2002 iStar Financial Annual Report

iStar is lighting up the real estate finance sector

As we celebrate ten years in business and five as a public company, our future is brighter than ever. With a $6.6 billion enterprise value, iStar Financial has solidified its position as the leading finance company focused on the commercial real estate industry. Now more than ever, our customers recognize the high level of knowledge, service, flexibility and creativity with which we fulfill their unique financing requirements. Our performance for shareholders is also getting noticed: consistently delivered double-digit returns, even in difficult times, and one of the best credit track records in the finance industry. It is the kind of performance that is getting hard to keep quiet.

Wow!

~ *intro* *milestones*

We've grown to be the largest independent finance company in an attractive $100–$150 billion market niche of a $2+ trillion market

For a decade, iStar Financial has focused exclusively on providing creative capital solutions to sophisticated private and corporate owners of high-quality real estate. During this period, we have completed over $7 billion of transactions. Our management team is known for its expertise in each of the key disciplines required to serve these high-end customers: investment negotiations, capital markets pricing, risk management, credit analysis and legal structuring. We compensate our people with long-term equity incentives tied directly to shareholder returns, not with short-term, volume-driven “quotas.” These people and our reputation for fairness and integrity are our most valuable assets.

Leadership

~ 0.2 milestones

Our credit track record is unparalleled

iStar Financial's superior credit track record is the best in the finance industry. Since beginning our business in 1993, our loan losses and loans on non-accrual status have always been minimal. Our credit performance results from a proven and disciplined approach to investing capital and a pro-active risk management strategy. Our goal is to create a low volatility, high-quality income stream for shareholders with enough reserves in place to ensure our dividend is safe and secure under all market conditions.

Safety

~ 0.4 milestones

Our investment approach focuses on capital preservation and risk mitigation. We underwrite our investments to zero-loss standards, and only invest capital in transactions that we believe will deliver excellent risk-adjusted returns to our shareholders. We bring a "principal" mentality to investing capital, and all of our senior management professionals have a significant portion of their net worths invested in the company's equity. This disciplined approach has served us particularly well during the weaker economic and commercial real estate environment over the past two years, and has kept our asset quality strong.

Our risk management strategy emphasizes frequent, ongoing dialogue with our customers and real-time information dissemination throughout the company that drives real-time risk mitigation strategies. During weekly company-wide meetings, we identify and address potential credit issues before they become problems, and we draw upon the wide range of in-house intellectual capital and real estate expertise, with on-staff loan servicers, asset managers, credit analysts, licensed engineers, architects and lawyers. This intensive, hands-on and multi-disciplined approach to risk management protects our capital even when assets underperform our initial expectations.

Our broadly diversified asset base produces stable cash flow

With over 120 diversified corporate credits operating in more than 38 industries, a majority of which are investment grade or have implied investment grade ratings, and over nine years of remaining term, our sale/leaseback business produces long-term, highly stable cash flow. This business is complemented by our lending product lines, which are backed by more than 500 underlying properties broadly diversified across property type, geography and borrower. With an average loan-to-value of 68% and actual 2002 debt service coverage of 2.2x, our loan businesses provide a safe, stable source of cash flow that complements our leasing business.

Stability

~ *0.6* *milestones*

We have positive momentum in our credit ratings

During 2002, we received our first investment grade senior unsecured credit rating and were placed on "positive outlook" for a move to investment grade by the two other rating agencies. These moves follow upgrades by all three rating agencies in 2001. We are proud of our positive credit momentum, especially in the face of deteriorating economic conditions, and believe our progress is a testament to our asset quality and risk management discipline. Investment grade status from all three rating agencies will provide us with lower borrowing costs and allow us to redeploy resources to support increased business with our customers.

Momentum

~ 0.8 milestones

We have generated solid growth

We have consistently grown earnings and dividends every year since going public five years ago. Our customer franchise, scale and unique business model continue to provide us with a competitive advantage over commodity capital providers and multiple opportunities to generate asset, earnings and dividend growth in both “up” and “down” markets. The quality of our customer relationships is evident in the $3.1 billion of transactions completed with customers who have worked with us on more than one transaction, and provides us with an ongoing source of future business.

Consistency

~ 0.10 *milestones*

We have produced strong total rates of return for shareholders

iStar Financial continues to build on its long-term track record of delivering strong risk-adjusted returns to its shareholders. In addition to growing earnings, we provide shareholders with an attractive current dividend, which is well supported by cash flow. Since going public, our total rate of return (dividends plus stock price appreciation) has averaged 28.7% annually, and we have increased quarterly dividends by 80.0%.

Results

~ 0.12 milestones

In 2002, we delivered a 23.0% total rate of return to our shareholders, solidly beating other financial services companies and major market indices in a time of economic and geopolitical turbulence. Moreover, we delivered these strong returns while operating at a fraction of the leverage of most other financial services companies, averaging just 1.7x debt/tangible book equity during 2002.

Over the past three years, from 2000 to 2002, when almost every sector of the financial markets has delivered subpar returns to shareholders, iStar Financial has generated average annual returns of over 30% per year, and over 125% in total shareholder returns for the period.

We see many opportunities ahead

In our ten years in business and our five years as a public company, iStar Financial has emerged to become the leading provider of creative capital solutions to the commercial real estate industry. We have consistently delivered a premium service to our customers in exchange for a premium return, and have passed that premium on to our shareholders in the form of substantial dividends and stock price appreciation. This track record is underscored by a highly disciplined approach to managing risk and preserving capital, enabling us to become one of the best capitalized companies in the sector. Most importantly, throughout our corporate development, we have preserved the core values of fairness and integrity that remain the hallmark of our company. Now we will begin taking advantage of those strengths to build a truly great company.

Blossoming

~ 0.14 *milestones*

total enterprise value 2002 **$6,600,000,000**

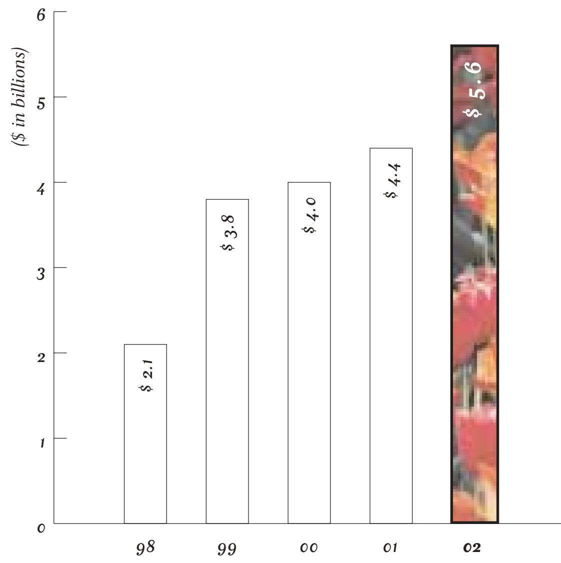
2001 **$5,100,000,000**

2000 **$4,200,000,000**

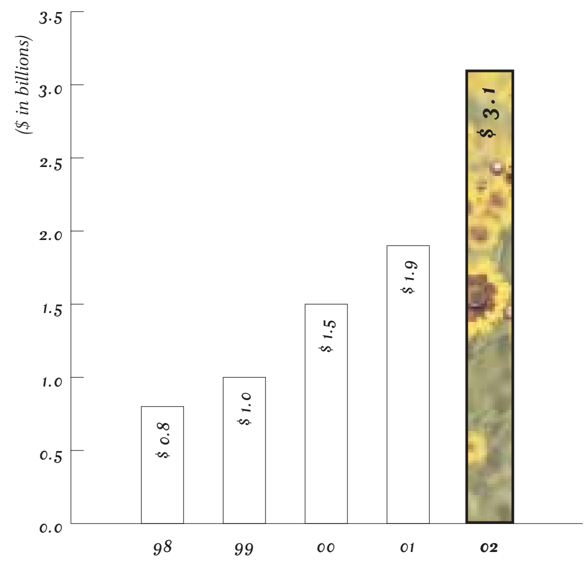
1999 **$3,700,000,000**

blossoming

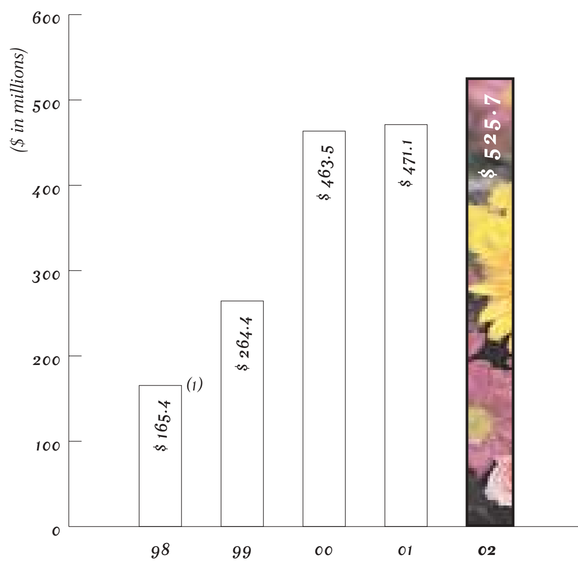
~ 0.16 proof

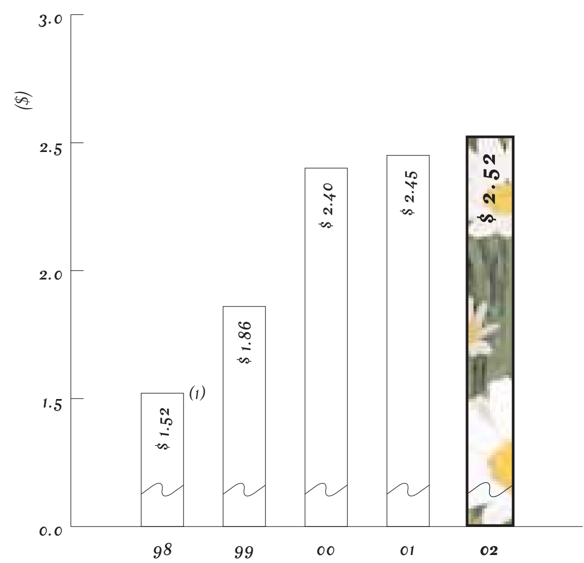


~
Total Assets



~
Cumulative Repeat Customer Business





~

Increasing Revenue

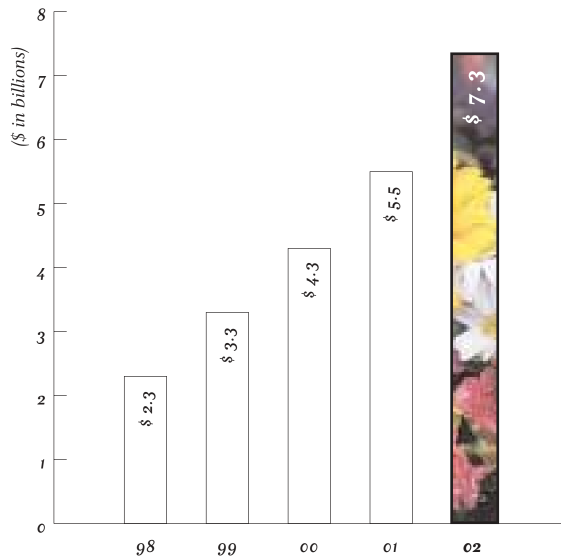
(1) *Because second quarter 1998 was our first full quarter as a public company, 1998 represents revenue for the second quarter through the fourth quarter of 1998, annualized.*

~

Increasing Dividends

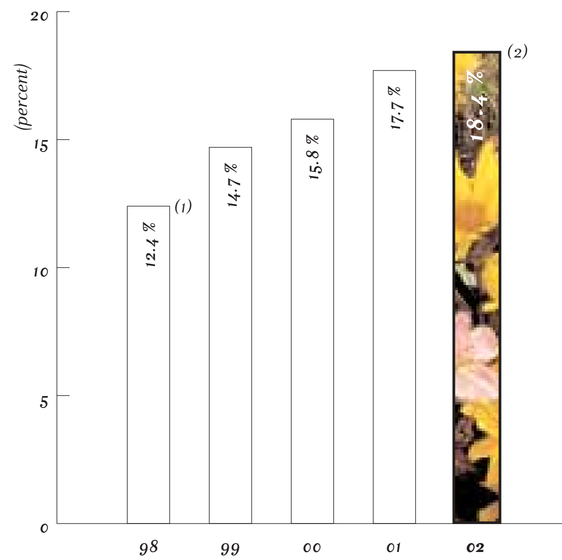
(1) *Because second quarter 1998 was our first full quarter as a public company, 1998 represents dividends for the second quarter through the fourth quarter of 1998, annualized.*

~ 0.18 proof



~

Cumulative Financing Transactions

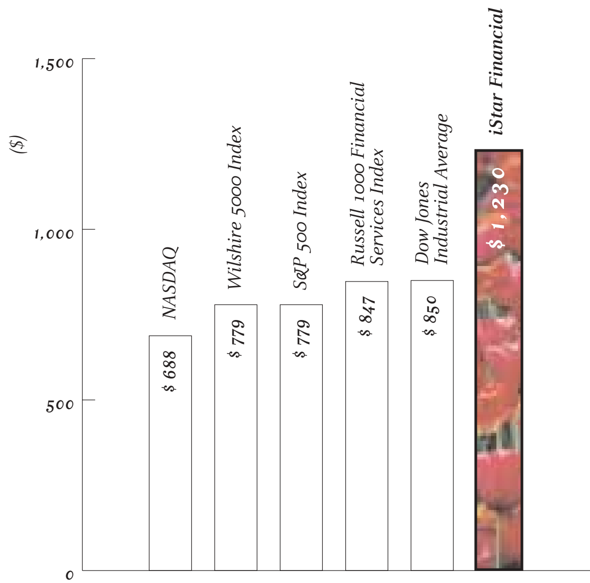


~

Return on Average Equity

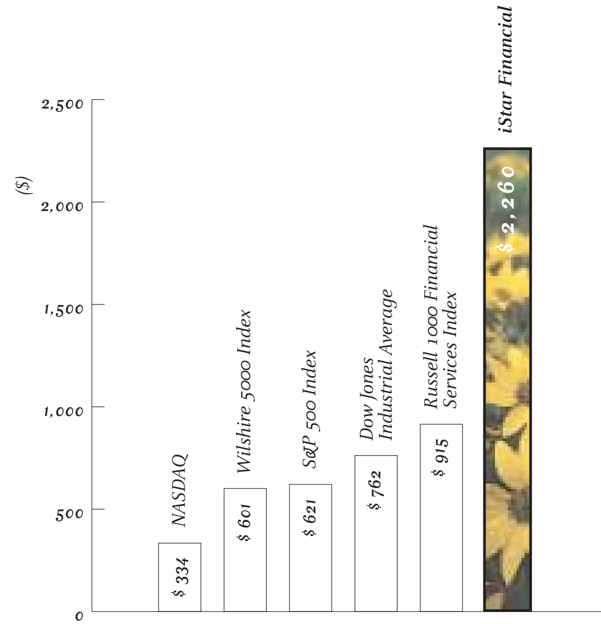
(1) *Because second quarter 1998 was our first full quarter as a public company, 1998 represents return on average equity for the second quarter through the fourth quarter of 1998.*

(2) *Excludes a $15.0 million non-cash charge related to performance-based vesting of restricted shares granted under our long-term incentive plan.*



~

Value as of 12/31/02 of $1,000 invested at 12/31/01



~

Value as of 12/31/02 of $1,000 invested at 12/31/99

Portfolio Finance

Customer:	Southwest Value Partners
Financing Product:	Senior, expandable floating-rate mortgage and junior participating, fixed-rate mortgage financing
Collateral:	1.1 million square foot downtown office portfolio and 436 room, four-star hotel located in San Diego, CA
Investment Size:	$132.8 million

Southwest Value Partners was one of the first opportunistic investors to target the recovering San Diego central business district. Having assembled a dominant position in the market, SVP began actively negotiating various loan and joint venture structures with three of the leading private investment funds in the country. Recognizing the opportunity to provide a superior financial solution for the partners, iStar Financial made an unsolicited offer to provide a creative three-part financing, allowing the partners to not only capture much of the upside on a tax-deferred basis, but also to lock-up future tenant improvement capital for improving property cash flow. Using iStar Financial's flexible structure and signing two of the largest leases in San Diego history, Southwest Value Partners has significantly increased portfolio cash flow and enhanced returns for its partners.

Case Studies

Corporate Tenant Leasing

Customer:	Northrop Grumman Corporation (NYSE: NOC) / West Group
Financing Product:	Credit tenant lease
Collateral:	574,588 square foot Class A+ office facility located in Tyson's Corner, MacLean, VA
Investment Size:	$143.6 million

The facility is the corporate headquarters for Northrop Grumman's IT Division. Northrop Grumman has a multi-billion dollar market capitalization and is a leading U.S. defense contractor, with a highly diversified base of contracts including the largest shipbuilding program in the U.S. When the owner of the facility sought to monetize its investment, iStar Financial developed an innovative purchase structure that helped the seller to bridge competing objectives among the seller's partners, while also restructuring the Northrop lease to create a more stable and more valuable income stream. The end result for iStar was a long-term investment supported by an investment grade corporate tenant on a newly-constructed office facility.

~ 0.22 proof

Corporate Finance

Customer:	The Mills Corporation (NYSE: MLS)
Financing Product:	Term preferred equity investment
Collateral:	Diversified portfolio of 14 super-regional malls located in major metropolitan markets throughout the U.S.
Investment Size:	$76.5 million

Mills, a leading developer of malls in the U.S., was in the process of seeking a sizable corporate financing commitment to accelerate its corporate growth strategy. iStar Financial worked closely with Mills to understand its complicated organization structure and capital needs, then committed to the entire transaction using a customized funding structure that allowed Mills flexible funding timing to meet its requirements while providing significant protection to iStar. By working with iStar Financial, Mills was able to quickly strengthen its capital structure, more efficiently finance its development pipeline and meet its cash flow objectives. Since iStar's investment, Mills has consistently increased earnings and cash flow and generated significant returns for its shareholders.

Case Studies

Structured Finance

Customer:	Washington Center / Quadrangle Development Corporation
Financing Product:	Senior and junior fixed-rate second mortgage financing
Collateral:	352,566 square foot downtown office building and a connected 889 room Grand Hyatt hotel located in Washington, D.C.
Investment Size:	$48.7 million

Quadrangle developed and owned the premier mixed-use property located in the East End sub-market of Washington D.C. With more than 10 banks involved in its original capital structure, the owner sought refinancing alternatives with a capital provider that could provide all its capital needs and meet its unique structuring needs. iStar Financial quickly committed to provide the junior portion of the financing and helped place a senior mortgage with a life company lender that iStar helped to understand the project. As a result of the simplified capital structure, the owner was able to focus on the operations of the project, substantially increasing both cash flow and value over time.

Dear Shareholders,

~ 0.24 *chairman's letter*

I am pleased to report that 2002 was another very strong year for iStar Financial and its shareholders. Our success this past year capped a three-year period in which our company has grown into the leading player in the high-end commercial real estate finance marketplace, capturing market share, extending customer relationships and building on our reputation for delivering capital tailored specifically to the individual needs of our customers.

During 2002, we also continued to deliver exceptional results for our shareholders, generating a total shareholder rate of return in excess of 20% for the third consecutive year and outperforming major stock market averages by over 30% for the third consecutive year. These superior returns are the direct result of a highly refined business strategy, a top-notch team of highly motivated employees and a recognized ability to stay ahead of the curve in each of the three markets on which we focus – the real estate finance markets, the capital markets and the corporate finance markets.

Despite very challenging market conditions for our customers in both the corporate world and in the real estate world, iStar was able to complete over $1.8 billion in new investments this past year, a new record for the company and a strong indicator of our ability to take advantage of market turmoil and turn it to our advantage. In times like these, our customers depend on our ability to provide capital to them in a creative, timely and experienced manner, and our growing proportion of repeat customers suggests we are meeting their needs and earning their trust.

The growing strength of our business is also apparent in the growing strength of our financial results. We finished 2002 with over $5 billion in assets, over $2 billion in tangible equity capital, and among commercial finance companies, one of the lowest leverage ratios and one of the best credit track records, with no non-performing assets at year-end. Our total revenue grew to $526 million, another record for our company and our return on equity reached 18.4%, also a record. Our loss ratios remain the best in the industry and we continue to be pleased by our portfolio even as many markets continue to struggle. Those strengths were recognized by the rating agencies this past year as all three raised iStar's credit ratings, with Fitch moving iStar to investment grade by giving us the only upgrade in their entire commercial finance and leasing sector.

As we have always said, there is a very large difference between companies focused on the equity side of the commercial real estate markets and iStar's focus on the lower-risk financing side of the market – our portfolio is built to perform even when more equity-oriented companies are seeing falling earnings and difficult market conditions. Our strong and growing dividend is built on a foundation of both well-structured loans on high quality property around the country and long-term corporate tenant lease transactions with a wide range of mostly credit-rated companies. The safety and stability of these complementary portfolios will continue to enable us to deliver strong current returns on our capital and strong dividend returns to our shareholders.

So what's next? As we expand the reach of our business, we have set out some very concrete goals for the future. First, we will seek to raise our dividend 5% per year while maintaining our dividend payout ratio as a percentage of earnings at no more than 80% on an annual basis. Second, we will grow our assets and our customer relationships by moving swiftly to capture the best market opportunities as they become available. Third, we will seek to expand our management team to include the highest caliber people we can find in order to continue delivering superior service to our customer base. Fourth, we will continue to try to find places in the capital markets that are not well served and to identify attractive areas to provide capital on a non-competitive basis. And fifth, we will work to help the market understand that the strength and safety of our income stream and business model deserve a far higher valuation than our current share price suggests.

We expect that our success, our shareholders' success, and perhaps this annual report, will help draw attention to our company and enable us to continue demonstrating that, at iStar, doing things the right way has always been the right thing to do.

I, and all our employees, thank you for your support.

Jay Sugarman
Chairman and
Chief Executive Officer

28 selected financial data
30 management's discussion and analysis of financial condition
39 quantitative and qualitative disclosures about market risk
41 report of independent accountants
42 consolidated balance sheets
43 consolidated statements of operations
44 consolidated statements of cash flows
45 consolidated statements of changes in shareholders' equity
46 notes to consolidated financial statements
64 common stock price and dividends

Financial Report

~ 0.27 financials

selected financial data

The following table sets forth selected financial data on a consolidated historical basis for iStar Financial Inc. ("the Company"). However, prior to March 1998, the Company's structured finance operations were conducted by two private investment partnerships which contributed substantially all their structured finance assets to the Company in exchange for cash and shares of the Company.

Further, on November 4, 1999, the Company acquired TriNet Corporate Realty Trust, Inc. ("TriNet"), which increased the size of the Company's operations, and also acquired its former external advisor. Operating results for the year ended December 31, 1999 reflect only the effects of these transactions subsequent to their consummation.

Accordingly, the historical balance sheet information as of December 31, 1998, as well as the results of operations for the Company for all periods prior to and including the year ended December 31, 1999, do not reflect the current operations of the Company as a well capitalized, internally-managed finance company operating in the commercial real estate industry. For these reasons, the Company believes that the information should be read in conjunction with the discussions set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations." Certain prior year amounts have been reclassified to conform to the 2002 presentation.

For the Year Ended December 31,	**2002**	2001	2000	1999	1998
		(In thousands, except per share data and ratios)			
Operating Data:					
Interest income	**$ 255,631**	$ 254,119	$ 268,011	$ 209,848	$ 112,914
Operating lease income	**242,100**	185,943	177,581	41,665	12,378
Other income	**27,993**	31,057	17,927	12,900	2,708
Total revenue	**525,724**	471,119	463,519	264,413	128,000
Interest expense	**185,375**	169,974	173,741	91,159	44,697
Operating costs – corporate tenant lease assets	**13,755**	12,782	12,737	2,245	–
Depreciation and amortization	**47,821**	35,411	34,384	10,324	4,287
General and administrative	**30,449**	24,151	25,706	6,269	2,583
General and administrative – stock-based compensation	**17,998**	3,574	2,864	412	5,985
Provision for loan losses	**8,250**	7,000	6,500	4,750	2,750
Advisory fees	**–**	–	–	16,193	7,837
Costs incurred in acquiring former external advisor(1)	**–**	–	–	94,476	–
Total costs and expenses	**303,648**	252,892	255,932	225,828	68,139
Income before equity in earnings from joint ventures and unconsolidated subsidiaries, minority interest and other items	**222,076**	218,227	207,587	38,585	59,861
Equity in earnings from joint ventures and unconsolidated subsidiaries	**1,222**	7,361	4,796	235	96
Minority interest in consolidated entities	**(162)**	(218)	(195)	(41)	(54)
Extraordinary loss on early extinguishment of debt	**(12,166)**	(1,620)	(705)	–	–
Cumulative effect of change in accounting principle(2)	**–**	(282)	–	–	–
Net income before discontinued operations	**210,970**	223,468	211,483	38,779	59,903
Income from discontinued operations	**3,583**	5,299	3,155	107	–
Gain from discontinued operations	**717**	1,145	2,948	–	–
Net income	**$ 215,270**	$ 229,912	$ 217,586	$ 38,886	$ 59,903
Preferred dividend requirements	**(36,908)**	(36,908)	(36,908)	(23,843)	(944)
Net income allocable to common shareholders	**$ 178,362**	$ 193,004	$ 180,678	$ 15,043	$ 58,959
Basic earnings per common share(3)	**$ 1.98**	$ 2.24	$ 2.11	$ 0.25	$ 1.40
Diluted earnings per common share	**$ 1.93**	$ 2.19	$ 2.10	$ 0.25	$ 1.36
Dividends declared per common share(4)	**$ 2.52**	$ 2.45	$ 2.40	$ 1.86	$ 1.14
Supplemental Data:					
Adjusted earnings allocable to common shareholders(5)(7)	**$ 281,686**	$ 255,132	$ 230,688	$ 127,798	$ 65,949
EBITDA(6)(7)	**$ 471,444**	$ 430,973	$ 420,508	$ 234,779	$ 116,778
Ratio of EBITDA to interest expense(8)	**2.54x**	2.54x	2.42x	2.58x	2.61x
Ratio of EBITDA to combined fixed charges(9)	**2.12x**	2.08x	2.00x	2.04x	1.70x
Ratio of earnings to fixed charges(10)	**2.25x**	2.34x	2.25x	1.43x	2.33x
Ratio of earnings to fixed charges and preferred stock dividends(10)	**1.88x**	1.93x	1.86x	1.13x	2.28x
Weighted average common shares outstanding – basic(11)	**89,886**	86,349	85,441	57,749	41,607
Weighted average common shares outstanding – diluted(11)	**92,649**	88,234	86,151	60,393	43,460
Cash flows from:					
Operating activities	**$ 348,793**	$ 293,260	$ 219,868	$ 119,625	$ 54,915
Investing activities	**(1,149,070)**	(349,525)	(193,805)	(143,911)	(1,271,309)
Financing activities	**800,541**	49,183	(37,719)	48,584	1,226,208
Balance Sheet Data:					
Loans and other lending investments, net	**$ 3,050,342**	$2,377,763	$2,227,083	$2,003,506	$ 1,823,761
Corporate tenant lease assets, net	**2,291,805**	1,781,565	1,592,087	1,654,300	189,942
Total assets	**5,611,697**	4,380,640	4,034,775	3,813,552	2,059,616
Debt obligations	**3,461,590**	2,495,369	2,131,967	1,901,204	1,055,719
Minority interest in consolidated entities	**2,581**	2,650	6,224	2,565	–
Shareholders' equity	**2,025,300**	1,787,778	1,787,885	1,801,343	970,728
Supplemental Data:					
Total debt to shareholders' equity	**1.7x**	1.4x	1.2x	1.1x	1.1x

Explanatory Notes:

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

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

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

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

(5) Adjusted earnings represents net income to common shareholders computed in accordance with GAAP, before depreciation, amortization, gain (loss) from discontinued operations, extraordinary items and cumulative effect of change in accounting principle. For the year ended December 31, 2002, adjusted earnings excludes the $15.0 million non-cash charge related to the performance based vesting of restricted shares granted under the Company's long-term incentive plan. For the year ended December 31, 1999, adjusted earnings excludes the non-recurring, non-cash cost incurred in acquiring the Company's former external advisor. (See reconciliation in "Management's Discussion and Analysis of Financial Condition and Results of Operations").

(6) EBITDA is calculated as total revenue plus equity in earnings from joint ventures and unconsolidated subsidiaries minus the sum of general and administrative expenses, general and administrative – stock-based compensation (excluding the non-cash charge related to the performance based vesting of restricted shares granted under the Company's long-term incentive plan for the year ended December 31, 2002), provision for loan losses, operating costs on corporate tenant lease assets and advisory fees.

For the Year Ended December 31,	**2002**	2001	2000	1999	1998
			(In thousands)		
Total Revenue	**$525,724**	$471,119	$463,519	$264,413	$128,000
Plus: Equity in earnings from joint ventures and unconsolidated subsidiaries	**1,222**	7,361	4,796	235	96
Less: General and administrative	**(30,449)**	(24,151)	(25,706)	(6,269)	(2,583)
Less: General and administrative – stock-based compensation	**(3,048)**	(3,574)	(2,864)	(412)	(5,985)
Less: Provision for loan losses	**(8,250)**	(7,000)	(6,500)	(4,750)	(2,750)
Less: Operating costs – corporate tenant lease assets	**(13,755)**	(12,782)	(12,737)	(2,245)	–
Less: Advisory fees	**–**	–	–	(16,193)	–
EBITDA	**$471,444**	$430,973	$420,508	$234,779	$116,778

(7) Each of adjusted earnings and EBITDA should be examined in conjunction with net income as shown in the Consolidated Statements of Operations. Neither adjusted earnings nor EBITDA should be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of the Company's performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is either measure indicative of funds available to fund the Company's cash needs or available for distribution to shareholders. The Company's management believes that adjusted earnings and EBITDA more closely approximate operating cash flow and are useful measures for investors to consider, in conjunction with net income and other GAAP measures, in evaluating the commercial finance company that focuses on real estate lending and corporate tenant leasing; therefore, the Company's net income (determined in accordance with GAAP) reflects significant non-cash depreciation expense on corporate tenant lease assets. It should be noted that the Company's manner of calculating adjusted earnings and EBITDA may differ from the calculations of similarly-titled measures by other companies.

(8) The 1999 and 1998 EBITDA to interest expense ratios on a pro forma basis would have been 2.83x and 2.84x, respectively.

(9) Combined fixed charges are comprised of interest expense, capitalized interest, amortization of loan costs and preferred stock dividend requirements. The 1999 and 1998 EBITDA to combined fixed charges ratios on a pro forma basis would have been 2.23x and 2.44x, respectively.

(10) For the purposes of calculating the ratio of earnings to fixed charges, "earnings" consist of income from continuing operations before income taxes and cumulative effect of changes in accounting principles plus "fixed charges" and certain other adjustments. "Fixed charges" consist of interest incurred on all indebtedness related to continuing operations (including amortization of original issue discount) and the implied interest component of the Company's rent obligations in the years presented. For 1999, these ratios include the effect of a non-recurring, non-cash charge in the amount of approximately $94.5 million relating to the November 1999 acquisition of the former external advisor to the Company. Excluding the effect of this non-recurring, non-cash charge, the ratio of earnings to fixed charges for that period would have been 2.5x and the Company's ratio of earnings to fixed charges and preferred stock dividends would have been 2.0x.

(11) As adjusted for one-for-six reverse stock split effected by the Company on June 19, 1998.

~

General

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

Results of Operations

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

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

Operating lease income – Operating lease income increased by $56.2 million to $242.1 million for the 12 months ended December 31, 2002 from $185.9 million for the same period in 2001. Of this increase, $59.5 million was attributable to new corporate tenant lease investments. This increase was partially offset by corporate tenant lease dispositions and lower operating lease income on certain corporate tenant lease assets.

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

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

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

Operating costs – corporate tenant lease assets – For the 12 months ended December 31, 2002, operating costs increased by $1.0 million from $12.8 million to $13.8 million for the same period in 2001. This increase is primarily related to new corporate tenant lease investments and higher operating costs on certain corporate tenant lease assets, partially offset by corporate tenant lease dispositions.

Depreciation and amortization – Depreciation and amortization increased by $12.4 million to $47.8 million for the 12 months ended December 31, 2002 from $35.4 million for the same period in 2001. This increase is primarily due to new corporate tenant lease investments.

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

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

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

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

Income from discontinued operations – For the 12-month periods ended December 31, 2002 and 2001, operating income earned by the Company on corporate tenant lease assets sold (prior to their sale) and assets held for sale of approximately $3.6 million and $5.3 million, respectively, is classified as "Income from discontinued operations," even though such income was earned by the Company prior to the assets' disposition or classification as "Assets held for sale."

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

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

Extraordinary loss on early extinguishment of debt – During the 12 months ended December 31, 2002, the Company fully repaid the then remaining $446.2 million of bonds outstanding under its STARs

Series 2000-1 financing. This prepayment resulted in an extraordinary loss of $12.2 million, which represented approximately $8.2 million in unamortized deferred financing costs and approximately $4.0 million in prepayment penalties.

During the 12 months ended December 31, 2001, the Company repaid a secured term loan, which had an original maturity date of December 2004. In addition, the Company prepaid an unsecured revolving credit facility, which had an original maturity date of May 2002. In connection with these prepayments, the Company expensed the remaining unamortized deferred financing costs and incurred certain prepayment penalties, which resulted in an extraordinary loss of approximately $1.6 million.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Interest income – Interest income decreased by $13.9 million to $254.1 million for the 12 months ended December 31, 2001 from $268.0 million for the same period in 2000. Approximately $12.7 million of this decrease is the result of lower average LIBOR rates on the Company's variable-rate lending investments of 3.88% in 2001, compared to 6.41% in 2000. This decrease was partially offset by $55.1 million of interest income on new originations or additional fundings, net of $51.6 million from the repayment of loans and other lending investments, in addition to a decrease of $1.5 million from income earned on cash and cash equivalents.

Operating lease income – Operating lease income increased by $8.3 million to $185.9 million for the 12 months ended December 31, 2001 from $177.6 million for the same period in 2000. Of this increase, $11.8 million was attributable to new corporate tenant lease investments. This increase was partially offset by corporate tenant lease dispositions and lower operating lease income on certain corporate tenant lease assets.

Other income – Other income consists primarily of prepayment penalties and gains from the early repayment of loans and other lending investments, financial advisory and asset management fees, lease termination fees, mortgage servicing fees, loan participation payments and dividends on certain investments. During the year ended December 31, 2001, other income included loan participation payments of $13.1 million, prepayment penalties and gains on loan repayments of $13.0 million and financial advisory, lease termination, asset management and mortgage servicing fees of $5.3 million.

During the year ended December 31, 2000, other income included prepayment penalties and gains on loan repayments of $10.5 million, $2.1 million in connection with a loan defeasance, loan participation payments of $1.9 million, financial advisory, asset management and mortgage servicing fees of $2.6 million and lease termination fees of $770,000.

Interest expense – For the 12 months ended December 31, 2001, interest expense decreased by $3.7 million to $170.0 million from $173.7 million for the same period in 2000. This decrease was primarily due to the lower average LIBOR rates on the Company's variable-rate debt of 3.88% in 2001, compared to 6.41% in 2000. This decrease was partially offset by the higher average borrowings on the Company's credit facilities, term loans and unsecured notes and $7.6 million additional amortization of deferred financing costs on the Company's debt obligations in 2001 compared to 2000.

Operating costs – corporate tenant lease assets – For the 12 months ended December 31, 2001, operating costs were substantially unchanged as compared to the same period in 2000. Such operating costs represent unreimbursed operating expenses associated with corporate tenant lease assets.

Depreciation and amortization – Depreciation and amortization increased by $1.0 million to $35.4 million for the 12 months ended December 31, 2001 from $34.4 million for the same period in 2000. This increase is due to new corporate tenant lease investments and additional facility improvements, partially offset by corporate tenant lease dispositions in 2000.

General and administrative – For the 12 months ended December 31, 2001, general and administrative expenses decreased by $1.5 million to $24.2 million, compared to $25.7 million for the same period in 2000. This decrease is primarily the result of a reduction in office and related costs and professional fees, partially offset by an increase in personnel and related costs.

General and administrative – stock-based compensation expense – General and administrative – stock-based compensation expense increased by approximately $710,000 as a result of charges relating to grants of stock options and restricted shares.

Provision for loan losses – The Company's charge for provision for loan losses increased to $7.0 million for the 12 months ended December 31, 2001 from $6.5 million for the same period in 2000 as a result of the continued expansion of the Company's lending operations as well as additional seasoning of its existing lending portfolio. As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, the Company has experienced minimal actual losses on its loan investments to date. The Company considers it prudent to reflect provisions for loan losses on a portfolio basis based upon the Company's assessment of general market conditions, the Company's internal risk management policies and credit risk rating system, industry loss experience, the Company's assessment of the likelihood of delinquencies or defaults, and the values of the collateral underlying its investments. Accordingly, since its first full quarter operating its current business as a public company (the quarter ended June 30, 1998), management has reflected quarterly provisions for loan losses in its operating results.

Equity in earnings from joint ventures and unconsolidated subsidiaries – During the 12 months ended December 31, 2001, equity in earnings from joint ventures and unconsolidated subsidiaries increased by approximately $2.6 million to $7.4 million from $4.8 million for the same period in 2001. This increase is primarily due to new leases commencing in 2001, in addition to a lease termination payment received at one of the joint ventures (see Note 6 to the Company's Consolidated Financial Statements).

Income from discontinued operations – For the 12-month periods ended December 31, 2001 and 2000, operating income earned by the Company on corporate tenant lease assets sold (prior to their sale) and assets held for sale of approximately $5.3 million and $3.2 million, respectively, is classified as "Income from discontinued operations," even though such income was earned by the Company prior to the assets' disposition or classification as "Assets held for sale."

Gain from discontinued operations – During 2001, the Company disposed of four corporate tenant lease assets for total proceeds of $26.3 million and recognized net gains of $1.1 million.

During 2000, the Company disposed of 14 corporate tenant lease assets, including six assets held in joint venture partnerships, for total proceeds of $256.7 million, and recognized net gains of $2.9 million.

Extraordinary loss on early extinguishment of debt – During the 12 months ended December 31, 2001 and 2000, the Company or its joint ventures prepaid debt obligations of $133.0 million and $24.5 million, respectively. These transactions resulted in an extraordinary loss on early extinguishment of debt from prepayment penalties and the expense associated with remaining unamortized deferred financing costs in the amount of $1.6 million and $705,000 for the 12 months ended December 31, 2001 and 2000, respectively.

Adjusted Earnings

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

The Company believes that to facilitate a clear understanding of the historical operating results of the Company, adjusted earnings

should be examined in conjunction with net income as shown in the Company's Consolidated Statements of Operations. Adjusted earnings should not be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of the Company's performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is it indicative of funds available to fund the Company's cash needs or available for distribution to the Company's shareholders. The Company's management believes that adjusted earnings more closely approximates operating cash flow and is a useful measure for investors to consider, in conjunction with net income and other GAAP measures, in evaluating the Company's financial performance. This is primarily because the Company is a commercial finance company that focuses on real estate lending and corporate tenant leasing; therefore, the Company's net income (determined in accordance with GAAP) reflects significant non-cash depreciation expense on corporate tenant lease assets. It should be noted that the Company's manner of calculating adjusted earnings may differ from the calculation of similarly-titled measures by other companies.

For the Year Ended December 31,	**2002**	2001	2000	1999	1998
			(In thousands)		
			(Unaudited)		
Adjusted earnings:					
Net income allocable to common shareholders	**$178,362**	$193,004	$180,678	$15,043	$58,959
Add: Joint venture income	**991**	965	937	1,603	–
Add: Depreciation	**48,041**	35,642	34,514	11,016	4,302
Add: Joint venture depreciation and amortization	**4,433**	4,044	3,662	365	–
Add: Amortization of deferred financing costs	**23,460**	20,720	13,140	6,121	3,354
Less: Gains from discontinued operations	**(717)**	(1,145)	(2,948)	–	–
Add: Extraordinary loss – early extinguishment of debt	**12,166**	1,620	705	–	–
Add: Cumulative effect of change in accounting principle(1)	**–**	282	–	–	–
Less: Net income allocable to class B shares(2)	**–**	–	–	(826)	(666)
Add: Cost incurred in acquiring former external advisor	**–**	–	–	94,476	–
Adjusted diluted earnings allocable to common shareholders:					
Before non-cash incentive compensation charge(3)	**$281,686**	$255,132	$230,688	$127,798	$65,949
After non-cash incentive compensation charge	**$266,736**	$255,132	$230,688	$127,798	$65,949
Weighted average diluted common shares outstanding	**93,020**	88,606	86,523	61,750	43,460

Explanatory Notes:

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

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

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

~

Risk Management

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

Non-Accrual Loans – The Company transfers loans to non-accrual status at such time as: (1) management believes that the potential risk exists that scheduled debt service payments will not be met within the coming 12 months; (2) the loans become 90 days delinquent; (3) management determines the borrower is incapable of, or ceased efforts toward, curing the cause of an impairment; or (4) the net realizable value of the loan's underlying collateral approximates the Company's carrying value of such loan. Interest income is recognized only upon actual cash receipt for loans on non-accrual status. As of December 31, 2002, the Company had three assets on non-accrual status with an aggregate gross book value of $11.1 million, or 0.20% of the gross book value of the Company's investments. The Company is currently comfortable that it has adequate collateral to support the book values of the assets.

One of the three non-accrual loans is a $3.5 million partnership loan on two shopping malls located in the suburbs of Washington, D.C. This investment was part of a larger loan originally made by affiliates of Lazard Freres prior to the Company's acquisition of Lazard's structured finance portfolio in 1998. The loan matures in September 2003 and bears interest at 12.00%. The Company received cash payments equal to the interest due on the loan during the 12 months ended December 31, 2002, and the borrower remains current on its obligations to the Company. However, the Company anticipates that this loan will remain on non-accrual status for the foreseeable future.

The second non-accrual loan is a partnership loan with a balance of $5.7 million as of December 31, 2002. The loan is presently secured by partnership interests in two partnerships owning facilities in Colorado leased to the U.S. Government. The Company made the loan in anticipation of buying the facilities upon their completion. The loan matures on March 29, 2003 and bears interest at LIBOR + 3.50%, with a LIBOR floor of 3.00%. In February 2003 the borrower breached certain technical provisions of the loan documents, constituting a technical event of default. The borrower remains current on its regular interest obligations to the Company and the Company is currently discussing a possible extension of the loan with the borrower. However, as a result of the technical default and the uncertainty surrounding the extension and the timing of the completion of the facilities for the Company's purchase, the loan has been been placed on non-accrual status.

The third non-accrual loan is a $1.9 million investment in debt securities of a real estate company which trades on the Mexican Stock Exchange. This investment was made by TriNet prior to its acquisition by the Company in 1999. The securities bear interest at 12.00% per annum payable in arrears in December of each year. In January 2003, the Company received cash payments equal to the interest due on the investment through December 31, 2002, and the borrower remains current on its obligations to the Company. However, the Company anticipates that this investment will remain on non-accrual status for the foreseeable future.

Watch List Assets – The Company conducts a quarterly comprehensive credit review, resulting in an individual risk rating being assigned to each asset. This review is designed to enable management to evaluate and proactively manage asset-specific credit issues and identify credit trends on a portfolio-wide basis as an "early warning system." As of December 31, 2002, the Company has four loans and two CTL investments that are on its credit watch list.

In addition to the $5.7 million partnership loan mentioned above, the Company had three other loans on its credit watch list. The second watch list loan is a $40.8 million first mortgage secured by a hotel property in New York, New York. This mortgage matures on April 30, 2005 and bears interest at LIBOR + 4.50%. The borrower remains current on all of its debt service payments to the Company, and the Company is currently comfortable that it has adequate collateral to support the book value of the asset. However, due to poor operating performance exacerbated by the decline in the hotel market in the New York metropolitan area, this loan remains on the watch list.

The third watch list loan is a $12.9 million junior participation in a first mortgage loan secured by a hotel property in New York, New York. This loan bears interest at a fixed rate of 7.91% and matures in June 2006. The borrower remains current on all of its debt service payments to the Company and has continued to invest additional equity to fund on-going capital improvements at the property. The Company is comfortable that it has adequate collateral to support the book value of the asset. However, due to poor operating performance exacerbated by the decline in the hotel market in the New York metropolitan area, this loan remains on the watch list.

The fourth watch list loan is a $35.8 million junior interest in a $104.5 million first mortgage loan secured by a retail shopping mall in Chicago, IL. The whole loan bears interest at 8.88% and matures January 1, 2004. The mall's cash flow has been negatively impacted by the departure of one of four anchor tenants. The borrower is currently negotiating with one of the anchor tenants to occupy the vacant space. In addition, the borrower has a significant equity investment in the property (including approximately $15.0 million of additional equity invested in 2001), and remains current on all of its debt service payments to the Company. The Company is currently comfortable that it has adequate collateral to support the book value of the asset.

The Company also has two CTL investments on its credit watch list. In January 2002, a customer occupying two office facilities owned by the Company filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. The customer utilizes these facilities as the U.S. headquarters for one of its major business lines. Since its bankruptcy filing, the customer has been consolidating its space needs into the larger of the two facilities, including approximately 150 of its employees from other area locations. The customer has also invested approximately $3.0 million of its own capital in the facilities. In December 2002, the bankruptcy court approved a plan of reorganization. As part of the reorganization, the customer has attempted to affirm the lease on the larger facility and terminate the lease on the smaller facility. Since the two leases are cross-defaulted, the Company believes the the customer's affirmation of the larger facility lease is also an affirmation of the smaller facility. The customer remains current on the larger facility's lease payment to the Company, but has withheld its March payment on the smaller facility pending a potential negotiated settlement with the Company regarding termination of the lease on the smaller facility. Therefore, the smaller facility (with a net carrying value of $3.6 million at December 31, 2002) remains on the Company's watch list.

The Company also placed on the watch list its investment in a corporate tenant lease asset held in joint venture due to the financial uncertainty surrounding one of the facility's primary tenants. As of December 31, 2002, the Company's equity investment in the venture was $12.4 million and the Company's share of income from this equity investment for the year ended December 31, 2002 was $1.4 million.

Other Loans – As of December 31, 2002, the Company also has a $15.3 million second mortgage on a Class A office building in Washington, D.C. which has paid debt service two months in arrears since December 2002. The loan matures in October 2005 and, but for a small working capital deficit resulting in the two-month arrearage, continues to otherwise pay as agreed. Inclusive of the senior debt on the property, the Company's last-dollar risk exposure on this asset on a per square foot basis is significantly less than neighboring buildings have sold for. As a result, the Company currently believes that it has adequate collateral to support the book value of the asset.

Liquidity and Capital Resources

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

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

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

The Company's longstanding policy is to limit its book debt-to-equity ratio to approximately 2.0x. As the Company's leverage approaches this level, the Company will consider equity and other alternatives to reduce leverage. The exact timing and nature of any equity issuance would be subject to market conditions.

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

		Principal Payments Due By Period[1]				
	Total	Less Than 1 Year	2–3 Years	4–5 Years	6–10 Years	After 10 Years
				(In thousands)		
Long-Term Debt Obligations:						
Secured revolving credit facilities	$1,273,754	$ –	$1,273,754	$ –	$ –	$ –
Unsecured revolving credit facilities	–	–	–	–	–	–
Secured term loans	682,851	–	142,211	245,975	180,292	114,373
iStar Asset Receivables secured notes[2]	876,368	–	236,694	–	639,674	–
Unsecured notes	625,000	–	–	50,000	350,000	225,000
Other debt obligations	15,961	15,961	–	–	–	–
Total	3,473,934	15,961	1,652,659	295,975	1,169,966	339,373
Operating Lease Obligations:[3]	17,608	2,908	5,467	5,353	3,880	–
Total	$3,491,542	$18,869	$1,658,126	$301,328	$1,173,846	$339,373

Explanatory Notes:

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

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

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

~

The Company has four LIBOR-based secured revolving credit facilities with an aggregate maximum availability of $2.4 billion, of which $1.3 billion was drawn as of December 31, 2002 (see Note 7 to the Company's Consolidated Financial Statements). Availability under these facilities is based on collateral provided under a borrowing base calculation. At December 31, 2002, the Company also had an unsecured credit facility totaling $300.0 million which bears interest at LIBOR + 2.125% and matures in July 2004, including a one-year extension at the Company's option. At December 31, 2002, the Company had not drawn any amounts under this facility.

Recent Financing Activities – On May 17, 2000, the Company closed the inaugural offering under its proprietary matched funding program, STARs, Series 2000-1. In the initial transaction, a wholly-owned subsidiary of the Company issued $896.5 million of investment-grade bonds secured by the subsidiary's assets, which had an aggregate outstanding principal balance of approximately $1.2 billion at inception. Principal payments received on the assets were utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funded the maturity of the underlying assets financed under the program. Of the assets of the subsidiary secured by this financing, 73.96% (by gross carrying value) consisted of first mortgages and subsequent lien positions and the remaining 26.04% consisted of junior loans. For accounting purposes, this transaction was treated as a secured financing: the underlying assets and STARs liabilities remained on the Company's Consolidated Balance Sheets and no gain on sale was recognized. On May 28, 2002, the Company fully repaid these bonds.

On January 11, 2001, the Company closed a new $700.0 million secured revolving credit facility which is led by a major commercial bank. The new facility has a three-year primary term and one-year "term-out" extension option, and bears interest at LIBOR + 1.40% to 2.15%, depending upon the collateral contributed to the borrowing base. The new facility accepts a broad range of structured finance assets and has a final maturity of January 2005. Subsequent to December 31, 2002, the Company extended the final maturity on this facility to January 2007.

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

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

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

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

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

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

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

On May 28, 2002, the Company repaid the then remaining $446.2 million of bonds outstanding under its STARs, Series 2000-1 financing. Simultaneously, a wholly-owned subsidiary of the Company issued STARs, Series 2002-1, consisting of $885.1 million of investment-grade bonds secured by the subsidiary's structured finance and corporate

tenant lease assets, which had an aggregate outstanding principal balance of approximately $1.1 billion at inception. Principal payments received on the assets will be utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funds the maturity of the underlying assets financed under the program. The weighted average interest rate on the bonds, on an all-floating rate basis, is approximately LIBOR + 0.56% at inception. For accounting purposes, this transaction was treated as a secured financing: the underlying assets and STARs liabilities remained on the Company's Consolidated Balance Sheets, and no gain on sale was recognized.

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

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

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

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

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

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

The Company has entered into the following cash flow and fair value hedges that are outstanding as of December 31, 2002. The net value associated with these hedges is reflected on the Company's Consolidated Balance Sheets (in thousands).

Type of Hedge	*Notional Amount*	*Strike Price or Swap Rate*	*Trade Date*	*Maturity Date*	*Estimated Value at December 31, 2002*
Pay-Fixed Swap	$125,000	7.058%	6/15/00	6/25/03	$ (3,598)
Pay-Fixed Swap	125,000	7.055%	6/15/00	6/25/03	(3,596)
Pay-Fixed Swap	75,000	5.580%	11/4/99(1)	12/1/04	(5,743)
Pay-Floating Swap	100,000	3.878%	11/27/02	8/15/08	2,761
Pay-Floating Swap	50,000	3.810%	11/27/02	8/15/08	1,203
LIBOR Cap	345,000	8.000%	5/22/02	5/28/14	12,088
LIBOR Cap	75,000	7.750%	11/4/99(1)	12/1/04	21
LIBOR Cap	35,000	7.750%	11/4/99(1)	12/1/04	9
Total Estimated Value					$ 3,145

Explanatory Note:

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

~

Between January 1, 2001 and December 31, 2002, the Company also had outstanding the following cash flow hedges that have expired or been settled (in thousands):

Type of Hedge	*Notional Amount*	*Strike Price or Swap Rate*	*Trade Date*	*Maturity Date*
LIBOR Cap	$300,000	9.000%	3/16/98	3/16/01
Pay-Fixed Swap	92,000	5.714%	8/10/98	3/1/01
LIBOR Cap	75,000	7.500%	7/16/98	6/19/01
LIBOR Cap	38,336	7.500%	4/30/98	6/1/01

~

In connection with STARs, Series 2002-1 in May 2002, the Company entered into a LIBOR interest rate cap struck at 8.00% in the notional amount of $345.0 million. The Company utilizes the provisions of Statement of Financial Accounting Standards No. 133 ("SFAS No. 133), "Accounting for Derivative Instruments and Hedging Activities," with respect to such instruments. SFAS No. 133 provides that the upfront fees paid on option-based products such as caps should be expensed into earnings based on the allocation of the premium to the affected periods as if the agreement were a series of "caplets." These allocated premiums are then reflected as a charge to income (as part of interest expense) in the affected period.

On May 28, 2002, in connection with the STARs, Series 2002-1 transaction, the Company paid a premium of $13.7 million for an interest rate cap. Using the "caplet" methodology discussed above, amortization

of the cap premium is dependent upon the actual value of the caplets at inception.

In connection with STARs, Series 2000-1 in May 2000, the Company entered into a LIBOR interest rate cap struck at 10.00% in the notional amount of $312.0 million, and simultaneously sold a LIBOR interest rate cap with the same terms. Since these instruments did not change the Company's net interest rate risk exposure, they did not qualify as hedges and changes in their respective values were charged to earnings. As the terms of these arrangements were substantially the same, the effects of a revaluation of these two instruments substantially offset one another. On May 28, 2002, these instruments were settled and are no longer outstanding.

In connection with a portion of the Company's fixed-rate corporate bonds, the Company entered into two pay-floating interest rate swaps struck at 3.8775% and 3.81% and in the notional amounts of $100.0 million and $50.0 million, respectively. The Company pays one-month LIBOR and receives the stated fixed rate in return. These swaps mitigate the risk of changes in the fair value of $150.0 million of the Company's fixed-rate corporate bonds attributable to changes in LIBOR. For accounting purposes, the difference between the fixed rate received and the LIBOR rate paid on the notional amount of the swap is recorded as "Interest expense" in the Company's Consolidated Statements of Operations. In addition, the Company adjusts the value of the swap to its fair value and adjusts the carrying amount of the hedged liability by an offsetting amount on a quarterly basis.

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

Off-Balance Sheet Transactions – The Company is not dependent on the use of any off-balance sheet financing arrangements for liquidity. As of December 31, 2002, the Company had investments in three corporate tenant lease joint ventures accounted for under the equity method, which had total debt obligations outstanding of approximately $178.7 million. The Company's pro rata share of the ventures' third-party debt was approximately $77.4 million (see Note 6 to the Company's Consolidated Financial Statements). These ventures were formed for the purpose of operating, acquiring and in certain cases, developing corporate tenant lease facilities. The debt obligations of these joint ventures are non-recourse to the ventures and the Company and mature between fiscal years 2004 and 2011. As of December 31, 2002, the debt obligations consisted of six term loans bearing fixed rates per annum ranging from 7.61% to 8.43% and one variable-rate term loan with a rate of LIBOR + 1.25% per annum.

The Company has certain discretionary and non-discretionary unfunded commitments related to its loans and other lending investments that it may need to, or choose to, fund in the future. Discretionary commitments are those under which the Company has sole discretion with respect to future funding. Non-discretionary commitments are those under which the Company is generally obligated to fund at the request of the borrower or upon the occurrence of events outside of the Company's direct control. As of December 31, 2002, the Company had nine loans with unfunded commitments totaling $97.7 million, of which $22.2 million was discretionary and $75.5 million was non-discretionary.

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

During the 12 months ended December 31, 2002, the Company's senior unsecured credit rating was upgraded to an investment grade rating of BBB- from BB+ by Fitch Ratings. In addition, Moody's and S&P raised their ratings outlook for the Company's senior unsecured credit rating to "positive."

Transactions with Related Parties – The Company has an investment in iStar Operating Inc. ("iStar Operating"), a taxable subsidiary that, through a wholly-owned subsidiary, services the Company's loans and certain loan portfolios owned by third parties. The Company owns all of the non-voting preferred stock and a 95.00% economic interest in iStar Operating. An affiliate of the Company's largest shareholder is the owner of all the voting common stock and a 5.00% economic interest in iStar Operating. As of December 31, 2002, there have never been any distributions to the common shareholder, nor does the Company expect to make any in the future. At any time, the Company has the right to acquire all of the common stock of iStar Operating at fair market value, which the Company believes to be nominal. In addition to the direct general and administrative costs of iStar Operating, the Company allocates a portion of its general overhead expenses to iStar Operating based on the number of employees at iStar Operating as a percentage of the Company's total employees.

In addition, the Company has an investment in TMOC, a taxable noncontrolled subsidiary that has a $2.0 million investment in a real estate company based in Mexico. The Company owns 95.00% of the outstanding voting and non-voting common stock (representing 1.00% voting power and 95.00% of the economic interest) in TMOC. The other two owners of TMOC stock are executives of the Company, who own a combined 5.00% of the outstanding voting and non-voting common stock (representing 99.00% voting power and 5.00% economic interest) in TMOC. As of December 31, 2002, there have never been any distributions to the common shareholders, nor does the Company expect to make any in the future. At any time, the Company has the right to acquire all of the common stock of TMOC at fair market value, which the Company believes to be nominal.

Both iStar Operating and TMOC have elected to be treated as taxable REIT subsidiaries for purposes of maintaining compliance with the REIT provisions of the Code and are accounted for under the equity method for financial statement reporting purposes and are presented in "Investments in and advances to joint ventures and unconsolidated subsidiaries" on the Company's Consolidated Balance Sheets. If they were consolidated with the Company for financial statement purposes, they would not have a material impact on the Company's operations. As of December 31, 2002, iStar Operating and TMOC have no debt obligations.

The Company entered into an employment agreement with its Chief Executive Officer as of March 31, 2001. In addition to the salary and bonus provisions of the agreement, the agreement provides for an award of 2.0 million phantom units to the executive, each of which notionally represents one share of the Company's Common Stock. Portions of these phantom units will vest on a contingent basis if the average closing price of the Company's Common Stock achieves certain levels (ranging from $25.00 to $37.00 per share) for 60 consecutive calendar days. Contingently vested units will become fully vested, meaning that they are no longer subject to forfeiture, if the executive remains employed through March 30, 2004, or earlier upon certain change of control and termination events. When and if contingently vested phantom units become fully vested units, the Company must deliver to the executive either a number of shares of Common Stock

equal to the number of fully vested units or an amount of cash equal to the then fair market value of that number of shares of Common Stock. If shares were unavailable under the Company's then long-term incentive plans, this obligation could require the Company to make a substantial cash payment to the executive.

DRIP Program – The Company maintains a dividend reinvestment and direct stock purchase plan. Under the dividend reinvestment component of the plan, the Company's shareholders may purchase additional shares of Common Stock without payment of brokerage commissions or service charges by automatically reinvesting all or a portion of their Common Stock cash dividends. Under the direct stock purchase component of the plan, the Company's shareholders and new investors may purchase shares of Common Stock directly from the Company without payment of brokerage commissions or service charges. All purchases of shares in excess of $10,000 per month pursuant to the direct purchase component are at the Company's sole discretion. Shares issued under the plan may reflect a discount of up to 3.00% from the prevailing market price of the Company's Common Stock. The Company is authorized to issue up to 8.0 million shares of Common Stock pursuant to the dividend reinvestment and direct stock purchase plan. During the 12-month periods ended December 31, 2002 and 2001, the Company issued a total of 1.6 million and approximately 195,000 shares of its Common Stock, respectively, through the direct stock purchase component of the plan. Net proceeds during the 12-month periods ended December 31, 2002 and 2001 were approximately $44.4 million and $4.7 million, respectively.

Stock Repurchase Program – The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets or loan repayments and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of December 31, 2001, the Company had repurchased a total of approximately 2.3 million shares, at an aggregate cost of approximately $40.7 million. The Company did not repurchase any shares under the stock repurchase program in 2002.

Critical Accounting Policies

The Company's Consolidated Financial Statements include the accounts of the Company and all majority-owned and controlled subsidiaries. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Company does not believe that there is a great likelihood that materially different amounts would be reported related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

Management has the obligation to ensure that its policies and methodologies are in accordance with GAAP. During 2002, management reviewed and evaluated its critical accounting policies and believes them to be appropriate. The Company's accounting policies are described in Note 3 to the Company's Consolidated Financial Statements. Management believes the more significant of these to be as follows:

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

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

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

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

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

Income Taxes – The Company's financial results generally do not reflect provisions for current or deferred income taxes. Management believes that the Company has and intends to continue to operate in a manner that will continue to allow it to be taxed as a REIT and, as a result, does not expect to pay substantial corporate-level taxes. Many of these requirements, however, are highly technical and complex. If the Company were to fail to meet these requirements, the Company would be subject to Federal income tax.

Executive Compensation – The Company's accounting policies generally provide cash compensation to be estimated and recognized over the period of service. With respect to stock-based compensation arrangements, as of July 1, 2002 (with retroactive application to the beginning of the calendar year), the Company has adopted the fair value method allowed under SFAS No. 123, which values options on the date of grant and recognizes an expense equal to the fair value of the option multiplied by the number of options granted over the related service period. Prior to the third quarter 2002, the Company elected to use APB 25 accounting, which measured the compensation charges based on the intrinsic value of such securities when they become fixed and determinable, and recognized such expense over the related service period. These arrangements are often complex and generally structured to align the interests of management with those of the Company's shareholders. See Note 10 to the Company's Consolidated

Financial Statements for a detailed discussion of such arrangements and the related accounting effects.

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

The following is a hypothetical illustration of the effects on the Company's net income and adjusted earnings of the full vesting of phantom units under the employment agreement with the Chief Executive Officer. During the 12 months ended December 31, 2002, 1.0 million of the phantom shares awarded to the Chief Executive Officer were contingently vested. Absent an earlier change of control or termination of employment, these 1,000,000 shares will not become fully vested until March 31, 2004. Assuming that the market price of the Common Stock on March 31, 2004 is $28.05 (which was the market price of the Common Stock on December 31, 2002), the Company would incur a one-time charge to both net income and earnings at that time equal to $28.0 million (the fair market value of the 1,000,000 shares at $28.05 per share).

On April 29, 2002, the 500,000 unvested restricted shares awarded to the President became contingently vested as the total shareholder return exceeded 60.00% and became fully vested on September 30, 2002 as all employment contingencies were met. The Company incurred a non-cash charge of approximately $15.0 million related to these vested shares, recognized ratably over the service period from the date of contingent vesting through September 30, 2002. Accordingly, the non-cash charge recognized for the 12 months ended December 31, 2002 was approximately $15.0 million.

New Accounting Standards

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as: (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (2) a hedge of the exposure to variable cash flows of a forecasted transaction; or (3) in certain circumstances a hedge of a foreign currency exposure. On January 1, 2001, the Company adopted this pronouncement, as amended by Statement of Financial Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133" and Statement of Financial Accounting Standards No. 138 "Accounting for Certain Hedging Activities – an Amendment of FASB No. 133." Because the Company has primarily used derivatives as cash flow hedges of interest rate risk only, the adoption of SFAS No. 133 did not have a material financial impact on the financial position and results of operations of the Company. However, should the Company change its current use of such derivatives, the adoption of SFAS No. 133 could have a more significant effect on the Company prospectively.

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

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

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

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

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141 ("SFAS No. 141"), "Business Combinations" and Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets." SFAS No. 141 requires the purchase method of accounting to be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also addresses the initial recognition and measurement of goodwill and other intangible assets acquired in business combinations and requires intangible assets to be recognized apart from goodwill if certain tests are met. SFAS No. 142 requires that goodwill not be amortized but instead be measured for impairment at least annually, or when events indicate that there may be an impairment. The Company adopted the provisions of both statements, as required, on January 1, 2002 and the adoption did not have a significant impact on the Company.

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

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

may not be available to the Company. Any gains or losses on extinguishments of debt that were previously classified as extraordinary items in prior periods presented that do not meet the criteria in APB 30 for classification as an extraordinary item will be reclassified to income from continuing operations. The provisions of SFAS No. 145 are effective for financial statements issued for fiscal years beginning after May 15, 2002. The Company will adopt the provisions of this statement, as required, on January 1, 2003, at which time ($12.2) million and ($1.6) million will be reclassified to continuing operations for 2002 and 2001, respectively.

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

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

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

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

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities," an interpretation of ARB 51. FIN 46 provides guidance on identifying entities for which control is achieved through means other than through voting rights (a "variable interest entity" or "VIE"), and how to determine when and which business enterprise should consolidate a VIE. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The transitional disclosure requirements will take effect almost immediately and are required for all financial statements initially issued after January 31, 2003. The adoption of FIN 46 is not expected to have a material impact on the Company.

quantitative and qualitative disclosures about market risk

Market Risks

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

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

A substantial portion of the Company's loan investments are subject to significant prepayment protection in the form of lock-outs, yield maintenance provisions or other prepayment premiums which provide substantial yield protection to the Company. Those assets generally not subject to prepayment penalties include: (1) variable-rate loans based on LIBOR, originated or acquired at par, which would not result in any gain or loss upon repayment; and (2) discount loans and loan participations acquired at discounts to face values, which would result in gains upon repayment. Further, while the Company generally seeks to enter into loan investments which provide for substantial

prepayment protection, in the event of declining interest rates, the Company could receive such prepayments and may not be able to reinvest such proceeds at favorable returns. Such prepayments could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

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

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond the control of the Company. As more fully discussed in Note 9 to the Company's Consolidated Financial Statements, the Company employs match funding-based hedging strategies to limit the effects of changes in interest rates on its operations, including engaging in interest rate caps, floors, swaps, futures and other interest rate-related derivative contracts. These strategies are specifically designed to reduce the Company's exposure, on specific transactions or on a portfolio basis, to changes in cash flows as a result of interest rate movements in the market. The Company does not enter into derivative contracts for speculative purposes nor as a hedge against changes in credit risk of its borrowers or of the Company itself.

Each interest rate cap or floor agreement is a legal contract between the Company and a third party (the "counterparty"). When the Company purchases a cap or floor contract, the Company makes an up-front payment to the counterparty and the counterparty agrees to make payments to the Company in the future should the reference rate (typically one- or three-month LIBOR) rise above (cap agreements) or fall below (floor agreements) the "strike" rate specified in the contract. Each contract has a notional face amount. Should the reference rate rise above the contractual strike rate in a cap, the Company will earn cap income. Should the reference rate fall below the contractual strike rate in a floor, the Company will earn floor income. Payments on an annualized basis will equal the contractual notional face amount multiplied by the difference between the actual reference rate and the contracted strike rate. The Company utilizes the provisions of SFAS No. 133 with respect to such instruments. SFAS No. 133 provides that the up-front fees paid on option-based products such as caps should be expensed into earnings based on the allocation of the premium to the affected periods as if the agreement were a series of "caplets." These allocated premiums are then reflected as a charge to income and are included in "Interest expense" on the Company's Consolidated Statements of Operations in the affected period.

Interest rate swaps are agreements in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which swaps are based is not exchanged. In general, the Company's swaps are "pay fixed" swaps involving the exchange of variable-rate interest payments from the counterparty for fixed interest payments from the Company. However, when appropriate the Company may occasionally enter into "pay floating" swaps involving the exchange of fixed-rate interest payments from the counterparty for variable-rate interest payments from the Company, which mitigates the risk of changes in fair value of the Company's fixed-rate debt obligations.

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

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

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

The following table quantifies the potential changes in net investment income and net fair value of financial instruments should interest rates increase or decrease 100 or 200 basis points, assuming no change in the shape of the yield curve (i.e., relative interest rates). Net investment income is calculated as revenue from loans and other lending investments and operating leases (as of December 31, 2002), less related interest expense and operating costs on corporate tenant lease assets, for the year ended December 31, 2002. Net fair value of financial instruments is calculated as the sum of the value of derivative instruments and the present value of cash in-flows generated from interest-earning assets, less cash out-flows in respect of interest-bearing liabilities as of December 31, 2002. The cash flows associated with the Company's assets are calculated based on management's best estimate of expected payments for each loan based on loan characteristics such as loan-to-value ratio, interest rate, credit history, prepayment penalty, term and collateral type. Most of the Company's loans are protected from prepayment as a result of prepayment penalties and contractual terms which prohibit prepayments during specified periods. However, for those loans where prepayments are not currently precluded by contract, declines in interest rates may increase prepayment speeds. The base interest rate scenario assumes the one-month LIBOR rate of 1.38% as of December 31, 2002. Actual results could differ significantly from those estimated in the table.

	Estimated Percentage Change In	
Change in Interest Rates	***Net Investment Income***	***Net Fair Value of Financial Instruments***(1)
–100 Basis Points	1.44%	5.00%
–50 Basis Points	0.72%	2.38%
Base Interest Rate	0.00%	0.00%
+100 Basis Points	(1.44)%	(3.23)%
+200 Basis Points	(2.88)%	(1.52)%

Explanatory Note:

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

~

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of iStar Financial, Inc. and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
New York, NY
February 14, 2003, except for Note 17,
which is as of March 11, 2003

consolidated balance sheets

As of December 31,	2002	2001*
	(In thousands, except per share data)	
Assets		
Loans and other lending investments, net	**$3,050,342**	$2,377,763
Corporate tenant lease assets, net	**2,291,805**	1,781,565
Investments in and advances to joint ventures and unconsolidated subsidiaries	**30,611**	60,794
Assets held for sale	**28,501**	–
Cash and cash equivalents	**15,934**	15,670
Restricted cash	**40,211**	17,852
Accrued interest and operating lease income receivable	**26,804**	31,797
Deferred operating lease income receivable	**36,739**	21,195
Deferred expenses and other assets	**90,750**	74,004
Total assets	**$5,611,697**	$4,380,640
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	**$ 117,001**	$ 89,618
Dividends payable	**5,225**	5,225
Debt obligations	**3,461,590**	2,495,369
Total liabilities	**3,583,816**	2,590,212
Commitments and contingencies	**–**	–
Minority interest in consolidated entities	**2,581**	2,650
Shareholders' equity:		
Series A Preferred Stock, $0.001 par value, liquidation preference $50.00 per share, 4,400 shares issued and outstanding at December 31, 2002 and December 31, 2001	**4**	4
Series B Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 2,000 shares issued and outstanding at December 31, 2002 and December 31, 2001	**2**	2
Series C Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 1,300 shares issued and outstanding at December 31, 2002 and December 31, 2001	**1**	1
Series D Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 4,000 shares issued and outstanding at December 31, 2002 and December 31, 2001	**4**	4
High Performance Units	**1,359**	–
Common Stock, $0.001 par value, 200,000 shares authorized, 98,114 and 87,387 shares issued and outstanding at December 31, 2002 and December 31, 2001, respectively	**98**	87
Warrants and options	**20,322**	20,456
Additional paid-in capital	**2,281,636**	1,997,931
Retained earnings (deficit)	**(227,769)**	(174,874)
Accumulated other comprehensive income (losses) (See Note 12)	**(2,301)**	(15,092)
Treasury stock (at cost)	**(48,056)**	(40,741)
Total shareholders' equity	**2,025,300**	1,787,778
Total liabilities and shareholders' equity	**$5,611,697**	$4,380,640

* Reclassified to conform to 2002 presentation.

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

~

consolidated statements of operations

For the Year Ended December 31,	2002	2001*	2000*
	(In thousands, except per share data)		
Revenue:			
Interest income	**$255,631**	$254,119	$268,011
Operating lease income	**242,100**	185,943	177,581
Other income	**27,993**	31,057	17,927
Total revenue	**525,724**	471,119	463,519
Costs and expenses:			
Interest expense	**185,375**	169,974	173,741
Operating costs – corporate tenant lease assets	**13,755**	12,782	12,737
Depreciation and amortization	**47,821**	35,411	34,384
General and administrative	**30,449**	24,151	25,706
General and administrative – stock-based compensation expense	**17,998**	3,574	2,864
Provision for loan losses	**8,250**	7,000	6,500
Total costs and expenses	**303,648**	252,892	255,932
Net income before equity in earnings from joint ventures and unconsolidated subsidiaries, minority interest and other items	**222,076**	218,227	207,587
Equity in earnings from joint ventures and unconsolidated subsidiaries	**1,222**	7,361	4,796
Minority interest in consolidated entities	**(162)**	(218)	(195)
Extraordinary loss on early extinguishment of debt	**(12,166)**	(1,620)	(705)
Cumulative effect of change in accounting principle (See Note 3)	**–**	(282)	–
Net income before discontinued operations	**210,970**	223,468	211,483
Income from discontinued operations	**3,583**	5,299	3,155
Gain from discontinued operations	**717**	1,145	2,948
Net income	**$215,270**	$229,912	$217,586
Preferred dividend requirements	**(36,908)**	(36,908)	(36,908)
Net income allocable to common shareholders	**$178,362**	$193,004	$180,678
Basic earnings per common share	**$ 1.98**	$ 2.24	$ 2.11
Diluted earnings per common share	**$ 1.93**	$ 2.19	$ 2.10

* Reclassified to conform to 2002 presentation.

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

~

consolidated statements of cash flows

For the Year Ended December 31,	2002	2001*	2000*
		(In thousands)	
Cash flows from operating activities:			
Net income	**$ 215,270**	$ 229,912	$ 217,586
Adjustments to reconcile net income to cash flows provided by operating activities:			
Minority interest in consolidated entities	**162**	218	195
Non-cash expense for stock-based compensation	**18,059**	3,574	2,864
Depreciation and amortization	**71,287**	55,831	47,290
Depreciation and amortization from discontinued operations	**219**	213	112
Amortization of discounts/premiums, deferred interest and costs on lending investments	**(33,086)**	(41,067)	(27,059)
Discounts, loan fees and deferred interest received	**36,714**	28,425	17,153
Equity in earnings from joint ventures and unconsolidated subsidiaries	**(1,222)**	(7,358)	(4,753)
Distributions from operations of joint ventures	**5,802**	4,802	4,511
Deferred operating lease income receivable	**(15,265)**	(10,923)	(9,130)
Realized (gains)/losses on sale of securities	**–**	–	233
Gain from discontinued operations	**(717)**	(1,145)	(2,948)
Extraordinary loss on early extinguishment of debt	**12,166**	1,620	705
Cumulative effect of change in accounting principle	**–**	282	–
Provision for loan losses	**8,250**	7,000	6,500
Change in investments in and advances to joint ventures and unconsolidated subsidiaries	**(6,598)**	(2,568)	(447)
Changes in assets and liabilities:			
Decrease (increase) in accrued interest and operating lease income receivable	**3,809**	5,083	(5,401)
Decrease (increase) in deferred expenses and other assets	**1,758**	(204)	(25,841)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	**32,185**	19,565	(1,702)
Cash flows provided by operating activities	**348,793**	293,260	219,868
Cash flows from investing activities:			
New investment originations	**(1,812,993)**	(924,455)	(850,144)
Add-on fundings under existing loan commitments	**(21,619)**	(99,626)	(56,039)
Net proceeds from sale of corporate tenant lease assets	**3,702**	26,306	146,265
Net proceeds from lease termination payments	**17,500**	–	–
Proceeds from sale of investment securities	**–**	–	30
Repayments of and principal collections on loans and other lending investments	**671,965**	650,970	571,846
Investments in and advances to joint ventures and unconsolidated subsidiaries	**(127)**	(1,601)	(27,490)
Distributions from unconsolidated joint ventures	**–**	24,265	34,759
Capital improvements for build-to-suit projects	**(1,064)**	(14,266)	(5,022)
Capital improvement projects on corporate tenant lease assets	**(2,277)**	(6,629)	(6,831)
Other capital expenditures on corporate tenant lease assets	**(4,157)**	(4,489)	(1,179)
Cash flows used in investing activities	**(1,149,070)**	(349,525)	(193,805)
Cash flows from financing activities:			
Borrowings under revolving credit facilities	**2,496,200**	2,420,638	2,304,099
Repayments under revolving credit facilities	**(2,122,994)**	(2,285,892)	(2,487,936)
Borrowings under term loans	**115,099**	277,664	90,000
Repayments under term loans	**(18,279)**	(120,333)	(300,799)
Borrowings under secured bond offerings	**885,079**	–	863,254
Repayments under secured bond offerings	**(475,679)**	(125,962)	(274,919)
Borrowings under unsecured bond offerings	**–**	350,000	–
Repayments under unsecured notes	**–**	(100,000)	–
Borrowings under other debt obligations	**1,094**	279	65,067
Repayments under other debt obligations	**(1,668)**	(56,008)	(31,564)
(Increase) decrease in restricted cash held in connection with debt obligations	**(22,359)**	2,590	(10,246)
Payments on early extinguishment of debt	**(3,950)**	(1,037)	(317)
Payments for deferred financing costs	**(45,702)**	(30,382)	(21,048)
Distributions to minority interest in consolidated entities	**(231)**	(3,794)	(164)
Common dividends paid(1)	**(231,257)**	(264,527)	(202,397)
Preferred dividends paid	**(36,578)**	(36,578)	(36,576)
Proceeds from equity offering	**202,899**	–	–
Purchase of treasury stock	**(6,981)**	–	(302)
Contribution from significant shareholder	**506**	–	–
Proceeds from exercise of options and issuance of DRIP shares	**63,983**	22,525	6,129
Proceeds from high performance units issued to employees	**1,359**	–	–
Cash flows provided by (used in) financing activities	**800,541**	49,183	(37,719)
Increase (decrease) in cash and cash equivalents	**264**	(7,082)	(11,656)
Cash and cash equivalents at beginning of period	**15,670**	22,752	34,408
Cash and cash equivalents at end of period	**$ 15,934**	$ 15,670	$ 22,752
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest, net of amount capitalized	**$ 157,618**	$ 1 41,271	$ 141,632

* Reclassified to conform to 2002 presentation.

Explanatory Note:

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

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

	Series A Preferred Stock	Series B Preferred Stock	Series C Preferred Stock	Series D Preferred Stock	High Perfor-mance Units	Common Stock at Par	Warrants and Options	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Com-prehensive Income (Losses)	Treasury Stock	Total
							(In thousands)					
Balance at January 1, 2000	$4	$2	$1	$4	$ –	$85	$17,935	$1,953,972	$(129,992)	$ (229)	$(40,439)	$1,801,343
Exercise of options	–	–	–	–	–	–	(992)	7,089	–	–	–	6,097
Dividends declared – preferred	–	–	–	–	–	–	–	330	(36,906)	–	–	(36,576)
Dividends declared – common	–	–	–	–	–	–	–	–	(205,477)	–	–	(205,477)
Acquisition of ACRE Partners	–	–	–	–	–	–	–	3,637	–	–	–	3,637
Restricted stock units issued to employees in lieu of cash bonuses	–	–	–	–	–	–	–	1,125	–	–	–	1,125
Restricted stock units granted to employees	–	–	–	–	–	–	–	212	–	–	–	212
Issuance of stock – DRIP plan	–	–	–	–	–	–	–	31	–	–	–	31
Purchase of treasury shares	–	–	–	–	–	–	–	–	–	–	(302)	(302)
Net income for the period	–	–	–	–	–	–	–	–	217,586	–	–	217,586
Change in accumulated other comprehensive income	–	–	–	–	–	–	–	–	–	209	–	209
Balance at December 31, 2000	$4	$2	$1	$4	–	$85	$16,943	$1,966,396	$(154,789)	$ (20)	$(40,741)	$1,787,885
Exercise of options	–	–	–	–	–	2	(835)	22,550	–	–	–	21,717
Dividends declared – preferred	–	–	–	–	–	–	–	330	(36,908)	–	–	(36,578)
Dividends declared – common	–	–	–	–	–	–	–	–	(213,089)	–	–	(213,089)
Acquisition of ACRE Partners	–	–	–	–	–	–	–	1,219	–	–	–	1,219
Restricted stock units issued to employees in lieu of cash bonuses	–	–	–	–	–	–	–	1,478	–	–	–	1,478
Restricted stock units granted to employees	–	–	–	–	–	–	–	1,250	–	–	–	1,250
Options granted to employees	–	–	–	–	–	–	4,348	–	–	–	–	4,348
Issuance of stock – DRIP plan	–	–	–	–	–	–	–	4,708	–	–	–	4,708
Net income for the period	–	–	–	–	–	–	–	–	229,912	–	–	229,912
Cumulative effect of change in accounting principle	–	–	–	–	–	–	–	–	–	(9,445)	–	(9,445)
Change in accumulated other comprehensive income	–	–	–	–	–	–	–	–	–	(5,627)	–	(5,627)
Balance at December 31, 2001	$4	$2	$1	$4	–	$87	$20,456	$1,997,931	$(174,874)	$(15,092)	$(40,741)	$1,787,778
Exercise of options	–	–	–	–	–	2	(443)	16,170	–	–	–	15,729
Proceeds from equity offering	–	–	–	–	–	8	–	202,891	–	–	–	202,899
Dividends declared – preferred	–	–	–	–	–	–	–	330	(36,908)	–	–	(36,578)
Dividends declared – common	–	–	–	–	–	–	–	–	(231,257)	–	–	(231,257)
Restricted stock units granted to employees	–	–	–	–	–	–	–	19,048	–	–	–	19,048
Options granted to employees	–	–	–	–	–	–	309	–	–	–	–	309
High performance units sold to employees	–	–	–	–	1,359	–	–	–	–	–	–	1,359
Contributions from significant shareholder	–	–	–	–	–	–	–	506	–	–	–	506
Issuance of stock – DRIP plan	–	–	–	–	–	1	–	44,426	–	–	–	44,427
Purchase of treasury shares	–	–	–	–	–	–	–	334	–	–	(7,315)	(6,981)
Net income for the period	–	–	–	–	–	–	–	–	215,270	–	–	215,270
Change in accumulated other comprehensive income	–	–	–	–	–	–	–	–	–	12,791	–	12,791
Balance at December 31, 2002	**$4**	**$2**	**$1**	**$4**	**$1,359**	**$98**	**$20,322**	**$2,281,636**	**$(227,769)**	**$ (2,301)**	**$(48,056)**	**$2,025,300**

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

Note 1 – Business and Organization

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

The Company's primary product lines include:

Structured Finance. The Company provides senior and subordinated loans that typically range in size from $20 million to $100 million to borrowers holding high-quality real estate. These loans may be either fixed or variable rate and are structured to meet the specific financing needs of the borrowers, including the acquisition or financing of large, high-quality real estate. The Company offers borrowers a wide range of structured finance options, including first mortgages, second mortgages, partnership loans, participating debt and interim facilities. The Company's structured finance transactions have maturities generally ranging from three to ten years. As of December 31, 2002, based on gross carrying values, the Company's structured finance assets represented 27.02% of its assets.

Portfolio Finance. The Company provides funding to regional and national borrowers who own multiple facilities in geographically diverse portfolios. Loans are cross-collateralized to give the Company the benefit of all available collateral and underwritten to recognize inherent portfolio diversification. Property types include multifamily, suburban office, hotels and other property types where individual property values are less than $20 million on average. Loan terms are structured to meet the specific requirements of the borrower and typically range in size from $25 million to $150 million. The Company's portfolio finance transactions have maturities generally ranging from three to ten years. As of December 31, 2002, based on gross carrying values, the Company's portfolio finance assets represented 7.08% of its assets.

Corporate Finance. The Company provides senior and subordinated capital to corporations engaged in real estate or real estate-related businesses. Financings may be either secured or unsecured and typically range in size from $20 million to $150 million. The Company's corporate finance transactions have maturities generally ranging from five to ten years. As of December 31, 2002, based on gross carrying values, the Company's corporate finance assets represented 12.18% of its assets.

Loan Acquisition. The Company acquires whole loans and loan participations which present attractive risk-reward opportunities. Loans are generally acquired at a small discount to the principal balance outstanding. Loan acquisitions typically range in size from $5 million to $100 million and are collateralized by all major property types. The Company's loan acquisition transactions have maturities generally ranging from three to ten years. As of December 31, 2002, based on gross carrying values, the Company's loan acquisition assets represented 8.60% of its assets.

Corporate Tenant Leasing. The Company provides capital to corporations and borrowers who control facilities leased to single creditworthy tenants. The Company's net leased assets are generally mission-critical headquarters or distribution facilities that are subject to long-term leases with rated corporate credit tenants, and which provide for all expenses at the property to be paid by the corporate tenant on a triple net lease basis. Corporate tenant lease transactions have terms generally ranging from ten to 20 years and typically range in size from $20 million to $150 million. As of December 31, 2002, based on gross carrying values, the Company's corporate tenant lease assets represented 43.64% of its assets.

Servicing. Through its iStar Asset Services division, the Company provides rated loan servicing to third-party institutional loan portfolios, as well as to the Company's own assets. The servicing business did not represent a meaningful percentage of the gross carrying value of the Company's assets as of December 31, 2002.

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

The Company has implemented its investment strategy by:

- Focusing on the origination of large, structured mortgage, corporate and lease financings where customers require flexible financial solutions.
- Avoiding commodity businesses in which there is significant direct competition from other providers of capital such as conduit lending and investment in commercial or residential mortgage-backed securities.
- Developing direct relationships with borrowers and corporate customers as opposed to sourcing transactions solely through intermediaries.
- Adding value beyond simply providing capital by offering borrowers and corporate customers specific lending expertise, flexibility, certainty and continuing relationships beyond the closing of a particular financing transaction.
- Taking advantage of market anomalies in the real estate financing markets when the Company believes credit is mispriced by other providers of capital, such as the spread between lease yields and the yields on corporate customers' underlying credit obligations.

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

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

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

Note 2 – Basis of Presentation

The accompanying audited Consolidated Financial Statements have been prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP") for complete financial statements. The Consolidated Financial Statements include the accounts of the Company, its qualified REIT subsidiaries, and its majority-owned and controlled partnerships.

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

Note 3 – Summary of Significant Accounting Policies

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

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

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

Capitalized interest – The Company capitalizes interest costs incurred during the construction period on qualified build-to-suit projects for corporate tenants, including investments in joint ventures accounted for under the equity method. Interest capitalized was approximately $70,000 and $1.0 million during the 12-month periods ended December 31, 2002 and 2001, respectively.

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

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

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

Loans and other lending investments: Management considers nearly all of its loans and other lending investments to be held-to-maturity, although a small number of investments may be classified as available-for-sale. The Company reflects held-to-maturity investments at amortized cost less allowance for loan losses, acquisition premiums or discounts, deferred loan fees and undisbursed loan funds. Unrealized gains and losses on available-for-sale investments are included in "Accumulated other comprehensive income" on the Company's Consolidated Balance Sheets and are not included in the Company's net income. On occasion, the Company may acquire loans at small premiums or discounts based on the credit characteristics of such loans. These premiums or discounts are recognized as yield adjustments over the lives of the related loans. If loans that were acquired at a premium or discount are prepaid, the Company immediately recognizes the unamortized premium or discount as a decrease or increase, respectively, in the prepayment gain or loss. Loan origination or exit fees, as well as direct loan origination costs, are also deferred and recognized over the lives of the related loans as a yield adjustment. Interest income is recognized using the effective interest method applied on a loan-by-loan basis.

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

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

Leasing investments: Operating lease revenue is recognized on the straight-line method of accounting from the later of the date of the origination of the lease or the date of acquisition of the facility subject to existing leases. Accordingly, contractual lease payment increases are recognized evenly over the term of the lease. The cumulative difference between lease revenue recognized under this method and contractual lease payment terms is recorded as "Deferred operating lease income receivable" on the Company's Consolidated Balance Sheets.

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

The Company's loans are generally secured by real estate assets or are corporate lending arrangements to entities with significant rental real estate operations (i.e., an unsecured loan to a company which operates residential apartments or retail, industrial or office facilities as rental real estate). While the underlying real estate assets for the corporate lending instruments may not serve as collateral for the Company's investments in all cases, the Company evaluates the underlying real estate assets when estimating loan loss exposure because the Company's loans generally have preclusions as to how much senior and/or secured debt the customer may borrow ahead of the Company's position.

Income taxes – The Company is subject to federal income taxation at corporate rates on its "REIT taxable income"; however, the Company is allowed a deduction for the amount of dividends paid to its shareholders, thereby subjecting the distributed net income of the Company to taxation at the shareholder level only. In addition, the Company is allowed several other deductions in computing its "REIT taxable income," including non-cash items such as depreciation expense. These deductions allow the Company to shelter a portion of its operating cash flow from its dividend payout requirement under federal tax laws. The Company intends to operate in a manner consistent with and to elect to be treated as a REIT for tax purposes. iStar Operating Inc. ("iStar Operating") and TriNet Management Operating Company, Inc. ("TMOC"), the Company's REIT taxable subsidiaries, are not consolidated for federal income tax purposes and are taxed as corporations. For financial reporting purposes, current and deferred taxes are provided for in the portion of earnings recognized by the Company with respect to its interest in iStar Operating and TMOC. Accordingly, except for the Company's taxable subsidiaries, no current or deferred taxes are provided for in the Consolidated Financial Statements. See Note 6 for a detailed discussion on the ownership structure and operations of iStar Operating and TMOC.

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

Reclassifications – Certain prior year amounts have been reclassified in the Consolidated Financial Statements and the related notes to conform to the 2002 presentation.

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

Change in accounting principle – In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as: (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (2) a hedge of the exposure to variable cash flows of a forecasted transaction; or (3) in certain circumstances, a hedge of a foreign currency exposure. On January 1, 2001, the Company adopted this pronouncement, as amended by Statement of Financial Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133" and Statement of Financial Accounting Standards No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities – an Amendment of FASB Statement No. 133." Because the Company has primarily used derivatives as cash flow hedges of interest rate risk only, the adoption of SFAS No. 133 did not have a material financial impact on the financial position and results of operations of the Company. However, should the Company change its current use of such derivatives, the adoption of SFAS No. 133 could have a more significant effect on the Company prospectively.

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

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

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

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

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

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141 ("SFAS No. 141"), "Business Combinations" and Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets." SFAS No. 141 requires the purchase method of accounting to be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also addresses the initial recognition and measurement of goodwill and other intangible assets acquired in business combinations and requires intangible assets to be recognized apart from goodwill if certain tests are met. SFAS No. 142 requires that goodwill not be amortized but instead be measured for impairment at least annually, or when events indicate that there may be an impairment. The Company adopted the provisions of both statements on January 1, 2002, as required, and the adoption did not have a significant impact on the Company.

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

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

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

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

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

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

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

For the Year Ended December 31,	**2002**	2001	2000
Net income allocable to common shareholders, as reported	**$178,362**	$193,004	$180,678
Total stock-based compensation expense determined under fair value-based method for all awards, net of related tax effects	**(565)**	(705)	(275)
Pro forma net income	**$177,797**	$192,299	$180,403
Earnings per share:			
Basic – as reported	**$ 1.98**	$ 2.24	$ 2.11
Basic – pro forma	**1.98**	2.23	2.11
Diluted – as reported	**$ 1.93**	$ 2.19	$ 2.10
Diluted – pro forma	**1.92**	2.18	2.09

~

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities," an interpretation of ARB 51. FIN 46 provides guidance on identifying entities for which control is achieved through means other than through voting rights (a "variable interest entity" or "VIE"), and how to determine when and which business enterprise should consolidate a VIE. In addition,

FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The transitional disclosure requirements will take effect almost immediately and are required for all financial statements initially issued after January 31, 2003. The adoption of FIN 46 is not expected to have a material impact on the Company.

Note 4 – Loans and Other Lending Investments

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

Type of Investment	Underlying Property Type	Number of Borrowers In Class	Principal Balances Outstanding	Carrying Value as of December 31, 2002	Carrying Value as of December 31, 2001	Effective Maturity Dates	Contractual Interest Payment Rates[(2)]	Contractual Interest Accrual Rates[(2)]	Principal Amortization	Participation Features
Senior Mortgages	Office/Residential/ Retail/Industrial/ Conference Center/ Mixed Use/Hotel/ Entertainment	29	$1,712,967	**$1,675,797**	$1,158,669	2003 to 2019	Fixed: 7.03% to 15.00% Variable: LIBOR +1.50% to to 6.50%	Fixed: 7.03% to 15.00% Variable: LIBOR + 1.50% to 6.50%	Yes[(3)]	No
Subordinate Mortgages[(4)]	Office/Residential/ Retail/Mixed Use/Hotel	22	630,683	**629,486**	585,698	2003 to 2011	Fixed: 7.00% to 15.00% Variable: LIBOR + 1.79% to 5.80%	Fixed: 7.32% to 17.00% Variable: LIBOR + 1.79% to 5.80%	Yes[(3)]	No
Corporate/ Partnership Loans	Office/Residential/ Retail/Mixed Use/ Hotel/Entertainment	20	463,507	**441,028**	395,083	2003 to 2011	Fixed: 7.33% to 15.00% Variable: LIBOR + 3.50% to 6.50%	Fixed: 7.33% to 17.50% Variable: LIBOR + 3.50% to 6.50%	Yes[(3)]	Yes[(5)]
Other Lending Investments – Loans[(6)]	Office/Mixed Use	4	29,411	**23,167**	10,818	2006 to 2008	Fixed: 10.00% Variable: LIBOR + 4.75%	Fixed: 10.00% Variable: LIBOR + 4.75%	No	Yes[(5)]
Other Lending Investments – Securities[(7)]	Office/Residential/ Retail/Industrial/ Mixed Use/ Entertainment	10	322,305	**310,114**	248,495	2003 to 2013	Fixed: 6.75% to 12.50% Variable: LIBOR + 5.00%	Fixed: 6.75% to 12.50% Variable: LIBOR + 5.00%	Yes[(3)]	No
Gross Carrying Value				**$3,079,592**	$2,398,763					
Provision for Loan Losses				**(29,250)**	(21,000)					
Total, Net				**$3,050,342**	$2,377,763					

Explanatory Notes:

(1) Amounts and details are for loans outstanding as of December 31, 2002.

(2) Substantially all variable-rate loans are based on 30-day LIBOR and reprice monthly. The 30-day LIBOR on December 31, 2002 was 1.38%. As of December 31, 2002, three loans with a combined carrying value of $72.4 million have a stated accrual rate that exceeds the stated pay rate.

(3) The loans require fixed payments of principal and interest resulting in partial principal amortization over the term of the loan with the remaining principal due at maturity.

(4) Includes a participation interest in a second mortgage and a subordinate interest in a private REMIC whose sole asset is a single first mortgage loan.

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

(6) Includes one unsecured loan with a carrying value of $403 as of December 31, 2001 which was subsequently repaid in October 2002.

(7) Generally consists of term preferred stock or debt interests that are specifically originated or structured to meet customer financing requirements and the Company's investment criteria. These investments do not typically consist of securities purchased in the open market or as part of broadly-distributed offerings. In addition, one of these securities is classified as available-for-sale and is reflected at fair value with a corresponding entry to "Accumulated other comprehensive income" on the Company's Consolidated Balance Sheets.

~

During the 12-month periods ended December 31, 2002 and 2001, respectively, the Company and its affiliated ventures originated or acquired an aggregate of approximately $1,403.8 million and $700.6 million in loans and other lending investments, funded $21.6 million and $99.6 million under existing loan commitments, and received principal repayments of $672.0 million and $651.0 million.

As of December 31, 2002, the Company had nine loans with unfunded commitments. The total unfunded commitment amount was approximately $97.7 million, of which $22.2 million was discretionary and $75.5 million was non-discretionary.

The Company's loans and other lending investments are predominantly pledged as collateral under either the iStar Asset Receivables secured notes, the secured revolving credit facilities or secured term loans (see Note 7).

The Company has reflected provisions for loan losses of approximately $8.3 million, $7.0 million and $6.5 million during the years ended December 31, 2002, 2001 and 2000, respectively. These provisions represent loan portfolio reserves based on management's evaluation of general market conditions, the Company's internal risk management policies and credit risk ratings system, industry loss

experience, the likelihood of delinquencies or defaults, and the credit quality of the underlying collateral. No direct impairment reserves on specific loans were considered necessary.

Note 5 – Corporate Tenant Lease Assets

During the 12-month periods ended December 31, 2002 and 2001, respectively, the Company acquired an aggregate of approximately $409.1 million and $223.9 million in corporate tenant lease assets and disposed of corporate tenant lease assets for net proceeds of approximately $3.7 million and $26.3 million.

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

December 31,	2002	2001
Facilities and improvements	**$1,959,309**	$1,504,956
Land and land improvements	**428,365**	356,830
Direct financing lease	**32,640**	–
Less: accumulated depreciation	**(128,509)**	(80,221)
Corporate tenant lease assets, net	**$2,291,805**	$1,781,565

~

The Company's CTL assets are leased to customers with initial term expiration dates from 2003 to 2023. Future operating lease payments under non-cancelable leases, excluding customer reimbursements of expenses, in effect at December 31, 2002, are approximately as follows (in thousands):

Year	Amount
2003	$ 245,462
2004	231,605
2005	218,209
2006	200,433
2007	177,352
Thereafter	1,481,235

~

Under certain leases, the Company receives additional participating lease payments to the extent gross revenues of the corporate tenant exceed a base amount. The Company earned $0, $0.4 million and $0.6 million of such additional participating lease payments in the years ended December 31, 2002, 2001 and 2000, respectively. In addition, the Company also receives reimbursements from customers for certain facility operating expenses including common area costs, insurance and real estate taxes. Customer expense reimbursements for the 12 months ended December 31, 2002, 2001 and 2000 were approximately $30.3 million, $25.8 million and $25.3 million, respectively, and are included as a reduction of "Operating costs – corporate tenant lease assets" on the Company's Consolidated Statements of Operations.

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

On September 30, 2002, one of the Company's customers exercised an option to terminate its lease on 50.00% of the land leased from the Company. In connection with this termination, the Company realized $17.5 million in cash lease termination payments, offset by a $17.4 million impairment charge in connection with the termination, resulting in net gain of approximately $123,000. In the fourth quarter of 2002, the customer completed a recapitalization transaction that significantly enhanced its credit. In connection with this recapitalization, the Company agreed to amend the customer's lease, effective October 1, 2002. In the lease amendment, the Company received $12.5 million in cash as prepaid lease payments and the customer agreed to fixed minimum increases on future lease payments. In exchange, the Company agreed to reduce the customer's lease obligations for a period not to exceed nine quarters. Following the reduction period, the customer is required to make additional lease payments over a 10-year period sufficient to reimburse the Company for a portion of the temporary reduction in lease payments.

In addition, on May 30, 2002, the Company sold one tenant lease asset for net proceeds of $3.7 million, and realized a gain of approximately $595,000. As of December 31, 2002, there were two corporate tenant lease assets with a combined book value of $28.5 million classified as "Assets held for sale" on the Company's Consolidated Balance Sheets. The results of operations from corporate tenant lease assets sold or held for sale in the current period are classified as "Income from discontinued operations" even though such income was actually received by the Company prior to the asset sale. Gains on sale from corporate tenant lease assets are also classified as "Gain from discontinued operations" on the Company's Consolidated Statements of Operations.

Note 6 – Joint Ventures and Unconsolidated Subsidiaries

The Company's ownership percentages, its investments in and advances to unconsolidated joint ventures and subsidiaries, its respective income (loss) and the Company's pro rata share of its ventures' third-party, non-recourse debt as of December 31, 2002 are presented below (in thousands):

Unconsolidated Joint Ventures and Subsidiaries	Ownership %	Equity Investment	JV Income (Loss) for the Year Ended December 31, 2002	Pro Rata Share of Third-Party Non-Recourse Debt[1]	Third-Party Debt: Interest Rate	Third-Party Debt: Scheduled Maturity Date
Unconsolidated Joint Ventures:						
Sunnyvale	44.70%	$12,323	$2,144	$10,728	LIBOR + 1.25%	November 2004[2]
CTC I	50.00%	12,407	1,429	60,115	7.66% – 7.87%	Various through 2011
ACRE Simon	20.00%	5,147	32	6,511	7.61% – 8.43%	Various through 2011
Milpitas	N/A	N/A	1,512	N/A	N/A	N/A
Sierra	N/A	N/A	(36)	N/A	N/A	N/A
Unconsolidated Subsidiaries:						
iStar Operating	95.00%	599	(3,859)	–	N/A	N/A
TMOC	95.00%	135	–	–	N/A	N/A
Total		$30,611	$1,222	$77,354		

Explanatory Notes:

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

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

~

Investments in and advances to unconsolidated joint ventures: At December 31, 2002, the Company had investments in three joint ventures: (1) TriNet Sunnyvale Partners L.P. ("Sunnyvale"), whose external partners are John D. O'Donnell, Trustee, John W. Hopkins, and Donald S. Grant, Trustee; (2) Corporate Technology Centre Associates, LLC ("CTC I"), whose external member is Corporate Technology Centre Partners, LLC; and (3) ACRE Simon, LLC ("ACRE"), whose external partner is William E. Simon & Sons Realty Investments, LLC. These ventures were formed for the purpose of operating, acquiring and, in certain cases, developing corporate tenant lease facilities.

At December 31, 2002, the ventures comprised 12 net leased facilities. The Company's combined investment in these joint ventures at December 31, 2002 was $30.6 million. The joint ventures' carrying value for the 12 facilities owned at December 31, 2002 was $196.2 million. In aggregate, the joint ventures had total assets of $236.2 million and total liabilities of $186.4 million as of December 31, 2002, and net income of $7.0 million for the 12 months ended December 31, 2002. The Company accounts for these investments under the equity method because the Company's joint venture partners have certain participating rights giving them shared control over the ventures.

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

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

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

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

Investments in and advances to unconsolidated subsidiaries: The Company has an investment in iStar Operating, a taxable subsidiary that, through a wholly-owned subsidiary, services the Company's loans and certain loan portfolios owned by third parties. The Company owns all of the non-voting preferred stock and a 95.00% economic interest in iStar Operating. An affiliate of the Company's largest shareholder is the owner of all the voting common stock and a 5.00% economic interest in iStar Operating. As of December 31, 2002, there have never been any distributions to the common shareholder, nor does the Company expect to make any in the future. At any time, the Company has the right to acquire all of the common stock of iStar Operating at fair market value, which the Company believes to be nominal. In addition to the direct general and administrative costs of iStar Operating, the Company allocates a portion of its general overhead expenses to iStar Operating based on the number of employees at iStar Operating as a percentage of the Company's total employees.

In addition, the Company has an investment in TMOC, a taxable noncontrolled subsidiary that has a $2.0 million investment in a real estate company based in Mexico. The Company owns 95.00% of the outstanding voting and non-voting common stock (representing 1.00% voting power and 95.00% of the economic interest) in TMOC. The other two owners of TMOC stock are executives of the Company, who own a combined 5.00% of the outstanding voting and non-voting common stock (representing 99.00% voting power and 5.00% economic interest) in TMOC. As of December 31, 2002, there have never been any distributions to the common shareholders, nor does the Company expect to make any in the future. At any time, the Company has the right to acquire all of the common stock of TMOC at fair market value, which the Company believes to be nominal.

Both iStar Operating and TMOC have elected to be treated as taxable REIT subsidiaries for purposes of maintaining compliance with the REIT provisions of the Code and are accounted for under the equity method for financial statement reporting purposes and are presented in "Investments in and advances to joint ventures and unconsolidated subsidiaries" on the Company's Consolidated Balance Sheets. If they were consolidated with the Company for financial statement purposes, they would not have a material impact on the Company's operations. As of December 31, 2002, iStar Operating and TMOC have no debt obligations.

Note 7 – Debt Obligations

As of December 31, 2002 and 2001, the Company has debt obligations under various arrangements with financial institutions as follows (in thousands):

	Maximum Amount Available	Carrying Value as of December 31, 2002	Carrying Value as of December 31, 2001	Stated Interest Rates[1]	Scheduled Maturity Date
Secured revolving credit facilities:					
Line of credit	$ 700,000	**$ 412,550**	$ 312,300	LIBOR + 1.75% – 2.25%	March 2005[2]
Line of credit	700,000	**462,920**	439,309	LIBOR + 1.40% – 2.15%	January 2005[2]
Line of credit	500,000	**283,884**	148,937	LIBOR + 1.50% – 1.75%	August 2005[2]
Line of credit	500,000	**114,400**	–	LIBOR + 1.50% – 2.25%	September 2005
Unsecured revolving credit facilities:					
Line of credit	300,000	**–**	–	LIBOR + 2.125%	July 2004[3]
Total revolving credit facilities	$2,700,000	**$1,273,754**	900,546		
Secured term loans:					
Secured by corporate tenant lease assets		**193,000**	193,000	LIBOR + 1.85%	July 2006[4]
Secured by corporate tenant lease assets		**144,114**	147,520	7.44%	March 2009
Secured by corporate tenant lease assets		**95,074**	55,819	6.00% – 11.38%	Various through 2022
Secured by corporate lending investments		**79,126**	–	6.55%	November 2005
Secured by corporate lending investments		**61,537**	–	6.41%	December 2012
Secured by corporate lending investments		**60,000**	60,000	LIBOR + 2.50%	June 2004[3]
Secured by corporate lending investments		**50,000**	50,000	LIBOR + 2.50%	July 2006[3]
Total term loans		**682,851**	506,339		
Less: debt (discount) premium		**(236)**	274		
Total secured term loans		**682,615**	506,613		
iStar Asset Receivables secured notes:					
STARs Series 2000-1:					
Class A		–	81,152	LIBOR + 0.30%	August 2003
Class B		–	94,055	LIBOR + 0.50%	October 2003
Class C		–	105,813	LIBOR + 1.00%	January 2004
Class D		–	52,906	LIBOR + 1.45%	June 2004
Class E		–	123,447	LIBOR + 2.75%	January 2005
Class F		–	5,000	LIBOR + 3.15%	January 2005
STARs Series 2002-1:					
Class A1		**236,694**	–	LIBOR + 0.26%	June 2004[5]
Class A2		**381,296**	–	LIBOR + 0.38%	December 2009[5]
Class B		**39,955**	–	LIBOR + 0.65%	April 2011[5]
Class C		**26,637**	–	LIBOR + 0.75%	May 2011[5]
Class D		**21,310**	–	LIBOR + 0.85%	January 2012[5]
Class E		**42,619**	–	LIBOR + 1.235%	January 2012[5]
Class F		**26,637**	–	LIBOR + 1.335%	January 2012[5]
Class G		**21,309**	–	LIBOR + 1.435%	January 2012[5]
Class H		**26,637**	–	6.35%	January 2012[5]
Class J		**26,637**	–	6.35%	May 2012[5]
Class K		**26,637**	–	6.35%	May 2012[5]
Total iStar Asset Receivables secured notes		**876,368**	462,373		
Less: debt discount		**(4,425)**	–		
Total iStar Asset Receivables secured notes		**871,943**	462,373		
Unsecured notes:					
6.75% Dealer Remarketable Securities[6][7][8]		**125,000**	125,000	6.75%	March 2013
7.70% Notes[6][8]		**100,000**	100,000	7.70%	July 2017
7.95% Notes[6][8]		**50,000**	50,000	7.95%	May 2006
8.75% Notes		**350,000**	350,000	8.75%	August 2008
Total unsecured notes		**625,000**	625,000		
Less: debt discount		**(11,603)**	(15,698)		
Plus: impact of pay-floating swap agreements[9]		**3,920**	–		
Total unsecured notes		**617,317**	609,302		
Other debt obligations		**15,961**	16,535	Various	Various
Total debt obligations		**$3,461,590**	$2,495,369		

Explanatory Notes:

(1) Substantially all variable-rate debt obligations are based on 30-day LIBOR and reprice monthly. The 30-day LIBOR rate on December 31, 2002 was 1.38%.

(2) Maturity date reflects a one-year "term-out" extension at the Company's option. Subsequent to December 31, 2002, the Company extended the final maturity date on the $700.0 million facility maturing January 2005 to January 2007.

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

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

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

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

(7) Subject to mandatory tender on March 1, 2003, to either the dealer or the Company. The initial coupon of 6.75% applies to the first five-year term through the mandatory tender date. If tendered to the dealer, the notes must be remarketed. The rates reset to then-prevailing market rates upon remarketing. Subsequent to December 31, 2002, the Company modified the terms of these notes (see Note 17).

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

(9) On November 27, 2002, the Company entered into two pay-floating interest rate swaps struck at 3.8775% and 3.81% and in the notional amounts of $100.0 million and $50.0 million, respectively. These swaps mitigate the risk of changes in the fair value of $150.0 million of the Company's 8.75% Notes attributable to changes in LIBOR. For accounting purposes, quarterly the Company adjusts the value of the swap to its fair value and adjusts the carrying amount of the hedged liability by an offsetting amount.

Availability of amounts under the secured revolving credit facilities are based on percentage borrowing base calculations. In addition, certain of the Company's debt obligations contain covenants. These covenants are both financial and non-financial in nature. Significant financial covenants include limitations on the Company's ability to incur indebtedness beyond specified levels, restrictions on the Company's ability to incur liens on assets and limitations on the amount and type of restricted payments, such as repurchases of its own equity securities, that the Company makes. Significant non-financial covenants include a requirement in its publicly-held debt securities that the Company offer to repurchase those securities at a premium if the Company undergoes a change of control. As of December 31, 2002, the Company believes it is in compliance with both financial and non-financial covenants on its debt obligations.

On May 17, 2000, the Company closed the inaugural offering under its proprietary matched funding program, STARs, Series 2000-1. In the initial transaction, a wholly-owned subsidiary of the Company issued $896.5 million of investment-grade bonds secured by the subsidiary's assets, which had an aggregate outstanding principal balance of approximately $1.2 billion at inception. Principal payments received on the assets were utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funded the maturity of the underlying assets financed under the program. Of the assets of the subsidiary secured by this financing, 73.96% (by gross carrying value) consisted of first mortgages and subsequent lien positions and the remaining 26.04% consisted of junior loans. For accounting purposes, this transaction was treated as a secured financing: the underlying assets and STARs liabilities remained on the Company's Consolidated Balance Sheets and no gain on sale was recognized. On May 28, 2002, the Company fully repaid these bonds.

On January 11, 2001, the Company closed a new $700.0 million secured revolving credit facility which is led by a major commercial bank. The new facility has a three-year primary term and one-year "term-out" extension option, and bears interest at LIBOR + 1.40% to 2.15%, depending upon the collateral contributed to the borrowing base. The new facility accepts a broad range of structured finance assets and has a final maturity of January 2005. Subsequent to December 31, 2002, the Company extended the final maturity on this facility to January 2007.

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

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

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

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

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

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

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

On May 28, 2002, the Company fully repaid the then remaining $446.2 million of bonds outstanding under its STARs, Series 2000-1 financing. Simultaneously, a wholly-owned subsidiary of the Company issued STARs, Series 2002-1, consisting of $885.1 million of investment-grade bonds secured by the subsidiary's structured finance and corporate tenant lease assets, which had an aggregate outstanding principal balance of approximately $1.1 billion at inception. Principal payments received on the assets will be utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funds the maturity of the underlying assets financed under the program. The weighted average interest rate on the bonds, on an all-floating rate basis, was approximately LIBOR + 0.56% at inception. For accounting purposes, this transaction was treated as a secured financing: the underlying assets and STARs liabilities remained on the Company's Consolidated Balance Sheets, and no gain on sale was recognized.

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

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

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

During the years ended December 31, 2002 and 2001, the Company incurred an extraordinary loss of approximately $12.2 million and $1.6 million, respectively, as a result of the early retirement of certain debt obligations.

Subsequent to December 31, 2002, the Company modified the terms of the 6.75% Dealer Remarketable Securities (see Note 17).

As of December 31, 2002, future expected/scheduled maturities of outstanding long-term debt obligations are as follows (in thousands):[1]

2003	$ 15,961
2004	296,694
2005	1,355,965
2006	293,000
2007	2,975
Thereafter	1,509,339
Total principal maturities	3,473,934
Net unamortized debt discounts	(16,264)
Impact of pay-floating swap agreement	3,920
Total debt obligations	$3,461,590

Explanatory Note:

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

~

Note 8 – Shareholders' Equity

The Company's charter provides for the issuance of up to 200.0 million shares of Common Stock, par value $0.001 per share, and 30.0 million shares of preferred stock. The Company has 4.4 million shares of 9.50% Series A Cumulative Redeemable Preferred Stock, 2.3 million shares of 9.375% Series B Cumulative Redeemable Preferred Stock, 1.5 million shares of 9.20% Series C Cumulative Redeemable Preferred Stock, and 4.6 million shares of 8.00% Series D Cumulative Redeemable Preferred Stock. The Series A, B, C and D Cumulative Redeemable Preferred Stock are redeemable without premium at the option of the Company at their respective liquidation preferences beginning on December 15, 2003, June 15, 2001, August 15, 2001 and October 8, 2002, respectively.

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

Concentration of Shareholder Ownership – On October 30, 2001, SOF IV SMT Holdings, L.P. ("SOF IV") and certain of its affiliates sold 18.975 million shares of Common Stock owned by them (including the subsequently-exercised 2.475 million share over-allotment option granted to the underwriters). In addition, on May 15, 2002, SOF IV sold 10.808 million shares of Common Stock owned by them (including the subsequently-exercised 808,200 share over-allotment option granted to the underwriters). Further, on November 14, 2002, SOF IV sold 3.5 million shares of Common Stock owned by them (including the subsequently-exercised 1.5 million over-allotment option granted to the underwriters). The Company did not sell any shares in the first two offerings. In the November 2002 offering, the Company sold 8.0 million primary shares and received net proceeds of approximately $202.9 million. As a result of the secondary offerings, SOF IV currently owns approximately 19.84% of the Company's Common Stock (based on the diluted sharecount as of December 31, 2002).

DRIP Program – The Company maintains a dividend reinvestment and direct stock purchase plan. Under the dividend reinvestment component of the plan, the Company's shareholders may purchase additional shares of Common Stock without payment of brokerage commissions or service charges by automatically reinvesting all or a portion of their Common Stock cash dividends. Under the direct stock purchase component of the plan, the Company's shareholders and new investors may purchase shares of Common Stock directly from the Company without payment of brokerage commissions or service charges. All purchases of shares in excess of $10,000 per month pursuant to the direct purchase component are at the Company's sole discretion. Shares issued under the plan may reflect a discount of up to 3.00% from the prevailing market price of the Company's Common Stock. The Company is authorized to issue up to 8.0 million shares of Common Stock pursuant to the dividend reinvestment and direct stock purchase plan. During the 12-month periods ended December 31, 2002 and 2001, the Company issued a total of 1.6 million and approximately 195,000 shares of its Common Stock, respectively, through the direct stock purchase component of the plan. Net proceeds during the 12-month periods ended December 31, 2002 and 2001 were approximately $44.4 million and $4.7 million, respectively.

Stock Repurchase Program – The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets or loan repayments and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of December 31, 2001, the Company had repurchased a total of approximately 2.3 million shares at an aggregate cost of approximately $40.7 million. The Company did not repurchase any shares under the stock repurchase program in 2002.

Note 9 – Risk Management and Use of Financial Instruments

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

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

The Company has entered into the following cash flow and fair value hedges that are outstanding as of December 31, 2002. The net value associated with these hedges is reflected on the Company's Consolidated Balance Sheets (in thousands).

Type of Hedge	Notional Amount	Strike Price or Swap Rate	Trade Date	Maturity Date	Estimated Value at December 31, 2002
Pay-Fixed Swap	$125,000	7.058%	6/15/00	6/25/03	**$(3,598)**
Pay-Fixed Swap	125,000	7.055%	6/15/00	6/25/03	**(3,596)**
Pay-Fixed Swap	75,000	5.580%	11/4/99(1)	12/1/04	**(5,743)**
Pay-Floating Swap	100,000	3.878%	11/27/02	8/15/08	**2,761**
Pay-Floating Swap	50,000	3.810%	11/27/02	8/15/08	**1,203**
LIBOR Cap	345,000	8.000%	5/22/02	5/28/14	**12,088**
LIBOR Cap	75,000	7.750%	11/4/99(1)	12/1/04	**21**
LIBOR Cap	35,000	7.750%	11/4/99(1)	12/1/04	**9**
Total Estimated Value					**$ 3,145**

Explanatory Note:

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

~

Between January 1, 2001 and December 31, 2002, the Company also had outstanding the following cash flow hedges that have expired or been settled (in thousands):

Type of Hedge	Notional Amount	Strike Price or Swap Rate	Trade Date	Maturity Date
LIBOR Cap	$300,000	9.000%	3/16/98	3/16/01
Pay-Fixed Swap	92,000	5.714%	8/10/98	3/1/01
LIBOR Cap	75,000	7.500%	7/16/98	6/19/01
LIBOR Cap	38,336	7.500%	4/30/98	6/1/01

~

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

On May 28, 2002, in connection with the STARs, Series 2002-1 transaction, the Company paid a premium of $13.7 million for an interest rate cap. Using the "caplet" methodology discussed above, amortization of the cap premium is dependent upon the actual value of the caplets at inception.

In connection with STARs, Series 2000-1 in May 2000, the Company entered into a LIBOR interest rate cap struck at 10.00% in the notional amount of $312.0 million, and simultaneously sold a LIBOR interest rate cap with the same terms. Since these instruments did not change the Company's net interest rate risk exposure, they did not qualify as hedges and changes in their respective values were charged to earnings. As the terms of these arrangements were substantially the same, the effects of a revaluation of these two instruments substantially offset one another. On May 28, 2002, these instruments were settled and are no longer outstanding.

In connection with the Company's $350.0 million of fixed-rate corporate bonds, the Company entered into two pay-floating interest rate swaps struck at 3.8775% and 3.81% and in the notional amounts of $100.0 million and $50.0 million, respectively. The Company pays one-month LIBOR and receives the fixed rate in return. These swaps mitigate the risk of changes in the fair value of $150.0 million of the Company's fixed-rate corporate bonds attributable to changes in LIBOR. For accounting purposes, the difference between the fixed rate received and the LIBOR rate paid on the notional amount of the swap is recorded as "Interest expense" in the Company's Consolidated Statements of Operations. In addition, quarterly the Company adjusts the value of the swap to its fair value and adjusts the carrying amount of the hedged liability by an offsetting amount.

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

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

Credit risk concentrations – Concentrations of credit risks arise when a number of borrowers or customers related to the Company's investments are engaged in similar business activities, or activities in

the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. The Company regularly monitors various segments of its portfolio to assess potential concentrations of credit risks. Management believes the current credit risk portfolio is reasonably well diversified and does not contain any unusual concentration of credit risks.

Substantially all of the Company's corporate tenant lease assets (including those held by joint ventures) and loans and other lending investments are collateralized by facilities located in the United States, with significant concentrations (i.e., greater than 10.00%) as of December 31, 2002 in California (22.72%) and Texas (10.32%). As of December 31, 2002, the Company's investments also contain greater than 10.00% concentrations in the following asset types: office-CTL (27.42%), office-lending (19.67%), industrial (15.00%) and hotel-lending (11.99%).

The Company underwrites the credit of prospective borrowers and customers and often requires them to provide some form of credit support such as corporate guarantees, letters of credit and/or cash security deposits. Although the Company's loans and other lending investments and corporate customer lease assets are geographically diverse and the borrowers and customers operate in a variety of industries, to the extent the Company has a significant concentration of interest or operating lease revenues from any single borrower or customer, the inability of that borrower or customer to make its payment could have an adverse effect on the Company. As of December 31, 2002, the Company's five largest borrowers or corporate tenants collectively accounted for approximately 15.67% of the Company's aggregate annualized interest and operating lease revenue.

Note 10 – Stock-Based Compensation Plans and Employee Benefits

The Company's 1996 Long-Term Incentive Plan (the "Plan") is designed to provide incentive compensation for officers, other key employees and directors of the Company. The Plan provides for awards of stock options and shares of restricted stock and other performance awards. The maximum number of shares of Common Stock available for awards under the Plan is 9.00% of the outstanding shares of Common Stock, calculated on a fully diluted basis, from time to time; provided that the number of shares of Common Stock reserved for grants of options designated as incentive stock options is 5.0 million, subject to certain antidilution provisions in the Plan. All awards under the Plan, other than automatic awards to non-employee directors, are at the discretion of the Board or a committee of the Board. At December 31, 2002, a total of approximately 9.1 million shares of Common Stock were available for awards under the Plan, of which options to purchase approximately 4.3 million shares of Common Stock were outstanding and approximately 330,000 shares of restricted stock were outstanding.

In March 1998, the Company issued approximately 2.5 million (as adjusted) fully vested and immediately exercisable options to purchase shares of Common Stock at $14.72 per share (as adjusted) to its former advisor with a term of ten years. The former advisor granted a portion of these options to its employees and the remainder was allocated to an affiliate. Upon the Company's acquisition of its former advisor, these individuals became employees of the Company. In general, the grants to these employees provided for scheduled vesting over a predefined service period of three to five years and, under certain conditions, provide for accelerated vesting. These options expire on March 15, 2008.

Changes in options outstanding during each of fiscal 2000, 2001 and 2002 are as follows:

	Number of Shares			
	Employees	Non-Employee Directors	Other	Average Strike Price
Options outstanding, December 31, 1999	2,778,252	146,379	881,163	$19.03
Granted in 2000	1,852,059	80,000	80,000	$17.34
Exercised in 2000	(412,734)	–	–	$15.67
Forfeited in 2000	(682,005)	–	–	$25.47
Options outstanding, December 31, 2000	3,535,572	226,379	961,163	$18.97
Granted in 2001	1,618,400	90,000	100,000	$20.31
Exercised in 2001	(1,262,811)	(20,000)	(25,000)	$16.48
Forfeited in 2001	(107,939)	–	–	$27.27
Options outstanding, December 31, 2001	3,783,222	296,379	1,036,163	$18.98
Granted in 2002	–	90,000	–	$27.83
Exercised in 2002	(488,674)	(190,650)	(164,683)	$18.63
Forfeited in 2002	(17,406)	(4,600)	–	$24.87
Options outstanding, December 31, 2002	3,277,142	191,129	871,480	

~

The following table summarizes information concerning outstanding and exercisable options as of December 31, 2002:

	Options outstanding			*Options exercisable*	
Exercise Price Range	***Options Outstanding***	***Weighted Average Remaining Contractual Life***	***Weighted Average Exercise Price***	***Currently Exercisable***	***Weighted Average Exercise Price***
$14.72–$15.00[1]	1,000,213	5.62	$14.72	751,618	$14.72
$16.69–$16.88	716,207	7.02	$16.86	350,586	$16.87
$17.38–$17.56	422,490	7.22	$17.39	256,658	$17.40
$19.63–$19.69	1,536,584	8.08	$19.69	426,763	$19.69
$20.00–$21.44	138,466	7.28	$20.91	82,984	$20.92
$22.44	13,333	7.75	$22.44	6,667	$22.44
$23.32–$23.64	43,901	1.37	$23.53	31,316	$23.52
$24.13–$24.94	183,700	5.05	$24.54	183,034	$24.54
$25.10–$26.09	14,800	3.74	$26.02	14,134	$26.06
$26.30–$26.97	77,900	1.60	$26.80	76,567	$26.80
$27.00	25,000	8.48	$27.00	8,334	$27.00
$28.54–$29.82	90,188	8.94	$29.68	90,188	$29.68
$30.33	67,275	0.40	$30.33	67,275	$30.33
$33.70	4,600	0.01	$33.70	4,600	$33.70
$55.39	5,094	6.42	$55.39	5,094	$55.39
	4,339,751	6.79	$18.77	2,355,818	$19.00

Explanatory Note:

(1) Includes approximately 764,000 options which were granted, on a fully exercisable basis, in March 1998, and which are now held by an affiliate of SOF IV. Beneficial interests in these options were subsequently regranted by that affiliate to employees of it and its affiliates, subject to vesting requirements. In the event that these employees forfeit such options, they revert to an affiliate of SOF IV, which may regrant them at its discretion. As of December 31, 2002, approximately 468,000 of these options have become exercisable by the beneficial owners. Of this total, approximately 288,000 have been exercised as of December 31, 2002.

~

In the third quarter 2002 (with retroactive application to the beginning of the calendar year), the Company adopted the fair value method for accounting for options issued to employees or directors, as allowed under Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation." Accordingly, the Company recognizes a charge equal to the fair value of these options at the date of grant multiplied by the number of options issued. This charge will be amortized over the related remaining vesting terms to individual employees as additional compensation. The impact for options issued since January 1, 2002 is approximately $110,000, which is reflected under "General and administrative – stock-based compensation" on the Company's Consolidated Statements of Operations.

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

If the Company's compensation costs had been determined using the fair value method of accounting for stock options issued under the Plan to employees and directors prescribed by SFAS No. 123 prior to 2002, the Company's net income for the fiscal years ended December 31, 2002, 2001 and 2000 would have been reduced on a pro forma basis by approximately $565,000, $705,000 and $275,000 respectively. This would not have significantly impacted the Company's earnings per share.

The fair value of each significant option grant is estimated on the date of grant (May 29, 2002 for the 2002 options) using the Black-Scholes model. For the above SFAS No. 123 calculation, the following assumptions were used for the Company's fair value calculations of stock options:

	2002	2001	2000
Expected life *(in years)*	**5**	5	5
Risk-free interest rate	**4.38%**	4.96%	5.30%
Volatility	**16.23%**	20.83%	26.80%
Dividend yield	**8.45%**	12.00%	13.50%
Weighted average grant date fair value	**$1.38**	$0.76	$0.46

~

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

During the 12 months ended December 31, 2002, the Company granted 194,558 restricted shares to employees. Of these shares, 39,558 will vest proportionately over three years on the anniversary date of the initial grant. The balance of 155,000 restricted shares will vest on March 31, 2004 if: (1) the employee remains employed until that date; and (2) the 60-day average closing price of the Company's Common Stock equals or exceeds a set floor price as of such date. Dividends will be paid on the restricted shares as dividends are paid on shares of the Company's Common Stock. Assuming the shares become fully vested on March 31, 2004 and the market price of the stock is $28.05 (which was the market price of the Common Stock on December 31, 2002), the Company would incur a one-time charge to both net income and earning at that time equal to $4.3 million (the fair market value of the 155,000 shares at $28.05 per share). During the 12 months ended

December 31, 2002, the Company also granted 208,980 restricted shares to its Chief Financial Officer (see detailed information below).

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

During the year ended December 31, 2000, the Company granted 140,402 restricted shares to employees. Of this total, 71,752 restricted shares were granted in lieu of cash bonuses at the employees' election, were immediately vested on the date of grant, and were not transferable for a period of one year following vesting. An additional 68,650 of such restricted shares vest over periods ranging from one to three years following the date of grant and are transferable upon vesting.

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

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

Further, the Company granted the Chief Financial Officer 100,000 restricted shares which vest in whole or in part if the Company's shareholders realize total rates of shareholder return (dividends plus share price appreciation) of between 0.00% and 20.00%, achieved by the Company between January 2, 2003 and January 31, 2004. Vested shares would be subject to forfeiture if the executive's employment with the Company terminated under certain circumstances. Assuming the shares became fully vested on January 31, 2004 and the market price of the stock is $28.05 (which was the market price of the Common Stock on December 31, 2002), the Company would incur a one-time charge to both net income and earnings at that time equal to $2.8 million (the fair market value of the 100,000 shares at $28.05 per share). For accounting purposes, the employment arrangement described above is treated as a contingent, variable plan until January 31, 2004.

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

The Company also granted the executive 2.0 million unvested phantom shares, each of which represents one share of the Company's Common Stock. These shares will vest in installments of 350,000 shares, 650,000 shares, 600,000 shares and 400,000 shares on a contingent basis if the 60-day average closing price of the Company's Common Stock achieves thresholds of $25.00, $30.00, $34.00 and $37.00, respectively. As of December 31, 2002, the $25.00 and $30.00 thresholds have been attained, and a total of 1.0 million of these shares have contingently vested. Assuming that the market price of the Common Stock on March 31, 2004, is $28.05 (which was the market price of the Common Stock on December 31, 2002), the Company would incur a one-time charge to both net income and earnings at that time equal to $28.0 million (the fair market value of the 1.0 million shares at $28.05 per share). Shares that have contingently vested generally will not become fully vested until the end of the three-year term of the agreement, except upon certain termination or change of control events. Further, if the average stock price drops below certain specified levels for a 60-day period prior to such date, such phantom shares would not fully vest and would be forfeited. If the Company is not authorized to issue shares to the executive upon full vesting of the phantom shares, then the vesting will be settled through a cash payment based upon the market price of the Common Stock during a recent trading period. The executive will receive dividends on shares that have contingently or fully vested and have not been forfeited under the terms of the agreement, if and when the Company declares and pays dividends on its Common Stock. Because no shares have been issued, dividends received on these phantom shares, if any, will be reflected as compensation expense by the Company. For accounting purposes, this arrangement will be treated as a contingent, variable plan and no additional compensation expense will be recognized until the shares, in whole or in part, become irrevocably vested, whereupon the Company will reflect a charge equal to the then fair value of the phantom shares irrevocably vested.

In addition, during the year ended December 31, 2001, the Company entered into a three-year employment agreement with its former President. Under the agreement, in lieu of salary and bonus, the Company granted the executive 500,000 restricted shares. These shares became fully-vested on September 30, 2002 as a result of the Company achieving a 60.00% total shareholder rate of return (dividends plus share price appreciation) since January 1, 2001. Upon the restricted shares becoming fully vested, the Company withheld 250,000 of such shares from the executive to cover the tax obligations associated with the vesting of such shares. These shares are reflected as "Treasury stock" on the Company's Consolidated Statements of Changes in Shareholders' Equity. For accounting purposes, the employment arrangement described above was treated as a contingent, variable plan until the April 29, 2002 contingent vesting date. The Company incurred a total non-cash charge of approximately $15.0 million related to the vesting of the shares, recognized ratably over the period from April 29, 2002 through September 30, 2002. Accordingly, the non-cash charge recognized for the 12 months ended December 31, 2002 was approximately $15.0 million.

The executive received dividends on the share grant from the date of the agreement as and when the Company declared and paid dividends on its Common Stock. For financial statement purposes, such dividends were accounted for in a manner consistent with the Company's normal Common Stock dividends as a reduction to retained earnings.

Certain affiliates of SOF IV and the Company's Chief Executive Officer have agreed to reimburse the Company for the value of restricted shares awarded to the President in excess of 350,000 shares, net of tax benefits realized by the Company or its shareholders on account of compensation expense deductions. The reimbursement obligation arose once the restricted share award became fully vested on September 30, 2002. In the case of the SOF IV affiliates, the reimbursement payment must be made through the delivery of approximately $2.4 million in cash or 131,250 shares of Common Stock. As of December 31, 2002, the SOF IV affiliates have paid approximately $506,000 in cash, which is reflected as "Additional paid-in capital" on the Company's Consolidated Balance Sheets. In the case of the Chief Executive Officer, the reimbursement payment was made through the delivery of 12,343 vested shares of Common Stock as of December 31, 2002. These reimbursement payments are reflected as "Additional paid-in capital" on the Company's Consolidated Balance Sheets, and not as an offset to the non-cash charge referenced above.

On July 28, 2000, the Company granted to its employees profits interests in a wholly-owned subsidiary of the Company called iStar Venture Direct Holdings, LLC. At December 31, 2002, iStar Venture Direct Holdings, LLC had a net investment of approximately $606,000 in the preferred stock of a real estate-related software company. The profits interests have three-year vesting schedules, and are subject to forfeiture in the event of termination of employment for cause or a voluntary resignation. The Company currently estimates that the profits interests have minimal or no value.

High Performance Unit Program

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

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

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

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

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

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

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

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

A new 2005 plan has been established with a three-year valuation period ending December 31, 2005. Awards under the 2005 plan were approved on January 14, 2003. The 2005 plan has 5,000 shares of High Performance Common Stock with an aggregate initial purchase price of $573,000. The provisions of the 2005 plan are substantially the same as the prior plans.

The additional equity from the issuance of the High Performance Common Stock is recorded as a separate class of stock and included within shareholders' equity. Future distributions, if any, will be deducted from net income available for common shareholders.

401(k) Plan

Effective November 4, 1999, the Company implemented a savings and retirement plan (the "401(k) Plan"), which is a voluntary, defined contribution plan. All employees are eligible to participate in the 401(k) Plan following completion of three months of continuous service with the Company. Each participant may contribute on a pretax basis between 2.00% and 15.00% of such participant's compensation. At the discretion of the Board of Directors, the Company may make matching contributions on the participant's behalf of up to 50.00% of the first 10.00% of the participant's annual compensation. The Company made gross contributions of approximately $356,000, $319,000 and $320,000 to the 401(k) Plan for the years ended December 31, 2002, 2001 and 2000, respectively.

Note 11 – Earnings Per Share

The following table presents a reconciliation of the numerators and denominators of the basic and diluted EPS calculations for the years ended December 31, 2002, 2001 and 2000, respectively (in thousands, except per share data):

For the Year Ended December 31,	2002	2001	2000
Numerator:			
Net income before income from discontinued operations, gain from discontinued operations, extraordinary loss and cumulative effect of change in accounting principle	**$223,136**	$225,370	$212,188
Preferred dividend requirements	**(36,908)**	(36,908)	(36,908)
Net income allocable to common shareholders before income from discontinued operations, gain from discontinued operations, extraordinary loss and cumulative effect of change in accounting principle	**186,228**	188,462	175,280
Income from discontinued operations	**3,583**	5,299	3,155
Gain from discontinued operations	**717**	1,145	2,948
Extraordinary loss on early extinguishment of debt	**(12,166)**	(1,620)	(705)
Cumulative effect of change in accounting principle	**–**	(282)	–
Net income allocable to common shareholders	**$178,362**	$193,004	$180,678
Denominator:			
Weighted average common shares outstanding for basic earnings per common share	**89,886**	86,349	85,441
Add: effect of assumed shares issued under treasury stock method for stock options and restricted shares	**1,645**	1,680	710
Add: effect of contingent shares	**1,118**	205	–
Weighted average common shares outstanding for diluted earnings per common share	**92,649**	88,234	86,151
Basic earnings per common share:			
Net income allocable to common shareholders before income from discontinued operations, gain from discontinued operations, extraordinary loss and cumulative effect of change in accounting principle	**$ 2.07**	$ 2.18	$ 2.05
Income from discontinued operations	**0.04**	0.06	0.04
Gain from discontinued operations	**0.01**	0.02	0.03
Extraordinary loss on early extinguishment of debt	**(0.14)**	(0.02)	(0.01)
Cumulative effect of change in accounting principle	**–**	(0.00)	–
Net income allocable to common shareholders	**$ 1.98**	$ 2.24	$ 2.11
Diluted earnings per common share:			
Net income allocable to common shareholders before income from discontinued operations, gain from discontinued operations, extraordinary loss and cumulative effect of change in accounting principle	**$ 2.01**	$ 2.14	$ 2.04
Income from discontinued operations	**0.04**	0.06	0.04
Gain from discontinued operations	**0.01**	0.01	0.03
Extraordinary loss on early extinguishment of debt	**(0.13)**	(0.02)	(0.01)
Cumulative effect of change in accounting principle	**–**	(0.00)	–
Net income allocable to common shareholders	**$ 1.93**	$ 2.19	$ 2.10

~

In addition, there were approximately 167,000, 261,000 and 632,000 stock options, 6.1 million, 6.1 million and 6.1 million warrants and 371,000, 373,000 and 373,000 joint venture shares that were anti-dilutive for the 12-month periods ended December 31, 2002, 2001 and 2000, respectively.

Note 12 – Comprehensive Income

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130 ("SFAS No. 130"), "Reporting Comprehensive Income" effective for fiscal years beginning after December 15, 1997. The statement changes the reporting of certain items currently reported as changes in the shareholders' equity section of the balance sheet and establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. SFAS No. 130 requires that all components of comprehensive income shall be reported in the financial statements in the period in which they are recognized. Furthermore, a total amount for comprehensive income shall be displayed in the financial statements. The Company has adopted this standard effective January 1, 1998. Total comprehensive income was $228.1 million, $214.8 million and $217.8 million for the years ended December 31, 2002, 2001 and 2000, respectively. The primary components of comprehensive income other than net income consist of amounts attributable to the adoption and continued application of SFAS No. 133 to the Company's cash flow hedges and changes in the fair value of the Company's available-for-sale investments.

For the years ended December 31, 2002 and 2001, the change in fair market value of the Company's cash flow hedges and fair value hedges was an increase of $5.2 million and a decrease of $11.3 million, respectively, and was recorded as an adjustment to other comprehensive income. The reconciliation to other comprehensive income is as follows (in thousands):

For the Year Ended December 31,	2002	2001	2000
Net income	**$215,270**	$229,912	$217,586
Other comprehensive income:			
Unrealized gains on available-for-sale investments	**7,601**	5,709	209
Cumulative effect of change in accounting principle (SFAS No. 133) on other comprehensive income	**–**	(9,445)	–
Unrealized gains (losses) on cash flow and fair value hedges	**5,190**	(11,336)	–
Comprehensive income	**$228,061**	$214,840	$217,795

~

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

As of December 31, 2002 and 2001, accumulated other comprehensive income reflected in the Company's shareholders' equity is comprised of the following (in thousands):

As of December 31,	2002	2001
Unrealized gains on available-for-sale investments	**$ 13,290**	$ 5,689
Unrealized losses on cash flow and fair value hedges	**(15,591)**	(20,781)
Accumulated other comprehensive income (loss)	**$ (2,301)**	$(15,092)

~

Note 13 – Dividends

In order to maintain its election to qualify as a REIT, the Company must currently distribute, at a minimum, an amount equal to 90.00% of its taxable income and must distribute 100.00% of its taxable income to avoid paying corporate federal income taxes. The Company anticipates it will distribute all of its taxable income to its shareholders. Because taxable income differs from cash flow from operations due to non-cash revenues or expenses (such as depreciation), in certain circumstances, the Company may generate operating cash flow in excess of its dividends or, alternatively, may be required to borrow to make sufficient dividend payments.

For the year ended December 31, 2002, total dividends declared by the Company aggregated $231.3 million, or $2.52 per common share, consisting of quarterly dividends of $0.63 per share which were declared on April 1, 2002, July 1, 2002, October 1, 2002 and December 2, 2002. The Company also declared dividends aggregating $20.9 million, $4.7 million, $3.0 million and $8.0 million, respectively, on its Series A, B, C and D preferred stock, respectively, for the year ended December 31, 2002. There are no divided arrearages on any of the preferred shares currently outstanding.

The Series A preferred stock has a liquidation preference of $50.00 per share and carries an initial dividend yield of 9.50% per annum. The dividend rate on the preferred shares will increase to 9.75% on December 15, 2005, to 10.00% on December 15, 2006 and to 10.25% on December 15, 2007 and thereafter. Dividends on the Series A preferred shares are payable quarterly in arrears and are cumulative.

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

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

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

The 2002 High Performance Common Stock plan reached its valuation date on December 31, 2002 and shares of High Performance Common Stock, equivalent to 819,254 shares of Common Stock became vested. The Company will pay dividends on these units in the same amount per share and on the same distribution dates as shares of the Company's Common Stock. Such dividends payments begin with the first quarter 2003 dividend and will reduce net income allocable to common shareholders when paid.

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

Note 14 – Fair Values of Financial Instruments

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

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

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

Loans and other lending investments – For the Company's interests in loans and other lending investments, the fair values were estimated by discounting the future contractual cash flows (excluding participation interests in the sale or refinancing proceeds of the underlying collateral) using estimated current market rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities.

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

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

Debt obligations – A substantial portion of the Company's existing debt obligations bear interest at fixed margins over LIBOR. Such margins may be higher or lower than those at which the Company could currently replace the related financing arrangements. Other obligations of the Company bear interest at fixed rates, which may differ from prevailing market interest rates. As a result, the fair values of the Company's debt obligations were estimated by discounting current debt balances from December 31, 2002 and 2001 to maturity using estimated current market rates at which the Company could enter into similar financing arrangements.

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

The book and fair values of financial instruments as of December 31, 2002 and 2001 were (in thousands):

	2002		2001	
	Book Value	Fair Value	Book Value	Fair Value
Financial assets:				
Loans and other lending investments	**$3,079,592**	**$3,301,452**	$2,398,763	$2,508,119
Marketable securities	**35**	**35**	285	285
Provision for loan losses	**(29,250)**	**(29,250)**	(21,000)	(21,000)
Financial liabilities:				
Debt obligations	**3,461,590**	**$3,500,927**	2,495,369	2,506,046
Interest rate protection agreements	**3,145**	**3,145**	(18,925)	(18,925)

~

Note 15 – Segment Reporting

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

The Company has two reportable segments: Real Estate Lending and Corporate Tenant Leasing. The Company does not have substantial foreign operations. The accounting policies of the segments are the same as those described in Note 3. The Company has no single customer that accounts for more than 4.03% of revenues (see Note 9 for other information regarding concentrations of credit risk).

The Company evaluates performance based on the following financial measures for each segment:

	Real Estate Lending	Corporate Tenant Leasing	Corporate and Other[1]	Company Total
		(In thousands)		
2002				
Total revenues[2]	**$ 279,158**	**$ 246,890**	**$ (324)**	**$ 525,724**
Equity in earnings from joint ventures and unconsolidated subsidiaries	**–**	**5,081**	**(3,859)**	**1,222**
Total operating and interest expense[3]	**94,274**	**105,607**	**103,767**	**303,648**
Net operating income before minority interests[4]	**184,884**	**146,364**	**(107,950)**	**223,298**
Total long-lived assets[5]	**3,050,342**	**2,291,805**	**N/A**	**5,342,147**
Total assets	**3,126,219**	**2,442,087**	**43,391**	**5,611,697**
2001				
Total revenues[2]	$ 282,802	$ 188,688	$ (371)	$ 471,119
Equity in earnings from joint ventures and unconsolidated subsidiaries	–	9,617	(2,256)	7,361
Total operating and interest expense[3]	109,568	77,481	65,843	252,892
Net operating income before minority interests[4]	173,234	120,824	(68,470)	225,588
Total long-lived assets[5]	2,377,763	1,781,565	N/A	4,159,328
Total assets	2,448,493	1,889,879	42,268	4,380,640
2000				
Total revenues[2]	$ 280,474	$ 179,412	$ 3,633	$ 463,519
Equity in earnings from joint ventures and unconsolidated subsidiaries	–	5,058	(262)	4,796
Total operating and interest expense[3]	115,906	79,662	60,364	255,932
Net operating income before minority interests[4]	164,568	104,808	(56,993)	212,383
Total long-lived assets[5]	2,227,083	1,592,087	N/A	3,819,170
Total assets	2,285,506	1,706,949	42,320	4,034,775

Explanatory Notes:

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

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

(3) Total operating and interest expense represents provision for loan losses for the Real Estate Lending business and operating costs on corporate tenant lease assets for the Corporate Tenant Leasing business, as well as interest expense specifically related to each segment. Interest expense on unsecured notes, general and administrative expense and general and administrative – stock-based compensation is included in Corporate and Other for all periods. Depreciation and amortization of $47,821, $35,411 and $34,384 in 2002, 2001 and 2000, respectively, are included in the amounts presented above.

(4) Net operating income represents net operating income before minority interest, income from discontinued operations, gain (loss) from discontinued operations, extraordinary loss on early extinguishment of debt and cumulative effect of change in accounting principle. Net operating income excludes income from discontinued operations of $3,583, $5,299 and $3,155 for the years ended December 31, 2002, 2001 and 2000, respectively.

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

~

Note 16 – Quarterly Financial Information (Unaudited)

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

	Quarter Ended			
	December 31,	September 30,	June 30,	March 31,
2002				
Revenue	**$140,321**	**$135,035**	**$130,790**	**$119,578**
Net income	**62,976**	**52,670**	**42,513**	**57,111**
Net income allocable to common shares	**53,749**	**43,443**	**33,286**	**47,884**
Net income per common share – basic	**$ 0.57**	**$ 0.49**	**$ 0.38**	**$ 0.55**
Weighted average common shares outstanding – basic	**93,671**	**89,431**	**88,656**	**87,724**
2001				
Revenue	$116,757	$117,430	$118,497	$118,435
Net income	58,755	57,553	58,960	54,644
Net income allocable to common shares	49,528	48,326	49,733	45,417
Net income per common share – basic	$ 0.57	$ 0.56	$ 0.58	$ 0.53
Weighted average common shares outstanding – basic	86,969	86,470	86,081	85,833

~

Note 17 – Subsequent Events

Subsequent to December 31, 2002, the Company modified the terms of the 6.75% Dealer Remarketable Securities, increased the principal amount and sold additional notes in an amount totaling $150.0 million. The notes were modified to become obligations of the Company (as opposed to the Leasing Subsidiary), the covenants were modified to reflect the covenants contained in the Company's other unsecured notes, and the maturity date was modified to be March 2008. The new interest rate on the modified notes is set at 7.00%.

common stock price and dividends (unaudited)

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

Quarter Ended	High	Low
2001		
March 31, 2001	$25.25	$19.19
June 30, 2001	$28.20	$22.85
September 30, 2001	$28.46	$22.49
December 31, 2001	$26.05	$23.01
2002		
March 31, 2002	**$28.90**	**$24.59**
June 30, 2002	**$31.45**	**$28.50**
September 30, 2002	**$29.55**	**$25.30**
December 31, 2002	**$28.40**	**$25.90**

~

On March 14, 2003, the closing sale price of the Common Stock as reported by the NYSE was $28.50. The Company had approximately 2,619 holders of record of Common Stock as of March 14, 2003.

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

Quarter Ended	Shareholder Record Date	Dividend/Share
2001(1)		
March 31, 2001	April 16, 2001	$0.6125
June 30, 2001	July 16, 2001	$0.6125
September 30, 2001	October 15, 2001	$0.6125
December 31, 2001	December 17, 2001	$0.6125
2002(2)		
March 31, 2002	April 15, 2002	**$0.6300**
June 30, 2002	July 15, 2002	**$0.6300**
September 30, 2002	October 15, 2002	**$0.6300**
December 31, 2002	December 16, 2002	**$0.6300**

~

Explanatory Notes:

(1) For tax reporting purposes, the 2001 dividends were classified as 90.55% ($2.2206) ordinary income and 9.45% ($0.2318) return of capital for those shareholders who held shares of the Company for the entire year.

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

Design by Addison www.addison.com

Directors

Jay Sugarman [3]
Chairman and Chief Executive Officer,
iStar Financial Inc.

Willis Andersen, Jr. [1]
Principal,
REIT Consulting Services

Jeffrey G. Dishner [3]
Senior Managing Director,
Starwood Capital Group

Andrew L. Farkas
Chairman and Chief Executive Officer,
Insignia Financial Group, Inc.

Madison F. Grose [4]
Senior Managing Director,
Starwood Capital Group

Robert W. Holman, Jr. [4]
Chairman and Chief Executive Officer,
National Warehouse Investment Company

Merrick R. Kleeman
Senior Managing Director,
Starwood Capital Group

Robin Josephs [1] [2]
President, Ropasada, LLC

H. Cabot Lodge III
Executive Vice President – Investments,
iStar Financial Inc.

Matthew J. Lustig [1] [2]
Managing Director, Lazard Frères
Real Estate Investors, LLC

William M. Matthes
Managing Partner, Behrman Capital

John G. McDonald [2] [4]
Professor of Finance, Stanford University
Graduate School of Business

Stephen B. Oresman [2]
President, Saltash, Ltd.

George R. Puskar [3]
Former Chairman, Lend Lease
Real Estate Investments

Barry S. Sternlicht [3]
Chairman and Chief Executive Officer,
Starwood Hotels and Resorts

(1) Audit Committee
(2) Compensation Committee
(3) Investment Committee
(4) Nominating and Governance Committee

Officers

Jay Sugarman
Chairman and Chief Executive Officer

Catherine D. Rice
Chief Financial Officer

Timothy J. O'Connor
Executive Vice President and
Chief Operating Officer

Nina B. Matis
Executive Vice President and
General Counsel

Spencer B. Haber
President – iStar Strategic Capital

Barbara Rubin
President – iStar Asset Services

Executive Vice Presidents

Daniel S. Abrams
Steven R. Blomquist
Roger M. Cozzi
Jeffrey R. Digel
R. Michael Dorsch III
Barclay G. Jones III
H. Cabot Lodge III
Michelle M. MacKay
Diane Olmstead
Andrew C. Richardson

Senior Vice Presidents

Jeffrey N. Brown
Chase S. Curtis, Jr.
Geoffrey M. Dugan
John F. Kubicko
Steven B. Sinnett
Elizabeth B. Smith
Colette J. Tretola

Headquarters

iStar Financial Inc.
1114 Avenue of the Americas
New York, NY 10036
tel: **(212) 930-9400**
fax: (212) 930-9494

Super-Regional Offices

One Embarcadero Center, 33rd Floor
San Francisco, CA 94111
tel: **(415) 391-4300**
fax: (415) 391-6529

3480 Preston Ridge Road, Suite 575
Alpharetta, GA 30005
tel: **(678) 297-0100**
fax: (678) 297-0101

100 Great Meadow Road, Suite 603
Wethersfield, CT 06109
tel: **(860) 258-2202**
fax: (860) 258-2268

Regional Offices

175 Federal Street, 8th Floor
Boston, MA 02110
tel: **(617) 292-3333**
fax: (617) 423-3322

304 Inverness Way South, Suite 195
Englewood, CO 80112
tel: **(303) 790-4656**
fax: (303) 790-4680

6565 North MacArthur Blvd., Suite 410
Irving, TX 75039
tel: **(972) 506-3131**
fax: (972) 501-0078

Employees

At March 14, 2003, the Company had 143 employees.

Independent Auditors

PricewaterhouseCoopers LLP
New York, NY

Registrar and Transfer Agent

EquiServe Trust Company, N.A.
525 Washington Boulevard
Jersey City, NJ 07310
(800) 756-8200

Dividend Reinvestment Plan

Registered shareholders may reinvest dividends through the Company's dividend reinvestment plan. For more information, please call the Transfer Agent or the Company's Headquarters.

Annual Meeting of Shareholders

June 3, 2003, 8:30 a.m. EST
Sofitel Hotel
45 West 44th Street,
New York, NY 10036

Investor Information Services

For help with questions about the Company, and to receive additional corporate information, please contact:

Investor Relations Department
iStar Financial Inc.
1114 Avenue of the Americas
New York, NY 10036
tel: **(212) 930-9400**
fax: (212) 930-9455
e-mail: investors@istarfinancial.com

iStar Financial Web site

http://www.istarfinancial.com

iSTAR | FINANCIAL®

2002

NYSE:SFI