election to qualify as a REIT, the Company must distribute, at a minimum, an amount equal to 90% of its taxable income and must distribute 100% of its taxable income to avoid paying corporate federal income taxes. The distribution rate was modified to 95% from 90% by the REIT Modernization Act beginning in fiscal 2001. The Company anticipates it will distribute all of its taxable income to its shareholders. Because taxable income differs from cash flow from operations due to non-cash revenues or expenses, in certain circumstances, the Company may be required to borrow to make sufficient dividend payments to meet this anticipated dividend threshold.

For the year ended December 31, 2000, total dividends declared by the Company aggregated $205.5 million, or $2.40 per common share. The dividend attributable to the fourth quarter 2000 was $51.4 million, or $0.60 per share of Common Stock, and was paid on January 12, 2001. Total dividends attributable to the nine months ended September 30, 2001 were $159.4 million, or $1.8375 per share of Common Stock consisting of quarterly dividends of $0.6125 per share which were declared on April 1, 2001, July 1, 2001 and October 1, 2001. The Company also declared dividends aggregating $15.7 million, $3.5 million, $2.2 million and $6.0 million, respectively, on its Series A, B, C and D preferred stock, respectively, for the nine-month period ended September 30, 2001 and $5.2 million, $1.2 million, $0.7 million and $2.0 million, respectively, on its Series A, B, C and D preferred stock, respectively, for the three-month period ended September 30, 2001. 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.

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

NOTE 13--DIVIDENDS (CONTINUED)

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.

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--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 substantial foreign operations. The accounting policies of the segments are the same as those described in Note 3. The Company has no single customer that accounts for 10% or more of revenues (see Note 8 for other information regarding concentrations of credit risk).

The Company evaluates performance based on the following financial measures for each segment. Selected results of operations for the three- and nine-month periods ended September 30, 2001 and

NOTE 14--SEGMENT REPORTING (CONTINUED)
2000 and selected asset information as of September 30, 2001 and December 31, 2000 regarding the Company's operating segments are as follows (in thousands):

	REAL ESTATE LENDING	CORPORATE TENANT LEASING (1)	CORPORATE/ COMPANY OTHER (2)	TOTAL
		(UNAUDITED)		
TOTAL REVENUES(3):				
Three months ended:				
September 30, 2001	$ 71,342	$ 50,025	$ (537)	$ 120,830
September 30, 2000	72,363	48,360	(40)	120,683
Nine months ended:				
September 30, 2001	$ 216,265	$ 149,006	$ (999)	$ 364,272
September 30, 2000	206,588	142,690	207	349,485
TOTAL OPERATING AND INTEREST EXPENSE(4):				
Three months ended:				
September 30, 2001	$ 29,799	$ 25,007	$ 6,651	$ 61,457
September 30, 2000	32,118	28,089	6,430	66,637
Nine months ended:				
September 30, 2001	$ 91,470	$ 78,661	$ 21,310	$ 191,441
September 30, 2000	82,959	84,963	22,273	190,195
NET OPERATING INCOME BEFORE MINORITY INTEREST AND GAIN ON SALE OF NET LEASE ASSETS(5):				
Three months ended:				
September 30, 2001	$ 41,543	$ 25,018	$ (7,188)	$ 59,373
September 30, 2000	40,245	20,271	(6,470)	54,046
Nine months ended:				
September 30, 2001	$ 124,795	$ 70,345	$(22,309)	$ 172,831
September 30, 2000	123,629	57,727	(22,066)	159,290
TOTAL LONG-LIVED ASSETS(6):				

September 30,
2001............................
$2,392,605 $1,659,637 N/A
$4,052,242 December 31,
2000.............................
2,225,183 1,670,169 N/A
3,895,352 TOTAL ASSETS:
September 30,
2001............................
$2,392,605 $1,659,637 $144,311
$4,196,553 December 31,
2000.............................
2,225,183 1,670,169 139,423
4,034,775

EXPLANATORY NOTES:_______________

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

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

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

NOTE 14--SEGMENT REPORTING (CONTINUED)

(4) Total operating and interest expense represents provision for possible credit losses for the Real Estate Lending business and operating costs on corporate tenant lease assets for the Corporate Tenant Leasing business, as well as interest expense specifically related to each segment. General and administrative expense, advisory fees (prior to November 4, 1999) and stock-based compensation expense is included in Corporate and Other for all periods. Depreciation and amortization of $8.7 million and $8.7 million for the three-month periods ended September 30, 2001 and 2000, respectively, and $26.3 million and $26.6 million for the nine-month periods ended September 30, 2001 and 2000, respectively, are included in the amounts presented above.

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

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

NOTE 15--SUBSEQUENT EVENTS

On October 30, 2001, Starwood Mezzanine Investors, L.P. and Starwood Opportunity Fund IV, L.P and one of their affiliates sold 16.5 million shares of Common Stock owned by them at a price of $23.30 per share. The Company did not sell any shares in this offering. The selling stockholders also granted the underwriters an option to purchase up to an additional 2.475 million of their shares of Common Stock solely to cover over-allotments. On November 7, 2001, the underwriters exercised this option. As a result of the secondary offering, Starwood Opportunity Fund IV, L.P. owns approximately 39.1% of the Company's Common Stock (based on the diluted sharecount as of September 30, 2001). Starwood Mezzanine Investors, L.P. owns no shares of Common Stock following the offering.

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

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto appearing elsewhere in this report and

also with the Company's Annual Report for 2000 filed on Form 10-K. Unless otherwise defined in this report, or unless the context otherwise requires, the capitalized words or phrases referred to in this section have the meaning ascribed to them in such financial statements and the notes thereto.

GENERAL

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 high-end customers in its markets. In March 1998, the Company's private investment funds contributed their approximately $1.1 billion of assets to the Company's predecessor, Starwood Financial Trust, in exchange for a controlling interest in that public company. In November 1999, the Company acquired its leasing subsidiary, TriNet Corporate Realty Trust, Inc., which was then the largest publicly-traded company specializing in the net leasing of corporate office and industrial facilities. Concurrent with the TriNet Acquisition, the Company also acquired its external advisor in exchange for shares of its Common Stock and converted its organizational form to a Maryland corporation. As part of the conversion to a Maryland corporation, the Company replaced its dual-class Common Stock structure with a single class of Common Stock. This single class of Common Stock began trading on the New York Stock Exchange under the symbol "SFI" in November 1999.

None of the Company's investment assets were directly impacted by the terrorist attacks against the United States on September 11, 2001. While the Company believes that the diversification of its portfolio, its strict underwriting standards and its use of credit enhancement techniques represent an appropriate emphasis on risk management, the Company cannot predict the effect that any future terrorist attack might have on the U.S. economy and the Company's business.

RESULTS OF OPERATIONS

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2001 COMPARED TO THE THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2000

INTEREST INCOME--Interest income decreased to approximately $62.4 million for the three months ended September 30, 2001 from approximately $70.1 million for the same period in 2000. This decrease in interest income is primarily a result of the decrease in average LIBOR rates on the Company's variable-rate lending investments, which was partially offset by an increase in the average balance of loans and other lending investments.

OPERATING LEASE INCOME--Operating lease income increased to $49.9 million for the three months ended September 30, 2001 from $46.3 million for the same period in 2000. Of this increase, approximately $826,000 was attributable to new corporate tenant lease investments and $1.7 million to additional operating lease income from existing corporate tenant lease investments owned in both quarters. In addition, joint venture income contributed $1.2 million to the increase.

OTHER INCOME--Other income for the three-month period ended September 30, 2001 is primarily comprised of sales proceeds from participation interests. Other income for the three-month period ended September 30, 2000 included a prepayment penalty from the refinancing of a senior mortgage and a corporate loan, in addition to a gain resulting from the repayment of a senior loan held at a discount upon the conversion of such loan to a corporate tenant lease holding pursuant to a purchase option granted to the Company in connection with its original investment in the asset.

INTEREST EXPENSE--The Company's interest expense decreased by $5.3 million for the three months ended September 30, 2001 over the same period in the prior year. The decrease was primarily due to lower average LIBOR rates on the Company's outstanding floating-rate debt obligations.

OPERATING COSTS-CORPORATE TENANT LEASE ASSETS--Operating costs did not significantly change for the three months ended September 30, 2001 compared to the comparable period in 2000.

DEPRECIATION AND AMORTIZATION--Depreciation and amortization decreased by approximately $36,000 to $8.7 million for the three months ended September 30, 2001 over the same period in the prior year. This decrease is primarily the result of corporate tenant lease dispositions in 2000 and 2001, partially offset by additional depreciation on investments.

GENERAL AND ADMINISTRATIVE--The Company's general and administrative expenses during the three months ended September 30, 2001 increased by approximately $272,000 to $6.1 million compared to the same period in 2000.

PROVISION FOR POSSIBLE CREDIT LOSSES--As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, the Company has not realized any actual losses on any of its loan investments to date. However, the Company has considered it prudent to establish a policy of providing reserves for potential losses in the current portfolio which may occur in the future. 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 possible credit losses in its operating results. The Company will continue to recognize quarterly provisions until a stabilized reserve level is attained.

STOCK-BASED COMPENSATION EXPENSE--Stock-based compensation expense did not significantly change for the three months ended September 30, 2000 as compared to the 2000 period.

GAIN ON SALE OF CORPORATE TENANT LEASE ASSETS--On August 30, 2001, the Company disposed of one corporate tenant lease asset for total proceeds of $13.0 million, and recognized a loss of approximately $1.2 million. This asset was formerly owned by TriNet prior to its acquisition by the Company, and was vacant when acquired by the Company in the TriNet Acquisition.

During the third quarter of 2000, one of the Company's joint venture sold its facility for total proceeds of $41.9 million, and the Company recognized a gain of approximately $1.7 million. In addition, another of the Company's joint ventures sold all five of its facilities for total proceeds of $66.0 million, and the Company recognized a gain of approximately $222,000.

EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT--During the three months ended September 30, 2001, the Company prepaid an unsecured revolving credit facility which had an original maturity date of May 2002. In connection with this prepayment, the Company expensed the remaining unamortized deferred financing costs, which resulted in an extraordinary loss on early extinguishment of debt of approximately $583,000 during the quarter.

During the third quarter of 2000, certain of the proceeds from an asset disposition in one of the Company's joint ventures were used to repay $16.4 million of a third-party debt at the joint venture. In connection with this paydown, the joint venture incurred certain prepayment penalties, which resulted in an extraordinary loss on early extinguishment of debt to the Company of $388,000.

NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2001 COMPARED TO THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2000

INTEREST INCOME--Interest income decreased to approximately $193.2 million for the nine months ended September 30, 2001 from approximately $197.1 million for the same period in 2000. This decrease in interest income is primarily a result of the decrease in average LIBOR rates on the Company's variable-rate lending investments, which was partially offset by the increase in the average balance of loans and other lending investments.

OPERATING LEASE INCOME--Operating lease income increased to $148.7 million for the nine months ended September 30, 2001 from $139.8 million for the same period in 2000. Of this increase, $8.2 million was attributable to new corporate tenant lease investments and $4.4 million to additional operating lease income from existing corporate tenant lease investments owned in both quarters. In addition, joint venture income contributed $3.1 million to the increase. These increases in operating lease income from assets owned were partially offset by a $6.9 million decrease in operating lease income resulting from asset dispositions made in 2000 and 2001.

OTHER INCOME--Other income for the nine-month period ended September 30, 2001 is primarily comprised of gains and prepayment penalties from the early repayment of senior mortgages, subordinate mortgages and corporate/partnership loans, participation payments and management fees. Other income for the nine-month period ended September 30, 2000 included prepayment fees resulting from the full or partial repayments of three loans, a fee resulting from the purchase of a sub-performing loan and subsequent restructuring of such loan to fully-performing status, and a realized gain resulting from the repayment of a senior loan held at a discount upon the conversion of such loan to a corporate tenant lease holding pursuant to a purchase option granted to the Company in connection with its original investment in the asset.

INTEREST EXPENSE--The Company's interest expense increased by $1.9 million for the nine months ended September 30, 2001 over the same period in the prior year. The increase was primarily due to higher average borrowings by the Company's credit facilities, other term loans and unsecured notes, in addition to the amortization of deferred financing costs on the Company's credit facilities. This increase was partially offset by the lower average LIBOR rates

on the Company's floating-rate debt obligations.

OPERATING COSTS-CORPORATE TENANT LEASE ASSETS--For the nine months ended September 30, 2001, operating costs increased by approximately $152,000 to $9.7 million, from $9.6 million for the same period in 2000.

DEPRECIATION AND AMORTIZATION--Depreciation and amortization decreased by approximately $320,000 to $26.3 million for the nine months ended September 30, 2001 over the same period in the prior year. This decrease is primarily the result of corporate tenant lease dispositions in 2000 and 2001, partially offset by additional depreciation on investments.

GENERAL AND ADMINISTRATIVE--The Company's general and administrative expenses during the nine months ended September 30, 2001 decreased by approximately $1.8 million to $18.7 million compared to the same period in 2000.

PROVISION FOR POSSIBLE CREDIT LOSSES--As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, the Company has not realized any actual losses on any of its loan investments to date. However, the Company has considered it prudent to establish a policy of providing reserves for potential losses in the current portfolio which may occur in the future. 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 possible credit losses in its operating results. The Company will continue to recognize quarterly provisions until a stabilized reserve level is attained.

STOCK-BASED COMPENSATION EXPENSE--Stock-based compensation expense increased by approximately $877,000 as a result of charges relating to grants of stock options, including amortization of the deferred charge related to options granted to employees of the Company's former external advisor subsequent to such personnel becoming direct employees of the Company as of November 4, 1999.

GAIN ON SALE OF CORPORATE TENANT LEASE ASSETS--During the nine months ended September 30, 2001, the Company disposed of three corporate tenant lease assets for total proceeds of $21.4 million, and recognized gains of approximately $403,000.

During the first nine months of 2000, the Company disposed of seven assets for total proceeds of $256.2 million, and recognized gains of approximately $2.9 million.

EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT--During the nine months ended September 30, 2001, the Company repaid a secured term loan which had an original maturity date of December 2004. In connection with this early repayment, the Company incurred certain prepayment penalties, which resulted in an extraordinary loss on early extinguishment of debt of approximately $1.0 million during the first quarter of 2001. In addition, in the third quarter, the Company prepaid an unsecured revolving credit facility which had an original maturity date of May 2002. In connection with this prepayment, the Company expensed the remaining unamortized deferred financing costs, which resulted in an extraordinary loss on early extinguishment of debt of approximately $583,000.

During the first quarter of 2000, certain of the proceeds from an asset disposition were used to partially repay $8.1 million of a secured term loan. In connection with this partial paydown, the Company incurred certain prepayment penalties, which resulted in an extraordinary loss on early extinguishment of debt of $317,000. In addition, during the third quarter of 2000, certain of the proceeds from an asset disposition in one of the Company's joint ventures were used to repay $16.4 million of a third-party debt at the joint venture. In connection with this paydown, the joint venture incurred certain prepayment penalties, which resulted in an extraordinary loss on early extinguishment of debt to the Company of $388,000.

INTEREST RATE RISK MANAGEMENT

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

The Company's operating results will depend in part on the difference between the interest and related income earned on its assets and the interest expense incurred in connection with its interest-bearing liabilities.

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

A substantial portion of the Company's loan investments are subject to significant prepayment protection in the form of lock-outs, yield maintenance provisions or other prepayment premiums which provide substantial yield protection to the Company. Those assets generally not subject to prepayment penalties include: (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 8 to the Company's Consolidated Financial Statements, the Company employs match funding-based hedging strategies to limit the effects of changes in interest rates on its operations, including engaging in interest rate caps, floors, swaps, futures and other interest rate-related derivative contracts. These strategies are specifically designed to reduce the Company's exposure, on specific transactions or on a portfolio basis, to changes in cash flows as a result of interest rate movements in the market. The Company does not enter into derivative contracts for speculative purposes nor as a hedge against changes in credit risk of its borrowers or of the Company itself.

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

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

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

transactions as hedges and immediately recognize related gains or losses based on actual settlement or estimated settlement value.

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

There can be no assurance that the Company's profitability will not be adversely affected during any period as a result of changing interest rates. In addition, hedging transactions using derivative instruments involve certain additional risks such as counterparty credit risk, legal enforceability of

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

The Company believes that its existing sources of funds will be adequate for purposes of meeting its short- and long-term liquidity needs. As the Company has publicly announced, it has taken a conservative view of the level of its asset originations during the next 12 months, given the uncertainty surrounding the U.S. economy. The Company's ability to meet its long-term (i.e., beyond one year) liquidity requirements is subject to the renewal of its credit lines and/or obtaining other sources of financing, including issuing additional debt or equity from time to time. Any decision by the Company's lenders and investors to enter into such transactions with the Company will depend upon a number of factors, such as compliance with the terms of its existing credit arrangements, the Company's financial performance, industry or market trends, the general availability of and rates applicable to financing transactions, such lenders' and investors' resources and policies concerning the terms under which they make such capital commitments and the relative attractiveness of alternative investment or lending opportunities.

The Company has entered into LIBOR-based secured revolving credit facilities of $700.0 million, $700.0 million and $500.0 million, respectively, which expire in fiscal 2005, 2005 and 2003, respectively. The maturities of these secured revolving facilities include a one-year "term-out" extension at the Company's option. As of September 30, 2001, the Company had drawn approximately $242.3 million, $324.9 million and $125.3 million under these facilities, respectively. Availability under these facilities is based on collateral provided under a borrowing base calculation. At September 30, 2001, the Company also had an unsecured credit facility totaling $300.0 million which bears interest at LIBOR + 2.125% and matures in July 2004, including a one-year extension at the Company's option. At September 30, 2001, the Company had not drawn any amounts under this facility.

In connection with the TriNet Acquisition, the Company acquired LIBOR interest rate caps currently struck at 7.75% and 7.75% in notional amounts of $75.0 million and $35.0 million,

respectively, which both expire in December 2004. In connection with the closing of STARs, Series 2000-1 in May 2000, the Company entered into a LIBOR interest rate cap struck at 10.00% in the notional amount of $312.0 million, and simultaneously sold a LIBOR interest rate cap with the same terms. Since these instruments do not reduce the Company's net interest rate risk exposure, they do not qualify as hedges and changes in their respective values are charged to earnings. As the significant terms of these arrangements are substantially the same, the effects of a revaluation of these two instruments are expected to substantially offset one another. At September 30, 2001 and December 31, 2000, the net fair value of the Company's interest rate caps were $0.3 million and $0.4 million, respectively.

The Company has entered into LIBOR interest rate swaps struck at 7.055% and 7.058%, both with notional amounts of $125.0 million and expiring in June 2003. These swaps effectively fix the interest rate on a portion of the Company's floating-rate term loan obligations. In connection with the TriNet Acquisition, the Company acquired an interest rate swap which, together with certain existing interest rate cap agreements, effectively fix the interest rate on $75.0 million of the Leasing Subsidiary's LIBOR-based borrowings at 5.58% plus the applicable margin through December 1, 2004. Management expects that it will have aggregate LIBOR-based borrowings at the Leasing Subsidiary in excess of the notional amount for the duration of the swap. The actual borrowing cost to the Company with respect to indebtedness covered by the swap will depend upon the applicable margin over LIBOR for such indebtedness, which will be determined by the terms of the relevant debt instruments. At September 30, 2001 and December 31, 2000, the fair value (liability) of the Company's remaining interest rate swaps was $(21.4) million and $(7.7) million, respectively.

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

On May 15, 2001, the Leasing Subsidiary repaid its $100.0 million 7.30% unsecured notes.

On June 14, 2001, the Company closed $193.0 million of financing secured by 15 corporate tenant lease assets. The floating-rate loan bears interest at LIBOR plus 1.85% (not to exceed 10.00%) 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 final maturity of its $500.0 million secured revolving credit facility to August 12, 2003.

On July 6, 2001, the Leasing Subsidiary 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 Leasing Subsidiary's option.

On July 27, 2001, the Company completed a $300.0 million revolving credit facility with a group of leading financial institutions. The new 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 new facility replaces two prior credit facilities maturing in 2002 and 2003, and bears interest at LIBOR + 2.125%.

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.

STOCK REPURCHASE PROGRAM: The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of both September 30, 2001 and December 31, 2000, the Company had repurchased approximately 2.3 million shares at an aggregate cost of approximately

$40.7 million.

ADJUSTED EARNINGS

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

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

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
Adjusted earnings:				
Net income	$57,553	$55,591	$171,155	$161,410
Add: Depreciation	8,669	8,705	26,255	26,575
Add: Allocated share of joint venture depreciation	960	1,148	2,828	2,590
Add: Amortization of deferred financing costs	4,959	4,042	15,391	9,330
Less: Preferred dividends	(9,227)	(9,227)	(27,681)	(27,681)
Add: Cumulative effect of change in accounting principle (1)	--	--	282	--
Less: (Gains)/losses on sales of corporate tenant lease assets	1,196	(1,974)	(403)	(2,948)
Add: Extraordinary loss on early extinguishment of debt	583	388	1,620	705
Adjusted earnings allocable to common shareholders:				
Basic	$64,693	$58,673	$189,447	$169,981
Diluted	$64,928	$58,909	$190,156	$170,685
Adjusted earnings per common share:				
Basic	$ 0.75	$ 0.68	$ 2.20	$ 1.99
Diluted	$ 0.73	$ 0.68	$ 2.15	$ 1.98

EXPLANATORY NOTE:

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(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.

NEW ACCOUNTING STANDARDS

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

be specifically designated as: (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. The Company adopted this pronouncement, as amended by Statement of Financial Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities-deferral of the Effective Date of FASB Statement No. 133" and Statement of Financial Accounting Standards No. 138 "Accounting for Certain Hedging Activities-an Amendment of FASB No. 133," January 1, 2001. Because the Company has primarily used derivatives as cash flow hedges of interest rate risk only, the adoption of SFAS No. 133 did not have a material financial impact on the financial position and results of operations of the Company. However, should the Company change its current use of such derivatives (see Note 8), the adoption of SFAS No. 133 could have a more significant effect on the Company prospectively.

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

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

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 March 31, 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.

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. The Company does not believe the adoption of SFAS No. 141 will have a significant effect on the Company's financial position or results of operations. 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. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Early application is permitted for companies with fiscal years beginning after March 15, 2001. The Company is currently evaluating the effect, if any, the adoption of SFAS No. 142 will have on the Company's financial position or results 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 new 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. The Company is currently evaluating this statement to assess its impact on the financial statements. 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 will

adopt the provisions of this statement on January 1, 2002. The Company does not believe the adoption of SFAS No. 144 will have a significant impact on the Company.

OTHER MATTERS

1940 ACT EXEMPTION

The Company at all times intends to conduct its business so as to not become regulated as an investment company under the Investment Company Act of 1940. If the Company were to become regulated as an investment company, then the Company's ability to use leverage would be substantially reduced. The Investment Company Act exempts entities that are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" (i.e., "Qualifying Interests"). Under the current interpretation of the staff of the SEC, in order to qualify for this exemption, the Company must maintain at least 55% of its assets directly in Qualifying Interests. As of September 30, 2001, the Company calculates that it is in and has maintained compliance with this requirement.

FORWARD-LOOKING STATEMENTS

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

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

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

A. EXHIBITS

1.1 Underwriting Agreement dated August 9, 2001 relating to the Company's 8 3/4% Senior Notes Due 2008.(1)

4.6 Form of Supplemental Indenture

dated as of August 16, 2001.(1)
4.7 Form of Global Note evidencing 8 3/4% Senior Notes 2008. (1)

EXPLANATORY NOTE:
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(1) Incorporated by reference to the Company's Current Report on Form 8-K filed on August 15, 2001.

B. REPORTS ON FORM 8-K

On each of August 1, 2001 and August 15, 2001, a Current Report on Form 8-K was filed in order to file exhibits in connection with the offering of the Company's 8 3/4% Senior Notes Due in 2008.

SIGNATURES

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

iSTAR FINANCIAL INC.
REGISTRANT

Date: November 14, 2001

/s/ JAY SUGARMAN

Jay Sugarman
CHAIRMAN OF THE BOARD OF DIRECTORS AND
CHIEF EXECUTIVE OFFICER

Date: November 14, 2001

/s/ SPENCER B. HABER

Spencer B. Haber
PRESIDENT, CHIEF FINANCIAL OFFICER, DIRECTOR AND
SECRETARY