ISTAR FINANCIAL INC
Form 10-Q
August 09, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from ____________ to ____________
Commission File No. 1-15371

iSTAR FINANCIAL INC.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**95-6881527** (I.R.S. Employer Identification Number)
1114 Avenue of the Americas, 39th Floor **New York, NY** (Address of principal executive offices)	**10036** (Zip code)

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

Indicate by check mark whether the registrant: (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve 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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of August 4, 2011, there were 92,303,380 shares of common stock, $0.001 par value per share, of iStar Financial Inc. ("Common Stock") outstanding.

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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 June 30, 2011	As of December 31, 2010
ASSETS		
Loans and other lending investments, net	$ 3,627,234	$ 4,587,352
Net lease assets, net	1,765,936	1,784,509
Real estate held for investment, net	869,086	833,060
Other real estate owned	723,317	746,081
Other investments	634,919	532,358
Cash and cash equivalents	388,946	504,865
Restricted cash	65,296	13,784
Accrued interest and operating lease income receivable, net	25,307	24,408
Deferred operating lease income receivable	67,496	62,569
Deferred expenses and other assets, net	123,886	85,528
Total assets	$ 8,291,423	$ 9,174,514
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 155,880	$ 134,422
Debt obligations, net	6,393,221	7,345,433
Total liabilities	$ 6,549,101	$ 7,479,855
Commitments and contingencies		
Equity:		
iStar Financial Inc. shareholders' equity:		
Preferred Stock Series D, E, F, G and I, liquidation preference $25.00 per share (see Note 12)	22	22
High Performance Units	9,800	9,800
Common Stock, $0.001 par value, 200,000 shares authorized, 138,608 issued and 92,573 outstanding at June 30, 2011 and 138,189 issued and 92,336 outstanding at December 31, 2010	139	138
Additional paid-in capital	3,818,689	3,809,071
Retained earnings (deficit)	(1,977,733)	(2,014,013)
Accumulated other comprehensive income (see Note 15)	3,020	1,609
Treasury stock, at cost, $0.001 par value, 46,035 shares at June 30, 2011 and 45,853 shares at December 31, 2010	(159,979)	(158,492)

Total iStar Financial Inc. shareholders' equity	$	1,693,958	$	1,648,135
Noncontrolling interests		48,364		46,524
Total equity	$	1,742,322	$	1,694,659
Total liabilities and equity	$	8,291,423	$	9,174,514

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

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iStar Financial Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

(unaudited)

	For the Three Months Ended June 30, 2011	For the Three Months Ended June 30, 2010	For the Six Months Ended June 30, 2011	For the Six Months Ended June 30, 2010
Revenue:				
Interest income	$ 80,185	$ 86,469	$ 140,953	$ 203,085
Operating lease income	41,731	42,973	83,870	86,436
Other income	7,600	5,962	16,274	14,253
Total revenue	$ 129,516	$ 135,404	$ 241,097	$ 303,774
Costs and expenses:				
Interest expense	$ 96,772	$ 82,313	$ 166,406	$ 169,529
Operating costs net lease assets	4,695	2,351	9,255	6,053
Operating costs REHI and OREO	18,002	13,277	35,789	26,055
Depreciation and amortization	16,133	16,257	32,065	32,001
General and administrative	25,699	25,114	50,099	52,330
Provision for loan losses	10,350	109,359	21,230	198,828
Impairment of assets	2,764	12,195	4,254	13,209
Other expense	459	5,239	3,181	9,103
Total costs and expenses	$ 174,874	$ 266,105	$ 322,279	$ 507,108
Income (loss) before earnings from equity method investments and other items	$ (45,358)	$ (130,701)	$ (81,182)	$ (203,334)
Gain (loss) on early extinguishment of debt, net	(1,047)	70,054	105,556	108,780
Earnings from equity method investments	19,131	13,750	44,064	25,180
Income (loss) from continuing operations before income taxes	$ (27,274)	$ (46,897)	$ 68,438	$ (69,374)
Income tax benefit (expense)	2,675	(793)	(8,377)	(1,835)
Income (loss) from continuing operations(1)	$ (24,599)	$ (47,690)	$ 60,061	$ (71,209)
Income (loss) from discontinued operations	(1,421)	11,581	(2,177)	18,955
Gain from discontinued operations		265,960		265,960
Net income (loss)	$ (26,020)	$ 229,851	$ 57,884	$ 213,706
Net (income) loss attributable to noncontrolling interests	(14)	(544)	(444)	1
Net income (loss) attributable to iStar Financial Inc.	$ (26,034)	$ 229,307	$ 57,440	$ 213,707
Preferred dividends	(10,580)	(10,580)	(21,160)	(21,160)
Net (income) loss allocable to HPU holders and Participating Security holders(2)(3)	1,089	(6,452)	(2,640)	(5,684)

Net income (loss) allocable to common shareholders	$ (35,525)	$ 212,275	$ 33,640	$ 186,863
Per common share data(1):				
Income (loss) attributable to iStar Financial Inc. from continuing operations:				
Basic	$ (0.37)	$ (0.61)	$ 0.38	$ (0.96)
Diluted	$ (0.37)	$ (0.61)	$ 0.38	$ (0.96)
Net income (loss) attributable to iStar Financial Inc.:				
Basic	$ (0.38)	$ 2.27	$ 0.36	$ 2.00
Diluted	$ (0.38)	$ 2.27	$ 0.36	$ 2.00
Weighted average number of common shares basic	92,621	93,382	92,580	93,651
Weighted average number of common shares diluted	92,621	93,382	94,758	93,651
Per HPU share data(1)(2):				
Income (loss) attributable to iStar Financial Inc. from continuing operations:				
Basic	$ (69.80)	$ (115.67)	$ 72.86	$ (179.80)
Diluted	$ (69.80)	$ (115.67)	$ 71.34	$ (179.80)
Net income (loss) attributable to iStar Financial Inc.:				
Basic	$ (72.60)	$ 430.13	$ 68.73	$ 378.93
Diluted	$ (72.60)	$ 430.13	$ 67.27	$ 378.93
Weighted average number of HPU shares basic and diluted	15	15	15	15

Explanatory Notes:

(1) Income (loss) from continuing operations attributable to iStar Financial Inc. for the three months ended June 30, 2011 and 2010 was $(24,613) and $(48,234), respectively, and for the six months ended June 30, 2011 and 2010 was $59,617 and $(71,208), respectively. See Note 14 for details on the calculation of earnings per share.

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

(3) Participating Security holders are Company employees and directors who hold unvested restricted stock units and common stock equivalents granted under the Company's Long Term Incentive Plans that are eligible to receive dividends (see Note 13).

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

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iStar Financial Inc.

Consolidated Statement of Changes in Equity

For the Six Months Ended June 30, 2011

(In thousands)

(unaudited)

	iStar Financial Inc. Shareholders' Equity								
	Preferred Stock(1)	HPU's	Common Stock at Par	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Treasury Stock at cost	Noncontrolling Interests	Total Equity
Balance at December 31, 2010	$ 22	$ 9,800	$ 138	$ 3,809,071	$ (2,014,013)	$ 1,609	$ (158,492)	$ 46,524	$ 1,694,659
Dividends declared preferred					(21,160)				(21,160)
Issuance of stock/restricted stock unit amortization, net			1	9,618					9,619
Net income for the period(2)					57,440			452	57,892
Change in accumulated other comprehensive income						1,411			1,411
Repurchase of stock							(1,487)		(1,487)
Contributions from noncontrolling interests								1,890	1,890
Distributions to noncontrolling interests								(502)	(502)
Balance at June 30, 2011	$ 22	$ 9,800	$ 139	$ 3,818,689	$ (1,977,733)	$ 3,020	$ (159,979)	$ 48,364	$ 1,742,322

Explanatory Notes:

(1) See Note 12 for details on the Company's Cumulative Redeemable Preferred Stock.

(2) For the six months ended June 30, 2011, net income shown above excludes $8 of net loss attributable to redeemable noncontrolling interests.

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

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iStar Financial Inc.

Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

	For the Six Months Ended June 30, 2011	For the Six Months Ended June 30, 2010
Cash flows from operating activities:		
Net income	$ 57,884	$ 213,706
Adjustments to reconcile net income to cash flows from operating activities:		
Provision for loan losses	21,230	198,828
Non-cash expense for stock-based compensation	8,469	9,714
Impairment of assets	4,228	13,527
Depreciation and amortization	32,065	39,125
Amortization of discounts/(premiums) and deferred financing costs on debt	14,551	(13,859)
Amortization of (discounts)/premiums, deferred interest and costs on lending investments	(41,703)	(51,171)
Discounts, loan fees and deferred interest received	2,710	10,384
Earnings from equity method investments	(44,064)	(25,180)
Distributions from operations of equity method investments	23,410	19,819
Deferred operating lease income	(4,853)	(6,447)
Gain from discontinued operations		(265,960)
Gain on early extinguishment of debt, net	(101,832)	(109,932)
Other non-cash adjustments	1,259	(1,595)
Changes in assets and liabilities:		
Changes in accrued interest and operating lease income receivable, net	(898)	3,852
Changes in deferred expenses and other assets, net	(22,262)	1,781
Changes in accounts payable, accrued expenses and other liabilities	17,856	(46,239)
Cash flows from operating activities	$ (31,950)	$ (9,647)
Cash flows from investing activities:		
Add-on fundings under existing loan commitments	$ (39,598)	$ (240,423)
Repayments of and principal collections on loans	797,512	725,053
Net proceeds from sales of loans	88,751	201,497
Net proceeds from sales of net lease assets	672	1,309,942
Net proceeds from sales of other real estate owned	92,840	239,826
Net proceeds from repayments and sales of securities		213,018
Contributions to unconsolidated entities	(20,219)	(13,914)
Distributions from unconsolidated entities	4,489	5,582
Capital expenditures on net lease assets	(4,902)	(7,713)
Capital expenditures on REHI and OREO	(15,966)	(10,935)
Changes in restricted cash held in connection with investing activities	(51,985)	791
Other investing activities, net	50	(1,091)
Cash flows from investing activities	$ 851,644	$ 2,421,633
Cash flows from financing activities:		
Borrowings under secured credit facilities	$ 2,913,250	$ 499
Repayments under secured credit facilities	(1,201,811)	
Repayments under unsecured credit facilities	(506,600)	
Borrowings under secured term loans	124,575	

Repayments under secured term loans	(1,680,118)	(1,125,187)
Repayments under unsecured notes	(204,682)	(264,388)
Repurchases and redemptions of secured and unsecured notes	(323,642)	(696,276)
Payments for deferred financing costs	(35,526)	
Preferred dividends paid	(21,160)	(21,160)
Purchase of treasury stock	(1,487)	(3,916)
Changes in restricted cash held in connection with debt obligations	200	9,111
Other financing activities, net	1,388	(3,781)
Cash flows from financing activities	$ (935,613)	$ (2,105,098)
Changes in cash and cash equivalents	$ (115,919)	$ 306,888
Cash and cash equivalents at beginning of period	504,865	224,632
Cash and cash equivalents at end of period	$ 388,946	$ 531,520

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

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iStar Financial Inc.

Notes to Consolidated Financial Statements

(unaudited)

Note 1 Business and Organization

Business iStar Financial Inc., or the "Company," is a fully-integrated finance and investment company focused on the commercial real estate industry. The Company provides custom-tailored investment capital to high-end private and corporate owners of real estate and invests directly across a range of real estate sectors. The Company is taxed as a real estate investment trust, or "REIT." The Company's primary business segments are lending, net leasing and real estate investment. See Note 11 for discussion of the impact of recent economic conditions on the Company and business risks and uncertainties.

Organization The Company began its business in 1993 through private investment funds and became publicly traded in 1998. Since that time, the Company has grown through the origination of new lending and leasing transactions, as well as through corporate acquisitions, including the acquisition of TriNet Corporate Realty Trust, Inc. in 1999, the acquisitions of Falcon Financial Investment Trust and a significant non-controlling interest in Oak Hill Advisors, L.P. and affiliates in 2005, and the acquisition of the commercial real estate lending business and loan portfolio of Fremont Investment and Loan, a division of Fremont General Corporation, in 2007.

Note 2 Basis of Presentation and Principles of Consolidation

Basis of Presentation The accompanying unaudited Consolidated Financial Statements have been prepared in conformity with the instructions to Form 10-Q and Article 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles in the United States of America ("GAAP") for complete financial statements. These unaudited Consolidated Financial Statements and related Notes should be read in conjunction with the Consolidated Financial Statements and related Notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

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

In the opinion of management, the accompanying Consolidated Financial Statements contain all adjustments, consisting of normal recurring adjustments necessary for a fair statement of the results for the interim periods presented. Such operating results may not be indicative of the expected results for any other interim periods or the entire year.

Certain prior year amounts have been reclassified in the Consolidated Financial Statements and the related Notes to conform to the 2011 presentation.

Principles of Consolidation The Consolidated Financial Statements include the financial statements of the Company, its wholly owned subsidiaries, controlled partnerships and variable interest entities ("VIEs") for which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Consolidated VIEs The Company consolidates OHA Strategic Credit Fund Parallel I, L.P. ("OHA SCF"), which was created to invest in distressed and undervalued loans, bonds, equities and other investments. As of June 30, 2011 and December 31, 2010, OHA SCF had total assets of $51.2 million and $45.7 million, respectively, no debt and $0.1 million of noncontrolling interests. The investments held by

iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

(unaudited)

Note 2 Basis of Presentation and Principles of Consolidation (Continued)

this entity are presented in "Other investments" on the Company's Consolidated Balance Sheets. As of June 30, 2011, the Company had a total unfunded commitment of $26.8 million to this entity.

The Company also consolidates Madison Deutsche Andau Holdings, LP ("Madison DA"), which was created to invest in mortgage loans collateralized by real estate in Europe. As of June 30, 2011 and December 31, 2010, Madison DA had total assets of $61.9 million and $58.0 million, respectively, no debt and noncontrolling interests of $9.1 million and $8.6 million, respectively. The investments held by this entity are presented in "Loans and other lending investments, net" on the Company's Consolidated Balance Sheets.

Unconsolidated VIEs The Company determined that as of June 30, 2011, 24 of its other investments were in VIEs where it is not the primary beneficiary and accordingly the VIEs have not been consolidated in the Company's Consolidated Financial Statements. As of June 30, 2011, the Company's maximum exposure to loss from these investments does not exceed the sum of the $241.3 million carrying value of the investments and $9.6 million of related unfunded commitments.

Note 3 Summary of Significant Accounting Policies

As of June 30, 2011, the Company's significant accounting policies, which are detailed in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, have not changed materially.

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-05, "Presentation of Comprehensive Income," which requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The new requirements are effective in interim and fiscal years beginning after December 15, 2011 and should be applied retrospectively. The Company will adopt this ASU for the reporting period ending March 31, 2012, as required.

In May 2011, the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." This ASU is a result of joint efforts by the FASB and IASB to develop a single, converged framework on how to measure fair value and what disclosures to provide about fair value measurements. This ASU is largely consistent with existing fair value measurement principles of U.S. GAAP, however, it expands existing disclosure requirements for fair value measurements. The ASU is effective for interim and annual reporting periods beginning after December 15, 2011 and should be applied prospectively. The Company will adopt this ASU for the reporting period ending March 31, 2012, as required.

In April 2011, the FASB issued ASU 2011-02, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides additional guidance to creditors for determining whether a loan modification is a troubled debt restructuring ("TDR"). The guidance provides additional considerations in determining whether a creditor has granted a concession and adds factors for creditors to consider in determining whether a debtor is experiencing financial difficulties. The new ASU is effective for the first interim or annual period beginning on or after June 15, 2011 with retrospective application for loan modifications that have occurred from the beginning of the annual period of adoption

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iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

(unaudited)

Note 3 Summary of Significant Accounting Policies (Continued)

(or January 1, 2011 for the Company). As a result of this adoption the Company may identify loan modifications that qualify as TDRs and therefore are considered impaired. Impairment for newly identified TDRs will be measured and recorded in the period of adoption. The Company will adopt ASU 2011-02 for the reporting period ending September 30, 2011, as required. The Company is currently evaluating the impact of this adoption on its Consolidated Financial Statements.

In January 2011, FASB issued ASU 2011-01, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20," which temporarily deferred the effective date in ASU 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" in respect of disclosures related to troubled debt restructuring until FASB finalized ASU 2010-20 (see above). ASU 2010-20 requires companies to provide disaggregated levels of disclosure by portfolio segment and class to enable users of the financial statements to understand the nature of loan modifications and troubled debt restructurings. The Company will adopt the deferred reporting requirements of ASU 2010-20 for the reporting period ending September 30, 2011, as required.

Note 4 Loans and Other Lending Investments, net

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

	As of	
Type of Investment	**June 30, 2011**	**December 31, 2010**
Senior mortgages	$ 3,536,869	$ 4,390,770
Subordinate mortgages	248,818	305,245
Corporate/Partnership loans	526,936	689,535
Total gross carrying value of loans(2)	$ 4,312,623	$ 5,385,550
Reserves for loan losses	(701,228)	(814,625)
Total carrying value of loans	$ 3,611,395	$ 4,570,925
Other lending investments securities	15,839	16,427
Total loans and other lending investments, net	$ 3,627,234	$ 4,587,352

Explanatory Notes:

(1) Loans and other lending investments are presented net of unearned income, unamortized discounts and premiums and net unamortized deferred fees and costs. In total, these amounts represented a net discount of $88.8 million and $62.7 million as of June 30, 2011 and December 31, 2010, respectively.

(2) The Company's recorded investment in loans as of June 30, 2011 and December 31, 2010 was $4.33 billion and $5.41 billion, respectively, which consists of total gross carrying value of loans plus accrued interest of $15.9 million and $21.3 million, for the same two periods, respectively.

During the six months ended June 30, 2011, the Company funded $39.6 million under existing loan commitments and received principal repayments of $797.5 million. During the same period, the Company sold loans with a total carrying value of $132.1 million, for which it recognized charge-offs of $23.4 million. For one of the sold loans, the Company received $48.6 million of cash proceeds and provided the purchaser with $20.0 million of financing.

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iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

(unaudited)

Note 4 Loans and Other Lending Investments, net (Continued)

During the six months ended June 30, 2011, the Company received title to properties in full or partial satisfaction of non-performing mortgage loans with a gross carrying value of $171.4 million, for which the properties had served as collateral, and recorded charge-offs totaling $48.3 million related to these loans. These properties were recorded as real estate held for investment ("REHI") or other real estate owned ("OREO") on the Company's Consolidated Balance Sheets (see Note 5). In addition, during the same period, the Company received equity in an entity that took title to a property in satisfaction of a non-performing mortgage for which the property had served as collateral. The Company held a participation in the mortgage with a gross carrying value of $74.6 million and charged-off $29.2 million upon receiving the equity interest (see Note 7).

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Reserve for loan losses at beginning of period	$ 804,070	$ 1,306,250	$ 814,625	$ 1,417,949
Provision for loan losses	10,350	109,359	21,230	198,828
Charge-offs	(113,192)	(234,321)	(134,627)	(435,489)
Reserve for loan losses at end of period	$ 701,228	$ 1,181,288	$ 701,228	$ 1,181,288

The Company's recorded investment (comprised of a loan's carrying value plus accrued interest) in loans and the associated reserve for loan losses were as follows ($ in thousands):

	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	Total
As of June 30, 2011:				
Loans	$ 1,897,273	$ 2,351,398	$ 79,868	$ 4,328,539
Less: Reserve for loan losses	(615,062)	(84,100)	(2,066)	(701,228)
Total	$ 1,282,211	$ 2,267,298	$ 77,802	$ 3,627,311
As of December 31, 2010:				
Loans	$ 2,296,599	$ 3,034,310	$ 75,907	$ 5,406,816
Less: Reserve for loan losses	(692,610)	(120,200)	(1,815)	(814,625)
Total	$ 1,603,989	$ 2,914,110	$ 74,092	$ 4,592,191

Credit Characteristics As part of the Company's process for monitoring the credit quality of its loans, it performs a quarterly loan portfolio assessment and assigns risk ratings to each of its performing loans.

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iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

(unaudited)

Note 4 Loans and Other Lending Investments, net (Continued)

The Company's recorded investment in performing loans, presented by class and by credit quality, as indicated by risk rating, was as follows ($ in thousands)(1):

	As of			
	June 30, 2011		December 31, 2010	
	Performing Loans	Weighted Average Risk Ratings	Performing Loans	Weighted Average Risk Ratings
Senior mortgages	$ 1,925,311	3.33	$ 2,394,270	3.48
Subordinate mortgages	224,493	2.93	307,509	3.20
Corporate/Partnership loans	521,166	3.59	685,848	3.76
Total	$ 2,670,970	3.35	$ 3,387,627	3.51

Explanatory Note:

(1) Ratings range from "1" to "5" with "1" representing the lowest risk of loss and "5" representing the highest risk of loss.

The Company's recorded investment in loans as of June 30, 2011, aged by payment status and presented by class, were as follows ($ in thousands):

	Current	Less Than and Equal to 90 Days(1)	Greater Than 90 Days(1)	Total Past Due	Total
Senior mortgages	$ 2,055,832	$ 127,654	$ 1,362,192	$ 1,489,846	$ 3,545,678
Subordinate mortgages	250,401				250,401
Corporate/Partnership loans	521,166		11,294	11,294	532,460
Total	$ 2,827,399	$ 127,654	$ 1,373,486	$ 1,501,140	$ 4,328,539

Explanatory Note:

(1) All loans with payments more than 90 days past due are classified as non-performing and are on non-accrual status. In addition, a loan with a recorded investment of $88.3 million that was less than 90 days delinquent is classified as non-performing.

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iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

(unaudited)

Note 4 Loans and Other Lending Investments, net (Continued)

Impaired Loans The Company's recorded investment in impaired loans, presented by class, were as follows ($ in thousands)(1):

	As of June 30, 2011			As of December 31, 2010		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Senior mortgages(2)	$ 244,925	$ 246,573	$	$ 404,861	$ 404,126	$
Corporate/Partnership loans	10,110	10,160		10,110	10,160	
Subtotal	$ 255,035	$ 256,733	$	$ 414,971	$ 414,286	$
With an allowance recorded:						
Senior mortgages(2)	$ 1,563,497	$ 1,554,221	$ (580,400)	$ 1,834,008	$ 1,825,150	$ (683,948)
Subordinate mortgages	25,908	25,986	(25,908)			
Corporate/Partnership loans	70,039	70,355	(10,820)	64,465	64,919	(10,477)
Subtotal	$ 1,659,444	$ 1,650,562	$ (617,128)	$ 1,898,473	$ 1,890,069	$ (694,425)
Total:						
Senior mortgages	$ 1,808,422	$ 1,800,794	$ (580,400)	$ 2,238,869	$ 2,229,276	$ (683,948)
Subordinate mortgages	25,908	25,986	(25,908)			
Corporate/Partnership loans	80,149	80,515	(10,820)	74,575	75,079	(10,477)
Total	$ 1,914,479	$ 1,907,295	$ (617,128)	$ 2,313,444	$ 2,304,355	$ (694,425)

Explanatory Notes:

(1) All of the Company's non-accrual loans are considered impaired and included in the table above. In addition, as of June 30, 2011 and December 31, 2010, certain loans modified through troubled debt restructurings with a recorded investment of $256.9 million and $294.3 million, respectively, are also included as impaired loans in accordance with GAAP although they are performing and on accrual status.

(2) Amount includes impaired loans acquired with deteriorated credit quality.

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iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

(unaudited)

Note 4 Loans and Other Lending Investments, net (Continued)

The Company's average recorded investment in impaired loans and interest income recognized, presented by class, were as follows ($ in thousands):

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2011		2010		2011		2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:								
Senior mortgages	$ 352,098	$ 28,620	$ 755,813	$ 310	$ 369,686	$ 29,586	$ 758,978	$ 18,287
Subordinate mortgages			1,541				2,340	73
Corporate/Partnership loans	10,110	200	32,547	595	10,110	320	39,244	1,310
Subtotal	$ 362,208	$ 28,820	$ 789,901	$ 905	$ 379,796	$ 29,906	$ 800,562	$ 19,670
With an allowance recorded:								
Senior mortgages	$ 1,668,373	$ 2,117	$ 2,389,082	$ 2,964	$ 1,723,584	$ 4,121	$ 2,671,148	$ 3,769
Subordinate mortgages	25,624		101,132	61	17,083		97,354	61
Corporate/Partnership loans	69,263	86	71,699		67,663	169	64,850	
Subtotal	$ 1,763,260	$ 2,203	2,561,913	$ 3,025	$ 1,808,330	$ 4,290	$ 2,833,352	$ 3,830
Total:								
Senior mortgages	$ 2,020,471	$ 30,737	$ 3,144,895	$ 3,274	$ 2,093,270	$ 33,707	$ 3,430,126	$ 22,056
Subordinate mortgages	25,624		102,673	61	17,083		99,694	134
Corporate/Partnership loans	79,373	286	104,246	595	77,773	489	104,094	1,310
Total	$ 2,125,468	$ 31,023	$ 3,351,814	$ 3,930	$ 2,188,126	$ 34,196	$ 3,633,914	$ 23,500

During the quarter ended June 30, 2011, the Company recorded interest income of $26.3 million related to the resolution of certain non-performing loans. Interest income was not previously recorded as the loans were on non-accrual status.

Encumbered Loans As of June 30, 2011 and December 31, 2010, loans and other lending investments with a carrying value of $2.36 billion and $2.83 billion, respectively, were pledged as collateral under the Company's secured indebtedness.

Note 5 Real Estate Held for Investment, net and Other Real Estate Owned

During the six months ended June 30, 2011, the Company received title to properties with an aggregate estimated fair value at the time of foreclosure of $123.1 million, in full or partial satisfaction of non-performing mortgage loans for which those properties had served as collateral. Of these, properties with a value of $54.7 million were classified as REHI and $68.4 million were classified as OREO, based on

iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

(unaudited)

Note 5 Real Estate Held for Investment, net and Other Real Estate Owned (Continued)

management's current intention to either hold the properties over a longer period or to market them for sale in the near term.

Real Estate Held for Investment, net REHI consisted of the following ($ in thousands):

	As of June 30, 2011	As of December 31, 2010
Land held for investment and development	$ 632,184	$ 606,083
Operating property		
Land	76,738	69,807
Buildings and improvements	172,459	165,025
Less: accumulated depreciation and amortization	(12,295)	(7,855)
Real estate held for investment, net	$ 869,086	$ 833,060

The Company recorded REHI operating income in "Other income" and REHI operating expenses in "Operating costs REHI and OREO," on the Company's Consolidated Statements of Operations, as follows ($ in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
REHI operating income	$ 6,687	$ 4,431	$ 14,149	$ 8,514
REHI operating expenses	$ 8,745	$ 5,967	$ 19,291	$ 12,170

Other Real Estate Owned During the six months ended June 30, 2011, the Company sold OREO assets with a carrying value of $97.0 million. For the three and six months ended June 30, 2011, the Company recorded net impairment charges to OREO properties totaling $2.8 million and $3.4 million, respectively, and recorded net expenses related to holding costs for OREO properties of $9.3 million and $16.5 million, respectively.

For the three and six months ended June 30, 2010, the Company recorded impairment charges to OREO properties totaling $12.2 million and $17.1 million, respectively, and recorded net expenses related to holding costs for OREO properties of $7.3 million and $13.9 million, respectively.

Encumbered REHI and OREO As of June 30, 2011 and December 31, 2010, REHI assets with a carrying value of $71.3 million and $28.4 million, respectively, and OREO assets with a carrying value of $174.1 million and $232.1 million, respectively, were pledged as collateral for the Company's secured indebtedness.

iStar Financial Inc.

Notes to Consolidated Financial Statements (Continued)

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Note 6 Net Lease Assets, net

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

	As of June 30, 2011	As of December 31, 2010
Buildings and improvements	$ 1,654,464	$ 1,651,998
Land and land improvements	454,925	454,925
Less: accumulated depreciation	(343,453)	(322,414)
Net lease assets, net	$ 1,765,936	$ 1,784,509

The Company receives reimbursements from customers for certain facility operating expenses including common area costs, insurance and real estate taxes. Customer expense reimbursements were $6.0 million and $11.5 million for the three and six months ended June 30, 2011, respectively, and $9.0 million and $17.7 million for the three and six months ended June 30, 2010, respectively. Of these amounts, $6.5 million and $12.4 million for the three and six months ended June 30, 2010, respectively, were included as a reduction of "Operating costs net lease assets," and the remainder in 2010 was included in "Income (loss) from discontinued operations" on the Company's Consolidated Statements of Operations.

During the three months ended June 30, 2010, the Company sold net lease assets with carrying values of $1.10 billion, which resulted in gains of $266.0 million.

Allowance for doubtful accounts As of June 30, 2011 and December 31, 2010, the total allowance for doubtful accounts related to tenant receivables, including deferred operating lease income receivable, was $2.1 million and $1.4 million, respectively.

Encumbered Net Lease Assets As of June 30, 2011 and December 31, 2010, net lease assets with a carrying value of $1.20 billion and $1.02 billion, respectively, were encumbered with mortgages or pledged as collateral for the Company's secured indebtedness.

Note 7 Other Investments

Other investments primarily consists of equity method investments. The Company's other investments and its proportionate share of results for equity method investments were as follows ($ in thousands):