ISTAR FINANCIAL INC
Form 10-Q
November 09, 2012
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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 September 30, 2012
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

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iSTAR FINANCIAL INC.
(Exact name of registrant as specified in its charter)

Maryland	95-6881527
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1114 Avenue of the Americas, 39th Floor	
New York, NY	10036
(Address of principal executive offices)	(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 ý	Accelerated filer o	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 November 2, 2012, there were 83,647,510 shares of common stock, $0.001 par value per share, of iStar Financial Inc. ("Common Stock") outstanding.

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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 September 30, 2012	December 31, 2011
ASSETS		
Loans and other lending investments, net	$2,118,723	$2,860,762
Net lease assets, net	1,540,464	1,702,764
Real estate held for investment, net	1,174,955	1,228,134
Other real estate owned	706,715	677,458
Other investments	419,648	457,835
Cash and cash equivalents	284,659	356,826
Restricted cash (see Note 10)	493,386	32,630
Accrued interest and operating lease income receivable, net	12,982	20,208
Deferred operating lease income receivable	81,416	73,368
Deferred expenses and other assets, net	107,471	107,852
Total assets	$6,940,419	$7,517,837
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$136,658	$105,357
Debt obligations, net	5,388,860	5,837,540
Total liabilities	$5,525,518	$5,942,897
Commitments and contingencies	—	—
Redeemable noncontrolling interests	14,208	1,336
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, 142,556 issued and 83,639 outstanding at September 30, 2012 and 140,028 issued and 81,920 outstanding at December 31, 2011	142	140
Additional paid-in capital	3,829,925	3,834,460
Retained earnings (deficit)	(2,270,258)	(2,078,397)
Accumulated other comprehensive income (loss) (see Note 12)	(2,012)	(328)
Treasury stock, at cost, $0.001 par value, 58,917 shares at September 30, 2012 and 58,108 shares at December 31, 2011	(241,969)	(237,341)
Total iStar Financial Inc. shareholders' equity	$1,325,650	$1,528,356
Noncontrolling interests	75,043	45,248
Total equity	$1,400,693	$1,573,604
Total liabilities and equity	$6,940,419	$7,517,837

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 September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
Revenues:				
Interest income	$31,171	$45,851	$104,822	$186,805
Operating lease income	38,582	38,322	114,990	114,076
Other income	16,494	10,140	55,125	26,412
Total revenues	$86,247	$94,313	$274,937	$327,293
Costs and expenses:				
Interest expense	$91,777	$90,659	$271,595	$255,505
Operating costs—net lease assets	5,548	4,845	13,676	13,515
Operating costs—REHI and OREO	24,454	19,792	68,952	55,582
Depreciation and amortization	16,787	13,953	50,263	43,777
General and administrative	19,037	26,978	61,674	77,077
Provision for loan losses	16,834	9,232	60,865	30,462
Impairment of assets	6,542	9,912	29,541	14,165
Other expense	2,394	3,974	6,754	7,156
Total costs and expenses	$183,373	$179,345	$563,320	$497,239
Income (loss) before earnings from equity method investments and other items	$(97,126)	$(85,032)	$(288,383)	$(169,946)
Gain (loss) on early extinguishment of debt, net	(3,694)	(3,207)	(6,858)	102,348
Earnings from equity method investments	22,719	10,817	75,925	54,881
Income (loss) from continuing operations before income taxes	$(78,101)	$(77,422)	$(219,316)	$(12,717)
Income tax expense	(1,791)	(1,354)	(6,540)	(9,731)
Income (loss) from continuing operations(1)	$(79,892)	$(78,776)	$(225,856)	$(22,448)
Income (loss) from discontinued operations	2	1,917	1,532	3,470
Gain from discontinued operations	—	22,198	27,257	22,198
Income from sales of residential property	15,584	—	35,583	—
Net income (loss)	$(64,306)	$(54,661)	$(161,484)	$3,220
Net (income) loss attributable to noncontrolling interests	666	1,002	1,363	558
Net income (loss) attributable to iStar Financial Inc.	$(63,640)	$(53,659)	$(160,121)	$3,778
Preferred dividends	(10,580)	(10,580)	(31,740)	(31,740)
Net (income) loss allocable to HPU holders and Participating Security holders(2)(3)	2,436	2,008	6,288	845
Net income (loss) allocable to common shareholders	$(71,784)	$(62,231)	$(185,573)	$(27,117)
Per common share data(1):				
Income (loss) attributable to iStar Financial Inc. from continuing operations:				
Basic	$(0.86)	$(0.97)	$(2.55)	$(0.58)
Diluted	$(0.86)	$(0.97)	$(2.55)	$(0.58)
Net income (loss) attributable to iStar Financial Inc.:				
Basic	$(0.86)	$(0.71)	$(2.22)	$(0.30)

Diluted	$(0.86)	$(0.71)	$(2.22)	$(0.30)
Weighted average number of common shares—basic	83,629	87,951	83,765	91,020
Weighted average number of common shares—diluted	83,629	87,951	83,765	91,020
Per HPU share data(1)(2):				
Income (loss) attributable to iStar Financial Inc. from continuing operations:				
Basic	$(162.40)	$(184.14)	$(482.06)	$(108.06)
Diluted	$(162.40)	$(184.14)	$(482.06)	$(108.06)
Net income (loss) attributable to iStar Financial Inc.:				
Basic	$(162.40)	$(133.87)	$(419.20)	$(56.33)
Diluted	$(162.40)	$(133.87)	$(419.20)	$(56.33)
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 September 30, 2012 and 2011 was $(79.2) million and $(77.8) million, respectively, and for the nine months ended September 30, 2012 and 2011 was $(224.5) million and $(21.9) million, 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, restricted stock awards and common stock equivalents granted under the Company's Long Term Incentive Plans that are eligible to participate in dividends (see Note 13 and Note 14).

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

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iStar Financial Inc.
Consolidated Statements of Comprehensive Income (Loss)
(In thousands)
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income (loss)	$(64,306)	$(54,661)	$(161,484)	$3,220
Other comprehensive income (loss):				
Reclassification of (gains)/losses on cash flow hedges into earnings upon realization	(26)	(178)	(265)	(531)
Unrealized gains/(losses) on available-for-sale securities	(523)	(129)	111	499
Unrealized gains/(losses) on cash flow hedges	—	(284)	(490)	(877)
Unrealized gains/(losses) on cumulative translation adjustment	(757)	(922)	(1,040)	808
Other comprehensive income (loss)	$(1,306)	$(1,513)	$(1,684)	$(101)
Comprehensive income (loss)	$(65,612)	$(56,174)	$(163,168)	$3,119
Net (income) loss attributable to noncontrolling interests	666	1,002	1,363	558
Comprehensive income (loss) attributable to iStar Financial Inc.	$(64,946)	$(55,172)	$(161,805)	$3,677

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 Nine Months Ended September 30, 2012
(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 (Loss)	Treasury Stock at cost	Noncontrolling Interests	Total Equity
Balance at December 31, 2011	$22	$9,800	$140	$3,834,460	$(2,078,397)	$(328)	$(237,341)	$45,248	$1,573,604
Dividends declared—preferred	—	—	—	—	(31,740)	—	—	—	(31,740)
Repurchase of stock	—	—	—	—	—	—	(4,628)	—	(4,628)
Issuance of stock/restricted stock unit amortization, net	—	—	2	(150)	—	—	—	—	(148)
Net income (loss) for the period(2)	—	—	—	—	(160,121)	—	—	(1,078)	(161,199)
Change in accumulated other comprehensive income (loss)	—	—	—	—	—	(1,684)	—	—	(1,684)
Repurchase of convertible notes	—	—	—	(2,728)	—	—	—	—	(2,728)
Additional paid-in capital attributable to redeemable noncontrolling interest	—	—	—	(1,657)	—	—	—	—	(1,657)
Contributions from noncontrolling interests (3)	—	—	—	—	—	—	—	31,547	31,547
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(674)	(674)
Balance at September 30, 2012	$22	$9,800	$142	$3,829,925	$(2,270,258)	$(2,012)	$(241,969)	$75,043	$1,400,693

Explanatory Notes:

(1) See Note 12 for details on the Company's Cumulative Redeemable Preferred Stock.
(2) For the nine months ended September 30, 2012, net loss shown above excludes $285 of net loss attributable to redeemable noncontrolling interests.
(3) Includes $27.3 million of land assets contributed by a noncontrolling partner (see Note 5).
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 Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	$(161,484)	$3,220
Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Provision for loan losses	60,865	30,462
Impairment of assets	31,844	14,140
Depreciation and amortization	51,205	47,142
Payments for withholding taxes upon vesting of stock-based compensation	(11,775)	(861)
Non-cash expense for stock-based compensation	11,625	15,622
Amortization of discounts/premiums and deferred financing costs on debt	26,406	23,489
Amortization of discounts/premiums and deferred interest on lending investments	(38,435)	(52,027)
Earnings from equity method investments	(75,925)	(54,881)
Distributions from operations of equity method investments	77,625	45,846
Deferred operating lease income	(8,454)	(6,750)
Income from sales of residential property	(35,583)	—
Gain from discontinued operations	(27,257)	(22,198)
Gain (loss) on early extinguishment of debt, net	6,384	(98,624)
Repayments and repurchases of debt - debt discount (1)	(20,529)	(4,651)
Other operating activities, net	6,540	1,667
Changes in assets and liabilities:		
Changes in accrued interest and operating lease income receivable, net	3,581	5,747
Changes in deferred expenses and other assets, net	(2,572)	1,720
Changes in accounts payable, accrued expenses and other liabilities	21,366	33,214
Cash flows from operating activities	$(84,573)	$(17,723)
Cash flows from investing activities:		
Fundings under existing loan commitments	$(29,152)	$(58,420)
Repayments of and principal collections on loans	479,965	1,070,039
Net proceeds from sales of loans	56,998	88,751
Net proceeds from sales of net lease assets	142,714	672
Net proceeds from sales of other real estate owned	315,021	139,279
Contributions to unconsolidated entities	(8,466)	(31,462)
Distributions from unconsolidated entities	51,506	16,434
Capital expenditures on net lease assets	(5,565)	(11,138)
Capital expenditures on REHI and OREO	(40,171)	(34,915)
Changes in restricted cash held in connection with investing activities	(462,217)	(25,165)
Other investing activities, net	799	(255)
Cash flows from investing activities	$501,432	$1,153,820
Cash flows from financing activities:		
Borrowings under secured credit facilities	$850,465	$2,913,250
Repayments under secured credit facilities	(603,419)	(1,381,315)
Repayments under unsecured credit facilities	(244,046)	(506,600)
Borrowings under secured term loans	54,500	124,575
Repayments under secured term loans	(109,541)	(1,682,009)

Borrowings under unsecured notes	264,029	—
Repayments under unsecured notes	(259,584)	(374,775)
Repurchases and redemptions of secured and unsecured notes	(404,449)	(371,815)
Payments for deferred financing costs	(4,189)	(35,545)
Preferred dividends paid	(31,740)	(31,740)
Purchase of treasury stock	(4,628)	(78,849)
Other financing activities, net	3,576	876
Cash flows from financing activities	$(489,026)	$(1,423,947)
Changes in cash and cash equivalents	$(72,167)	$(287,850)
Cash and cash equivalents at beginning of period	356,826	504,865
Cash and cash equivalents at end of period	$284,659	$217,015

Explanatory Note:

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(1) Represents the portion of debt repayments and repurchases made during the period related to the original issue discount ("OID"). Although these amounts do not reflect contractual interest payments made during the period, the OID is considered an operating cash flow in accordance with GAAP.

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, which is taxed as a real estate investment trust, or "REIT," has invested more than $35 billion over the past two decades. The Company's three primary business segments are real estate lending, net leasing and real estate investment. See Note 10 for discussion of business risks and uncertainties, including the impact of recent economic conditions on the Company and the Company's liquidity and capital resources.

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.

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, 2011.

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 2012 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—As of September 30, 2012, the Company consolidated five VIEs for which the Company is considered the primary beneficiary. None of these entities had debt as of September 30, 2012 and December 31, 2011.

The assets and liabilities of the Company's consolidated VIEs are included in the Company's Consolidated Balance Sheets. The Company's total unfunded commitments related to consolidated VIEs is $61.2 million as of September 30, 2012.

Unconsolidated VIEs—As of September 30, 2012, 26 of the Company's 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 September 30, 2012, the Company's maximum exposure to loss from these investments does not exceed the sum of the $186.8 million carrying value of the investments and $7.7 million of related unfunded commitments.

Note 3—Summary of Significant Accounting Policies

As of September 30, 2012, 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, 2011, 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 (1) 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 and (2) present reclassification of other comprehensive income on the face of the income statement. In December 2011, the FASB issued ASU 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05," which deferred the requirements of entities to present reclassification of other comprehensive income on the face of the income statement. Both standards are effective in interim and fiscal years beginning after December 15, 2011 and applied retrospectively. The Company adopted this ASU beginning with the reporting period ended March 31, 2012, as required, and now presents Consolidated Statements of Comprehensive Income (Loss).

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 applied prospectively. The Company adopted this ASU beginning with the reporting period ended March 31, 2012, as required. Adoption of this guidance resulted in expanded disclosures on fair value measurements, included in Note 15, but did not have an impact on the Company's measurements of fair value.

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):

Type of Investment(1)	As of September 30, 2012	December 31, 2011
Senior mortgages	$2,041,784	$2,801,213
Subordinate mortgages	150,917	211,491
Corporate/Partnership loans	469,520	478,892
Total gross carrying value of loans(1)	$2,662,221	$3,491,596
Reserves for loan losses	(543,498)	(646,624)
Total carrying value of loans	$2,118,723	$2,844,972
Other lending investments—securities	—	15,790
Total loans and other lending investments, net	$2,118,723	$2,860,762

Explanatory Note:

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(1) The Company's recorded investment in loans as of September 30, 2012 and December 31, 2011, was $2.67 billion and $3.50 billion, respectively, which consists of total gross carrying value of loans plus accrued interest of $9.5 million and $13.3 million, for the same two periods, respectively.

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iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)
(unaudited)

During the nine months ended September 30, 2012, the Company funded $29.2 million under existing loan commitments and add-on fundings and received principal repayments of $480.0 million. During the same period, the Company sold loans with a total carrying value of $53.9 million, for which it recognized charge-offs of $3.3 million and also recorded income of $6.4 million in "Other income" on the Company's Consolidated Statements of Operations.

During the nine months ended September 30, 2012, the Company received title to properties in full or partial satisfaction of non-performing mortgage loans with a gross carrying value of $264.5 million, for which the properties had served as collateral, and recorded charge-offs totaling $52.5 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).

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Reserve for loan losses at beginning of period	$563,786	$701,228	$646,624	$814,625
Provision for loan losses	16,834	9,232	60,865	30,462
Charge-offs	(37,122)	(343)	(163,991)	(134,970)
Reserve for loan losses at end of period	$543,498	$710,117	$543,498	$710,117

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

	Individually Evaluated for Impairment(1)	Collectively Evaluated for Impairment(2)	Loans Acquired with Deteriorated Credit Quality(3)	Total
As of September 30, 2012				
Loans	$1,239,197	$1,374,838	$57,700	$2,671,735
Less: Reserve for loan losses	(486,557)	(37,600)	(19,341)	(543,498)
Total	$752,640	$1,337,238	$38,359	$2,128,237
As of December 31, 2011				
Loans	$1,525,337	$1,919,876	$59,648	$3,504,861
Less: Reserve for loan losses	(554,131)	(73,500)	(18,993)	(646,624)
Total	$971,206	$1,846,376	$40,655	$2,858,237

Explanatory Notes:

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(1) The carrying value of these loans include unamortized discounts, premiums, deferred fees and costs aggregating to a net discount of $1.8 million and a net premium of $0.1 million as of September 30, 2012 and December 31, 2011, respectively. The Company's loans individually evaluated for impairment primarily represent loans on non-accrual status and therefore, the unamortized amounts associated with these loans are not currently being amortized into

income.

(2) The carrying value of these loans include unamortized discounts, premiums, deferred fees and costs aggregating to a net discount of $2.9 million and $0.2 million as of September 30, 2012 and December 31, 2011, respectively.

(3) The carrying value of these loans include unamortized discounts, premiums, deferred fees and costs aggregating to a net premium of $0.1 million and a net discount of $15.0 million as of September 30, 2012 and December 31, 2011. These loans had cumulative principal balances of $58.1 million and $74.5 million, as of September 30, 2012 and December 31, 2011, respectively.

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. 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):

	As of September 30, 2012		December 31, 2011	
	Performing Loans	Weighted Average Risk Ratings	Performing Loans	Weighted Average Risk Ratings
Senior mortgages	$979,560	2.84	$1,514,016	3.19
Subordinate mortgages	98,572	2.44	190,342	3.36
Corporate/Partnership loans	463,057	3.72	472,178	3.61
Total	$1,541,189	3.08	$2,176,536	3.29

As of September 30, 2012, the Company's recorded investment in loans, 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	$1,152,795	$—	$893,941	$893,941	$2,046,736
Subordinate mortgages	98,572	—	53,260	53,260	151,832
Corporate/Partnership loans	463,057	—	10,110	10,110	473,167
Total	$1,714,424	$—	$957,311	$957,311	$2,671,735

Explanatory Note:

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(1) As of September 30, 2012, all loans that are not current are classified as non-performing and are on non-accrual status.

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

	As of September 30, 2012			As of December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Senior mortgages	$122,825	$122,634	$—	$219,488	$218,612	$—
Corporate/Partnership loans	10,110	10,160	—	10,110	10,160	—
Subtotal	$132,935	$132,794	$—	$229,598	$228,772	$—
With an allowance recorded:						
Senior mortgages	$1,049,062	$1,045,985	$(469,529)	$1,268,962	$1,263,195	$(540,670)
Subordinate mortgages	53,260	53,032	(27,309)	22,480	22,558	(22,480)
Corporate/Partnership loans	61,640	61,824	(9,060)	62,591	62,845	(9,974)
Subtotal	$1,163,962	$1,160,841	$(505,898)	$1,354,033	$1,348,598	$(573,124)
Total:						
Senior mortgages	$1,171,887	$1,168,619	$(469,529)	$1,488,450	$1,481,807	$(540,670)
Subordinate mortgages	53,260	53,032	(27,309)	22,480	22,558	(22,480)
Corporate/Partnership loans	71,750	71,984	(9,060)	72,701	73,005	(9,974)
Total	$1,296,897	$1,293,635	$(505,898)	$1,583,631	$1,577,370	$(573,124)

Explanatory Note:

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(1) All of the Company's non-accrual loans are considered impaired and included in the table above. In addition, as of September 30, 2012 and December 31, 2011, certain loans modified through troubled debt restructurings with a recorded investment of $166.4 million and $255.3 million, respectively, are also included as impaired loans in accordance with GAAP although they are performing and on accrual status.

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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 September 30,				For the Nine Months Ended September 30,			
	2012		2011		2012		2011	
	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	$138,391	$457	$230,888	$1,788	$175,596	$2,663	$331,478	$31,374
Corporate/Partnership loans	10,110	—	10,110	240	10,110	—	10,110	560
Subtotal	$148,501	$457	$240,998	$2,028	$185,706	$2,663	$341,588	$31,934
With an allowance recorded:								
Senior mortgages	$1,053,534	$774	$1,583,105	$1,873	$1,100,313	$3,208	$1,693,366	$5,994
Subordinate mortgages	53,185	—	24,783	—	51,765	—	18,726	—
Corporate/Partnership loans	61,112	75	67,446	81	62,036	231	66,961	250
Subtotal	$1,167,831	$849	$1,675,334	$1,954	$1,214,114	$3,439	$1,779,053	$6,244
Total:								
Senior mortgages	$1,191,925	$1,231	$1,813,993	$3,661	$1,275,909	$5,871	$2,024,844	$37,368
Subordinate mortgages	53,185	—	24,783	—	51,765	—	18,726	—
Corporate/Partnership loans	71,222	75	77,556	321	72,146	231	77,071	810
Total	$1,316,332	$1,306	$1,916,332	$3,982	$1,399,820	$6,102	$2,120,641	$38,178

During the nine months ended September 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 while the loans were on non-accrual status.

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Troubled Debt Restructurings—During the three and nine months ended September 30, 2012 and 2011, the Company modified loans that were determined to be troubled debt restructurings. The recorded investment in these loans was impacted by the modifications as follows, presented by class ($ in thousands):

	For the Three Months Ended September 30,					
	2012			2011		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Senior mortgages	2	$54,192	$54,192	3	$65,107	$65,107

	For the Nine Months Ended September 30,					
	2012			2011		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Senior mortgages	7	$318,227	$272,753	7	$191,158	$190,893

Troubled debt restructurings that subsequently defaulted during the period were as follows ($ in thousands):

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2012		2011		2012		2011	
	Number of Loans	Outstanding Recorded Investment	Number of Loans	Outstanding Recorded Investment	Number of Loans	Outstanding Recorded Investment	Number of Loans	Outstanding Recorded Investment
Senior mortgages	—	$—	1	$12,257	1	$24,604	2	$40,262

Troubled debt restructurings that occurred during the three months ended September 30, 2012 included loans that were granted maturity extensions and had interest rates unchanged as a result of the modifications. A performing loan with a recorded investment of $46.3 million was extended three months. The Company believes the borrower can perform under the modified terms and continues to classify the loan as performing. A loan with a recorded investment of $7.9 million was extended for one year, and was classified as non-performing both before and after the modification.

Troubled debt restructurings that occurred during the nine months ended September 30, 2012 included the modifications of performing loans with a combined recorded investment of $62.6 million. The modified terms of these loans granted maturity extensions ranging from three months to one year and included conditional extension options in certain cases dependent on borrower-specific performance hurdles. In each case, the Company believes the borrowers can perform under the modified terms of the loans and continues to classify these loans as performing.

Non-performing loans with a combined recorded investment of $255.6 million were also modified during the nine months ended September 30, 2012 and continued to be classified as non-performing subsequent to modification. Included in this balance was a loan with a recorded investment of $181.5 million prior to modification for which the Company agreed to reduce the outstanding principal balance and recorded charge-offs totaling $45.5 million, and also reduced the loan's interest rate. The remaining non-performing loans were granted maturity extensions ranging from one month to seven months and the interest rate was reduced on one loan.

Troubled debt restructurings that occurred during the three months ended September 30, 2011 included loans that were granted maturity extensions and had interest rates unchanged as a result of the modifications. Performing loans with a recorded investment of $49.3 million were modified to grant maturity extensions ranging from three months to six months. The Company also extended a discounted payoff option on a loan that was classified as non-performing.

Troubled debt restructurings that occurred during the nine months ended September 30, 2011 included the modifications of performing loans with a combined recorded investment of $129.2 million. The modified terms of these loans granted maturity extensions ranging from three months to five years and included conditional extension options in certain cases dependent on borrower-specific performance hurdles. The Company reduced the rate on loans with a combined recorded investment of $59.5 million from a combined weighted average rate of 6.2% to 4.1%. In each case, the Company believed the borrowers could perform under the modified terms of the loans and classified these loans as performing after the modification. One of these loans subsequently defaulted.

Non-performing loans with a combined recorded investment of $62.0 million were also modified during the nine months ended September 30, 2011 and continued to be classified as non-performing subsequent to modification. Included in this balance was a loan with a recorded investment of $46.1 million for which the Company granted a maturity extension of six months while also reducing the loan's interest rate. The Company also extended a discounted payoff option on another loan that was classified as non-performing.

Generally when granting concessions, the Company will seek to protect its position by requiring incremental pay downs, additional collateral or guarantees and in some cases lookback features or equity kickers to offset concessions granted should conditions with the loan improve. The Company's determination of credit losses is impacted by troubled debt restructurings whereby loans that have gone through troubled debt restructurings are considered impaired, assessed for specific reserves, and are not included in the Company's assessment of general loan loss reserves. Loans previously restructured under troubled debt restructurings that subsequently default are reassessed to incorporate the Company's current assumptions on expected cash flows and additional provision expense is recorded to the extent necessary. As of September 30, 2012, the Company had $6.0 million of unfunded commitments associated with modified loans considered troubled debt restructurings.

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

During the nine months ended September 30, 2012, the Company received title to properties with an aggregate estimated fair value at the time of foreclosure of $212.0 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 $3.6 million were classified as REHI and $208.4 million were classified as OREO, based on management's intention to either hold the properties over a longer period or to market them for sale in the near term.

During the nine months ended September 30, 2012, the Company executed transactions related to two separate REHI investments, whereby the Company acquired land and other assets with a combined fair value of $38.8 million from third parties to form two new strategic ventures. In each case, a third party contributed land into the respective venture in a non-cash exchange for a noncontrolling interest and the Company continues to consolidate both subsidiaries. In conjunction with its formation, one of the new strategic ventures contributed land with a recorded value of $11.6 million in a non-cash exchange for a 40% noncontrolling equity interest in a separate new venture. The Company did not recognize any gains or losses associated with these transactions.

Additionally, based upon certain rights held by the minority partner in one of these ventures that provide it with an option to redeem its interest at fair value after seven years, the partner's non-controlling interest in this venture is presented as a redeemable non-controlling interest on the Company's Consolidated Balance Sheet as of September 30, 2012.

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

	As of September 30, 2012	December 31, 2011
Land held for investment and development	$756,588	$711,072
Operating property		
Buildings and improvements	350,262	379,644
Land	98,340	154,445
Less: accumulated depreciation and amortization	(30,235)	(17,027)
Real estate held for investment, net	$1,174,955	$1,228,134

The Company records 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 September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
REHI operating income	$14,276	$8,207	$43,425	$22,356
REHI operating expenses	$16,422	$12,130	$44,489	$31,422

Other Real Estate Owned—During the nine months ended September 30, 2012, the Company sold OREO assets with a carrying value of $281.0 million, primarily comprised of sales of residential property units for which the Company recorded income from sales of $35.6 million. For the three and nine months ended September 30, 2012, the Company recorded net impairment charges to OREO properties totaling $1.5 million and $5.3 million, respectively, and recorded net expenses related to holding costs for OREO properties of $8.0 million and $24.5 million, respectively.

For the three and nine months ended September 30, 2011, the Company recorded net impairment charges to OREO properties totaling $9.3 million and $12.6 million, respectively, and recorded net expenses related to holding costs for OREO properties of $7.7 million and $24.2 million, respectively.

Note 6—Net Lease Assets, net

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

	As of September 30, 2012	December 31, 2011
Facilities and improvements	$1,481,454	$1,601,477
Land and land improvements	411,668	447,603
Less: accumulated depreciation	(352,658)	(346,316)
Net lease assets, net	$1,540,464	$1,702,764

On April 30, 2012, the Company sold a portfolio of 12 net lease assets with an aggregate carrying value of $105.7 million and recorded a gain of $24.9 million resulting from the transaction. Certain of the properties were subject to secured term loans with a remaining principal balance of $50.8 million that were repaid in full at closing (see Note 9). Additionally, during the nine months ended September 30, 2012, the Company sold net lease assets with a carrying value of $9.8 million, resulting in a net gain of $2.4 million.

For the three and nine months ended September 30, 2012, the Company recorded impairment charges of $3.6 million and $23.8 million, respectively, on net lease assets, of which $0.5 million was included in "Income (loss) from discontinued operations" on the Company's Consolidated Statements of Operations for the nine months ended September 30, 2012.

During the nine months ended September 30, 2011, the Company realized $22.2 million of a gain previously deferred as part of its June 2010 sale of a portfolio of 32 net lease assets. The gain is presented in "Gain from discontinued operations" on the Company's Consolidated Statements of Operations for the three and nine months ended September 30, 2011.

The Company receives reimbursements from customers for certain facility operating expenses including common area costs, insurance and real estate taxes. Customer expense reimbursements were $5.2 million and $16.6 million for the three and nine months ended September 30, 2012, respectively, and $6.1 million and $17.6 million for the three and nine months ended September 30, 2011, respectively. These amounts were included as a reduction of "Operating costs - net lease assets" on the Company's Consolidated Statements of Operations.

Allowance for doubtful accounts—As of September 30, 2012 and December 31, 2011, the total allowance for doubtful accounts related to net lease asset and REHI tenant receivables, including deferred operating lease income receivable, was $6.2 million and $3.7 million, respectively.

Note 7—Other Investments

The Company's other investments and its proportionate share of results from equity method investments were as follows ($ in thousands):

	Carrying value as of		Equity in earnings			
			For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	September 30, 2012	December 31, 2011	2012	2011	2012	2011
LNR	$ 180,671	$ 159,764	$ 15,206	$ 12,509	$ 36,017	$ 36,572
Madison Funds	84,360	103,305	3,206	(941)	11,937	7,016
Oak Hill Funds	44,052	56,817	2,049	(3,117)	5,932	2,961
OREO/REHI Investments	30,880	52,803	1,553	(1,267)	15,747	(6,718)
Other equity method investments (1)	67,345	73,146	705	3,633	6,292	15,050
Total equity method investments	$ 407,308	$ 445,835	$ 22,719	$ 10,817	$ 75,925	$ 54,881
Other	12,340	12,000				
Total other investments	$ 419,648	$ 457,835				

Explanatory Note:

(1) For the three and nine months ended September 30, 2011, amounts include $1.4 million and $8.9 million, respectively, of earnings related to Oak Hill Advisors, L.P. and related entities which were sold in October 2011.

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Summarized Financial Information

LNR—The following table represents investee level summarized financial information for LNR ($ in thousands)(1)(2):

	For the Three Months Ended June 30, 2012	For the Three Months Ended June 30, 2011	For the Nine Months Ended June 30, 2012	For the Nine Months Ended June 30, 2011
Income Statement				
Total revenue(2)	$86,038	$104,584	$234,734	$260,997
Income tax expense (benefit)(3)	$1,293	$1,193	$4,935	$(31,140)
Net income attributable to LNR	$63,420	$52,171	$150,219	$152,537
iStar's ownership percentage	24%	24%	24%	24%
iStar's equity in earnings from LNR	$15,206	$12,509	$36,017	$36,572

	As of June 30, 2012	As of September 30, 2011
Balance Sheet		
Total assets(2)	$1,469,158	$1,288,923
Total debt(2)	$566,099	$469,631
Total liabilities(2)	$663,963	$576,835
Noncontrolling interests	$2,101	$39,940
LNR Property LLC equity(4)	$803,094	$672,147
iStar's ownership percentage	24%	24%
iStar's equity in LNR(4)	$180,671	$159,764

Explanatory Notes:

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(1) The Company records its investment in LNR on a one quarter lag, therefore, amounts in the Company's financial statements for the three and nine months ended September 30, 2012 and 2011 are based on balances and results from LNR for the three and nine months ended June 30, 2012 and 2011, respectively.

(2) LNR consolidates certain commercial mortgage-backed securities and collateralized debt obligation trusts that are considered VIEs (and for which it is the primary beneficiary), that have been excluded from the amounts presented above. As of June 30, 2012 and September 30, 2011, the assets of these trusts, which aggregated approximately $82.79 billion and $126.66 billion, respectively, were the sole source of repayment of the related liabilities, which aggregated approximately $82.52 billion and $126.64 billion, respectively, and are non-recourse to LNR and its equity holders, including the Company. In addition, total revenue presented above includes $27.5 million and $88.3 million for the three and nine months ended June 30, 2012, respectively, and $31.4 million and $72.6 million for the three and nine months ended June 30, 2011, respectively, of servicing fee revenue that is eliminated upon consolidation of the VIE's at the LNR level. This income is then added back through consolidation at the LNR level as an adjustment to income allocable to noncontrolling entities and has no net impact on net income attributable to LNR.

(3) During the nine months ended June 30, 2011, LNR recorded an income tax benefit from the settlement of certain tax liabilities.

(4) The Company's equity in LNR at September 30, 2012 reflects a $10.2 million cash distribution made during the third quarter that is not yet reflected in LNR Property LLC's equity shown above as of June 30, 2012.

Madison Funds—During the nine months ended September 30, 2012, the Madison Funds recorded a significant gain related to the sale of an investment for which the Company recorded its $13.7 million proportionate share.

OREO/REHI Investments—During the three and nine months ended September 30, 2012, earnings from equity interests in OREO/REHI investments included $4.0 million and $22.2 million, respectively, related to income recognized on sales of residential property units.

Note 8—Other Assets and Other Liabilities

Deferred expenses and other assets, net, consist of the following items ($ in thousands):

	As of September 30, 2012	December 31, 2011
Other receivables	$21,765	$23,943
Leasing costs, net(1)	15,950	12,423
Deferred financing fees, net(2)	15,786	21,443
Net lease in-place lease intangibles, net(3)	13,602	17,013
Prepaid expenses	8,525	5,441
Corporate furniture, fixtures and equipment, net(4)	7,759	9,034
Other assets	24,084	18,555
Deferred expenses and other assets, net	$107,471	$107,852

Explanatory Notes:

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(1) Accumulated amortization on leasing costs was $5.8 million and $5.5 million as of September 30, 2012 and December 31, 2011, respectively.

(2) Accumulated amortization on deferred financing fees was $22.1 million and $13.3 million as of September 30, 2012 and December 31, 2011, respectively.

(3) Represents unamortized finite lived intangible assets related to the prior acquisition of net lease assets. Accumulated amortization on net lease intangibles was $34.7 million and $33.4 million as of September 30, 2012 and December 31, 2011, respectively. Amortization expense related to these assets was $0.8 million and $1.7 million for the three months ended September 30, 2012 and 2011, respectively, and $3.0 million and $5.1 million for the nine months ended September 30, 2012 and 2011, respectively.

(4) Accumulated depreciation on corporate furniture, fixtures and equipment was $8.0 million and $8.1 million as of September 30, 2012 and December 31, 2011, respectively.

Accounts payable, accrued expenses and other liabilities consist of the following items ($ in thousands):

	As of September 30, 2012	December 31, 2011
Accrued interest payable	$46,252	$30,122
Accrued expenses	33,430	36,332
Property taxes payable	13,565	6,495
Security deposits and other investment deposits	12,690	12,192
Unearned operating lease income	8,020	10,073
Derivative liabilities	7,392	2,373
Other liabilities	15,309	7,770
Accounts payable, accrued expenses and other liabilities	$136,658	$105,357

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Deferred tax assets of the Company's TRS entities were as follows ($ in thousands):

	As of September 30, 2012	December 31, 2011
Deferred tax assets(1)	$60,164	$50,889
Valuation allowance	(60,164)	(50,889)
Deferred tax assets, net	$—	$—

Explanatory Note:

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(1) Deferred tax assets as of September 30, 2012 include real estate basis differences of $38.7 million, net operating loss carryforwards of $20.3 million and investment basis differences of $1.1 million. Deferred tax assets as of December 31, 2011 include real estate basis differences of $28.7 million, net operating loss carryforwards of $22.8 million, and investment basis differences of $(0.6) million.

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Note 9—Debt Obligations, net

As of September 30, 2012 and December 31, 2011, the Company's debt obligations were as follows ($ in thousands):

	Carrying Value as of				
	September 30, 2012	December 31, 2011	Stated Interest Rates		Scheduled Maturity Date
Secured credit facilities and term loans:					
2011 Tranche A-1 Facility	$498,320	$961,580	LIBOR + 3.75%	(1)	June 2013
2011 Tranche A-2 Facility	1,450,000	1,450,000	LIBOR + 5.75%	(1)	June 2014
2012 Tranche A-1 Facility	262,253	—	LIBOR + 4.00%	(2)	March 2016
2012 Tranche A-2 Facility	470,000	—	LIBOR + 5.75%	(2)	March 2017
Term loans collateralized by net lease assets	238,152	293,192	4.851% - 7.68%		Various through 2026
Total secured credit facilities and term loans	$2,918,725	$2,704,772			
Unsecured credit facility:					
Line of credit	$—	$243,650	LIBOR + 0.85%		June 2012
Unsecured notes:					
5.15% senior notes	—	263,466	5.15	%	March 2012
5.50% senior notes	—	92,845	5.50	%	June 2012
LIBOR + 0.50% senior convertible notes(3)	460,660	784,750	LIBOR + 0.50%		October 2012
8.625% senior notes	501,701	501,701	8.625	%	June 2013
5.95% senior notes	448,453	448,453	5.95	%	October 2013
6.5% senior notes	67,055	67,055	6.5	%	December 2013
5.70% senior notes	200,601	200,601	5.70	%	March 2014
6.05% senior notes	105,765	105,765	6.05	%	April 2015
5.875% senior notes	261,403	261,403	5.875	%	March 2016
5.85% senior notes	99,722	99,722	5.85	%	March 2017
9.0% senior notes	275,000	—	9.0	%	June 2017
Total unsecured notes	$2,420,360	$2,825,761			
Other debt obligations:					
Other debt obligations	$100,000	$100,000	LIBOR + 1.5%		October 2035
Total debt obligations	$5,439,085	$5,874,183			
Debt discounts, net(3)	(50,225)	(36,643)			
Total debt obligations, net	$5,388,860	$5,837,540			

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Explanatory Notes:

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(1) These loans each have a LIBOR floor of 1.25%. As of September 30, 2012, inclusive of the floors, the 2011 Tranche A-1 Facility and 2011 Tranche A-2 Facility loans incurred interest at a rate of 5.00% and 7.00%, respectively. See Note 17 - Subsequent Events.

(2) These loans each have a LIBOR floor of 1.25%. As of September 30, 2012, inclusive of the floors, the 2012 Tranche A-1 Facility and 2012 Tranche A-2 Facility loans incurred interest at a rate of 5.25% and 7.00% respectively.

(3) The Company's convertible senior floating rate notes due October 2012 ("Convertible Notes") are convertible at the option of the holders into 22.2 shares per $1,000 principal amount of Convertible Notes (reflecting a conversion price of $45.05), on or after August 15, 2012, or prior to that date if certain conditions are met. None of the conversion conditions have been met as of September 30, 2012. As of September 30, 2012, the unamortized discount on these notes was $0.6 million, the net carrying amount of the liability was $460.0 million and the carrying value of the additional paid-in-capital, or equity component of the convertible notes was $34.7 million. For the three and nine months ended September 30, 2012, the Company recognized interest expense on the convertible notes of $3.0 million and $11.2 million, respectively, of which $1.8 million and $6.7 million, respectively, related to the amortization of the debt discount. For the three and nine months ended September 30, 2011, the Company recognized interest expense on the convertible notes of $4.4 million and $13.3 million respectively, of which $2.9 million and $8.6 million, respectively, related to the amortization of the debt discount. Subsequent to quarter end, the Company repaid, upon maturity, the remaining outstanding principal balance. See Note 17 - Subsequent Events.

Future Scheduled Maturities—As of September 30, 2012, future scheduled maturities of outstanding long-term debt obligations, net are as follows ($ in thousands)(1):

	Unsecured Debt	Secured Debt	Total
2012 (remaining three months)	$460,660	$—	$460,660
2013	1,017,209	648,320	1,665,529
2014	200,601	1,357,253	1,557,854
2015	105,765	82,000	187,765
2016	261,403	123,000	384,403
Thereafter	474,722	708,152	1,182,874
Total principal maturities	$2,520,360	$2,918,725	$5,439,085
Unamortized debt discounts, net	(20,707)	(29,518)	(50,225)
Total long-term debt obligations, net	$2,499,653	$2,889,207	$5,388,860

Explanatory Note:

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(1) Includes minimum required amortization payments on the 2011 and 2012 Secured Credit Facilities. See Note 17 - Subsequent Events.

2012 Secured Credit Facilities—In March 2012, the Company entered into an $880.0 million senior secured credit agreement providing for two tranches of term loans: a $410.0 million 2012 A-1 tranche due March 2016, which bears interest at a rate of LIBOR + 4.00% (the "2012 Tranche A-1 Facility"), and a $470.0 million 2012 A-2 tranche due

March 2017, which bears interest at a rate of LIBOR + 5.75% (the "2012 Tranche A-2 Facility," together the "2012 Secured Credit Facilities"). The 2012 A-1 and A-2 tranches were issued at 98.0% of par and 98.5% of par, respectively, and both tranches include a LIBOR floor of 1.25%. Proceeds from the 2012 Secured Credit Facilities were used to repurchase $324.1 million aggregate principal amount of the Company's convertible notes due October 2012, to fully repay the $244.0 million balance on the Company's unsecured credit facility due June 2012, and to repay, upon maturity, $90.3 million outstanding principal balance of its 5.50% senior unsecured notes. As of September 30, 2012, remaining proceeds were included in restricted cash as they are reserved for the repayment of indebtedness.

The 2012 Secured Credit Facilities are collateralized by a first lien on a fixed pool of collateral consisting of loan, net lease, OREO and REHI assets. Proceeds from principal repayments and sales of collateral are applied to amortize the 2012 Secured Credit Facilities. Proceeds received for interest, rent, lease payments and fee income are retained by the Company. The 2012 Tranche A-1 Facility requires amortization payments of $41.0 million to be made every six months beginning December 31, 2012. After the 2012 Tranche A-1 Facility is repaid, proceeds from principal repayments and sales of collateral will be used to amortize the 2012 Tranche A-2 Facility. The Company may make optional prepayments on each tranche of term loans, subject to prepayment fees.

Through September 30, 2012, the Company has made cumulative amortization repayments of $147.7 million on the 2012 Tranche A-1 Facility, which exceeds all required amortization payments through December 31, 2013. Repayments of the 2012Tranche A-1 Facility prior to scheduled amortization dates have resulted in losses on early extinguishment of debt of $2.4 million and $5.3 million for the three and nine months ended September 30, 2012, respectively, related to the acceleration of discounts and unamortized deferred financing fees on the portion of the facility that was repaid.

2011 Secured Credit Facilities—In March 2011, the Company entered into a $2.95 billion senior secured credit agreement providing for two tranches of term loans: a $1.50 billion 2011 A-1 tranche due June 2013, which bears interest at a rate of LIBOR + 3.75% (the "2011 Tranche A-1 Facility"), and a $1.45 billion 2011 A-2 tranche due June 2014, which bears interest at a rate of LIBOR + 5.75% (the "2011 Tranche A-2 Facility," together the "2011 Secured Credit Facilities"). The 2011 A-1 and A-2 tranches were issued at 99.0% of par and 98.5% of par, respectively, and both tranches include a LIBOR floor of 1.25%.

The 2011 Secured Credit Facilities are collateralized by a first lien on a fixed pool of collateral consisting of loan, net lease, OREO and REHI assets. Proceeds from principal repayments and sales of collateral are applied to amortize the 2011 Secured Credit Facilities. Proceeds received for interest, rent, lease payments, fee income and, under certain circumstances, additional amounts funded on assets serving as collateral are retained by the Company. The 2011 Tranche A-1 Facility requires that aggregate cumulative amortization payments of not less than $200.0 million shall be made on or before December 30, 2011, not less than $450.0 million on or before June 30, 2012, not less than $750.0 million on or before December 31, 2012 and not less than $1.50 billion on or before June 28, 2013. The 2011 Tranche A-2 Facility will begin amortizing six months after the repayment in full of the 2011 Tranche A-1 Facility, such that not less than $150.0 million of cumulative amortization payments shall be made on or before the six month anniversary of repayment of the Tranche A-1 Facility, with additional amortization payments of $150.0 million due on or before each six month anniversary thereafter, with any unpaid principal amounts due at maturity in June 2014.

Through September 30, 2012, the Company has made cumulative amortization repayments of $1.00 billion on the 2011 Tranche A-1 Facility, which exceeds all required amortization payments through December 31, 2012, leaving $498.3 million to be paid by maturity in June 2013. Repayments of the 2011 Tranche A-1 Facility prior to scheduled amortization dates have resulted in losses on early extinguishment of debt of $0.9 million and $4.1 million for the three and nine months ended September 30, 2012, respectively, related to the acceleration of discounts and unamortized deferred financing fees on the portion of the facility that was repaid. See Note 17 - Subsequent Events below for details on the refinancing of the 2011 Secured Credit Facilities in October 2012.

Secured Term Loans—In September 2012, the Company refinanced two secured term loans with an aggregate outstanding principal balance of $53.3 million, bearing interest at rates of 5.3% and 8.2% and maturing in January 2013. The new $54.5 million secured term loan bears interest at 4.851%, matures in October 2022 and is collateralized by the same net lease asset as the original term loan. In connection with the refinancing, the Company recorded a loss on early extinguishment of debt of $0.5 million in its Consolidated Statements of Operations for both the three and nine months ended September 30, 2012.

In addition, during the nine months ended September 30, 2012, in conjunction with the sale of a portfolio of 12 net lease assets, the Company repaid the $50.8 million outstanding balances of its LIBOR + 4.50% secured term loans due in 2014 and terminated the related interest rate swaps associated with the loans (see Note 11).

Unsecured Credit Facility—During the nine months ended September 30, 2012, the Company repaid the $243.7 million remaining principal balance of its LIBOR + 0.85% unsecured credit facility due June 2012. In connection with the repayments, the Company recorded a loss on early extinguishment of debt of $0.2 million.

Secured Notes—In January 2011, the Company redeemed the $312.3 million remaining principal balance of its 10% 2014 secured exchange notes and recorded a gain on early extinguishment of debt of $109.0 million primarily related to the recognition of deferred gain premiums that resulted from a previous debt exchange.

Unsecured Notes—In May 2012, the Company issued $275.0 million aggregate principal of 9.0% senior unsecured notes due June 2017 that were sold at 98.012% of their principal amount. Proceeds from this transaction are reserved for the repayment of indebtedness and included in "Restricted cash" on the Company's Consolidated Balance Sheet as of September 30, 2012.

During the nine months ended September 30, 2012, the Company repaid, upon maturity, the $169.7 million outstanding principal balance of its 5.15% senior unsecured notes and the $90.3 million outstanding principal balance of its 5.50% senior unsecured notes. In addition, the Company repurchased $420.4 million par value of senior unsecured notes with various maturities ranging from March 2012 to October 2012. In connection with these repurchases, the Company recorded aggregate losses on early extinguishment of debt of $0.1 million and gains of $3.2 million, for the three and nine months ended September 30, 2012, respectively.

Unencumbered/Encumbered Assets—As of September 30, 2012, the carrying value of the Company's unencumbered and encumbered assets by asset type are as follows ($ in thousands):

	As of September 30, 2012		As of December 31, 2011	
	Encumbered Assets	Unencumbered Assets	Encumbered Assets	Unencumbered Assets
Loans and other lending investments, net(1)	$1,594,426	$561,897	$1,780,591	$1,153,671
Net lease assets, net	1,265,341	275,123	1,173,982	528,782
REHI, net	331,357	843,598	359,597	868,537
OREO	392,621	314,094	177,092	500,366
Other investments	59,816	359,832	37,957	419,878
Cash and other assets	—	979,914	—	590,884
Total	$3,643,561	$3,334,458	$3,529,219	$4,062,118

Explanatory Note:

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(1) As of September 30, 2012 and December 31, 2011, the amounts presented exclude general reserves for loan losses of $37.6 million and $73.5 million, respectively.

Debt Covenants

The Company's outstanding unsecured debt securities contain corporate level covenants that include a covenant to maintain a ratio of unencumbered assets to unsecured indebtedness of at least 1.2x and a restriction on debt incurrence based upon the effect of the debt incurrence on the Company's fixed charge coverage ratio. If any of the Company's covenants are breached and not cured within applicable cure periods, the breach could result in acceleration of its debt securities unless a waiver or modification is agreed upon with the requisite percentage of the bondholders. While the Company expects that its ability to incur new indebtedness under the fixed charge coverage ratio will be limited for the foreseeable future, it will continue to be permitted to incur indebtedness for the purpose of refinancing existing indebtedness and for other permitted purposes under the indentures.

The Company's 2012 Secured Credit Facilities and 2011 Secured Credit Facilities both contain certain covenants, including covenants relating to collateral coverage, dividend payments, restrictions on fundamental changes, transactions with affiliates, matters relating to the liens granted to the lenders and the delivery of information to the lenders. In particular, the Company is required to maintain collateral coverage of 1.25x outstanding borrowings. In addition, for so long as the Company maintains its qualification as a REIT, the 2012 Secured Credit Facilities and 2011 Secured Credit Facilities permit the Company to distribute 100% of its REIT taxable income on an annual basis. The Company may not pay common dividends if it ceases to qualify as a REIT.

The Company's 2012 Secured Credit Facilities and 2011 Secured Credit Facilities contain cross default provisions that would allow the lenders to declare an event of default and accelerate the Company's indebtedness to them if the Company fails to pay amounts due in respect of its other recourse indebtedness in excess of specified thresholds or if the lenders under such other indebtedness are otherwise permitted to accelerate such indebtedness for any reason. The indentures governing the Company's unsecured public debt securities permit the bondholders to declare an event of default and accelerate the Company's indebtedness to them if the Company's other recourse indebtedness in excess of specified thresholds is not paid at final maturity or if such indebtedness is accelerated.

Note 10—Commitments and Contingencies

Business Risks and Uncertainties—The Company's business continues to be adversely impacted by the recent economic recession and illiquidity and volatility in the credit and commercial real estate markets. These economic conditions resulted in increased non-performing loans and real estate owned as well as higher financing costs and limited access to the unsecured debt markets. Since the beginning of the crisis, the Company has significantly curtailed asset originations and has focused primarily on repositioning and redeveloping its assets, generating liquidity, retiring debt and decreasing leverage with the objective of preserving shareholder value.

The Company saw signs of an economic recovery during the past two years, including some improvements in the commercial real estate market and capital markets. These improving conditions enabled the Company to access the unsecured debt markets and to refinance its credit facilities in 2011 and 2012. While the Company has benefited from improving conditions, volatility within the capital markets and commercial real estate market continues to have an adverse effect on the Company's operations, as primarily evidenced by still elevated levels of non-performing assets and higher costs of capital. Further, continued improvement in the Company's financial condition and its ability to generate sufficient liquidity are dependent in part on a sustained economic recovery, which cannot be predicted with certainty.

As of September 30, 2012, the Company's debt maturities and minimum amortization requirements due before December 31, 2013 included $460.7 million of unsecured convertible notes due in October 2012, $1.02 billion of unsecured notes due in 2013, and $648.3 million of secured debt due in 2013. The Company had $739.3 million of cash and restricted cash reserved for the repayment of debt as of September 30, 2012. Subsequent to quarter end, the Company repaid its $460.7 million of senior unsecured convertible notes primarily with cash reserved for the repayment of indebtedness. In addition, subsequent to quarter end, the Company refinanced its 2011 Secured Credit Facilities with a new $1.82 billion senior secured credit facility. After giving effect to the convertible debt repayment and the refinancing of the 2011 Secured Credit Facilities, remaining debt maturities and minimum amortization requirements due before December 31, 2013 total $1.04 billion. See Note 17 - Subsequent Events for further details. The Company's capital sources to meet its remaining debt maturities through 2013 will primarily include cash on hand as well as debt refinancings, proceeds from unencumbered asset sales and loan repayments from borrowers, and may include equity capital raising transactions. As of September 30, 2012, the Company had unencumbered assets with a carrying value of approximately $3.33 billion.
Based on the dynamic nature of the Company's assets and its liquidity plan and the time frame in which the Company needs to generate liquidity, the specific assets, nature of the transactions, timing and amount of asset sales and refinancing transactions could vary and are subject to factors outside its control and cannot be predicted with certainty. The Company may adjust its plans in response to changes in its expectations and changes in market conditions. In addition, although there have been early signs of improvement in the commercial real estate and credit markets during the past two years, such markets remain volatile and it is not possible for the Company to predict whether these trends will continue in the future or to quantify the impact of these or other trends on its financial results. If the Company fails to repay its obligations as they become due, it would be an event of default under the relevant debt instruments, which could result in a cross-default and acceleration of the Company's other outstanding debt obligations, all of which would have a material adverse effect on the Company.

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iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)
(unaudited)

Unfunded Commitments—As of September 30, 2012, the maximum amount of fundings the Company may be required to make under each category, assuming all performance hurdles and milestones are met under the Performance-Based Commitments, that it approves all Discretionary Fundings and that 100% of its capital committed to Strategic Investments is drawn down, are as follows ($ in thousands):

	Loans	Net Lease Assets	Strategic Investments	Total
Performance-Based Commitments	$36,027	$47,570	$—	$83,597
Discretionary Fundings	167	—	—	167
Other	—	—	39,461	39,461
Total	$36,194	$47,570	$39,461	$123,225

Legal Proceedings—The Company and/or one or more of its subsidiaries is party to various pending litigation matters that are considered ordinary routine litigation incidental to the Company's business as a finance and investment company focused on the commercial real estate industry, including loan foreclosure and foreclosure-related proceedings.

On June 4, 2012, the Company reached an agreement in principle with the plaintiffs' Court-appointed representatives in the previously reported Citiline class action to settle the litigation. Settlement payments will be primarily funded by the Company's insurance carriers, with the Company contributing $2.0 million to the settlement, which is included in "Other expense" on the Consolidated Statements of Operations for the nine months ended