

ISTAR FINANCIAL INC
Form DEF 14A
April 10, 2012

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

ISTAR FINANCIAL INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required.
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(3) Filing Party:

(4) Date Filed:

**1114 Avenue of the Americas, 39th Floor
New York, New York 10036
April 10, 2012**

Dear Shareholder:

We cordially invite you to attend our 2012 annual meeting of shareholders. We will hold the meeting at the Harvard Club of New York City, 35 West 44th Street, 3rd Floor, West Room, New York, New York on Thursday, May 31, 2012 at 9:00 a.m. local time.

At the annual meeting, we will ask our shareholders to:

- (1) elect seven members to the board of directors;
- (2) consider and vote upon a proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending December 31, 2012;
- (3) consider and vote upon a resolution to approve, on a non-binding, advisory basis, the Company's executive compensation, as described in this proxy statement; and
- (4) transact such other business as may properly come before the meeting or any adjournment or postponement of the meeting.

The attached proxy statement contains details of the proposals to be voted on at the annual meeting and other important matters. We encourage you to read the proxy statement and attachments carefully.

YOUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE:

FOR THE ELECTION OF THE SEVEN NOMINEES AS DIRECTORS;

FOR THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM; AND

FOR THE RESOLUTION APPROVING, ON A NON-BINDING, ADVISORY BASIS, EXECUTIVE COMPENSATION AS DESCRIBED IN THIS PROXY STATEMENT.

We cordially invite all shareholders to attend the annual meeting in person. Any shareholder attending the annual meeting may vote in person even if he or she previously returned a proxy.

Sincerely,

Jay Sugarman
Chairman and Chief Executive Officer

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of iStar Financial Inc., a Maryland corporation, will be held at the Harvard Club of New York City, 35 West 44th Street, 3rd Floor, West Room, New York, New York on Thursday, May 31, 2012 at 9:00 a.m. local time, for the following purposes as further described in the accompanying proxy statement:

1. To elect to the board of directors seven members to hold office until the next annual meeting of shareholders and until their respective successors are duly elected and qualify. The nominees to the board are: Robert W. Holman, Jr., Robin Josephs, John G. McDonald, George R. Puskar, Dale Anne Reiss, Barry W. Ridings and Jay Sugarman.
2. To consider and vote upon a proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012.
3. To consider and vote upon a resolution to approve, on a non-binding, advisory basis, the compensation of the Company's named executive officers and other named officers, as described in the Compensation Discussion and Analysis section, the tabular disclosure regarding such compensation, and the accompanying narrative disclosure set forth in the Company's 2012 proxy statement.
4. To transact such other business as may properly come before the annual meeting or any postponement or adjournment of the meeting.

The board has fixed the close of business on April 4, 2012 as the record date for the determination of shareholders entitled to receive notice of and to vote at the annual meeting or any postponement or adjournment of the meeting. Only holders of record of our common stock, par value \$.001 per share (which includes both our regular common stock and our high performance common stock), and 8.00% Series D preferred stock, par value \$.0001 per share, at the close of business on that date will be entitled to vote at the annual meeting.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 31, 2012:

We make proxy materials available to our shareholders on the Internet. You can access proxy materials at <http://www.proxyvote.com>. You also may authorize your proxy via the Internet or by telephone by following the instructions on that website. In order to authorize your proxy via the Internet or by telephone you must have the shareholder identification number that appears on the enclosed Notice of Internet Availability of Proxy Materials. You also may request a paper or an e-mail copy of our proxy materials and a paper proxy card by following the instructions included in the Notice of Internet Availability of Proxy Materials.

By Order of the Board of Directors,

Geoffrey M. Dugan
General Counsel, Corporate & Secretary
New York, NY
April 10, 2012

WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, TO ENSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, PLEASE MARK, SIGN, DATE AND RETURN THE ATTACHED PROXY CARD AS PROMPTLY AS POSSIBLE.

**1114 Avenue of the Americas, 39th Floor
New York, New York 10036**

PROXY STATEMENT

**Annual Meeting of Shareholders
To Be Held May 31, 2012**

We are making this proxy statement available to holders of our common stock, par value \$.001 per share, and holders of our 8.00% Series D preferred stock on or about April 10, 2012 in connection with the solicitation by our board of directors of proxies to be voted at our 2012 annual meeting of shareholders or at any postponement or adjournment of the annual meeting. Our common stock includes both our regular common stock and our high performance common stock. Our common stock is listed on the New York Stock Exchange, Inc., or the NYSE, and is traded under the symbol "SFI."

This proxy statement is accompanied by a copy of our Annual Report to Shareholders for the year ended December 31, 2011. Additional copies of the Annual Report, including our financial statements at December 31, 2011, may be obtained from our website at www.istarfinancial.com, or by contacting our Investor Relations department at (212) 930-9400, 1114 Avenue of the Americas, 39th Floor, New York, NY 10036. Copies will be furnished at no additional expense. The information found on, or accessible through, our website is not incorporated into, and does not form a part of, this proxy statement or any other report or document we file with or furnish to the Securities and Exchange Commission, or the SEC.

About the Meeting

Who is entitled to vote at the meeting?

Only holders of record of our common stock, our high performance common stock and our Series D preferred stock at the close of business on April 4, 2012 are entitled to receive notice of and to vote at the annual meeting or at any postponement or adjournment of the meeting. On the record date, there were 142,465,585 issued shares of common stock, 84,357,884 outstanding shares of common stock (58,107,701 shares were held in treasury), 14,887.50 issued and outstanding shares of high performance common stock and 4,000,000 issued and outstanding shares of Series D preferred stock.

What constitutes a quorum?

The presence, either in person or by proxy, of the holders of the outstanding common stock and Series D preferred stock entitled to cast a majority of all the votes entitled to be cast at the meeting, considered as a single class, on the record date is necessary to constitute a quorum at the annual meeting.

What are the voting rights of shareholders?

Each shareholder is entitled to one vote for each share of regular common stock registered in the shareholder's name on the record date and 0.25 votes for each share of high performance common stock and Series D preferred stock registered in the shareholder's name on the record date.

What vote is needed to approve each proposal?

Assuming a quorum is present in person or by proxy at the annual meeting:

For the election of directors (Item 1), the vote of a plurality of all of the votes cast by the holders of our common stock and Series D preferred stock, all voting as one class, is required.

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For the ratification of the appointment of the independent registered public accounting firm (Item 2), the resolution to approve, on a non-binding, advisory basis, the compensation of the Company's named executive officers and other named officers (Item 3), and the approval of any other matters properly presented at the meeting for shareholder approval, the affirmative vote of a majority of all of the votes cast by the holders of our common stock and Series D preferred stock, all voting as one class, is required.

What are "broker non-votes" and what is the effect of "broker non-votes" and abstentions?

A "broker non-vote" occurs when a broker, bank or other nominee returns a properly executed proxy, but indicates on the proxy that it does not have discretionary authority as to certain shares to vote on a particular matter and has not received voting instructions from the beneficial owner of such shares on that matter. Under current NYSE rules, a broker, bank or other nominee does not have discretionary authority to vote shares without specific voting instructions from the beneficial owner on (a) the election of directors and (b) the resolution, on a non-binding, advisory basis, on executive compensation. A broker, bank or other nominee does have discretionary authority to vote shares for ratification of the appointment of the independent registered public accounting firm.

For purposes of votes on all matters described in this proxy statement to be presented at the annual meeting, broker non-votes and abstentions will not be counted as votes cast and will have no effect on the result of the vote, although they will be considered present for the purpose of determining the presence of a quorum.

How is my vote counted?

If you properly execute a proxy in the accompanying form, and if we receive it prior to voting at the annual meeting, the shares that the proxy represents will be voted in the manner specified on the proxy. If no specification is made, the common stock or Series D preferred stock will be voted FOR the election of directors, ratification of the appointment of the independent registered public accounting firm, approval of the resolution to approve, on a non-binding, advisory basis, executive compensation, and as recommended by the board with regard to all other matters in its discretion.

Votes cast in person or by proxy at the annual meeting will be tabulated by the election inspectors appointed for the meeting, who will determine whether or not a quorum is present. If your shares are held by a broker, bank or other nominee (i.e., in "street name"), you will receive instructions from your nominee which you must follow in order to have your shares voted. Such shareholders who wish to vote in person at the meeting will need to obtain a proxy from the broker, bank or other nominee that holds their shares of record.

Can I change my vote after I submit my proxy card?

If you authorize a proxy to vote your shares, you may revoke it at any time before it is voted by:

giving written notice to our Secretary expressly revoking the proxy,

by signing and forwarding to us a proxy dated later, or

by attending the annual meeting and personally voting the common stock or Series D preferred stock owned of record by you.

Who pays the costs of soliciting proxies?

We will pay the costs of soliciting proxies from our shareholders. In addition to solicitation by mail, certain of our directors, officers and regular employees may solicit the return of proxies by telephone, facsimile, personal interview or otherwise without being paid additional compensation. We will also reimburse brokerage firms and other persons representing the beneficial owners of our shares for their reasonable expenses in forwarding proxy solicitation material to the beneficial owners in accordance with the proxy solicitation rules and regulations of the SEC and the NYSE. Phoenix Advisory Partners has been engaged to solicit proxies on our behalf in connection with our 2012 annual meeting of shareholders and provide other advisory services for an annual fee of \$10,000 plus expenses.

PROPOSAL 1:

ELECTION OF DIRECTORS

In accordance with the provisions of our charter, each member of our board is elected annually.

All of the nominees for election as a director are presently serving as directors. If a nominee becomes unavailable to serve as a director for any reason, the shares represented by any proxy will be voted for the person, if any, who may be designated by the board to replace that nominee. At this time, the board has no reason to believe that any nominee will be unavailable to serve as a director if elected.

Mr. Glenn R. August, who has served as one of our directors since 2005, has informed the board of his decision not to stand for re-election as a director at the 2012 annual meeting. Mr. August will continue to serve as a director through the date of the annual meeting. At this time, the board is not nominating a replacement director and the board intends to go forward with seven members.

All of the nominees for election as a director, other than Mr. Sugarman, are independent within the standards prescribed by the NYSE.

The following table sets forth the name, age and the position(s) with us currently held by each person nominated for election as a director:

Name	Age	Title
Jay Sugarman	49	Chairman and Chief Executive Officer
Robert W. Holman, Jr.(1)(2)(3)	68	Director
Robin Josephs(1)(2)(3)(4)	52	Director
John G. McDonald(2)(3)(5)	74	Director
George R. Puskar(1)(5)	68	Director
Dale Anne Reiss(1)(5)	64	Director
Barry W. Ridings (2)	60	Director

- (1) Member of Audit Committee.
- (2) Member of Compensation Committee.
- (3) Member of Nominating and Governance Committee.
- (4) Lead Director.
- (5) Member of Asset Management and Investment Committee.

We believe that the nominees for election as a director have the qualifications, skills and experience necessary to ensure that we are taking appropriate steps to address the complex issues confronting iStar in a challenging business and economic environment. As set forth in our corporate governance guidelines, the qualifications, skills and experience that we consider relevant include the following:

Education and experience that provides knowledge of business, financial, governmental or legal matters that are relevant to our business or to our status as a publicly owned company;

Reputation for integrity;

Reputation for exercising good business judgment; and

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Sufficient available time to be able to fulfill his or her responsibilities as a member of the board and of any committees to which he or she may be appointed.

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The nominees for election as a director have held leadership positions in business (and in particular the real estate and investment management business sectors), finance and academia over an extended period of time. Each of the nominees has demonstrated a long record of professional integrity, intellectual acumen, analytic skills, a strong work ethic and the ability to maintain a constructive environment for discussion of matters considered by our board. Additionally, several of our directors have experience as board members of a diverse range of public companies.

The following section contains biographical and other information about the nominees. Following each nominee's biographical information, we have provided information concerning the particular experience, qualifications, attributes and/or skills that have led the Nominating and Governance Committee and the board to determine that each nominee should serve as a director.

Jay Sugarman is our Chairman and Chief Executive Officer. Mr. Sugarman has served as a director of iStar Financial Inc. (and our predecessor) since 1996 and chief executive officer since 1997. Prior to forming iStar Financial Inc. and its predecessors, Mr. Sugarman managed private investment funds on behalf of the Burden family, a branch of the Vanderbilts, and the Ziff family. Mr. Sugarman currently serves as Chairman of the Board of LNR Property LLC, the largest special servicer of commercial real estate assets in the United States and Europe with current servicing assignments in excess of \$200 billion. Mr. Sugarman received his undergraduate degree *summa cum laude* from Princeton University, where he was nominated for valedictorian and received the Paul Volcker Award in Economics, and his M.B.A. with high distinction from Harvard Business School, graduating as a Baker Scholar and recipient of the school's academic prizes for both finance and marketing. As founder of iStar Financial Inc. and chief executive officer since 1997, Mr. Sugarman has demonstrated the leadership skills and extensive executive experience across a broad range of investment, financial and operational matters that are necessary to lead iStar, a fully-integrated finance and investment company focused on the commercial real estate industry.

Robert W. Holman, Jr. has served as one of our directors since November 1999. He is chairman of our Compensation Committee and a member of our Audit Committee. Mr. Holman was co-founder of TriNet Corporate Realty Trust, Inc., or TriNet, a NYSE-listed company that we acquired in 1999, and served as its chief executive officer and chairman of the board. He was chief executive officer and chairman of TriNet's predecessor, Holman/Shidler Corporate Capital, Inc., for ten years. He has structured, acquired, financed and managed over \$2.5 billion of commercial and corporate assets in 40 states and Canada. Mr. Holman co-founded and was a senior executive and director of Watkins Pacific Corporation, a public multi-national conglomerate. Mr. Holman currently serves as a director and member of the audit and investment committees of the Parasol Tahoe Community Foundation. Mr. Holman has previously served as a director of Amerivest Properties, Inc., an American Stock Exchange-listed company, and as a senior executive, director, owner or board advisor for investment and operating companies in the United States, Great Britain, Australia and Mexico. He holds a B.A. degree in international economics from the University of California at Berkeley, an M.A. degree with honors from Lancaster University in England, where he was a British Council Fellow, and did post-graduate work at Harvard University where he was awarded a Loeb Fellowship. Mr. Holman's qualifications for election to our board include his experience as a founder, chief executive and director of TriNet, a public real estate investment firm focused on corporate tenant leasing which remains a key aspect of our business, his involvement in leadership capacities in other companies and organizations engaged in a broad range of business, finance and investment activities and his experience as a private investor.

Robin Josephs has served as one of our (and our predecessor's) directors since March 1998. Ms. Josephs serves as our Lead Director, with duties that include presiding at all executive sessions of the independent directors and serving as principal liaison between the chairman and the independent directors. Ms. Josephs is a member of our Audit, Compensation and Nominating and Governance Committees. From July 2005 to March 2007, Ms. Josephs was a managing director of Starwood Capital

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Group L.P., a private equity firm specializing in real estate investments. Prior to that, Ms. Josephs was a senior executive with Goldman Sachs & Co. from 1986 to 1996 in various capacities. She currently serves as a director of Plum Creek Timber Company, Inc. (NYSE: PCL), which conducts operations in the land, wood products, natural resource and energy businesses, where she also serves on both the compensation and audit committees, and MFA Financial, Inc. (NYSE: MFA), which is primarily engaged in investing in residential mortgage-backed securities. Ms. Josephs is a trustee of the University of Chicago Cancer Research Foundation and executive vice president of the Tourette Syndrome Association. Ms. Josephs received a B.S. degree in economics *magna cum laude* from the Wharton School (Phi Beta Kappa) and an M.B.A. degree from Columbia University. Ms. Josephs' qualifications for election to our board include her experience as an executive with firms in the real estate, finance and investment industries and her extensive experience as a director of public real estate and investment companies.

John G. McDonald has served as one of our directors since November 1999. Previously, Professor McDonald served as a director of TriNet since June 1993. Professor McDonald is chairman of our Nominating and Governance Committee. He is the Stanford Investors Professor of Finance in the Graduate School of Business at Stanford University, where he has taught since 1968. Professor McDonald has taught M.B.A. courses and executive programs in subject areas including investment management, private equity, venture capital and corporate finance. He currently serves as a director of Scholastic Corporation (Nasdaq: SCHL), a global children's publishing, education and media company, Plum Creek Timber Company, Inc. (NYSE: PCL), QuinStreet, Inc. (Nasdaq: QNST), a vertical marketing and online media company, and thirteen mutual funds managed by Capital Research and Management Company. Professor McDonald previously served as a director of Varian, Inc., which was acquired by Agilent Technologies, Inc. in 2010. Professor McDonald's qualifications for election to our board include his experience over an extended period as a professor of finance at a leading educational institution and as a director of public companies and mutual funds.

George R. Puskar has served as one of our directors since November 1999. Previously, Mr. Puskar served as a director of TriNet since January 1998. Mr. Puskar is chairman of our Asset Management and Investment Committee and a member of our Audit Committee. Mr. Puskar also serves as our alternate Lead Director. From June 1997 until June 2000, Mr. Puskar served as chairman of the board of Lend Lease Real Estate Investments (formerly known as ERE Yarmouth), the U.S. real estate unit of Lend Lease Corporation, an international financial services and real estate company based in Sydney, Australia. From 1988 until June 1997, Mr. Puskar was chairman and chief executive officer of Equitable Real Estate Investment Management, Inc., where he was responsible for directing the business operations of a full service commercial real estate investment management company with approximately \$30 billion in assets under management. Prior to its acquisition by Lend Lease Corporation in June 1997, Equitable Real Estate Investment Management, Inc. operated as a subsidiary of The Equitable Life Assurance Society of the United States. Mr. Puskar currently serves as the chairman of Solutions Manufacturing, Inc., a manufacturer of electronic components based in Rockledge, Florida, as a director of World Team Sports, an organization that specializes in unique athletic events with teams built around disabled athletes, and as a member of the Paralympic Advisory Committee of the United States Olympic Committee. Mr. Puskar has previously served as a director and member of the audit committee of New Plan Excel Realty Trust, Inc., a member of the board of directors of Carr Real Estate Investment Trust, and on an advisory board at Georgia State University. Mr. Puskar has also served on the boards of the Urban Land Institute, the International Council of Shopping Centers, the National Council of Real Estate Fiduciaries and the National Realty Committee, and as chairman of a campaign to endow a real estate chair at Clark Atlanta University/Morehouse College. Mr. Puskar received a B.A. degree from Duquesne University. Mr. Puskar's qualifications for election to our board include his experience as chairman and chief executive officer of a major real estate investment management firm, his service as a director of several public real estate investment companies and his other significant business experience.

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Dale Anne Reiss has served as one of our directors since July 2008. Ms. Reiss is chairperson of our Audit Committee. Ms. Reiss is the chair of Brock Real Estate LLC and senior managing director of Brock Capital LLC. Until her retirement in 2008, she served as Global and Americas Director of Real Estate at Ernst & Young LLP and was a Senior Partner there from 1995 through 2008 in various capacities. She served as a Managing Partner at Kenneth Leventhal & Company from 1985 through its merger with Ernst & Young in 1995. From 1980 to 1985, Ms. Reiss was a Senior Vice President and Controller at Urban Investment & Development Company. She is also Managing Director of Artemis Advisors, LLC and a member of the board of directors of Post Properties, Inc. where she serves on the audit and the nominating and governance committees. Since 1998, Ms. Reiss has served as a Trustee and Governor of the Urban Land Institute and in various ULI officer and committee leadership positions. She also serves as a trustee for the Guttmacher Institute and the Pension Real Estate Association. In 2002, the New York Women Executives in Real Estate named Ms. Reiss Woman of the Year. Ms. Reiss is a Certified Public Accountant. She received a B.S. from the Illinois Institute of Technology and an M.B.A. from the University of Chicago. Ms. Reiss' qualifications for election to our board include her extensive expertise in financial and accounting matters from her experience over an extended period at several major public accounting firms, her leadership experience in management and operations at those firms and her experience as a director of other public and private companies.

Barry W. Ridings has served as one of our directors since August 2011. He is a member of our Compensation Committee. Mr. Ridings has been the Managing Director of Lazard Frères & Co. LLC since July 1999. He serves as the Chairman of LFCM Holdings LLC and as a Vice Chairman of Lazard Freres & Co. LLC. Mr. Ridings served as Managing Director of Deutsche Banc Alex. Brown from March 1990 to June 1999 and Drexel Burnham Lambert from June 1986 to March 1990. He has over 30 years of experience in debt and equity offerings, mergers and acquisitions and corporate restructurings. Mr. Ridings serves as a Director of Siem Industries Inc. He serves on the Advisory Council for the Cornell University Johnson Graduate School of Business. He serves as a Trustee of the Mu of Delta Kappa Epsilon Foundation, a charitable fraternal organization associated with Colgate University, a trustee of The Montclair Kimberley Academy and a director of the Catholic Charities of the Archdiocese of New York. Mr. Ridings has an M.B.A. in Finance from Cornell University and a B.A. in Religion from Colgate University. Mr. Ridings' qualifications for election to our board include his distinguished career in the finance industry, his experience in helping companies access debt and equity capital and navigate challenging market conditions, his service as a director of other public and private companies and his charitable activities.

Recommendation Regarding the Election of Directors

The board recommends that you vote FOR election of the seven named nominees as our directors.

PROPOSAL 2:

**RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the board of directors, with the concurrence of the board, has selected PricewaterhouseCoopers LLP, an independent registered public accounting firm, to be our auditors for the fiscal year ending December 31, 2012, subject to ratification by our shareholders. We expect a representative of PricewaterhouseCoopers LLP to attend the annual meeting to make a statement, if he or she desires, and to respond to appropriate questions.

Recommendation Regarding Ratification of Appointment of PricewaterhouseCoopers LLP

The board recommends that you vote FOR ratification of the appointment of PricewaterhouseCoopers LLP, an independent registered public accounting firm, to be our auditors for the fiscal year ending December 31, 2012.

PROPOSAL 3:

**SHAREHOLDER ADVISORY (NON-BINDING) VOTE
ON EXECUTIVE COMPENSATION**

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") enacted in July 2010 includes a provision, commonly referred to as "Say on Pay," that entitles our shareholders to cast an advisory vote to approve the compensation of our named executive officers and other named officers as disclosed in this proxy statement. At our 2011 Annual Meeting, the majority of our shareholders voted in favor of holding an annual, non-binding Say on Pay vote. Our board of directors adopted the shareholders' recommendation and determined to conduct an annual Say on Pay vote.

We believe that our compensation policies and practices are strongly aligned with the long-term interests of our shareholders. Shareholders are urged to read the Executive Compensation section of this proxy statement, and especially the Compensation Discussion and Analysis, which discusses our compensation philosophy and how our compensation policies and practices implement our philosophy.

As described more fully in that discussion, our compensation programs are designed to achieve the following objectives:

To further our current and long-term strategic, business and financial goals in the creation of shareholder value by enabling us to attract, retain, motivate and reward key executives who contribute to achieving those goals.

To encourage our key executives to increase shareholder value by providing an appropriate mix of current compensation and long-term rewards that is properly balanced between salary and performance-based pay and includes cash, equity compensation and other benefits.

To align shareholder and employee interests by compensating employees for increasing the Company's book value and market value, which benefits all our shareholders.

To promote these objectives, a significant part of executive compensation is based on accomplishing achievements that increase the value of the Company. We believe this approach helps us achieve our objectives and promote the interests of our shareholders.

Our compensation decisions for 2011 have taken into account our executives' continuing focus on resolving non-performing assets, generating liquidity, retiring debt, decreasing leverage and preserving shareholder value, which achieved the following significant results during 2011:

We completed approximately \$3.0 billion of secured debt refinancing transactions, which enabled us to meet our debt maturities and improve our debt maturity profile. In addition, we made

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significant strides toward refinancing our future near-term debt maturities and, in March 2012, we entered into a new \$0.9 billion senior secured credit facility and will use the proceeds to refinance unsecured debt maturing in 2012.

We generated a total of approximately \$1.7 billion in liquidity from our portfolio, through loan principal repayments and asset sales, and used those proceeds primarily to retire debt and reduce our leverage. We reduced outstanding debt obligations to approximately \$5.8 billion at December 31, 2011 from \$7.3 billion at December 31, 2010.

We made meaningful progress in resolving problem assets, primarily evidenced by reductions in our non-performing loans and a significantly lower provision for loan losses.

Our non-performing loans decreased by 43% to approximately \$0.8 billion at December 31, 2011, compared to \$1.4 billion at December 31, 2010.

We funded a total of \$216.3 million in new and pre-existing investments. The new investments were primarily sourced from our existing portfolio.

We maintained book value per common share, which increased slightly by 1% from last year.

We reduced our net leverage to 2.7x at December 31, 2011, compared to 3.1x at December 31, 2010.

We significantly reduced our general and administrative expenses, primarily due to lower payroll and employee-related costs from reduced annual cash compensation and staffing reductions. Excluding stock-based compensation expense, our general and administrative expenses decreased by \$14.8 million or 16.5% from the prior year.

Our improved performance was reflected in upgraded ratings from credit rating agencies.

Overall, these 2011 results have continued our progress toward achieving near-term recovery and longer-term future success. Our compensation decisions for 2011 have taken into account the challenges faced and results achieved by our management team in 2011.

We are requesting your non-binding vote on the following resolution:

"RESOLVED, that the Company's shareholders approve, on an advisory basis, the compensation of the named executive officers and other named officers as described in the Proxy Statement for the 2012 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the SEC, including the Compensation Discussion and Analysis, the 2011 Summary Compensation Table and the other related tables and narrative disclosure."

Although your vote is non-binding and advisory, the board of directors and the Compensation Committee will take into account the outcome of the vote when considering future executive compensation arrangements.

Recommendation Regarding Executive Compensation

The board of directors recommends that you vote FOR the resolution to approve the compensation of named executive officers and other named officers as described in the Compensation Discussion and Analysis, the compensation tables and other narrative disclosure in this proxy statement.

**INFORMATION REGARDING THE BOARD OF DIRECTORS
AND ITS COMMITTEES**

How often did the board meet during 2011?

During the fiscal year ended December 31, 2011, the board held 22 meetings, including meetings held in person and by telephone conference call. All directors are expected to attend a majority of the board meetings. All directors attended at least 75% of all of the board meetings and applicable committee meetings. In addition, all of the directors who were elected at the 2011 annual meeting were present in person at that annual meeting.

What Committees has the board established?

Our board has standing Audit, Compensation, Nominating and Governance, and Asset Management and Investment Committees. The standing committees are comprised entirely of independent directors. Our board appoints special committees from time to time, as deemed necessary or appropriate.

How does the Company determine director independence?

Our board has determined that a majority of our directors are independent. In determining director independence, the board considers all relevant facts and circumstances and the NYSE listing standards. Under the NYSE listing standards, no director qualifies as independent unless the board affirmatively determines that the director has no material relationship with the Company, either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company. The board has determined that the following directors qualify as independent: Mss. Josephs and Reiss and Messrs. Holman, McDonald, Puskar and Ridings.

The Audit Committee

The Audit Committee is responsible for, among other things, retaining or dismissing our independent registered public accounting firm, reviewing with the auditors the plan and scope of the audit and audit fees, monitoring the adequacy of reporting and internal controls and meeting periodically with management and our independent registered public accounting firm.

As of the date of this proxy statement, the members of the Audit Committee are Dale Anne Reiss (chairperson), Robert W. Holman, Jr., Robin Josephs and George R. Puskar. The board has determined that each of the current members of the Audit Committee is independent, as defined by the Audit Committee's charter and the NYSE listing standards, and that the chairperson of the committee qualifies as an "audit committee financial expert" as defined by the SEC. In addition, the board has determined that each of the current members of the Audit Committee is financially literate and has accounting or related financial management expertise, as such qualifications are defined under the rules of the NYSE. The Audit Committee operates under a written charter, a copy of which may be found on our website at www.istarfinancial.com and will be provided in print, without charge, to any shareholder who requests a copy. The Audit Committee met 12 times during 2011, including meetings held in person and by telephone conference call.

The Compensation Committee

The Compensation Committee is responsible for overseeing the Company's executive compensation programs. The principal responsibilities of the Compensation Committee are:

To review management's recommendations and advise management and the board on broad compensation programs and policies such as salary ranges, annual incentive bonuses and long-term incentive plans, including equity-based compensation programs, as well as other group benefit programs offered to employees generally.

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To review performance objectives established for the senior executives of the Company and evaluate the performance of such executives relative to these objectives, in connection with the Compensation Committee's overall review of executive compensation.

To approve, either as a committee or together with the other independent directors based on a recommendation of the committee, the base salary, cash incentive bonus, equity-based incentive awards and other compensation for the chief executive officer of the Company.

To approve base salaries, cash incentive bonuses, equity-based incentive awards and other compensation for other officers and employees of the Company with base salaries in excess of \$200,000 per year (which includes all officers who are subject to Section 16(b) of the Securities Exchange Act of 1934, as amended).

To administer the issuance of any award under the Company's long term incentive plans and other equity compensation programs.

To retain and oversee third party consultants to assist with the Compensation Committee's activities, from time to time.

To oversee the Company's performance evaluation practices and procedures.

To consider and evaluate "Say on Pay" resolutions and recommend to the board the frequency with which "Say on Pay" resolutions should be voted on by the shareholders.

To perform such other duties and responsibilities pertaining to compensation matters as may be assigned to the Compensation Committee by the board or the chairman of the board.

To review the Compensation Discussion and Analysis for inclusion in this proxy statement.

As of the date of this proxy statement, the members of the Compensation Committee are Robert W. Holman, Jr. (chairman), Robin Josephs, John G. McDonald and Barry W. Ridings. Each of the current members of the Compensation Committee is independent as defined by the Compensation Committee's charter and the NYSE listing standards. The Compensation Committee operates under a written charter, a copy of which may be found on our website at www.istarfinancial.com and will be provided in print, without charge, to any shareholder who requests a copy. The Compensation Committee met 21 times during 2011, including meetings held in person and by telephone conference call.

The Nominating and Governance Committee

The Nominating and Governance Committee is responsible for, among other things, considering and recommending actions relating to corporate governance matters. In addition, the Nominating and Governance Committee considers and recommends to the board individuals to serve as our directors and executive officers. In making such recommendations, the Nominating and Governance Committee considers such factors as it deems appropriate. These factors may include judgment, skill and experience with businesses and other organizations comparable to the Company. The charter of our nominating and governance committee also identifies diversity as one factor which the committee may consider when nominating a candidate for election to the board. Diversity includes not only factors such as gender, race and age, but also background, experience, skills, accomplishments, personal qualities and other traits desirable in achieving an appropriate mix of qualified individuals.

The Nominating and Governance Committee may solicit and consider suggestions of the directors or management regarding possible nominees, may consider nominees suggested by shareholders and generally shall guide the process of recruiting new directors. The Nominating and Governance Committee may employ professional search firms or consultants (for which the Company pays a fee) to assist it in identifying potential members of the board with the desired skills and disciplines. Nominations made by shareholders should be made in accordance with the procedures set forth in this

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proxy statement under "Corporate Governance Matters Shareholder Nominations for the Board." Candidates proposed by shareholders will be considered using the same criteria and in the same manner as all other candidates are considered.

As of the date of this proxy statement, the members of the Nominating and Governance Committee are John G. McDonald (chairman), Robert W. Holman, Jr. and Robin Josephs. Each of the current members of the Nominating and Governance Committee is independent as defined by the applicable NYSE listing standards. The Nominating and Governance Committee operates under a written charter, a copy of which may be found on our website at www.istarfinancial.com and will be provided in print, without charge, to any shareholder who requests a copy. The Nominating and Governance Committee met four times during 2011, including meetings held in person and by telephone conference call.

The Asset Management and Investment Committee

The Asset Management and Investment Committee regularly reviews our significant loans and assets in each principal asset category, and discusses strategies for dealing with issues relating to portfolio management, asset dispositions and other negotiated resolutions, to complement the portfolio review conducted regularly by the board of directors.

The board has delegated to the Asset Management and Investment Committee the authority to approve our investment transactions involving commitments greater than \$75 million but less than or equal to \$150 million. Investment transactions of more than \$150 million, and strategic investments such as a corporate merger or acquisition of another business entity (other than a corporate net lease financing) or any other material transaction in an amount greater than \$75 million involving our entry into a new line of business, must be approved by our board of directors. Investment transactions less than or equal to \$75 million are subject to the approval of either an internal senior management investment committee or Jay Sugarman, our chairman and chief executive officer, and Nina Matis, our chief legal officer and chief investment officer, in accordance with the limits of investment authority established by the board.

The members of the Asset Management and Investment Committee are George R. Puskar (chairman), John G. McDonald and Dale Anne Reiss. The Committee met four times during 2011.

Are there any special arrangements under which members of our board serve as directors?

No arrangement or understanding exists between any director or executive officer and any other person or persons pursuant to which any director or executive officer was, or is, to be selected as a director or nominee.

What is the board's role in risk oversight?

Our management is charged with assessing and managing risks associated with our business on a day-to-day basis. The board's role is to oversee management's execution of these responsibilities and to assess our approach to risk management. In our view, it is not possible or desirable to eliminate risk from our activities. We believe that, as a company, our focus should be on identifying, pricing, managing and monitoring risk with the objective of achieving attractive, long-term, risk-adjusted returns for the benefit of the Company and our shareholders. We have robust internal processes and a strong internal control environment designed to identify, manage and mitigate material risks and to communicate with the board. The board exercises its oversight role periodically as part of its regular meetings and also through its committees, which examine various elements of risk as part of their responsibilities. The full board, or the appropriate board committee in the case of risks under the purview of a particular committee, receives regular reports from members of senior management on areas of material risk to iStar, including operational, financial, legal, regulatory, strategic and reputational risk, in order to review and understand risk identification, risk management and risk mitigation strategies. The board's role in risk oversight is consistent with our leadership structure generally, with the chief executive officer and other members of senior management having responsibility for assessing and managing our risk exposure, and the board and its committees providing oversight in connection with those efforts.

EXECUTIVE OFFICERS AND OTHER NAMED OFFICERS

Who are our executive officers and other named officers?

Information for Jay Sugarman is contained above under the heading "PROPOSAL 1: ELECTION OF DIRECTORS." Information with regard to our executive officers and other named officers is set forth below. All of our officers serve at the pleasure of the board of directors and are customarily appointed as officers at the annual organizational meeting of the board held following each annual meeting of shareholders.

David DiStaso serves as our chief financial officer, having assumed this position in December 2010. He previously served as our chief accounting officer since June 2008. Mr. DiStaso is responsible for managing our financial reporting, accounting, treasury, investor relations and other corporate finance functions, and is involved in the execution of all capital markets activities. Before joining iStar Financial Inc., Mr. DiStaso previously spent 11 years with the CIT Group, Inc., most recently as chief financial officer of the Consumer Finance Division. He spent the first 10 years of his career in public accounting with KPMG, serving as a senior manager within the audit group and providing audit and consulting services to clients within the financial services industry. Mr. DiStaso received a bachelor's degree from Rutgers College and is a certified public accountant. Mr. DiStaso is 47 years old.

Nina Matis currently serves as our chief legal officer and chief investment officer. She assumed her current position in February 2008 after serving as general counsel of iStar Financial Inc. (and our predecessor) since 1996, executive vice president since November 1999 and chief investment officer since April 2007. Ms. Matis is responsible for overseeing and managing the strategic consideration and execution of our investment and financing transactions, restructurings and resolutions of loans and other problem assets, significant operational responsibilities and litigation and other legal matters. Ms. Matis previously served as a partner in the law firm of Katten Muchin Rosenman LLP, one of our principal outside law firms, and was an inactive special capital partner of the firm until her withdrawal from this position during 2010. From 1984 through 1987, Ms. Matis was an adjunct professor at Northwestern University School of Law where she taught real estate transactions. Ms. Matis previously served as a director of New Plan Excel Realty Trust, Inc. She is a director of Signature Theater Company and a member of the American College of Real Estate Lawyers, Ely Chapter of Lambda Alpha International, the Chicago Finance Exchange, the Urban Land Institute, REFF, the Chicago Real Estate Executive Women, The Chicago Network and The Economic Club of Chicago. Ms. Matis received a B.A. degree, with honors, from Smith College and a J.D. degree from New York University School of Law. Ms. Matis is 64 years old.

Michael Dorsch currently serves as our executive vice president, serving in this position since March 2000. Mr. Dorsch is currently responsible for portfolio management and asset resolution activities, with particular focus on our portfolio of land investments. Prior to joining iStar Financial Inc., Mr. Dorsch was a principal of ACRE Partners LLC, a privately held firm focused on providing public and private corporations with highly-structured financing solutions for their corporate real estate facilities. Previously, Mr. Dorsch was a founder and managing partner of Corporate Realty Capital, a Boston-based real estate investment bank focused on originating, structuring and financing net lease transactions, and was also a partner in a real estate development, ownership and management concern. Mr. Dorsch graduated with a Sc.B. in Mechanical Engineering from Brown University and has an M.B.A. from Harvard Business School. Mr. Dorsch is 56 years old.

Michelle MacKay currently serves as our executive vice president, serving in this position since February 2003. Ms. MacKay is Head of Capital Markets, with responsibility for evaluating and executing capital markets initiatives, and works on strategic investments. She joined iStar Financial Inc. from UBS Warburg, where she was an Executive Director in commercial real estate and a senior member of the commercial real estate approval committee. Ms. MacKay was also responsible for mezzanine structuring and distribution. From 1996 to 1998, Ms. MacKay was Vice President at Chase Bank where she oversaw commercial mortgage-backed securities trading and real estate products distribution. Prior to Chase, Ms. MacKay worked in real estate investments at The Hartford. Ms. MacKay holds an M.B.A. from the University of Hartford and a B.A. from the University of Connecticut. Ms. Mackay is 45 years old.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee oversees the financial reporting process of iStar Financial Inc. (the Company), on behalf of the Board of Directors of the Company in accordance with our Audit Committee charter. The Board, in its judgment, has determined that all members of our Audit Committee meet the independence requirements of the Securities and Exchange Commission (the SEC) and the New York Stock Exchange (the NYSE). The Board has also determined that each member of our Audit Committee is financially literate and has accounting or related financial management expertise, as such qualifications are defined under the rules of the NYSE, and that the chairperson of the Audit Committee is an "audit committee financial expert" within the meaning of the rules of the SEC. We operate under a written charter approved by the Board, consistent with the corporate governance rules issued by the SEC and the NYSE. Our charter is available on the Company's website at www.istarfinancial.com and will be provided in print, without charge, to any shareholder who requests a copy.

The Company's management is responsible for the financial reporting process and preparation of the quarterly and annual consolidated financial statements, including maintaining a system of internal controls over financial reporting, as well as disclosure controls and procedures. We are directly responsible for the appointment, compensation, retention, oversight and termination of the Company's external auditors, PricewaterhouseCoopers LLP, an independent registered public accounting firm. The independent registered public accounting firm is responsible for auditing the effectiveness of the Company's internal controls over financial reporting and for expressing their opinion thereon, in addition to auditing the annual consolidated financial statements and expressing an opinion on the conformity of those financial statements with generally accepted accounting principles in the United States. We also review the performance of the Company's internal audit function. We do not prepare financial statements or conduct audits.

In connection with the December 31, 2011 audited consolidated financial statements, we have:

reviewed and discussed with management and the independent registered public accounting firm the Company's internal controls over financial reporting, including a review of management's and the independent registered public accounting firm's assessments of and reports on the effectiveness of internal controls over financial reporting and any significant deficiencies or material weaknesses;

reviewed and discussed with management and the independent registered public accounting firm the Company's audited financial statements, including discussions regarding critical accounting policies, other financial accounting and reporting principles and practices appropriate for the Company, the quality of such principles and practices, and the reasonableness of significant judgments;

discussed with the independent registered public accounting firm the items that are required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended by Statement on Auditing Standards No. 90, Audit Committee Communications; and

reviewed and considered the written disclosures in the letter received from PricewaterhouseCoopers LLP, as required by the PCAOB regarding the independent accountant's communications with the Audit Committee regarding independence, including a discussion about their independence from the Company and management.

Based on the reviews and discussions above, and subject to the limitations on the role and responsibilities of the Audit Committee referred to above and in the Audit Committee charter in effect in 2011, we recommended to the board that the audited consolidated financial statements for 2011 be

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included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, for filing with the SEC. The board approved our recommendation.

Submitted by the Audit Committee:

Dale Anne Reiss (Chairperson)
Robert W. Holman, Jr.
Robin Josephs
George R. Puskar

The above report will not be deemed to be incorporated by reference into any filing by us under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate the same by reference.

CORPORATE GOVERNANCE MATTERS

Corporate Governance Guidelines

Our board has approved a set of guidelines that provide the framework for the governance of iStar Financial Inc. The board reviews these guidelines and other aspects of our corporate governance periodically, as necessary. Our corporate governance guidelines may be found on our website at www.istarfinancial.com and will be provided in print, without charge, to any shareholder who requests a copy.

Board Leadership Structure

Our board has the authority to select the leadership structure it considers appropriate for iStar. In making leadership structure determinations, the board considers many factors, including the specific needs of our business and what is in the best interests of our shareholders. Our current leadership structure consists of a combined chairman of the board and chief executive officer position, a lead independent director, or Lead Director, an active and involved board, a majority of whom are independent directors, and board committees chaired by independent directors.

Under our bylaws, the chairman of the board presides over the meetings of the board and of the shareholders. The chairman of the board shall perform such other duties as may be assigned to him by the board of directors. The chief executive officer has general responsibility for implementation of the policies of the Company, as determined by the board, and for the management of the business and affairs of the Company. Jay Sugarman serves as both chairman of the board and chief executive officer.

Our board, by vote of its independent members, has designated a Lead Director, whose duties include the following:

preside at all meetings of the board at which the chairman is not present, including executive sessions of the independent directors;

serve as principal liaison between the chairman and the independent directors;

advise the chairman on the quality, quantity and timeliness of the information presented to the board;

advise the chairman on the agendas for board meetings;

advise the chairman on the schedule of meetings of the board to assure that there is sufficient time for discussion of agenda items;

call meetings of the independent directors, if deemed necessary or appropriate by the Lead Director;

if requested by major shareholders, be available for consultation and direct communication with major shareholders and their representatives; and

such other duties as the board may determine from time to time.

Robin Josephs currently serves as our Lead Director. George R. Puskar has been designated to serve as our alternate Lead Director.

The board believes that this leadership structure a combined chairman and chief executive officer, a lead independent director, active and involved independent directors, and board committees led by independent directors is the most appropriate and effective arrangement for the Company at this time. Due to the varied and complex nature of the Company's business, the board believes the chief executive officer is in the best position to lead most effectively and to serve in the critical role of chairman of the board. Having a chairman who also serves as chief executive officer facilitates timely

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communication with directors on critical business matters. The board believes that leadership of both the board and the Company by Mr. Sugarman is the optimal structure to guide the Company and maintain the focus needed to achieve our business goals. The board also believes there is an effective balance between strong Company leadership and appropriate oversight by independent directors and that the current board leadership structure functions very well. The board recognizes that circumstances may change, however, and will periodically review its leadership structure.

Executive Sessions

Our board of directors meets in executive session without management present at least quarterly. Our audit committee also meets in executive session without management present but with representatives of the Company's independent registered public accounting firm present at least quarterly.

Committee Charters

Our Audit, Compensation and Nominating and Governance Committees have adopted charters that meet the standards established by the NYSE. Copies of these charters are available on our website at www.istarfinancial.com and will be provided in print, without charge, to any shareholder who requests copies.

Service on Other Boards

In view of the commitment of time and effort that is required of a director of a public company, our board has established a guideline that its directors should not serve on the boards of more than six public companies. For this purpose, we treat service on the boards of mutual funds having the same investment adviser as service on the board of one company.

Code of Conduct

The Code of Conduct documents the principles of conduct and ethics to be followed by our directors, officers and employees. The purpose of the Code of Conduct is to promote honest and ethical conduct, compliance with applicable governmental rules and regulations, full, fair, accurate, timely and understandable disclosure in periodic reports, prompt internal reporting of violations of the Code of Conduct and a culture of honesty and accountability. A copy of the Code of Conduct has been provided to each of our directors, officers and employees, who are required to acknowledge that they have received and will comply with the Code of Conduct. Among its many features, the Code of Conduct describes how employees can report any matter that may be of concern to a named Compliance Officer, any other member of our Compliance Committee, our chief executive officer or the Chairman of the Audit Committee. This reporting may be done on an anonymous basis. We have also established an independent "hotline" telephone service that may be used by employees who wish to report any concerns or suspected violations of our standards of conduct, policies or laws and regulations, on an anonymous basis or otherwise. A copy of our Code of Conduct may be found on our website at www.istarfinancial.com and will be provided in print, without charge, to any shareholder who requests a copy.

Disclosure Committee

We maintain a Disclosure Committee consisting of members of our executive management and senior staff. The purpose of the Disclosure Committee is to oversee our system of disclosure controls and assist and advise the chief executive officer and chief financial officer in making the required certifications in SEC reports. The Disclosure Committee was established to bring together on a regular basis representatives from our core business lines and employees involved in the preparation of our

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financial statements to discuss any issues or matters of which the members are aware that should be considered for disclosure in our public SEC filings. The Disclosure Committee reports to our chief executive officer and, as appropriate, to our Audit Committee. The Disclosure Committee meets quarterly and otherwise as needed. The Disclosure Committee has adopted a written charter to memorialize the Committee's purpose and procedures. A copy of the charter may be found on our website at www.istarfinancial.com and will be provided in print, without charge, to any shareholder who requests a copy.

Communications with the Board

We provide the opportunity for interested parties, including shareholders, to communicate with members of the board. Interested parties may communicate with our Lead Director, the other independent board members or the chairperson of any of the committees of the board by e-mail or regular mail. All communications by e-mail should be sent to CorporateSecretary@istarfinancial.com. Communications sent by regular mail should be sent to the attention of the Lead Director, the independent directors, the Audit Committee chairperson, the Compensation Committee chairman or the Nominating and Governance Committee chairman, as the case may be, in each instance in care of the secretary of the Company at our headquarters at 1114 Avenue of the Americas, 39th Floor, New York, NY 10036.

Our chief legal officer and our secretary will review each communication received in accordance with this process to determine whether the communication requires immediate action. These officers will forward all appropriate communications received, or a summary of such communications, to the appropriate board member(s). However, we reserve the right to disregard any communication that our chief legal officer and our secretary determine is unduly hostile, threatening, or illegal, does not reasonably relate to the Company or its business, or is similarly inappropriate. These officers have the authority to disregard any inappropriate communications or to take other appropriate actions with respect to any such inappropriate communications.

Shareholder Nominations for the Board

Shareholder nominations for election to the board should be sent to the attention of the secretary of the Company at the address appearing on the notice accompanying this proxy statement, describing the candidate's qualifications and accompanied by the candidate's written statement of willingness and affirmative desire to serve in a manner representing the interest of all shareholders. Shareholders may also make nominations directly by following the procedure specified in the Company's Bylaws.

Candidates proposed by shareholders will be considered using the same criteria and in the same manner utilized by the Nominating and Governance Committee of the board in considering all candidates for election to the board. See "INFORMATION REGARDING THE BOARD OF DIRECTORS AND ITS COMMITTEES The Nominating and Governance Committee."

Minimum Stock Ownership Guidelines for Non-Employee Directors

Our minimum stock ownership guidelines require each non-employee director to own a minimum number of shares of our common stock and/or common stock equivalents equal to at least the aggregate number of shares of common stock and common stock equivalents granted by us to the director as part of his or her annual non-employee director compensation during the 36 months preceding the test date, which is July 1 of each year. Each non-employee director has three years after his or her election to the board to satisfy the ownership guidelines. Taking into account any permitted transition period, all of our non-employee directors are currently in compliance with the guidelines.

No Poison Pill

We do not currently have a shareholder rights plan, commonly known as a "poison pill," in effect.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This compensation discussion and analysis describes the key principles and factors underlying our executive compensation policies and decisions for 2011 for our executive officers and other named officers, who are:

Jay Sugarman, our chairman and chief executive officer;

David DiStaso, our chief financial officer;

Nina Matis, our chief legal officer and chief investment officer;

Michael Dorsch, our executive vice president; and

Michelle MacKay, our executive vice president.

The following discussion should be read in conjunction with the other information presented in this proxy statement, including the information in the compensation tables and the footnotes to those tables.

2011 Compensation Overview

Our decisions regarding executive compensation for 2011 were based on the following primary considerations:

Assessing our overall 2011 accomplishments and the continuing significant operational challenges and financial pressures on the Company;

Assessing the efforts and achievements of our management team and other employees with respect to the critical issues facing the Company;

Emphasizing the near-term operational priorities necessary to improve our longer-term financial health and prospects; and

Retaining critical talent to achieve current strategic and operational goals and to position us for future success.

The recent economic recession adversely affected our business, resulting in significant provisions for loans losses and impairments, increasing amounts of non-performing loans, higher financing costs and an inability to access the unsecured debt markets. During the recession and continuing through 2011, we focused on resolving non-performing assets, generating liquidity, retiring debt, decreasing leverage and preserving shareholder value. In 2011, our efforts in these areas achieved the following significant results for our business:

We completed approximately \$3.0 billion of secured debt refinancing transactions, which enabled us to meet our debt maturities and improve our debt maturity profile. In addition, we made significant strides toward refinancing our future near-term debt maturities and, in March 2012, we entered into a new \$0.9 billion senior secured credit facility and will use the proceeds to refinance unsecured debt maturing in 2012.

We generated a total of approximately \$1.7 billion in liquidity from our portfolio, through loan principal repayments and asset sales, and used those proceeds primarily to retire debt and reduce our leverage. We reduced outstanding debt

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obligations to approximately \$5.8 billion at December 31, 2011 from \$7.3 billion at December 31, 2010.

We made meaningful progress in resolving problem assets, primarily evidenced by reductions in our non-performing loans and a significantly lower provision for loan losses.

Our non-performing loans decreased by 43% to approximately \$0.8 billion at December 31, 2011, compared to \$1.4 billion at December 31, 2010.

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We funded a total of \$216.3 million in new and pre-existing investments. The new investments were primarily sourced from our existing portfolio.

We maintained book value per common share, which increased slightly by 1% from last year.

We reduced our net leverage to 2.7x at December 31, 2011, compared to 3.1x at December 31, 2010.