

918472641309524802

2005
2006
2007
2008

iStar Financial Annual Report > 2009

the numbers

01

letter from the chairman

08

highlights

12

results

16

the numbers

\$14,525,061,647

ISMAV123109

\$893,284,196

ISTRYE123109

\$10,412,491,684

ISTCR070107123109

\$1,656,117,796

\$6,632,954,557

ISTFFC070107123109

12.8%

ISIRR031898123109

letter from the chairman

To our valued Investors,

2010 is going to be a pivotal year for the company.

On one hand, we believe we have made a lot of progress in stripping down our portfolio and working down our forward commitments. On the other hand, we still have some big obstacles we need to get past before we can start feeling we've turned the corner.

I have been using the analogy of trying to swim across a raging river. We are still making our way across while many others have already been swept away—but if we don't make it all the way across, then all our good work to date won't really matter.

So 2010 is about making it across, and we are going to have to work hard on both the asset side of our business and the liability side of our business to do that. Every day and every move will count and everyone at iStar knows what is at stake. We must succeed.

We have been working hard to navigate the company through this financial crisis, and with more work to be done, we remind ourselves there is still a large and valuable franchise to protect at iStar.

This year's annual report is a reminder of why success is worth fighting for.

\$14,525,061,647

Managed assets at December 31, 2009. That's the total assets we still control, giving us a wide ranging view of all major property types and major markets. While smaller, the portfolio still includes over \$10 billion in loans, \$4 billion in sale-leasebacks and \$1 billion of owned real estate. By product type, \$2 billion in office, \$1 billion in hotels, \$1 billion in retail, \$1 billion in industrial, \$2 billion in land and \$4 billion in condominiums.

\$893,284,196

Revenue for 2009. While non-performing loans and repositioning assets contributed almost nothing to revenue, we collected just under \$900 million in revenue to help cover operating costs and meet all funding commitments and debt obligations in 2009.

\$10,412,491,684

Capital returned over the past 30 months. While many assets have been extended, over \$10 billion in capital has been returned to us through loan repayments, loan sales and asset sales. Unfortunately, this has mostly been used to fund commitments and repay liabilities and has not provided any excess capital to take advantage of new opportunities in the marketplace.

\$1,656,117,796

Total equity at December 31, 2009. Protecting book value is our focus right now. Until losses abate and fundamentals stabilize, this is the most important thing we can do. Book value per share will be a metric we come back to in the future.

\$6,632,954,557

Fundings over the past 30 months. Some had questioned whether we would be able to meet our \$7 billion in future fundings under loan agreements in place in July 2007, following the Fremont transaction. This number provides the answer. With future fundings now estimated to be below \$500 million, we have met our funding commitments in every instance and expect to continue to do so.

12.8%

11 year IRR on cash flows generated for shareholders since the \$15 per share contribution by our original investors. The collapse in our share price is devastating. And the road back is still uncertain. But our long-term record remains strong, even with the share price where it is, and we still believe we have an ability to make returns that are compelling on a risk-adjusted basis. We hope to do that again soon.

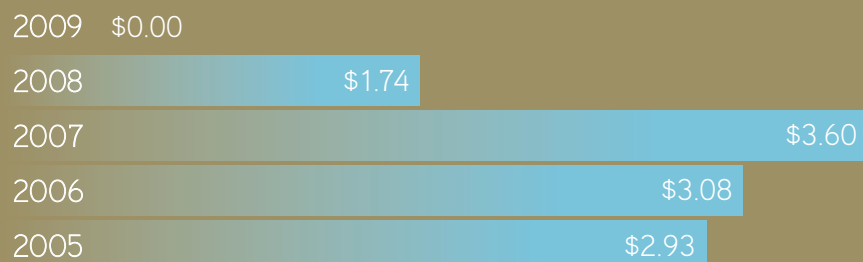
Jay Sugarman

Chairman and Chief Executive Officer

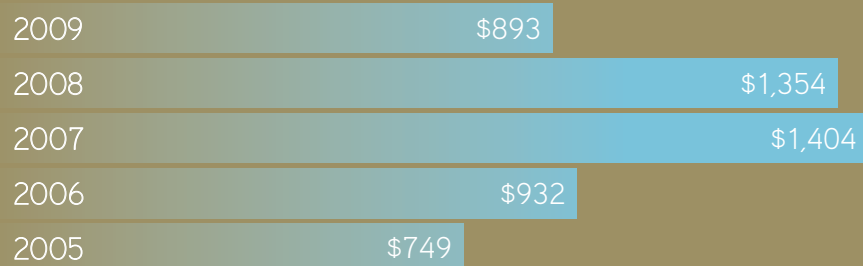
highlights

12

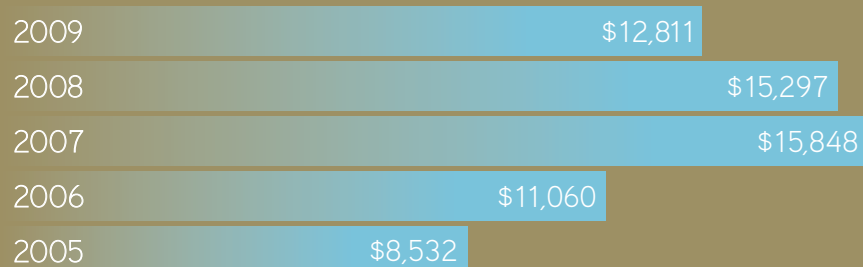
dividend
dollars per common share



revenues
dollars in millions



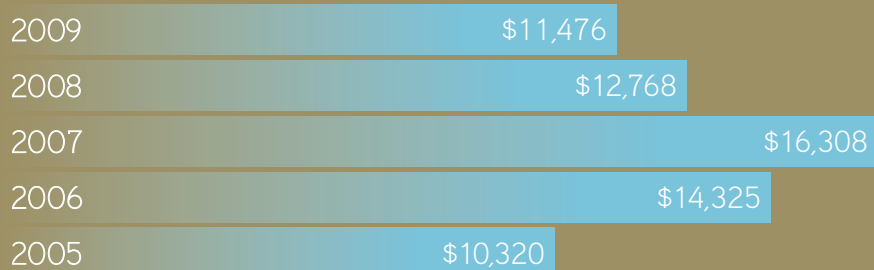
total assets⁽¹⁾
dollars in millions



(1) As defined by GAAP.

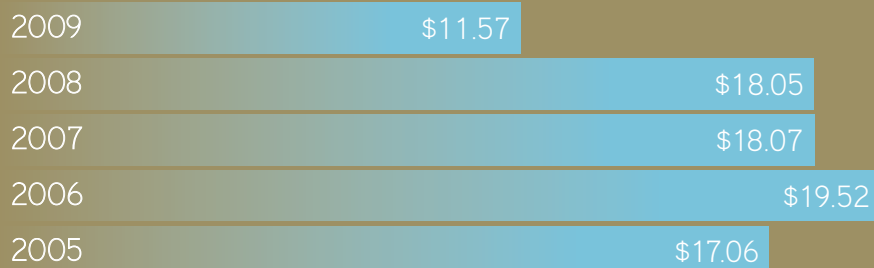
enterprise value⁽¹⁾

dollars in millions



book value

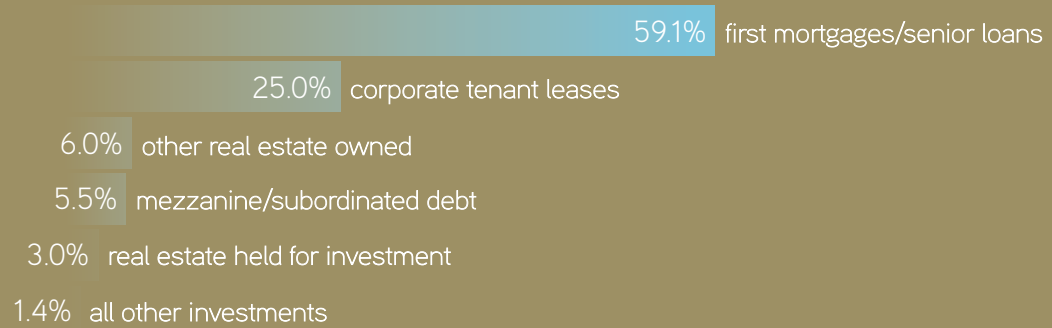
dollars per common share



(1) Enterprise value represents market value of common equity plus book value of preferred equity, debt and minority interest minus cash.

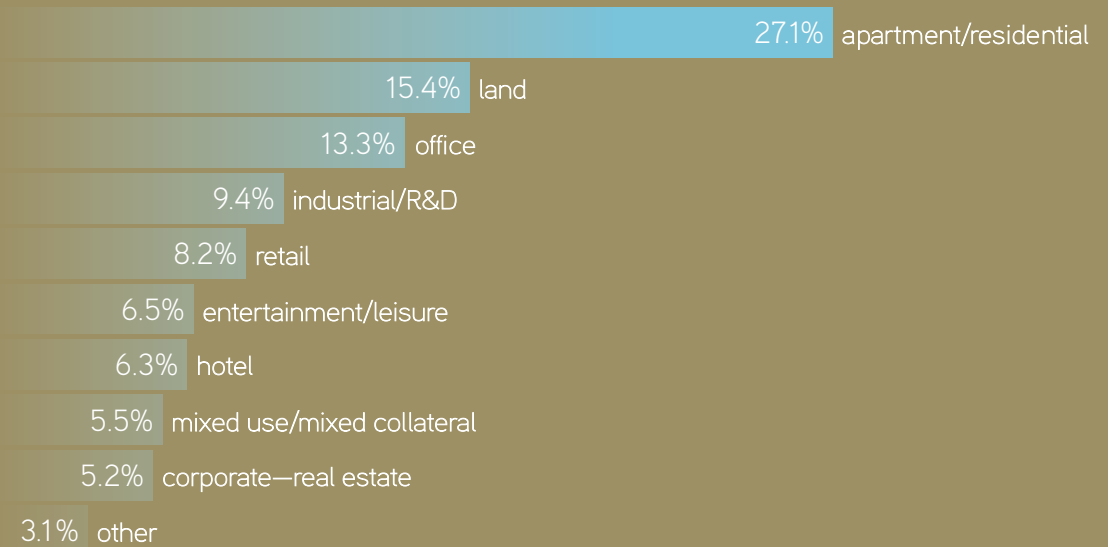
portfolio security type⁽¹⁾

as of December 31, 2009



portfolio collateral type⁽¹⁾

as of December 31, 2009



(1) Based on carrying value of the Company's total investment portfolio, gross of loan loss reserves and accumulated depreciation.

Selected Financial Data **18** Management's Discussion and Analysis of Financial Condition and Results of Operations **20** Quantitative and Qualitative Disclosures about Market Risk **34** Management's Report on Internal Control Over Financial Reporting **36** Report of Independent Registered Public Accounting Firm **37** Consolidated Balance Sheets **38** Consolidated Statements of Operations **39** Consolidated Statements of Changes in Shareholders' Equity **40** Consolidated Statements of Cash Flows **42** Notes to Consolidated Financial Statements **44** Common Stock Price and Dividends (unaudited) **75** Directors and Officers **76** Corporate Information **77**

SELECTED FINANCIAL DATA

The following table sets forth selected financial data on a consolidated historical basis for the Company. This 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 2009 presentation.

For the Years Ended December 31,	2009	2008	2007	2006	2005
(In thousands, except per share data and ratios)					
Operating Data:					
Interest income	\$ 557,809	\$ 947,661	\$ 998,008	\$575,598	\$406,668
Operating lease income	305,007	308,742	306,513	285,555	262,625
Other income	30,468	97,851	99,938	70,824	80,133
Total revenue	<u>893,284</u>	<u>1,354,254</u>	<u>1,404,459</u>	<u>931,977</u>	<u>749,426</u>
Interest expense	481,116	666,706	629,260	429,613	312,806
Operating costs – corporate tenant lease assets	23,467	23,059	27,915	22,159	20,622
Depreciation and amortization	97,869	94,726	83,690	66,258	61,609
General and administrative	127,044	143,902	156,534	95,358	61,971
Provision for loan losses	1,255,357	1,029,322	185,000	14,000	2,250
Impairment of other assets	122,699	295,738	144,184	5,683	-
Impairment of goodwill	4,186	39,092	-	-	-
Other expense	104,795	37,234	8,927	874	2,014
Total costs and expenses	<u>2,216,533</u>	<u>2,329,779</u>	<u>1,235,510</u>	<u>633,945</u>	<u>461,272</u>
Income (loss) before earnings from equity method investments, minority interest and other items	(1,323,249)	(975,525)	168,949	298,032	288,154
Gain (loss) on early extinguishment of debt	547,349	393,131	225	-	(46,004)
Gain on sale of joint venture interest	-	280,219	-	-	-
Earnings from equity method investments	5,298	6,535	29,626	12,391	3,016
Income (loss) from continuing operations	<u>(770,602)</u>	<u>(295,640)</u>	<u>198,800</u>	<u>310,423</u>	<u>245,166</u>
Income (loss) from discontinued operations	(11,671)	22,415	29,970	41,384	37,373
Gain from discontinued operations	12,426	91,458	7,832	24,227	6,354
Net income (loss)	<u>(769,847)</u>	<u>(181,767)</u>	<u>236,602</u>	<u>376,034</u>	<u>288,893</u>
Net (income) loss attributable to noncontrolling interests	1,071	991	816	(1,207)	(980)
Gains attributable to noncontrolling interests	-	(22,249)	-	-	-
Net income (loss) attributable to iStar Financial Inc.	<u>(768,776)</u>	<u>(203,025)</u>	<u>237,418</u>	<u>374,827</u>	<u>287,913</u>
Preferred dividend requirements	(42,320)	(42,320)	(42,320)	(42,320)	(42,320)
Net income (loss) attributable to iStar Financial Inc. and allocable to common shareholders, HPU holders and Participating Security holders ⁽¹⁾	<u>\$ (811,096)</u>	<u>\$ (245,345)</u>	<u>\$ 195,098</u>	<u>\$332,507</u>	<u>\$245,593</u>
Per common share data ⁽²⁾ :					
Income (loss) attributable to iStar Financial Inc. from continuing operations:					
Basic	\$ (7.89)	\$ (2.68)	\$ 1.19	\$ 2.25	\$ 1.75
Diluted ⁽³⁾	\$ (7.89)	\$ (2.68)	\$ 1.18	\$ 2.23	\$ 1.74
Net income (loss) attributable to iStar Financial Inc.:					
Basic	\$ (7.88)	\$ (1.85)	\$ 1.48	\$ 2.81	\$ 2.13
Diluted ⁽³⁾	\$ (7.88)	\$ (1.85)	\$ 1.47	\$ 2.78	\$ 2.11
Per HPU share data ⁽²⁾ :					
Income (loss) attributable to iStar Financial Inc. from continuing operations:					
Basic	\$ (1,503.13)	\$ (505.47)	\$ 224.40	\$ 425.60	\$ 331.00
Diluted ⁽³⁾	\$ (1,503.13)	\$ (505.47)	\$ 223.27	\$ 422.07	\$ 327.73
Net income (loss) attributable to iStar Financial Inc.:					
Basic	\$ (1,501.73)	\$ (349.87)	\$ 279.53	\$ 530.94	\$ 402.73
Diluted ⁽³⁾	\$ (1,501.73)	\$ (349.87)	\$ 278.07	\$ 526.47	\$ 398.73
Dividends declared per common share ⁽⁴⁾	\$ -	\$ 1.74	\$ 3.60	\$ 3.08	\$ 2.93

For the Years Ended December 31,	2009	2008	2007	2006	2005
(In thousands, except per share data and ratios)					
Supplemental Data:					
Adjusted diluted earnings (loss) attributable to iStar Financial, Inc. and allocable to common shareholders and HPU holders ⁽⁵⁾⁽⁶⁾	\$ (708,595)	\$ (359,295)	\$ 355,707	\$ 429,922	\$ 391,884
EBITDA ⁽⁶⁾⁽⁷⁾	\$ (168,362)	\$ 612,325	\$ 1,013,087	\$ 904,537	\$ 687,571
Ratio of earnings to fixed charges ⁽⁸⁾	(0.5)x	0.6x	1.3x	1.7x	1.8x
Ratio of earnings to fixed charges and preferred stock dividends	(0.5)x	0.6x	1.3x	1.6x	1.6x
Weighted average common shares outstanding – basic	100,071	131,153	126,801	115,023	112,513
Weighted average common shares outstanding – diluted	100,071	131,153	127,542	116,057	113,668
Weighted average HPU shares outstanding – basic and diluted	15	15	15	15	15
Cash flows from:					
Operating activities	\$ 76,276	\$ 418,529	\$ 561,337	\$ 431,224	\$ 515,919
Investing activities	726,221	(27,943)	(4,745,080)	(2,529,260)	(1,406,121)
Financing activities	(1,074,402)	1,444	4,182,299	2,088,617	917,150
Balance Sheet Data:					
Loans and other lending investments, net	\$ 7,661,562	\$10,586,644	\$10,949,354	\$ 6,799,850	\$ 4,661,915
Corporate tenant lease assets, net	2,885,896	3,044,811	3,309,866	3,084,794	3,115,361
Total assets	12,810,575	15,296,748	15,848,298	11,059,995	8,532,296
Debt obligations, net	10,894,903	12,486,404	12,363,044	7,833,437	5,859,592
Redeemable noncontrolling interests	7,444	9,190	17,773	9,229	9,228
Total equity	1,656,118	2,446,662	2,972,170	3,016,372	2,470,954

Explanatory Notes:

- (1) HPU holders are current and former Company employees who purchased high performance common stock units under the Company's High Performance Unit Program. Participating Security holders are Company employees and directors who hold unvested restricted stock units and common stock equivalents granted under the Company's Long-Term Incentive Plan.
- (2) See Note 14 of the Company's Notes to the Consolidated Financial Statements.
- (3) For the years ended December 31, 2007, 2006 and 2005, net income used to calculate earnings per diluted common share and HPU share includes joint venture income of \$85, \$115, and \$28, respectively.
- (4) The Company generally declares common dividends in the month subsequent to the end of the quarter. During 2009, no common dividends were declared. During 2008, no common dividends were declared for the three-month periods ended September 30, 2008 and December 31, 2008. In December of 2007, the Company declared a special \$0.25 dividend due to higher taxable income generated as a result of the Company's acquisition of Fremont CRE.
- (5) Adjusted earnings represents net income allocable to common shareholders and HPU holders computed in accordance with GAAP, before depreciation, depletion, amortization, gain from discontinued operations, ineffectiveness on interest rate hedges, impairment of goodwill and intangible assets, extraordinary items and cumulative effect of change in accounting principle. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations," for a reconciliation of adjusted earnings to net income).
- (6) Both adjusted earnings and EBITDA should be examined in conjunction with net income (loss) as shown in the Company's Consolidated Statements of Operations. Neither adjusted earnings nor EBITDA should be considered as an alternative to net income (loss) (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. Rather, adjusted earnings and EBITDA are additional measures the Company uses to analyze how its business is performing. As a commercial finance company that focuses on real estate lending and corporate tenant leasing, the Company records significant depreciation on its real estate assets and amortization of deferred financing costs associated with its borrowings. 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.
- (7) EBITDA is calculated as net income (loss) attributable to iStar Financial Inc. plus the sum of interest expense, income taxes, depreciation, depletion and amortization.

For the Years Ended December 31,	2009	2008	2007	2006	2005
Net income (loss) attributable to iStar Financial Inc.	\$ (769,847)	\$ (181,767)	\$ 236,602	\$ 376,034	\$ 288,893
Add: Interest expense ⁽¹⁾	481,116	666,706	629,260	429,613	312,806
Add: Income taxes	4,141	10,175	6,972	891	2,014
Add: Depreciation, depletion and amortization ⁽²⁾	98,238	102,745	99,427	83,058	75,574
Add: Joint venture depreciation, depletion and amortization	17,990	14,466	40,826	14,941	8,284
EBITDA	\$ (168,362)	\$ 612,325	\$ 1,013,087	\$ 904,537	\$ 687,571

Explanatory Notes:

- (1) For the years ended December 31, 2007, 2006 and 2005, interest expense includes \$12, \$194, and \$247, respectively, of interest expense reclassified to discontinued operations.
- (2) For the years ended December 31, 2009, 2008, 2007, 2006, and 2005, depreciation, depletion and amortization includes \$1,419, \$6,717, \$10,677, \$12,567, and \$11,461, respectively, of depreciation, depletion and amortization reclassified to discontinued operations.
- (8) This ratio of earnings to fixed charges is calculated in accordance with GAAP. The Company's bank credit facilities and senior notes both have fixed charge coverage covenants, however, each is calculated differently in accordance with the terms of the respective agreements. In addition, the fixed charge covenant in the bank credit facilities is a maintenance covenant while the covenant in the senior notes is an incurrence covenant. The fixed charge coverage ratios for the bank credit facilities and senior notes were 2.4x and 2.3x, respectively, as of December 31, 2009.

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are included with respect to, among other things, iStar Financial Inc.'s (the "Company's") current business plan, business strategy, portfolio management and liquidity. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results or outcomes to differ materially from those contained in the forward-looking statements. Important factors that the Company believes might cause such differences are discussed in the section entitled, "Risk Factors" in Part I, Item 1A of this Form 10-K or otherwise accompany the forward-looking statements contained in this Form 10-K. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In assessing all forward-looking statements, readers are urged to read carefully all cautionary statements contained in this Form 10-K. For purposes of Management's Discussion and Analysis of Financial Condition and Results of Operations, the terms "we," "our" and "us" refer to iStar Financial Inc. and its consolidated subsidiaries, unless the context indicates otherwise.

This discussion summarizes the significant factors affecting our consolidated operating results, financial condition and liquidity during the three-year period ended December 31, 2009. This discussion should be read in conjunction with our consolidated financial statements and related notes for the three-year period ended December 31, 2009 included elsewhere in this annual report on Form 10-K. These historical financial statements may not be indicative of our future performance. We reclassified certain items in our consolidated financial statements of prior years to conform to our current year's presentation.

Introduction

iStar Financial Inc. is a publicly traded finance company focused on the commercial real estate industry. We primarily provide customer-tailored financing to high-end private and corporate owners of real estate, including senior and mezzanine real estate debt, senior and mezzanine corporate capital, as well as corporate net lease financing and equity. We are taxed as a real estate investment trust, or "REIT" and provide innovative and value-added financing solutions to our customers. We deliver customized financial products to sophisticated real estate borrowers and corporate customers

who require a high level of flexibility and service. Our two primary lines of business are lending and corporate tenant leasing.

The lending business is primarily comprised of senior and mezzanine real estate loans that typically range in size from \$20 million to \$150 million and have original terms generally ranging from three to ten years. These loans may be either fixed rate (based on the U.S. Treasury rate plus a spread) or variable rate (based on LIBOR plus a spread) and are structured to meet the specific financing needs of the borrowers. We also provide senior and subordinated capital to corporations, particularly those engaged in real estate or real estate related businesses. These financings may be either secured or unsecured, typically range in size from \$20 million to \$150 million and have initial maturities generally ranging from three to ten years. As part of the lending business, we also acquire whole loans, loan participations and debt securities which present attractive risk-reward opportunities.

Our corporate tenant leasing business provides capital to corporations and other owners who control facilities leased to single creditworthy customers. Our net leased assets are generally mission critical headquarters or distribution facilities that are subject to long-term leases with public companies, many of which are rated corporate credits. Most of the leases provide for expenses at the facility to be paid by the corporate customer on a triple net lease basis. Corporate tenant lease, or "CTL," transactions have initial terms generally ranging from 15 to 20 years and typically range in size from \$20 million to \$150 million.

Our primary sources of revenues are interest income, which is the interest that borrowers pay on loans, and operating lease income, which is the rent that corporate customers pay to lease our CTL properties. We primarily generate income through the "spread" or "margin," which is the difference between the revenues generated from loans and leases and interest expense and the cost of CTL operations.

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

Executive Overview

The financial market conditions that began in late 2007, including the economic recession and tightening of credit markets, continued to significantly impact the commercial real estate market and financial services industry in 2009. The severe economic downturn led to a decline in commercial real estate values, which, combined with a lack of available debt financing for commercial and

residential real estate assets, limited borrowers' ability to repay or refinance their loans. Further, the ability of many of our borrowers to sell units in residential projects has been adversely impacted by current economic conditions and the lack of end loan financing available to residential unit purchasers. The combination of these factors adversely affected our business, financial condition and operating performance in 2009, resulting in significant additions to non-performing assets, increases in the related provision for loan losses and a reduction in the level of liquidity available to finance our operations. These economic factors and their effect on our operations have resulted in increases in our financing costs, a continuing inability to access the unsecured debt markets, depressed prices for our Common Stock, the continued suspension of quarterly Common Stock dividends and has narrowed our margin of compliance with debt covenants.

During the year ended 2009, we incurred a net loss of \$(768.8) million on \$893.3 million of revenue. These financial results primarily resulted from a provision for loan losses of \$1.26 billion and impairments of other assets of \$141.0 million, which were recognized during the year. The provision for loan losses was driven by an increase in non-performing loans to \$4.21 billion, or 45.3% of Managed Loan Value (as defined below in "Risk Management") as of December 31, 2009, compared to \$3.46 billion, or 27.5% of Managed Loan Value at December 31, 2008. The increase in non-performing loans resulted from the continued deterioration in the commercial and residential real estate markets and weakened economic conditions impacting our borrowers, who continue to have difficulty servicing their debt and refinancing or selling their projects in order to repay their loans in a timely manner. In addition, the balance of our real estate held for investment ("REHI") and other real estate owned ("OREO") assets have increased from \$242.5 million as of December 31, 2008 to \$1.26 billion as of December 31, 2009, as we have obtained title to properties through foreclosure or through deed-in-lieu of foreclosure as part of our effort to resolve non-performing loans. The losses were partially offset by the repurchase of \$1.31 billion par value of senior unsecured notes resulting in the recognition of \$439.4 million in net gains on the early extinguishment of debt.

Our primary recourse debt instruments include our secured and unsecured bank credit facilities and our secured and unsecured public debt securities. We believe we are in full compliance with all the covenants in those debt instruments as of December 31, 2009; however, our recent financial results have put pressure on our ability to maintain compliance with certain of the debt covenants in our secured bank credit facilities. In particular, our tangible net worth at December 31, 2009 is not significantly above the financial covenant minimum requirement. We intend to operate our business in order to remain in compliance with the covenants in our debt instruments; however, there can be no assurance that we will be able to do so. A failure by us to satisfy a financial covenant in a debt instrument could trigger a default under that debt instrument and could give the lenders the ability to accelerate the debt if the default is not waived or cured. Most of our recourse debt instruments contain cross default and/or cross-acceleration provisions that may be triggered by defaults or accelerations of our recourse debt above specified thresholds.

From a liquidity perspective, we expect to continue to experience significant uncertainty with respect to our sources of funds. Our cash flow may be affected by a variety of factors, many of which are outside our control, including volatility in the financial markets, our borrowers' ability to repay their obligations and other general business conditions. As of December 31, 2009, we had \$224.6 million of unrestricted cash. For the upcoming year, we will require significant capital to repay \$586.8 million of our 2010 debt maturities and to fund our investment activities and operating expenses, including approximately \$430.0 million of unfunded commitments primarily associated with our construction loan portfolio. In addition, under the terms of our First Priority Credit Agreement, if we do not pay down the outstanding balance of that loan by \$500 million by September 30, 2010, payments of principal and net sale proceeds received by us in respect of assets constituting collateral for our obligations under this agreement must be applied toward the mandatory prepayment of the loan and commitment reductions under the agreement.

We expect to need additional liquidity over the coming year to supplement expected loan repayments and cash generated from operations in order to meet our debt maturities and funding obligations. During 2009, we utilized our unencumbered assets to generate additional liquidity through secured financing transactions and a secured note exchange transaction, and also sold various assets. In addition, we have significantly curtailed our asset origination activities, reduced operating expenses and focused on asset management in order to maximize recoveries from existing asset resolutions. We intend to utilize all available sources of funds in today's financing environment, which could include additional financings secured by our assets, increased levels of asset sales, joint ventures and other third-party capital to meet our liquidity requirements. There can be no assurance that we will possess sufficient liquidity to meet all of our debt service requirements in 2010. In addition we are exploring various alternatives to enable us to meet our significant 2011 debt maturities. The failure to execute such alternatives successfully prior to debt maturities would have material adverse consequences on us.

We have reacted to market conditions and liquidity and debt covenant pressures by implementing various initiatives that we believe will guide us through the difficult business conditions which we expect to persist through 2010. Our public debt securities continue to trade at significant discounts to par. We have been able to partially mitigate the impact of the decline in operating results through the recognition of gains associated with the repurchase and retirement of debt at a discount, which has contributed to our ability to maintain compliance with our debt covenants and has enabled us to reduce outstanding indebtedness at discounts to par. We expect to continue to use available funds and other strategies to seek to retire our debt at a discount; however, there can be no assurance that our efforts in this regard will be successful.

Our plan is dynamic and we expect to adjust our plan as market conditions change. If we are unable to successfully implement our plan, our cash flows, debt covenant compliance, financial position and results of operations would be materially adversely affected.

Results of Operations for the Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

For the Years Ended December 31,	2009	2008	\$ Change	% Change
(In thousands)				
Interest income	\$ 557,809	\$ 947,661	\$(389,852)	(41)%
Operating lease income	305,007	308,742	(3,735)	(1)%
Other income	30,468	97,851	(67,383)	(69)%
Total revenue	893,284	1,354,254	(460,970)	(34)%
Interest expense	481,116	666,706	(185,590)	(28)%
Operating costs – corporate tenant lease assets	23,467	23,059	408	2%
Depreciation and amortization	97,869	94,726	3,143	3%
General and administrative	127,044	143,902	(16,858)	(12)%
Provision for loan losses	1,255,357	1,029,322	226,035	22%
Impairment of other assets	122,699	295,738	(173,039)	(59)%
Impairment of goodwill	4,186	39,092	(34,906)	(89)%
Other expense	104,795	37,234	67,561	>100%
Total costs and expenses	2,216,533	2,329,779	(113,246)	(5)%
Gain on early extinguishment of debt	547,349	393,131	154,218	39%
Gain on sale of joint venture interest	-	280,219	(280,219)	(100)%
Earnings from equity method investments	5,298	6,535	(1,237)	(19)%
Income (loss) from discontinued operations	(11,671)	22,415	(34,086)	>(100)%
Gain from discontinued operations	12,426	91,458	(79,032)	(86)%
Net loss	\$ (769,847)	\$ (181,767)	\$(588,080)	>100%

Revenue – The significant decline in interest income year over year is primarily a result of a 40.0% decrease in the carrying value of performing loans to \$4.91 billion at the end of 2009 from \$8.18 billion at the end of 2008. In addition to having assets move from performing to non-performing status (see “Risk Management” for additional discussion of non-performing loans), we also had loan repayments and sales that contributed to the decline in income generating loans. Lower interest rates also contributed to the decline in interest income with one-month LIBOR averaging 0.33% in 2009 versus 2.68% in 2008. The impact of declining rates on loans has been tempered by interest rate floors, resulting in a weighted average interest rate of 3.86% in effect on approximately \$1.87 billion of loans at December 31, 2009.

The year over year change in other income was primarily driven by certain one-time transactions in 2008 including \$44.2 million of income recognized from the redemption of a participation interest in a lending investment and \$12.0 million of income recognized when we exchanged a cost method equity investment for a loan receivable. Additionally, other loan related income, such as prepayment penalties, declined by \$27.5 million from 2009 to 2008. Slightly offsetting this increase were \$15.0 million of realized and unrealized gains on trading securities held in our other investment portfolio.

Operating lease income from our CTL assets has remained relatively consistent year over year.

Costs and expenses – Increases in provisions for loan losses and other expenses were more than offset by fewer asset impairments and lower interest expense and general and administrative expenses to result in an overall decrease in costs and expenses.

As noted above and discussed further in “Risk Management” and “Executive Overview”, increases in our provisions for loan losses were caused by the continued deterioration in the commercial real estate market and weakened economic conditions that have negatively impacted our borrowers’ ability to service their debt and refinance their loans at maturity. This has resulted in additional asset-specific reserves due to the increasing level of non-performing loans within the portfolio along with declining values of real estate collateral that secure such loans.

Impairment charges relating to certain of our securities and equity investments were \$182.3 million lower in 2009 as compared to 2008. These assets include available-for-sale and held-to-maturity investments that were determined to be other-than-temporarily impaired based on having trading prices below our carrying values. Also included in 2008 were \$21.5 million of impairments of finite-lived intangible assets, to reduce their carrying values to their revised estimated fair values. These decreases were offset by \$21.9 million of higher CTL impairments (of which \$14.1 million was reclassified to income from discontinued operations) caused by deteriorating sub-market conditions and lower than expected rents in certain areas. Impairments of OREO assets also increased by \$22.9 million to reduce certain assets to their revised estimated fair values less costs to sell.

Deteriorating market conditions also led to impairment charges related to goodwill. In 2008, we recorded a \$39.1 million impairment charge to eliminate the goodwill in our real estate lending reporting unit. In 2009, we recorded \$4.2 million further impairments to reduce the goodwill related to our corporate tenant leasing reporting unit to zero.

The significant decline in interest expense year over year is primarily a result of reducing our outstanding debt balances from repurchases and repayments. In an effort to generate gains on certain of our debt securities which have traded at discounts to par, as discussed further below, we repurchased \$1.31 billion par value of our senior unsecured notes during 2009 and we also repaid an additional \$628.3 million at maturity. In addition, we completed an exchange of senior unsecured notes for new second-lien senior secured notes in May 2009, further described in "Liquidity and Capital Resources". This exchange resulted in a \$262.7 million deferred gain reflected as a premium to the new notes which is being amortized as a reduction to interest expense over the terms of the new notes. In 2009, we recognized \$35.1 million in amortization of this premium as a reduction to interest expense. Lower LIBOR rates also contributed to our decrease in interest expense, with our average borrowing rates decreasing to 4.15% in 2009 from 5.02% in 2008.

General and administrative expenses decreased primarily due to lower payroll and employee related costs from reductions in headcount.

Other expense was higher primarily due to a \$42.4 million charge incurred during 2009 pursuant to a settlement agreement under which we terminated a long-term lease for new headquarters space and settled all disputes with a landlord. The remaining increase in other expense primarily relates to additional holding costs associated with the increasing number of OREO and REHI properties during the year.

Gain on early extinguishment of debt – In 2009, we retired \$1.31 billion par value of our senior unsecured notes through open market repurchases at discounts to par and recognized \$439.4 million in gain on early extinguishment of debt. Additionally we completed our secured note exchange transactions and purchased \$12.5 million of our outstanding senior floating rates notes in a cash tender offer, which resulted in an aggregate net gain on early extinguishment of debt of \$107.9 million. During 2008, we retired \$900.7 million par value of our senior unsecured notes through open market repurchases at discounts to par which resulted in an aggregate net gain on early extinguishment of debt of \$393.1 million.

Gain on sale of joint venture interest – In April 2008, we closed on the sale of our TimberStar Southwest joint venture for a gross sales price of \$1.71 billion, including the assumption of debt. We received net proceeds of \$417.0 million for our interest in the venture and recorded a gain of \$280.2 million.

Income (loss) from discontinued operations – Income (loss) from discontinued operations in 2009 included impairment charges of \$14.1 million on CTL assets sold during the year or held-for-sale at the end of the year. In 2008, income (loss) from discontinued operations included higher operating results for CTL and TimberStar assets sold or classified as held-for-sale in 2008 and 2009.

Gain from discontinued operations – During 2009, we sold four CTL assets and recognized gains of \$12.4 million. During 2008, we sold several CTL assets and our Maine timber property for gains of \$91.5 million.

Results of Operations for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

For the Years Ended December 31,	2008	2007	\$ Change	% Change
(In thousands)				
Interest income	\$ 947,661	\$ 998,008	\$ (50,347)	(5)%
Operating lease income	308,742	306,513	2,229	1%
Other income	97,851	99,938	(2,087)	(2)%
Total revenue	1,354,254	1,404,459	(50,205)	(4)%
Interest expense	666,706	629,260	37,446	6%
Operating costs – corporate tenant lease assets	23,059	27,915	(4,856)	(17)%
Depreciation and amortization	94,726	83,690	11,036	13%
General and administrative	143,902	156,534	(12,632)	(8)%
Provision for loan losses	1,029,322	185,000	844,322	>100%
Impairment of other assets	295,738	144,184	151,554	>100%
Impairment of goodwill	39,092	–	39,092	100%
Other expense	37,234	8,927	28,307	>100%
Total costs and expenses	2,329,779	1,235,510	1,094,269	89%
Gain on early extinguishment of debt	393,131	225	392,906	>100%
Gain on sale of joint venture interest	280,219	–	280,219	100%
Earnings from equity method investments	6,535	29,626	(23,091)	(78)%
Income from discontinued operations	22,415	29,970	(7,555)	(25)%
Gain from discontinued operations	91,458	7,832	83,626	>100%
Net income (loss)	\$ (181,767)	\$ 236,602	\$ (418,369)	>(100)%

Revenue – We experienced a decline in interest income in 2008 as compared to 2007 primarily relating to increased non-performing loans, which was partially offset by the inclusion of a full year of interest income in 2008 from the loans acquired from Fremont, compared to only six months of income in 2007. At the end of 2008, the carrying value of performing loans declined 18% to \$8.18 billion from \$10.00 billion at the end of 2007, primarily as a result of assets moving to non-performing status. This was a result of the deterioration in the commercial real estate market and weakened economic conditions impacting our borrowers, who had difficulty servicing their debt and refinancing or selling their projects in order to repay their loans in a timely manner. Lower interest rates also contributed to the decline in interest income with an average one-month LIBOR of 2.68% in 2008 versus 5.25% in 2007.

While other income was relatively flat year over year, certain one-time transactions in 2008 resulted in higher income offset by a decrease in other loan related income, such as prepayment penalties. In 2008 we recognized \$44.2 million of income from the redemption of a participation interest in a lending investment and \$12.0 million when we exchanged a cost method equity investment for a loan receivable.

Operating lease income from our CTL assets has remained relatively consistent year over year.

Costs and expenses – Total costs and expenses increased primarily due to significant provisions for loan losses and other asset impairment charges.

The increase in our provision for loan losses was primarily due to additional asset-specific reserves that were required as a result of the significant increase in non-performing loans during 2008. This significant increase, particularly in our residential land development and condominium construction portfolios, was driven by the weakening economy and the dislocation of the credit markets, which adversely impacted the ability of our borrowers to service their debt and refinance their loans at maturity.

Impairment charges relating to certain of our securities and equity investments were \$207.0 million in 2008 as compared to \$144.2 million in 2007. These assets include available-for-sale and held-to-maturity investments that were determined to be other-than-temporarily impaired based on having trading prices below our carrying values. Other asset impairments in 2008, which did not occur in the prior year, included \$55.6 million on OREO assets, \$21.5 million on finite-lived intangible assets (including assets acquired in the Fremont acquisition), and \$11.6 million on CTL assets. OREO and CTL asset impairments were also caused by deteriorating sub-market conditions and lower-than-expected rents in surrounding areas. Deteriorating market conditions also led to the \$39.1 million impairment charge to eliminate goodwill in our real estate lending reporting unit in 2008.

Interest expense increased primarily due to higher average outstanding borrowings during 2008, partially offset by decreased interest rates on our borrowings. Our average outstanding debt balance increased to \$12.83 billion in 2008 from \$10.05 billion in 2007 through new bond issuances in 2007 and 2008, increased

borrowings on our unsecured and secured revolving credit facilities as well as the new secured term loans. Higher borrowings were partially offset by lower average rates, which decreased to 5.02% in 2008 as compared to 5.85% in 2007, primarily as a result of lower LIBOR rates.

In relation to our CTL portfolio, depreciation and amortization increased as a result of the acquisition and construction of new CTL assets in 2007 while operating costs – corporate tenant lease assets decreased primarily due to increased property expense recoveries from tenants leasing our properties.

Other expense in 2008 included \$12.8 million primarily related to ineffectiveness associated with our various derivative instruments. The remaining \$9.3 million related to costs associated with OREO properties that we took title to through foreclosure or deed in lieu of foreclosure in 2008 and 2007.

The decrease in General and administrative expenses is primarily due to lower payroll and employee related costs resulting from a reduction in headcount from 327 as of December 31, 2007 to 267 as of December 31, 2008.

Gain on early extinguishment of debt – During the year ended December 31, 2008, we retired \$900.7 million par value of our senior unsecured notes through open market repurchases at discounts to par, resulting in an aggregate net gain on early extinguishment of debt of approximately \$393.1 million.

Gain on sale of joint venture interest – In April 2008, we closed on the sale of our TimberStar Southwest joint venture for a gross sales price of \$1.71 billion, including the assumption of debt. We received net proceeds of approximately \$417.0 million for our interest in the venture and recorded a gain of \$280.2 million.

Earnings from equity method investments – During 2008, losses were recorded on several of our equity method investments due to volatility in the financial markets and deteriorating economic conditions. This was partially offset by the sale of our TimberStar Southwest joint venture, as described above. Our share of losses from this venture prior to the sale were \$3.5 million for the year ended December 31, 2008 compared to losses of \$14.5 million during the same period in 2007.

Income from discontinued operations – For the years ended December 31, 2008 and 2007, operating results for CTL and TimberStar assets sold during the period through December 31, 2009 or assets held-for-sale at the end of 2009 are classified as discontinued operations. The decrease in income from discontinued operations is primarily due to the inclusion of more income in 2007 for CTL and TimberStar assets sold in 2007, 2008 and 2009.

Gain from discontinued operations – During the year ended December 31, 2008, we sold a portfolio of 32 CTL assets to one buyer and also seventeen CTL assets to different buyers for net aggregate proceeds of \$424.1 million, and recognized gains of approximately \$64.6 million. In addition, we also closed on the sale of our Maine Timber property for net proceeds of \$152.7 million resulting in a gain of \$27.0 million.

Adjusted Earnings

We measure our performance using adjusted earnings in addition to net income. Adjusted earnings represent net income attributable to iStar Financial Inc. and allocable to common shareholders, HPU holders and Participating Security holders computed in accordance with GAAP, before depreciation, depletion, amortization, gain from discontinued operations, ineffectiveness on interest rate hedges, impairments of goodwill and intangible assets and extraordinary items. Adjustments for joint ventures reflect our share of adjusted earnings calculated on the same basis.

We believe that adjusted earnings is a helpful measure to consider, in addition to net income, because this measure helps us to evaluate how our commercial real estate finance business is performing compared to other commercial finance companies, without the effects of certain GAAP adjustments that are not necessarily indicative of current operating performance.

The most significant GAAP adjustments that we exclude in determining adjusted earnings are depreciation, depletion, amortization and impairments of goodwill and intangible assets, which are typically non-cash charges. We do not exclude non-cash impairment charges on tangible assets or provisions for loan loss reserves. As a commercial finance company that focuses on real estate lending and corporate tenant leasing, we record significant depreciation on our real estate assets, and amortization of deferred financing costs associated with our borrowings. Depreciation, depletion and amortization do not affect our daily operations, but they do impact financial results under GAAP. Adjusted earnings is not an alternative or substitute for net income in accordance with GAAP as a measure of our performance. Rather, we believe that adjusted earnings is an additional measure that helps us analyze how our business is performing. Adjusted earnings should not be viewed as an alternative measure of either our operating liquidity or funds available for our cash needs or for distribution to our shareholders. In addition, we may not calculate adjusted earnings in the same manner as other companies that use a similarly titled measure.

For the Years Ended December 31,	2009	2008	2007
(In thousands)			
Adjusted earnings:			
Net income (loss)	\$(769,847)	\$(181,767)	\$236,602
Add: Depreciation, depletion and amortization	98,238	102,745	99,427
Add: Joint venture income	–	–	92
Add: Joint venture depreciation, depletion and amortization	17,990	14,466	40,826
Add: Amortization of deferred financing costs	(5,487)	50,222	29,907
Add: Impairment of goodwill and intangible assets	4,186	60,618	–
Less: Hedge ineffectiveness, net	–	7,427	(239)
Less: Gain from discontinued operations	(12,426)	(91,458)	(7,832)
Less: Gain on sale of joint venture interest	–	(280,219)	(1,572)
Less: Net loss attributable to noncontrolling interests	1,071	991	816
Less: Preferred dividend requirement	(42,320)	(42,320)	(42,320)
Adjusted diluted earnings (loss) attributable to iStar Financial, Inc. and allocable to common shareholders and HPU holders ⁽¹⁾	\$(708,595)	\$(359,295)	\$355,707
Weighted average diluted common shares outstanding	100,071	131,153	127,542

Explanatory Notes:

- (1) HPU holders are current or former Company employees who purchased high performance common stock units under our High Performance Unit Program. Participating Security holders are Company employees and directors who hold unvested restricted stock units and common stock equivalents granted under our Long-Term Incentive Plan. For the years ended December 31, 2009, 2008 and 2007, adjusted diluted earnings (loss) attributable to iStar Financial Inc. and allocable to common shareholders, HPU holders and Participating Security holders includes \$(19,748), \$(7,661) and \$7,666, respectively, of adjusted earnings (loss) allocable to HPU holders.
- (2) For the years ended December 31, 2008 and 2007, amounts exclude \$2,393 and \$3,545, respectively, of dividends paid to Participating Security holders.

Risk Management

Loan Credit Statistics – The table below summarizes our non-performing loans and details the reserve for loan losses associated with our loans:

As of December 31,	2009	2008
(In thousands)		
Non-performing loans		
Carrying value	\$3,910,922	\$3,108,798
Participated portion	298,333	349,359
Managed Loan Value ⁽¹⁾	\$4,209,255	\$3,458,157
As a percentage of Managed Loan Value of total loans ⁽²⁾	45.3%	27.5%
Watch list loans		
Carrying value	\$ 697,138	\$1,026,446
Participated portion	20,561	238,450
Managed Loan Value ⁽¹⁾	\$ 717,699	\$1,264,896
As a percentage of Managed Loan Value of total loans ⁽²⁾	7.7%	10.1%
Reserve for loan losses	\$1,417,949	\$ 976,788
As a percentage of Managed Loan Value of total loans ⁽²⁾	15.3%	7.8%
As a percentage of Managed Loan Value of non-performing loans	33.7%	28.2%
Other real estate owned		
Carrying value	\$ 839,141	\$ 242,505
Real estate held for investment, net		
Carrying value	\$ 422,664	\$ -

Explanatory Notes:

- (1) Managed Loan Value of a loan is computed by adding our carrying value of the loan and the participation interest sold on the Fremont CRE portfolio. The participation receives 70% of all loan principal payments including principal that we have funded. Therefore we are in the first loss position and we believe that presentation of the Managed Loan Value is more relevant than a presentation of our carrying value when discussing our risk of loss on the loans in the Fremont CRE Portfolio.
- (2) Managed Loan Value of total loans was \$9,289,975 and \$12,584,723 as of December 31, 2009 and 2008, respectively.

As of December 31, 2009, non-performing loans and OREO and REHI assets had the following collateral and property types (\$ in thousands):

Collateral/Property Type	Non-performing Loans	OREO & REHI	Total	% of Total
Land	\$1,218,108	\$ 402,252	\$1,620,360	31.3%
Condo:				
Construction – Completed	848,439	487,718	1,336,157	25.8%
Construction – In Progress	210,165	-	210,165	4.1%
Conversion	74,664	114,400	189,064	3.7%
Mixed Use/Mixed Collateral	348,491	19,761	368,252	7.1%
Entertainment/Leisure	267,399	-	267,399	5.2%
Retail	243,915	41,587	285,502	5.5%
Multifamily	238,089	86,936	325,025	6.3%
Hotel	234,005	83,300	317,305	6.1%
Office	107,554	7,384	114,938	2.2%
Corporate – Real Estate	61,754	-	61,754	1.2%
Industrial/R&D	52,817	-	52,817	1.0%
Other	5,522	18,467	23,989	0.5%
Gross carrying value	\$3,910,922	\$1,261,805	\$5,172,727	100.0%

Non-Performing Loans – We designate loans as non-performing at such time as: (1) the loan becomes 90 days delinquent; (2) the loan has a maturity default; or (3) management determines it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan. All non-performing loans are placed on non-accrual status and income is only recognized in certain cases upon actual cash receipt. As of December 31, 2009, we had non-performing loans with an aggregate carrying value of \$3.91 billion and an aggregate Managed Loan Value of \$4.21 billion, or 45.3% of the Managed Loan Value of total loans. Our non-performing loans increased during 2009, particularly in our residential land development and condominium construction portfolios, due to the weakened economy and the continued disruption in the credit markets, which adversely impacted the ability of many of our borrowers to service their debt and refinance our loans at maturity. Due to the continued deterioration of the commercial real estate market, the process of estimating collateral values and reserves will continue to require significant judgment on the part of management, which is inherently uncertain and subject to change. Management currently believes there is adequate collateral and reserves to support the carrying values of the loans.

Watch List Assets – We conduct a quarterly credit review, resulting in an individual risk rating being assigned to each asset in our portfolio. This review is designed to enable management to evaluate and manage asset-specific credit issues and identify credit trends on a portfolio-wide basis. As of December 31, 2009, we had assets on the watch list, (excluding non-performing loans), with an aggregate carrying value of \$697.1 million and an aggregate Managed Loan Value of \$717.7 million, or 7.7% of total Managed Loan Value.

Reserve for Loan Losses – During the year ended December 31, 2009, the reserve for loan losses increased \$441.2 million, which was the result of \$1.26 billion of provisioning for loan losses reduced by \$814.2 million of charge-offs. The reserve is increased through the provision for loan losses, which reduces income in the period recorded and the reserve is reduced through charge-offs.

The reserve for loan losses includes an asset-specific component and a formula-based component. An asset-specific reserve is established for an impaired loan when the estimated fair value of the loan's collateral less costs to sell is lower than the carrying value of the loan. As of December 31, 2009, we had asset-specific reserves of \$1.24 billion or 29.5% of non-performing loans compared to asset-specific reserves of \$799.6 million or 23.1% of non-performing loans at December 31, 2008. The increase in asset-specific reserves during the year ended December 31, 2009 was primarily due to the increase in non-performing loans as previously discussed. The increase was also due to additional reserves required for existing non-performing loans further impacted by the continued deterioration in the commercial real estate market.

The formula-based general reserve is derived from estimated probabilities of principal loss and loss given default severities assigned to the portfolio during our quarterly internal risk rating assessment. Probabilities of principal loss and severity factors are based on industry and/or internal experience and may be adjusted for significant factors that, based on our judgment, impact the collectability of the loans as of the balance sheet date. The general reserve was \$174.9 million or 3.4% of performing loans as of December 31, 2009 compared to \$177.2 million or 1.9% of performing loans at December 31, 2008.

Real Estate Held for Investment, net and Other Real Estate Owned – During the year ended December 31, 2009, we received title to properties in full or partial satisfaction of non-performing mortgage loans with a carrying value of \$1.88 billion, for which the properties had served as collateral, and recorded charge-offs totaling \$573.6 million related to these loans. Of this total, we recorded properties with a carrying value of \$399.6 million to REHI and \$904.2 million to OREO based on our strategy to either hold the properties over a longer period or to market them for sale. During the year ended December 31, 2009, we sold OREO assets for net proceeds of \$270.6 million and recorded impairment charges totaling \$78.6 million due to changing market conditions, which were included in "Impairment of other assets" on our Consolidated Statements of Operations.

Tenant Credit Characteristics – As of December 31, 2009, our CTL assets had 95 different tenants, of which 66% were public companies and 34% were private companies. In addition, 36% of the tenants were rated investment grade by one or more national rating agencies, 35% were rated non-investment grade and the remaining tenants were not rated.

Liquidity and Capital Resources

For the upcoming year, we will require significant capital to repay \$586.8 million of our 2010 debt maturities and to fund our investment activities and operating expenses, including approximately \$430.0 million of unfunded commitments primarily associated with our construction loan portfolio. However, the timing of funding these commitments and the amounts of the individual fundings are largely dependent on construction projects meeting certain milestones, and therefore they are difficult to predict with certainty. In addition, under the terms of our First Priority Credit Agreement, (as discussed below), if we do not pay down the outstanding balance of that loan by \$500 million by September 30, 2010, payments of principal and net sale proceeds received by us in respect of assets constituting collateral for our obligations under this agreement must be applied toward the mandatory prepayment of the loan and commitment reductions under the agreement.

Our capital sources in today's financing environment include repayments from our loan assets, asset sales, financings secured by our assets, cash flow from operations and potential joint ventures. From a liquidity perspective, we expect to continue to experience significant uncertainty with respect to our sources of funds. Historically we have also issued unsecured corporate debt, convertible debt and preferred and common equity; however, current market conditions have effectively eliminated our access to these sources of capital in the near term.

In March 2009, we obtained additional financing and consummated a restructuring of our existing unsecured revolving credit facilities by entering into new secured credit facilities (the "Secured Credit Facilities Transaction"). In connection with this transaction, we entered into a \$1.00 billion First Priority Credit Agreement maturing in June 2012 that is secured by a pool of collateral consisting of loan assets, corporate tenant lease assets, securities and other assets. We also entered into a \$1.70 billion Second Priority Credit Agreement maturing in June 2011 and a \$950.0 million Second Priority Credit Agreement maturing in June 2012 with the same lenders participating in the First Priority Credit Agreement, who have a second lien on the same collateral pool. Refer to the Credit Facilities Restructuring section below for further details on these transactions.

In May 2009, we completed a series of private offers through which \$1.01 billion aggregate principal amount of our senior unsecured notes of various series were exchanged for \$634.8 million aggregate principal amount of new second-lien senior secured notes issued by us and guaranteed by certain of our subsidiaries. The new second lien notes have a second lien on the same collateral pool as the First and Second Priority Credit Agreements described above. Concurrent with the exchange offer, we repurchased for cash \$12.5 million par value of our outstanding senior floating rate notes due September 2009 pursuant to a cash tender offer.

During 2009, we received gross principal repayments from borrowers of \$1.85 billion and \$1.06 billion in proceeds from strategic asset sales. We funded \$1.22 billion of loan commitments during the year and repaid outstanding debt of \$1.32 billion partially offset by new borrowings of \$1.00 billion. We also repurchased \$1.31 billion par value of senior unsecured notes resulting in the recognition of \$439.4 million in net gains on the early extinguishment of debt during the year. To date, we have been able to partially mitigate the impact of increased expenses associated with our loan loss reserves on some of our financial covenants through the recognition of gains associated with the discounted extinguishment of debt. We may from time to time seek to retire or repurchase additional outstanding debt through cash purchases and/or exchanges, which may take the

form of open market purchases, privately negotiated transactions or otherwise, however, there can be no assurance that the Company's efforts in this regard can be successful.

As of December 31, 2009, we had \$224.6 million of unrestricted cash. We will need additional liquidity over the coming year to supplement loan repayments and cash generated from operations in order to meet our debt maturities and funding obligations. We actively manage our liquidity and continually work on initiatives to address both our debt covenants compliance and our liquidity needs. We expect proceeds from asset sales to supplement loan repayments and intend to continue to analyze additional asset sales, secured financing alternatives and other strategic transactions in order to maintain adequate liquidity. During the first quarter of 2010, we began exploring a sale or other transaction involving a portfolio of 34 corporate tenant leased assets totaling approximately 12 million square feet and representing approximately 40% of the Company's total corporate tenant leased net operating income. The portfolio is encumbered by secured, non-recourse term debt that matures in April 2011. Any decision by us to sell or otherwise dispose of some or all of the portfolio will be based primarily on the pricing terms offered by interested parties. There can be no assurance that any transaction involving all or part of the portfolio will be consummated. Under the terms of our credit agreements, we can issue a total of up to \$1.00 billion of second priority secured notes in exchange or refinancing transactions involving our unsecured notes. After giving effect to the private exchange offers in May 2009, described above, we can issue up to \$365.2 million of new notes in exchange or refinancing transactions. Our liquidity plan is dynamic and we expect to monitor the markets and adjust our plan as market conditions change. There is a risk that we will not be able to meet all of our funding and debt service obligations or maintain compliance with our debt covenants. Management's failure to successfully implement our liquidity plan could have a material adverse effect on our financial position and covenant compliance, results of operations and cash flows.

Compliance with our debt covenants will also impact our ability to obtain additional debt and equity financing. In addition, any decision by our lenders and investors to provide us with additional financing may depend upon a number of other factors, such as our compliance with the terms of existing credit arrangements, our financial performance, our credit ratings, 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 capital commitments and the relative attractiveness of alternative investment or lending opportunities.

The following table outlines the contractual obligations related to our long-term debt agreements and operating lease obligations as of December 31, 2009. We have no other long-term liabilities that would constitute a contractual obligation.

Principal and Interest Payments Due by Period	Total	Less Than 1 Year	2-3 Years ⁽¹⁾	4-5 Years	6-10 Years	After 10 Years
(In thousands)						
Long-Term Debt Obligations:						
Unsecured notes	\$ 3,478,885	\$ 553,294	\$1,208,311	\$1,250,390	\$466,890	\$ -
Secured notes	634,801	-	155,253	479,548	-	-
Convertible notes	787,750	-	787,750	-	-	-
Unsecured revolving credit facilities	748,601	-	748,601	-	-	-
Secured term loans ⁽²⁾	3,999,342	33,478	3,703,921	55,941	21,520	184,482
Secured revolving credit facility	959,426	-	959,426	-	-	-
Trust preferred	100,000	-	-	-	-	100,000
Total principal maturities	10,708,805	586,772	7,563,262	1,785,879	488,410	284,482
Interest Payable ⁽³⁾	1,414,140	442,681	567,621	237,571	126,207	40,060
Operating Lease Obligations	47,279	6,095	11,097	8,744	17,987	3,356
Total ⁽⁴⁾	\$12,170,224	\$1,035,548	\$8,141,980	\$2,032,194	\$632,604	\$327,898

Explanatory Notes:

- (1) Future long-term debt obligations due during the years ended December 31, 2011 and 2012 are \$4.02 billion and \$3.54 billion, respectively.
- (2) As further discussed in Debt Covenants below, if we do not pay down the outstanding balance of our \$1.00 billion First Priority Credit Agreement by \$500 million by September 30, 2010, payments of principal and net sale proceeds received by us in respect of assets constituting collateral for our obligation under this agreement must be applied towards the mandatory prepayment of the loan and commitment reductions under the agreement. This amount has been included in years 2-3 based on its contractual maturity.
- (3) All variable-rate debt assumes a 30-day LIBOR rate of 0.23% (the 30-day LIBOR rate at December 31, 2009).
- (4) See "Off-Balance Sheet Transactions" below, for a discussion of certain unfunded commitments related to our lending and CTL business.

Credit Facilities Restructuring – In March 2009, we entered into a \$1.00 billion First Priority Credit Agreement with participating members of our existing bank lending group. The First Priority Credit Agreement will mature in June 2012. Borrowings bear interest at the rate of LIBOR + 2.50% per year, subject to adjustment based upon our corporate credit ratings (see Ratings Triggers below) and are collateralized by a first-priority lien on a pool of collateral consisting of loans, debt securities, corporate tenant lease assets and other assets pledged under the First and Second Priority Credit Agreements and the Second Priority Secured Exchange Notes (see below). As of December 31, 2009, the First Priority Credit Agreement was fully drawn with \$1.00 billion of secured term loans outstanding.

We also restructured our two unsecured revolving credit facilities by entering into two Second Priority Credit Agreements, with \$1.70 billion maturing in 2011 and \$950.0 million maturing in 2012, with the same lenders participating in the First Priority Credit Agreement. Such lenders' commitments under the Company's unsecured facilities have been terminated and replaced by their commitments under the Second Priority Credit Agreements. Under these agreements, the participating lenders have a second priority lien on the same collateral pool securing the First Priority Credit Agreement and the Second Priority Secured Exchange Notes (see Unsecured/Secured Notes Exchange below). As of December 31, 2009, outstanding borrowings under the Second Priority Credit Agreements

include \$625.2 million and \$334.2 million of revolving loans due in June 2011 and June 2012, respectively, as well as \$1.06 billion and \$621.2 million of term loans due in June 2011 and June 2012, respectively. Borrowings bear interest at the rate of LIBOR + 1.50% per year, subject to adjustment based upon our corporate credit ratings (see Ratings Triggers below). As of December 31, 2009 there was approximately \$2.1 million that was immediately available to draw under the Second Priority Credit Agreement.

At December 31, 2009, the total carrying value of assets pledged as collateral under the First and Second Priority Credit Agreements and the Second Priority Secured Exchange Notes was \$5.73 billion.

Concurrently, we entered into amendments to our \$2.22 billion and \$1.20 billion unsecured revolving credit facilities. As of December 31, 2009, after giving effect to the amendments, outstanding balances on the unsecured credit facilities were \$504.3 million, which will expire in June 2011, and \$244.3 million, which will expire in June 2012. The amendments eliminated certain covenants and events of default. The unsecured revolving credit facilities may not be repaid prior to maturity while the First and Second Priority Credit Agreements remain outstanding. These facilities remain unsecured and no changes were made to the pricing terms of these facilities in connection with these amendments.

Unsecured/Secured Notes Exchange – In May 2009, we completed a series of private offers in which we issued \$155.3 million aggregate principal amount of our 8.0% second priority senior secured guaranteed notes due 2011 (“2011 Notes”) and \$479.5 million aggregate principal amounts of our 10.0% second priority senior secured guaranteed notes due 2014 (“2014 Notes” and together with the 2011 Notes, the “Second Priority Secured Exchange Notes”) in exchange for \$1.01 billion aggregate principal amount of our senior unsecured notes of various series. The Second Priority Secured Exchange Notes are collateralized by a second priority lien on the same pool of collateral pledged under the First and Second Priority Credit Agreements. In conjunction with the exchange, we also purchased \$12.5 million par value of our outstanding senior floating rate notes due September 2009 in a cash tender offer. As a result of the secured note exchange, we recorded a gain on early extinguishment of debt of \$107.9 million at the time of the transaction as well as a deferred gain of \$262.7 million, reflected as a premium on the new secured notes which will be amortized to interest expense over the terms of the secured notes.

Note Repurchases – During the year ended December 31, 2009, we repurchased, through open market and private transactions, \$1.31 billion par value of our senior unsecured notes with various maturities ranging from January 2009 to March 2017. In connection with these repurchases, we recorded an aggregate net gain on early extinguishment of debt of \$439.4 million for the year ended December 31, 2009.

Debt Covenants – Our ability to borrow under our secured credit facilities depends on maintaining compliance with various covenants, including a minimum tangible net worth covenant and specified financial ratios, such as fixed charge coverage, unencumbered assets to unsecured indebtedness, eligible collateral coverage and leverage. Our recent financial results have put pressure on our ability to maintain compliance with certain of the debt covenants in our secured bank credit facilities. In particular, our tangible net worth at December 31, 2009 was approximately \$1.7 billion, which is not significantly above the financial covenant minimum requirement in our secured credit facilities of \$1.5 billion. We intend to operate our business in order to remain in compliance with the covenants in our debt instruments; however, there can be no assurance that we will be able to do so. Further loan loss reserves and impairment charges will adversely impact our tangible net worth. All of these covenants on our facilities are maintenance covenants and, if breached could result in an acceleration of our facilities if a waiver or modification is not agreed upon with the requisite percentage of the unsecured lending group and lenders on our other facilities. Our secured credit facilities also impose limitations on repayments, repurchases, refinancings and optional redemptions of our existing unsecured notes or secured exchange notes issued pursuant to our exchange offer, as well as limitations on repurchases of our Common Stock. For so long as we maintain our qualification as a REIT, the secured credit facilities permit us to distribute 100% of our REIT taxable income on an annual basis. We may not pay common dividends if we cease to qualify as a REIT.

Our publicly held debt securities also contain covenants that include fixed charge coverage and unencumbered assets to unsecured indebtedness ratios and our secured debt securities have an eligible collateral coverage requirement. The fixed charge coverage ratio in our publicly held securities is an incurrence test. If we do not meet the fixed charge coverage ratio, our ability to incur additional indebtedness will be restricted. The unencumbered assets to unsecured indebtedness covenant and the eligible collateral coverage covenant are maintenance covenants and, if breached and not cured within applicable cure periods, could result in acceleration of our publicly held debt unless a waiver or modification is agreed upon with the requisite percentage of the bondholders. Based on our unsecured credit ratings at December 31, 2009, the financial covenants in our publicly held debt securities, including the fixed charge coverage ratio and maintenance of unencumbered assets to unsecured indebtedness ratio, are operative.

Our secured credit facilities and our public debt securities contain cross default provisions that would allow the lenders and the bondholders to declare an event of default and accelerate our indebtedness to them if we fail to pay amounts due in respect of our other recourse indebtedness in excess of specified thresholds. In addition, our secured credit facilities, unsecured credit facilities and the indentures governing our public debt securities provide that the lenders and bondholders may declare an event of default and accelerate our indebtedness to them if there is a non-payment default under our other recourse indebtedness in excess of specified thresholds and, if the holders of the other indebtedness are permitted to accelerate, in the case of the secured credit facilities, or accelerate, in the case of our unsecured credit facilities and the bond indentures, the other recourse indebtedness.

The First and Second Priority Credit Agreements and the indentures governing the Second Priority Secured Exchange Notes contain a number of covenants, including that we maintain collateral coverage of at least 1.3x the aggregate borrowings and letters of credit outstanding under the First Priority Credit Agreement, the Second Priority Credit Agreements and the Second Priority Secured Exchange Notes. Under certain circumstances, the First and Second Priority Credit Agreements require that payments of principal and net sale proceeds received by us in respect of assets constituting collateral for our obligations under these agreements be applied toward the mandatory prepayment of loans and commitment reductions under them. We would be required to make such prepayments (i) during any time that the ratio of our EBITDA to fixed charges, as defined under the agreements, is less than 1.25 to 1.00, (ii) if, after receiving a payment of principal or net sale proceeds in respect of collateral, the Company has insufficient eligible assets available to pledge as replacement collateral or (iii) if, and for so long as, the aggregate principal amount of loans outstanding under the First Priority Credit Agreement exceeds \$500 million at any time on or after September 30, 2010, or zero at any time on or after March 31, 2011.

We believe we are in full compliance with all the covenants in our debt instruments as of December 31, 2009.

Ratings Triggers – Our First and Second Priority Secured Credit Agreements and unsecured credit agreements bear interest at LIBOR-based rates plus an applicable margin which varies between the Credit Agreements and is determined based on our corporate credit ratings. Our ability to borrow under our credit facilities is not dependent on the level of our credit ratings. Based on our current credit ratings, further downgrades in our credit ratings will have no effect on our borrowing rates under these facilities.

Off-Balance Sheet Transactions – We are not dependent on the use of any off-balance sheet financing arrangements for liquidity.

Unfunded commitments – We generally fund construction and development loans and build outs of CTL space over a period of time if and when the borrowers and tenants meet established milestones and other performance criteria. We refer to these arrangements as Performance-Based Commitments. In addition, we sometimes establish a maximum amount of additional funding which we will make available to a borrower or tenant for an expansion or addition to a project if we approve of the expansion or addition in our sole discretion. We refer to these arrangements as Discretionary Fundings. Finally, we have committed to invest capital in several real estate funds and other ventures. These arrangements are referred to as Strategic Investments. As of December 31, 2009, the maximum amounts of the fundings we may make under each category, assuming all performance hurdles and milestones are met under Performance-Based Commitments, that we approve all Discretionary Fundings and that 100% of our capital committed to Strategic Investments is drawn down are as follows (in thousands):

	Loans	CTL	Total
Performance-Based			
Commitments	\$616,400	\$13,074	\$629,474
Discretionary Fundings	137,685	-	137,685
Strategic Investments	N/A	N/A	73,139
Total	\$754,085	\$13,074	\$840,298

Transactions with Related Parties – We have substantial investments in non-controlling interests of Oak Hill Advisors, L.P., Oak Hill Credit Alpha MGP, OHSF GP Partners II, LLC, Oak Hill Credit Opportunities MGP, LLC, OHSF GP Partners (Investors), LLC, OHA Finance MGP, LLC, OHA Capital Solutions MGP, LLC, OHA Strategic Credit GenPar, LLC, OHA Leveraged Loan Portfolio GenPar, LLC, OHA Structured Products MGP, LLC, Oakhill Credit Opp Fund, LP and Oak Hill Credit Partners II, Limited (see Note 7 to the Company’s Notes to Consolidated Financial Statements). In relation to our investment in these entities, we appointed to our Board of Directors a member that holds a substantial investment in these same nine entities. As of December 31, 2009, the carrying value in these ventures was \$181.1 million. We recorded equity in earnings from these investments of \$22.7 million for the year ended December 31, 2009. We have also invested directly in six funds managed by Oak Hill Advisors, L.P., which have a cumulative carrying value of \$0.6 million as of December 31, 2009 and for which we recorded income of

\$0.2 million for the year ended December 31, 2009. In addition, we have paid \$0.1 million to certain of these entities representing management fees as well as advisory service related fees in conjunction with our debt repurchase transactions.

Stock Repurchase Program – On March 13, 2009, our Board of Directors authorized the repurchase of up to \$50 million of Common Stock from time to time in open market and privately negotiated purchases, including pursuant to one or more trading plans. During the year ended December 31, 2009, we repurchased 11.8 million shares of our outstanding Common Stock for approximately \$29.9 million, at an average cost of \$2.54 per share, and the repurchases were recorded at cost. As of December 31, 2009, we had \$21.5 million of Common Stock available to repurchase under the authorized stock repurchase programs.

Critical Accounting Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and judgments in certain circumstances that affect amounts reported as assets, liabilities, revenues and expenses. We have established detailed policies and control procedures intended to ensure that valuation methods, including any judgments made as part of such methods, are well controlled, reviewed and applied consistently from period to period. We base our estimates on historical corporate and industry experience and various other assumptions that we believe to be appropriate under the circumstances. For all of these estimates, we caution that future events rarely develop exactly as forecasted, and, therefore, routinely require adjustment.

During 2009, management reviewed and evaluated these critical accounting estimates and believes they are appropriate. Our significant accounting policies are described in Note 3 to our Consolidated Financial Statements. The following is a summary of accounting policies that require more significant management estimates and judgments:

Reserve for loan losses – The reserve for loan losses is a valuation allowance that reflects management’s estimate of loan losses inherent in the loan portfolio as of the balance sheet date. The reserve is increased through the “Provision for loan losses” on our Consolidated Statements of Operations and is decreased by charge-offs when losses are confirmed through the receipt of assets such as cash in a pre-foreclosure sale or via ownership control of the underlying collateral in full satisfaction of the loan upon foreclosure or when significant collection efforts have ceased. The reserve for loan losses includes a general, formula-based component and an asset-specific component.

The general, formula-based reserve component covers performing loans and provisions for loan losses are recorded when (i) available information as of each balance sheet date indicates that it is probable a loss has occurred in the portfolio and (ii) the amount of the loss can be reasonably estimated. Required reserve balances for the performing loan portfolio are derived from estimated

probabilities of principal loss and loss given default severities. Estimated probabilities of principal loss and loss severities are assigned to each loan in the portfolio during our quarterly internal risk rating assessment. Probabilities of principal loss and severity factors are based on industry and/or internal experience and may be adjusted for significant factors that, based on our judgment, impact the collectability of the loans as of the balance sheet date.

The asset-specific reserve component relates to reserves for losses on impaired loans. We consider a loan to be impaired when, based upon current information and events, we believe that it is probable that we will be unable to collect all amounts due under the contractual terms of the loan agreement. A reserve is established when the present value of payments expected to be received, observable market prices, or the estimated fair value of the collateral (for loans that are dependent on the collateral for repayment) of an impaired loan is lower than the carrying value of that loan. A loan is also considered impaired if its terms are modified in a troubled debt restructuring ("TDR"). A TDR occurs when the Company grants a concession to a borrower in financial difficulty by modifying the original terms of the loan. Each of our non-performing loans ("NPL's") and TDR loans are considered impaired and are evaluated individually to determine required asset-specific reserves.

The provision for loan losses for the years ended December 31, 2009, 2008 and 2007 were \$1.26 billion, \$1.03 billion and \$185.0 million, respectively. The increase in the provision for loan losses was primarily due to increased asset-specific reserves required as a result of the increase in impaired loans. The total reserve for loan losses at December 31, 2009 and 2008, included asset-specific reserves of \$1.24 billion and \$799.6 million, respectively, and general reserves of \$174.9 million and \$177.2 million, respectively.

Impairment of available-for-sale and held-to-maturity debt securities – For held-to-maturity and available-for-sale debt securities held in "Loans and other lending investments," management evaluates whether the asset is other-than-temporarily impaired when the fair market value is below carrying value. We consider debt securities other-than-temporarily impaired if (1) we have the intent to sell the security, (2) it is more likely than not that we will be required to sell the security before recovery, or (3) we do not expect to recover the entire amortized cost basis of the security. If it is determined that an other-than-temporary impairment exists, the portion related to credit losses, where we do not expect to recover our entire amortized cost basis, will be recognized as an "Impairment of other assets" on the our Consolidated Statements of Operations. If we do not intend to sell the security and it is more likely than not that we will be required to sell the security, but the security has suffered a credit loss, the impairment charge will be separated. The credit loss component of the impairment will be recorded as an "Impairment of other assets" on our Consolidated Statements of Operations, and the remainder will be recorded in "Accumulated other comprehensive income" on our Consolidated Balance Sheets.

During the years ended December 31, 2009, 2008 and 2007, we determined that unrealized credit related losses on certain held-to-maturity and available-for-sale debt securities were

other-than-temporary and recorded impairment charges totaling \$11.7 million, \$120.0 million and \$134.9 million, respectively, in "Impairment of other assets" on the Consolidated Statements of Operations. There are no other-than-temporary impairments recorded in "Accumulated other comprehensive income" on our Consolidated Balance Sheet as of December 31, 2009.

Other real estate owned – OREO consists of properties acquired through foreclosure or by deed-in-lieu of foreclosure in full or partial satisfaction of non-performing loans that we intend to market for sale in the near term. OREO is recorded at the estimated fair value less costs to sell. The excess of the carrying value of the loan over the fair value of the property less estimated costs to sell is charged-off against the reserve for loan losses when title to the property is obtained. Significant property improvements may be capitalized to the extent that the carrying value of the property does not exceed the estimated fair value less costs to sell. The gain or loss on final disposition of an OREO is recorded in "Impairment of other assets" on our Consolidated Statements of Operations, and is considered income (loss) from continuing operations as it represents the final stage of our loan collection process.

We review the recoverability of an OREO asset's carrying value when events or circumstances indicate a potential impairment of a property's value. If impairment exists a loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property less cost to sell. These impairments are recorded in "Impairment of other assets" on the Consolidated Statements of Operations.

During the years ended December 31, 2009, 2008 and 2007, we received titles to properties in satisfaction of senior mortgage loans with cumulative carrying values of \$1.88 billion, \$419.1 million and \$152.4 million, respectively, for which those properties had served as collateral, and recorded charge-offs totaling \$573.6 million, \$102.4 million and \$23.2 million, respectively, related to these loans. Subsequent to taking title to the properties, we determined certain OREO assets were impaired due to changing market conditions, and recorded impairment charges of \$78.6 million and \$55.6 million during the year ended December 31, 2009 and 2008.

Real estate held for investment, net – REHI consists of properties acquired through foreclosure or through deed-in-lieu of foreclosure in full or partial satisfaction of non-performing loans that management intends to hold, operate or develop for a period of at least twelve months. REHI assets are initially recorded at their estimated fair value. The excess of the carrying value of the loan over the fair value of the property is charged-off against the reserve for loan losses when title to the property is obtained. Upon acquisition, tangible and intangible assets and liabilities acquired are recorded at their estimated fair values. We consider REHI assets to be long-lived and periodically review them for impairment in value whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Impairment of REHI assets is measured in the same manner as long-lived assets as described below.

Long-lived assets impairment test – CTL assets to be disposed of are reported at the lower of their carrying amount or estimated fair value less costs to sell and are included in "Assets held-for-sale"

on our Consolidated Balance Sheets. The difference between the estimated fair value less costs to sell and the carrying value will be recorded as an impairment charge and included in "Income from discontinued operations" on the Consolidated Statements of Operations. Once the asset is classified as held-for-sale, depreciation expense is no longer recorded and historical operating results are reclassified to "Income from discontinued operations" on the Consolidated Statements of Operations.

We periodically review long-lived assets to be held and used for impairment in value whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. A held for use long-lived asset's value is impaired only if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the asset (taking into account the anticipated holding period of the asset) is less than the carrying value. Such estimate of cash flows considers factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other economic factors. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount of the property over the fair value of the asset and reflected as an adjustment to the basis of the asset. Impairments of CTL and REHI assets are recorded in "Impairment of other assets," on our Consolidated Statements of Operations.

During the years ended December 31, 2009 and 2008, we recorded impairment charges of \$19.4 million and \$11.6 million, respectively, due to changes in market conditions.

Identified intangible assets and goodwill – We record intangible assets acquired at their estimated fair values separate and apart from goodwill. We determine whether such intangible assets have finite or indefinite lives. As of December 31, 2009, all such acquired intangible assets have finite lives. We amortize finite-lived intangible assets based on the period over which the assets are expected to contribute directly or indirectly to the future cash flows of the business acquired. We review finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If we determine the carrying value of an intangible asset is not recoverable we will record an impairment charge to the extent its carrying value exceeds its estimated fair value. Impairments of intangibles are recorded in "Impairment of other assets" on our Consolidated Statements of Operations.

The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is done at a level of reporting referred to as a reporting unit. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value.

Due to an overall deterioration in conditions within the commercial real estate market, we recorded impairment charges of \$4.2 million during 2009 and \$39.1 million during 2008 to write-off the goodwill allocated to the CTL and Real Estate Lending reporting segments, respectively. These charges were recorded in "Impairment of goodwill" on our Consolidated Statements of Operations.

During the year ended December 31, 2008, we also recorded non-cash charges of \$21.5 million to reduce the carrying value of certain intangible assets related to the Fremont CRE acquisition and other acquisitions, based on their revised estimated fair values. These charges were recorded in "Impairment of other assets" on our Consolidated Statements of Operations.

Consolidation – Variable Interest Entities – We invest in many entities in which we either own a minority interest or may have a majority interest, but do not have voting control of the entity. We must evaluate these types of interests to determine if the entity is a variable interest entity ("VIE"), and if we are the primary beneficiary. There is a significant amount of judgment required to determine if an entity is considered a VIE and if we are the primary beneficiary, we first perform a qualitative analysis, which requires certain subjective decisions regarding our assessment, including, but not limited to, the nature and structure of the entity, the variability of the economic interests that the entity passes along to its interest holders, the rights of the parties and the purpose of the arrangement. An iterative quantitative analysis is required if our qualitative analysis proves inconclusive as to whether the entity is a VIE or we are the primary beneficiary and consolidation is required.

Fair value of assets and liabilities – The degree of management judgment involved in determining the fair value of assets and liabilities is dependent upon the availability of quoted market prices or observable market parameters. For financial and non-financial assets and liabilities that trade actively and have quoted market prices or observable market parameters, there is minimal subjectivity involved in measuring fair value. When observable market prices and parameters are not fully available, management judgment is necessary to estimate fair value. In addition, changes in market conditions may reduce the availability of quoted prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. Therefore, when market data is not available, we would use valuation techniques requiring more management judgment to estimate the appropriate fair value measurement.

See Note 16 of the Notes to Consolidated Financial Statements for a complete discussion on our use of fair valuation of financial and non-financial assets and financial liabilities and the related measurement techniques.

New Accounting Standards

For a discussion of the impact of new accounting pronouncements on our financial condition or results of operations, see Note 3 to the Notes to the Consolidated Financial Statements.

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 our business plan, the primary market risk to which we are exposed is interest rate risk. Consistent with our liability management objectives, we have 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. We also seek to match fund our foreign denominated assets with foreign denominated debt so that changes in foreign currency exchange rates will have a minimal impact on earnings.

Our operating results will depend in part on the difference between the interest and related income earned on our assets and the interest expense incurred in connection with our interest-bearing liabilities. Competition from other providers of real estate financing may lead to a decrease in the interest rate earned on our interest-bearing assets, which we may not be able to offset by obtaining lower interest costs on our borrowings. Changes in the general level of interest rates prevailing in the financial markets may affect the spread between our 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 us. In addition, an increase in interest rates could, among other things, reduce the value of our interest-bearing assets and our ability to realize gains from the sale of such assets, and a decrease in interest rates could reduce the average life of our interest-earning assets if borrowers refinance our loans.

Approximately 10.3% of our loan investments are subject to prepayment protection in the form of lock-outs, yield maintenance provisions or other prepayment premiums which provide substantial yield protection to us. 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 we generally seek to enter into loan investments which provide for substantial prepayment protection, in the event of declining interest rates, we 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.

Interest Rate Risks

In the event of a significant rising interest rate environment or further economic downturn, defaults could increase and cause additional credit losses to us which adversely affect our 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 our control. As fully discussed in Note 12 of the Company's Notes to Consolidated Financial Statements, we seek to employ match funding-based financing and hedging strategies to limit the effects of changes in interest rates on our operations, including engaging in interest rate caps, swaps and other interest rate-related derivative contracts. These strategies are specifically designed to reduce our exposure, on specific transactions or on a portfolio basis, to changes in cash flows as a result of interest rate movements in the market. We do not enter into derivative contracts for speculative purposes or as a hedge against changes in our credit risk or the credit risk of our borrowers.

While a REIT may utilize derivative instruments to hedge interest rate risk on its liabilities incurred to acquire or carry real estate assets without generating non-qualifying income, use of derivatives for other purposes will generate non-qualified income for REIT income test purposes. This includes hedging asset-related risks such as credit, foreign exchange and prepayment or interest rate exposure on our loan assets. As a result our ability to hedge these types of risks is limited.

There can be no assurance that our 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 we and our affiliates may also have other financial relationships. We are potentially exposed to credit loss in the event of non-performance by these counterparties. However, because of

their high credit ratings, we do not anticipate that any of the counterparties will fail to meet their obligations. There can be no assurance that we will be able to adequately protect against the foregoing risks and that we will ultimately realize an economic benefit from any hedging contract we enter 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 should interest rates increase by 100 or 200 basis points and decrease by 10 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 and earnings from equity method investments, less interest expense, operating costs on CTL assets and gain on early extinguishment of debt, for the year ended December 31, 2009. The base interest rate scenario assumes the one-month LIBOR rate of 0.23% as of December 31, 2009. Actual results could differ significantly from those estimated in the table.

Estimated Percentage Change In

Change in Interest Rates	Net Investment Income⁽¹⁾
-10 Basis Points ⁽¹⁾	0.49%
Base Interest Rate	-%
+100 Basis Points	(4.86)%
+200 Basis Points	(9.67)%

Explanatory Note:

(1) We have a net floating rate debt exposure resulting in an increase in net investment income when rates decrease and vice versa. In addition, interest rate floors on certain of our loan assets further increase net investment income as rates decrease and vice versa. As of December 31, 2009, \$1.87 billion of our floating rate loans have a weighted average interest rate floor of 3.86%.

MANAGEMENT'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of the disclosure committee and other members of management, including the Chief Executive Officer and Chief Financial Officer, management carried out its evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on management's assessment under the framework in *Internal Control - Integrated Framework*, management has concluded that its internal control over financial reporting was effective as of December 31, 2009.

The Company's internal control over financial reporting as of December 31, 2009, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page 37.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

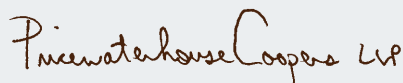
In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in equity and of cash flows present fairly, in all material respects, the financial position of iStar Financial Inc. and its subsidiaries (collectively, the "Company") at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the financial statements, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk.

Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 3 to the consolidated financial statements, the Company changed the manner in which it accounts for convertible debt instruments that may be settled in cash upon conversion in 2009.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The logo for PricewaterhouseCoopers LLP, featuring the company name in a stylized, cursive script.

New York, New York
February 26, 2010

CONSOLIDATED BALANCE SHEETS

As of December 31,	2009	2008
(In thousands, except per share data)		
Assets		
Loans and other lending investments, net	\$ 7,661,562	\$10,586,644
Corporate tenant lease assets, net	2,885,896	3,044,811
Other investments	433,130	447,318
Real estate held for investment, net	422,664	-
Other real estate owned	839,141	242,505
Assets held-for-sale	17,282	-
Cash and cash equivalents	224,632	496,537
Restricted cash	39,654	155,965
Accrued interest and operating lease income receivable, net	54,780	87,151
Deferred operating lease income receivable	122,628	116,793
Deferred expenses and other assets, net	109,206	119,024
Total assets	<u>\$12,810,575</u>	<u>\$15,296,748</u>
Liabilities and Equity		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 252,110	\$ 354,492
Debt obligations, net	10,894,903	12,486,404
Total liabilities	<u>11,147,013</u>	<u>12,840,896</u>
Commitments and contingencies	-	-
Redeemable noncontrolling interests	7,444	9,190
Equity:		
iStar Financial Inc. shareholders' equity:		
Preferred Stock Series D, E, F, G and I, liquidation preference \$25.00 per share (see Note 11)	22	22
High Performance Units	9,800	9,800
Common Stock, \$0.001 par value, 200,000 shares authorized, 137,868 issued and 94,216 outstanding at December 31, 2009 and 137,352 issued and 105,457 outstanding at December 31, 2008	138	137
Additional paid-in capital	3,791,972	3,768,772
Retained earnings (deficit)	(2,051,376)	(1,240,280)
Accumulated other comprehensive income (see Note 15)	6,145	1,707
Treasury stock, at cost, \$0.001 par value, 43,652 shares at December 31, 2009 and 31,895 shares at December 31, 2008	(151,016)	(121,159)
Total iStar Financial Inc. shareholders' equity	<u>1,605,685</u>	<u>2,418,999</u>
Noncontrolling interests	50,433	27,663
Total equity	<u>1,656,118</u>	<u>2,446,662</u>
Total liabilities and equity	<u>\$12,810,575</u>	<u>\$15,296,748</u>

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

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31,	2009	2008	2007
(In thousands, except per share data)			
Revenue:			
Interest income	\$ 557,809	\$ 947,661	\$ 998,008
Operating lease income	305,007	308,742	306,513
Other income	30,468	97,851	99,938
Total revenue	<u>893,284</u>	<u>1,354,254</u>	<u>1,404,459</u>
Costs and expenses:			
Interest expense	481,116	666,706	629,260
Operating costs – corporate tenant lease assets	23,467	23,059	27,915
Depreciation and amortization	97,869	94,726	83,690
General and administrative	127,044	143,902	156,534
Provision for loan losses	1,255,357	1,029,322	185,000
Impairment of other assets	122,699	295,738	144,184
Impairment of goodwill	4,186	39,092	–
Other expense	104,795	37,234	8,927
Total costs and expenses	<u>2,216,533</u>	<u>2,329,779</u>	<u>1,235,510</u>
Income (loss) before earnings from equity method investments and other items	(1,323,249)	(975,525)	168,949
Gain on early extinguishment of debt	547,349	393,131	225
Gain on sale of joint venture interest	–	280,219	–
Earnings from equity method investments	5,298	6,535	29,626
Income (loss) from continuing operations	(770,602)	(295,640)	198,800
Income (loss) from discontinued operations	(11,671)	22,415	29,970
Gain from discontinued operations	12,426	91,458	7,832
Net income (loss)	(769,847)	(181,767)	236,602
Net loss attributable to noncontrolling interests	1,071	991	816
Gain on sale of joint venture interest attributable to noncontrolling interests	–	(18,560)	–
Gain from discontinued operations attributable to noncontrolling interests	–	(3,689)	–
Net income (loss) attributable to iStar Financial Inc.	(768,776)	(203,025)	237,418
Preferred dividends	(42,320)	(42,320)	(42,320)
Net income (loss) attributable to iStar Financial Inc. and allocable to common shareholders, HPU holders and Participating Security holders ⁽¹⁾⁽²⁾⁽³⁾	<u>\$ (811,096)</u>	<u>\$ (245,345)</u>	<u>\$ 195,098</u>
Per common share data:⁽³⁾			
Income (loss) attributable to iStar Financial Inc. from continuing operations:			
Basic	\$ (7.89)	\$ (2.68)	\$ 1.19
Diluted	\$ (7.89)	\$ (2.68)	\$ 1.18
Net income (loss) attributable to iStar Financial Inc.:			
Basic	\$ (7.88)	\$ (1.85)	\$ 1.48
Diluted	\$ (7.88)	\$ (1.85)	\$ 1.47
Weighted average number of common shares – basic	100,071	131,153	126,801
Weighted average number of common shares – diluted	100,071	131,153	127,542
Per HPU share data:⁽¹⁾⁽³⁾			
Income (loss) attributable to iStar Financial Inc. from continuing operations:			
Basic	\$ (1,503.13)	\$ (505.47)	\$ 224.40
Diluted	\$ (1,503.13)	\$ (505.47)	\$ 223.27
Net income (loss) attributable to iStar Financial Inc.:			
Basic	\$ (1,501.73)	\$ (349.87)	\$ 279.53
Diluted	\$ (1,501.73)	\$ (349.87)	\$ 278.07
Weighted average number of HPU shares – basic and diluted	15	15	15

Explanatory Notes:

- (1) HPU holders are current and former Company employees who purchased high performance common stock units under the Company's High Performance Unit Program (see Note 11).
- (2) Participating Security holders are Company employees and directors who hold unvested restricted stock units and common stock equivalents granted under the Company's Long-Term Incentive Plans (see Notes 13 and 14).
- (3) See Note 14 for amounts attributable to iStar Financial Inc. for income (loss) from continuing operations and further details on the calculation of earnings per share.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2009, 2008, 2007	Preferred Stock ⁽¹⁾	HPUs	Common Stock at Par	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock at cost	Noncon- trolling Interests	Total Equity
(In thousands)									
Balance at December 31, 2006	\$22	\$9,800	\$127	\$3,465,925	\$(479,695)	\$ 16,956	\$(26,272)	\$29,509	\$3,016,372
Exercise of options	-	-	-	2,888	-	-	-	-	2,888
Net proceeds from equity offering	-	-	8	217,926	-	-	-	-	217,934
Dividends declared – preferred	-	-	-	-	(42,320)	-	-	-	(42,320)
Dividends declared – common	-	-	-	-	(459,253)	-	-	-	(459,253)
Dividends declared – HPU	-	-	-	-	(10,130)	-	-	-	(10,130)
Repurchase of stock	-	-	-	-	-	-	(30,947)	-	(30,947)
Restricted stock unit amortization, net of shares withheld	-	-	-	11,116	-	-	-	-	11,116
Issuance of stock – DRIP/stock purchase plan	-	-	-	2,518	-	-	-	-	2,518
Redemption of HPUs	-	-	-	1,105	-	-	-	-	1,105
Net income for the period ⁽²⁾	-	-	-	-	237,418	-	-	(948)	236,470
Contributions from noncontrolling interests	-	-	-	-	-	-	-	17,688	17,688
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(3,704)	(3,704)
Sale/purchase of certain noncontrolling interests	-	-	-	-	-	-	-	(6,370)	(6,370)
Adoption of ASC 470-20-65-1 (see Notes 3 and 9)	-	-	-	38,054	-	-	-	-	38,054
Change in accumulated other comprehensive income (loss)	-	-	-	-	-	(19,251)	-	-	(19,251)
Balance at December 31, 2007	\$22	\$9,800	\$135	\$3,739,532	\$(753,980)	\$ (2,295)	\$(57,219)	\$36,175	\$2,972,170

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

For the Years Ended			Common	Additional	Retained	Accumulated	Treasury	Noncon-	
December 31, 2009, 2008, 2007	Preferred		Stock	Paid-In	Earnings	Other	Stock	trolling	Total Equity
	Stock ⁽¹⁾	HPUs	at Par	Capital	(Deficit)	Comprehensive	at cost	Interests	
						Income (Loss)			
(In thousands)									
Balance at December 31, 2007	\$22	\$9,800	\$135	\$3,739,532	\$ (753,980)	\$(2,295)	\$ (57,219)	\$ 36,175	\$2,972,170
Exercise of options	-	-	-	5,868	-	-	-	-	5,868
Dividends declared – preferred	-	-	-	-	(42,320)	-	-	-	(42,320)
Dividends declared – common	-	-	-	-	(236,052)	-	-	-	(236,052)
Dividends declared – HPU	-	-	-	-	(4,903)	-	-	-	(4,903)
Repurchase of stock	-	-	-	-	-	-	(63,940)	-	(63,940)
Restricted stock unit amortization, net of shares withheld	-	-	1	20,746	-	-	-	-	20,747
Issuance of stock – DRIP/stock purchase plan	-	-	1	1,887	-	-	-	-	1,888
Redemption of HPUs	-	-	-	1,400	-	-	-	-	1,400
Net loss for the period ⁽²⁾	-	-	-	-	(203,025)	-	-	(1,707)	(204,732)
Convertible Note repurchase	-	-	-	(661)	-	-	-	-	(661)
Gain attributable to noncontrolling interests	-	-	-	-	-	-	-	22,249	22,249
Contributions from noncontrolling interests	-	-	-	-	-	-	-	171	171
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(25,048)	(25,048)
Sale/purchase of certain noncontrolling interests	-	-	-	-	-	-	-	(4,177)	(4,177)
Change in accumulated other comprehensive income (loss)	-	-	-	-	-	4,002	-	-	4,002
Balance at December 31, 2008	\$22	\$9,800	\$137	\$3,768,772	\$(1,240,280)	\$ 1,707	\$(121,159)	\$ 27,663	\$2,446,662
Dividends declared – preferred	-	-	-	-	(42,320)	-	-	-	(42,320)
Repurchase of stock	-	-	-	-	-	-	(29,857)	-	(29,857)
Restricted stock unit amortization, net of shares withheld	-	-	1	23,200	-	-	-	-	23,201
Net loss for the period ⁽²⁾	-	-	-	-	(768,776)	-	-	(1,065)	(769,841)
Contributions from noncontrolling interests	-	-	-	-	-	-	-	26,487	26,487
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(2,652)	(2,652)
Change in accumulated other comprehensive income (loss)	-	-	-	-	-	4,438	-	-	4,438
Balance at December 31, 2009	\$22	\$9,800	\$138	\$3,791,972	\$(2,051,376)	\$ 6,145	\$(151,016)	\$ 50,433	\$1,656,118

Explanatory Notes:

(1) See Note 11 for details on the Company's Cumulative Redeemable Preferred Stock.

(2) For the years ended December 31, 2009, 2008 and 2007, net income (loss) for the period included \$(6), \$716 and \$132 of net income (loss) attributable to redeemable noncontrolling interests.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2009	2008	2007
(In thousands)			
Cash flows from operating activities:			
Net income (loss)	\$ (769,847)	\$ (181,767)	\$ 236,602
Adjustments to reconcile net income (loss) to cash flows from operating activities:			
Provision for loan losses	1,255,357	1,029,322	185,000
Non-cash expense for stock-based compensation	23,592	23,079	17,743
Impairment of goodwill	4,186	39,092	-
Impairment of other assets	136,832	295,738	144,184
Depreciation, depletion and amortization	99,287	104,453	100,123
Amortization of discounts/premiums and deferred financing costs on debt	(12,025)	44,326	28,373
Amortization of discounts/premiums, deferred interest and costs on lending investments	(117,527)	(196,519)	(234,944)
Discounts, loan fees and deferred interest received	11,921	29,403	66,991
Earnings from equity method investments	(5,298)	(6,535)	(29,468)
Distributions from operations of equity method investments	27,973	48,197	41,796
Deferred operating lease income receivable	(13,926)	(20,043)	(23,816)
Gain from discontinued operations	(12,426)	(91,458)	(7,832)
Gain on early extinguishment of debt	(547,349)	(393,131)	(225)
Gain on sale of joint venture interest	-	(280,219)	-
Provision for deferred taxes	3,772	6,040	1,318
Other non-cash adjustments	(4,928)	(7,385)	(4,968)
Changes in assets and liabilities:			
Changes in accrued interest and operating lease income receivable, net	31,767	36,528	(26,147)
Changes in deferred expenses and other assets, net	6,140	(18,599)	(1,151)
Changes in accounts payable, accrued expenses and other liabilities	(41,225)	(41,993)	67,758
Cash flows from operating activities	<u>76,276</u>	<u>418,529</u>	<u>561,337</u>
Cash flows from investing activities:			
New investment originations	-	(32,044)	(2,900,301)
Add-on fundings under existing loan commitments	(1,224,593)	(3,276,502)	(2,955,395)
Purchase of securities	(31,535)	(29)	(28,815)
Repayments of and principal collections on loans	951,202	1,822,587	2,660,080
Cash paid for acquisitions	-	-	(1,891,571)
Net proceeds from sales of loans	720,770	394,293	-
Net proceeds from sales of discontinued operations	64,566	576,857	70,227
Net proceeds from sales of other real estate owned	270,621	169,600	-
Net proceeds from sale of joint venture interest	-	416,970	-
Net proceeds from repayments and sales of securities	27,060	51,407	311,432
Contributions to unconsolidated entities	(34,272)	(50,636)	(69,184)
Distributions from unconsolidated entities	9,459	27,292	167,975
Capital improvements for build-to-suit facilities	(7,152)	(79,090)	(88,613)
Capital expenditures and improvements on corporate tenant lease assets	(7,739)	(23,802)	(26,442)
Capital expenditures and improvements on real estate held for investment	(5,860)	-	-
Other investing activities, net	(6,306)	(24,846)	5,527
Cash flows from investing activities	<u>726,221</u>	<u>(27,943)</u>	<u>(4,745,080)</u>

(continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Years Ended December 31,	2009	2008	2007
(In thousands)			
Cash flows from financing activities:			
Borrowings under revolving credit facilities	\$ 134,741	\$ 11,451,167	\$ 28,255,242
Repayments under revolving credit facilities	(371,798)	(10,464,322)	(26,548,594)
Borrowings under interim financing	-	-	1,900,000
Repayments under interim financing	-	(1,289,811)	(610,189)
Borrowings under secured term loans	1,000,000	1,307,776	18,522
Repayments under secured term loans	(318,431)	(109,262)	(166,411)
Borrowings under unsecured notes	-	740,506	1,818,184
Repayments under unsecured notes	(628,366)	(620,331)	(200,000)
Repurchases of unsecured notes	(885,055)	(501,518)	(14,775)
Contributions from/(distributions to) noncontrolling interests, net	(2,630)	(31,029)	13,753
Changes in restricted cash held in connection with debt obligations	121,116	(118,762)	1,419
Payments for deferred financing costs/proceeds from hedge settlements, net	(51,801)	11,221	(130)
Common dividends paid	-	(269,827)	(425,479)
Preferred dividends paid	(42,320)	(42,320)	(42,320)
Purchase of treasury stock	(29,858)	(63,940)	(30,947)
Net proceeds from equity offering	-	-	218,189
Other financing activities, net	-	1,896	(4,165)
Cash flows from financing activities	<u>(1,074,402)</u>	<u>1,444</u>	<u>4,182,299</u>
Changes in cash and cash equivalents	<u>(271,905)</u>	<u>392,030</u>	<u>(1,444)</u>
Cash and cash equivalents at beginning of period	<u>496,537</u>	<u>104,507</u>	<u>105,951</u>
Cash and cash equivalents at end of period	<u>\$ 224,632</u>	<u>\$ 496,537</u>	<u>\$ 104,507</u>
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest, net of amount capitalized	<u>\$ 531,858</u>	<u>\$ 645,413</u>	<u>\$ 585,233</u>

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

Note 1 – Business and Organization

Business – iStar Financial Inc., or the “Company,” is a publicly traded finance company focused on the commercial real estate industry. The Company primarily provides customer-tailored financing to high-end private and corporate owners of real estate, including senior and mezzanine real estate debt, senior and mezzanine corporate capital, as well as corporate net lease financing and equity. The Company, which is taxed as a real estate investment trust, or “REIT,” provides innovative and value-added financing solutions to its customers. The Company delivers customized financing products to sophisticated real estate borrowers and corporate customers who require a high level of flexibility and service. The Company’s two primary lines of business are lending and corporate tenant leasing.

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

Note 2 – Basis of Presentation and Principles of Consolidation

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 preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, 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.

Certain prior year amounts have been reclassified in the Consolidated Financial Statements and the related notes to conform to the current period presentation. In addition, the Company adopted three new accounting standards on January 1, 2009 which required retroactive application for presentation of prior periods’ Consolidated Financial Statements (see Notes 3, 9, 11, and 14).

Principles of Consolidation – The Consolidated Financial Statements include the financial statements of the Company, its wholly owned subsidiaries, controlled partnerships and variable interest entities (“VIEs”) for which the Company is the primary beneficiary. The Company consolidated the following VIEs:

During 2008, the Company made a \$49.0 million commitment to OHA Strategic Credit Fund Parallel I, LP (“OHA SCF”). OHA SCF was created to invest in distressed, stressed and undervalued loans, bonds, equities and other investments. The Fund intends to

opportunistically invest capital following a period of credit market dislocation. As of December 31, 2009, OHA SCF had \$40.3 million of total assets, no debt and \$0.1 million of noncontrolling interest. The investments held by this entity are presented in “Other investments” on the Company’s Consolidated Balance Sheets. As of December 31, 2009, the Company had a total unfunded commitment of \$26.8 million to this entity.

During 2007, the Company made a €100.0 million commitment to Moor Park Real Estate Partners II, L.P. Incorporated (“Moor Park”). Moor Park is a third-party managed fund that was created to make investments in European real estate as a 33% investor alongside a sister fund. As of December 31, 2009, Moor Park had \$13.0 million of total assets, no debt and \$0.1 million of noncontrolling interest. The investments held by this entity are presented in “Other investments” on the Company’s Consolidated Balance Sheets.

During 2006, the Company made an investment in Madison Deutsche Andau Holdings, LP (“Madison DA”). Madison DA was created to invest in mortgage loans secured by real estate in Europe. As of December 31, 2009, Madison DA had \$63.2 million of total assets, no debt and \$9.5 million of noncontrolling interest. The investments held by this entity are presented in “Loans and other lending investments” on the Company’s Consolidated Balance Sheets.

All significant intercompany balances and transactions have been eliminated in consolidation.

Note 3 – Summary of Significant Accounting Policies

Loans and other lending investments, net – Loans and other lending investments, net includes the following investments: senior mortgages, subordinate mortgages, corporate/partnership loans and other lending investments-securities. Management considers nearly all of its loans and debt securities to be held-for-investment or held-to-maturity, although certain investments may be classified as held-for-sale or available-for-sale.

Loans and other lending investments designated for sale are classified as held-for-sale and are carried at lower of amortized historical cost or fair value. The amount by which carrying value exceeds fair value is recorded as a valuation allowance. Subsequent changes in the valuation allowance are included in the determination of net income in the period in which the change occurs.

Items classified as held-for-investment or held-to-maturity are reported at their outstanding unpaid principal balance, and include unamortized acquisition premiums or discounts and unamortized deferred loan costs or fees. These items also include accrued and paid-in-kind interest and accrued exit fees that the Company determines are probable of being collected. Debt securities classified as available-for-sale are reported at fair value with temporary unrealized gains and losses included in “Accumulated other comprehensive income” on the Company’s Consolidated Balance Sheets.

For held-to-maturity and available-for-sale debt securities held in “Loans and other lending investments, net,” management evaluates whether the asset is other-than-temporarily impaired when the fair market value is below carrying value. The Company considers

debt securities other-than-temporarily impaired if (1) the Company has the intent to sell the security, (2) it is more likely than not that it will be required to sell the security before recovery, or (3) it does not expect to recover the entire amortized cost basis of the security. If it is determined that an other-than-temporary impairment exists, the portion related to credit losses, where the Company does not expect to recover its entire amortized cost basis, will be recognized as an "Impairment of other assets" on the Company's Consolidated Statements of Operations. If the Company does not intend to sell the security and it is more likely than not that the entity will be required to sell the security, but the security has suffered a credit loss, the impairment charge will be separated. The credit loss component of the impairment will be recorded as an "Impairment of other assets" on the Company's Consolidated Statements of Operations, and the remainder will be recorded in "Accumulated other comprehensive income" on the Company's Consolidated Balance Sheets.

Corporate tenant lease assets and depreciation – CTL 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 the shorter of estimated useful lives or 40 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 useful life of the facility for facility improvements.

CTL assets to be disposed of are reported at the lower of their carrying amount or estimated fair value less costs to sell and are included in "Assets held-for-sale" on the Company's Consolidated Balance Sheets. If the estimated fair value less costs to sell is less than the carrying value, the difference will be recorded as an impairment charge and included in "Income from discontinued operations" on the Company's Consolidated Statements of Operations. Once an asset is classified as held-for-sale, depreciation expense is no longer recorded and historical operating results are reclassified to "Income from discontinued operations" on the Company's Consolidated Statements of Operations. As of December 31, 2009, there were two CTL assets with an aggregate book value of \$17.3 million classified as "Assets held-for-sale" on the Company's Consolidated Balance Sheets.

The Company periodically reviews long-lived assets to be held and used for impairment in value whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The value of a long-lived asset held for use is impaired only if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the asset (taking into account the anticipated holding period of the asset) is less than the carrying value. Such estimate of cash flows considers factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other economic factors. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount of the property over the fair value of the asset and reflected as an adjustment to the basis of the asset. Impairments of CTL assets that are

not held-for-sale are recorded in "Impairment of other assets," on the Company's Consolidated Statements of Operations.

The Company accounts for its acquisition of facilities by allocating the purchase price to the tangible and intangible assets and liabilities acquired based on their estimated fair values. The value of the tangible assets, consisting of land, buildings, building improvements and tenant improvements is determined as if these assets are vacant, that is, at replacement cost. Intangible assets may include above-market or below-market value of in-place leases and the value of customer relationships, which are each recorded at their relative fair values.

The capitalized above-market (or below-market) lease value is amortized as a reduction of (or, increase to) operating lease income over the remaining non-cancelable term of each lease plus any renewal periods with fixed rental terms that are considered to be below-market. The Company generally engages in sale/lease-back transactions and typically executes leases with the occupant simultaneously with the purchase of the CTL asset at market-rate rents. As such, no above-market or below-market lease value is ascribed to these transactions.

Real estate held for investment, net – Real estate held for investment, net ("REHI") consists of properties acquired through foreclosure or through deed-in-lieu of foreclosure in full or partial satisfaction of non-performing loans that the Company intends to hold, operate or develop for a period of at least twelve months. REHI assets are initially recorded at their estimated fair value. The excess of the carrying value of the loan over the fair value of the property acquired is charged-off against the reserve for loan losses when title to the property is obtained. Additionally, upon acquisition of a property, tangible and intangible assets and liabilities acquired are recorded at their estimated fair values and depreciation is computed in the same manners as described in "Corporate tenant lease assets and depreciation" above. Subsequent to acquisition, qualified development and construction costs are capitalized. Revenues and expenses related to REHI assets are recorded as "Other income" and "Other expense," respectively, on the Company's Consolidated Statements of Operations.

The Company considers REHI assets to be long-lived and periodically reviews them for impairment in value whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Company measures impairments for REHI assets in the same manner as CTL assets, as described in "Corporate tenant lease assets and depreciation" above. Impairments of REHI assets are recorded in "Impairment of other assets," on the Company's Consolidated Statements of Operations.

Other real estate owned – OREO consists of properties acquired through foreclosure or by deed-in-lieu of foreclosure in full or partial satisfaction of non-performing loans that the Company intends to market for sale in the near term. OREO is recorded at the estimated fair value less costs to sell. The excess of the carrying value of the loan over the fair value of the property less estimated costs to sell is charged-off against the reserve for loan losses when title to the property is obtained. Net revenues and costs of holding the property are recorded as "Other expense" in

the Company's Consolidated Statements of Operations. Significant property improvements may be capitalized to the extent that the carrying value of the property does not exceed the estimated fair value less costs to sell. The gain or loss on final disposition of an OREO is recorded in "Impairment of other assets" on the Company's Consolidated Statements of Operations, and is considered income/(loss) from continuing operations as it represents the final stage of the Company's loan collection process.

The Company reviews the recoverability of an OREO asset's carrying value when events or circumstances indicate a potential impairment of a property's value. If impairment exists, a loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property less costs to sell. These impairments are recorded in "Impairment of other assets" on the Company's Consolidated Statements of Operations.

Equity and cost method investments – Purchased equity interests that are not publicly traded and/or do not have a readily determinable fair value are accounted for pursuant to the equity method of accounting if the Company can significantly influence the operating and financial policies of an investee. This is generally presumed to exist when ownership interest is between 20% and 50% of a corporation, or greater than 5% of a limited partnership or limited liability company. The Company's periodic share of earnings and losses in equity method investees is included in "Earnings (loss) from equity method investments" on the Consolidated Statements of Operations. When the Company's ownership position is too small to provide such influence, the cost method is used to account for the equity interest. Equity and cost method investments are included in "Other investments" on the Company's Consolidated Balance Sheets.

The Company periodically reviews equity method investments for impairment in value whenever events or changes in circumstances indicate that the carrying amount of such investments may not be recoverable. The Company will record an impairment charge to the extent that the estimated fair value of an investment is less than its carrying value and the Company determines the impairment is other-than-temporary. Impairment charges are recorded in "Impairment of other assets" on the Company's Consolidated Statements of Operations.

Timber and timberlands – Timber and timberlands, are stated at cost less accumulated depletion. The cost of timber and timberlands typically is allocated between the timber and the land acquired, based on estimated relative fair values. Timber carrying costs, such as real estate taxes, insect and wildlife control and timberland management fees, are expensed as incurred. Net carrying value of the timber and timberlands is used to compute the gain or loss in connection with timberland sales. Timber and timberlands are included in "Other investments" on the Company's Consolidated Balance Sheet (see Note 7).

Depletion relates to the Company's investment in timberland assets. Assumptions and estimates are used in the recording of depletion. An annual depletion rate for each timberland investment

is established by dividing book cost of timber by estimated standing merchantable inventory. Changes in the assumptions and/or estimations used in these calculations may affect the Company's results, in particular depletion costs. Factors that can impact timber volume include weather changes, losses due to natural causes, differences in actual versus estimated growth rates and changes in the age when timber is considered merchantable.

On January 19, 2005, TimberStar Operating Partnership, L.P. ("TimberStar") was created to acquire and manage a diversified portfolio of timberlands. During 2008, the Company sold all of its timberland investments. The Company consolidated this partnership for financial statement purposes and records the noncontrolling interest of an external partner in "Noncontrolling interests" on the Company's Consolidated Balance Sheets. TimberStar's operating results for 2008 and 2007 have been reclassified and are presented in "Income (loss) from discontinued operations" on its Consolidated Statements of Operations.

TimberStar also owned a 46.7% interest in TimberStar Southwest Holdco LLC ("TimberStar Southwest"), which the Company accounted for under the equity method. In April 2008, the Company sold its joint venture interest and recorded a gain in "Gain on sale of joint venture interest" and "Gain on sale of joint venture interest attributable to noncontrolling interests" on its Consolidated Statements of Operations (see Note 7).

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 OREO, leasing and derivative transactions.

Variable interest entities – The Company reviews its investments and other contractual arrangements to determine if they constitute variable interests in variable interest entities (or "VIE's"). A VIE is an entity where a controlling financial interest is achieved through means other than voting rights. A VIE is consolidated by the primary beneficiary, which is the party that will receive a majority of the VIE's anticipated losses, a majority of the VIE's expected residual returns, or both. The Company determines if it is the primary beneficiary of a VIE by first performing a qualitative analysis of the VIE's expected losses and expected returns. This analysis includes a review of, among other factors, the VIE's capital structure, contractual terms, which interests create or absorb variability, related party relationships and the design of the VIE. Where qualitative analysis is not conclusive, the Company performs a quantitative analysis. The Company reassesses its initial evaluation of an entity as a VIE and its initial determination of whether the Company is the primary beneficiary of a VIE upon the occurrence of certain reconsideration events.

Deferred expenses – Deferred expenses include leasing costs and financing fees. Leasing costs include brokerage, legal and other costs which are amortized over the life of the respective leases.

External fees and costs incurred to obtain long-term financing have been deferred and are amortized over the term of the respective borrowing using the effective interest method. Amortization of leasing costs and deferred financing fees are included in the Company's "Depreciation and amortization" and "Interest expense," respectively, on the Company's Consolidated Statements of Operations.

Identified intangible assets and goodwill – Upon the acquisition of a business, the Company records intangible assets acquired at their estimated fair values separate and apart from goodwill. The Company determines whether such intangible assets have finite or indefinite lives. As of December 31, 2009, all such intangible assets acquired by the Company have finite lives. The Company amortizes finite-lived intangible assets based on the period over which the assets are expected to contribute directly or indirectly to the future cash flows of the business acquired. The Company reviews finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If the Company determines the carrying value of an intangible asset is not recoverable it will record an impairment charge to the extent its carrying value exceeds its estimated fair value. Impairments of intangibles assets are recorded in "Impairment of other assets" on the Company's Consolidated Statements of Operations.

During the year ended December 31, 2008, the Company recorded non-cash charges of \$21.5 million to reduce the carrying value of certain intangible assets related to the Fremont CRE acquisition and other acquisitions, based on their revised estimated fair values. These charges were recorded in "Impairment of other assets" on the Company's Consolidated Statements of Operations.

As of December 31, 2009 and 2008, the Company had \$55.9 million and \$61.2 million, respectively, of unamortized finite-lived intangible assets primarily related to the acquisition of prior CTL facilities and REHI. The total amortization expense for these intangible assets was \$12.2 million, \$13.7 million and \$9.2 million for the years ended December 31, 2009, 2008 and 2007, respectively. The estimated aggregate amortization costs for each of the five succeeding fiscal years are as follows (in thousands):

2010	\$10,471
2011	8,709
2012	5,063
2013	3,624
2014	3,265
Total	\$31,132

The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is done at a level of reporting referred to as a reporting unit. If the fair value of the

reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value. Fair values for goodwill and other finite-lived intangible assets are determined using the market approach, income approach or cost approach, as appropriate.

Due to an overall deterioration in conditions within the commercial real estate market, the Company recorded impairment charges of \$4.2 million during 2009 and \$39.1 million during 2008 to write off the goodwill allocated to the CTL and Real Estate Lending reporting segments, respectively. These charges were recorded in "Impairment of goodwill" on the Company's Consolidated Statements of Operations.

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

Loans and other lending investments: Interest income on loans and other lending investments is recognized on an accrual basis using the interest method.

On occasion, the Company may acquire loans at premiums or discounts. These discounts and premiums in addition to any deferred costs or fees, are typically amortized over the contractual term of the loan using the interest method. Exit fees are also recognized over the lives of the related loans as a yield adjustment, if management believes it is probable that such amounts will be received. If loans with premiums, discounts, loan origination or exit fees are prepaid, the Company immediately recognizes the unamortized portion as a decrease or increase in the prepayment gain or loss which is included in "Other income" on the Company's Consolidated Statements of Operations.

The Company considers a loan to be non-performing and places loans on non-accrual status at such time as: (1) the loan becomes 90 days delinquent; (2) the loan has a maturity default; or (3) management determines it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan. While on non-accrual status, based on the Company's judgment as to collectability of principal, loans are either accounted for on a cash basis, where interest income is recognized only upon actual receipt of cash, or on a cost-recovery basis, where all cash receipts reduce a loan's carrying value.

Certain of the Company's loans provide for accrual of interest at specified rates that 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, generally from the later of the date the lessee takes possession of the space and it is ready for its intended use 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 periodic 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.

Reserve for loan losses – The reserve for loan losses reflects management's estimate of loan losses inherent in the loan portfolio as of the balance sheet date. The reserve is increased through the "Provision for loan losses" on the Company's Consolidated Statements of Operations and is decreased by charge-offs when losses are confirmed through the receipt of assets such as cash in a pre-foreclosure sale or via ownership control of the underlying collateral in full satisfaction of the loan upon foreclosure or when significant collection efforts have ceased. The reserve for loan losses includes a general, formula-based component and an asset-specific component.

The general, formula-based reserve component covers performing loans and reserves for loan losses are recorded when (i) available information as of each balance sheet date indicates that it is probable a loss has occurred in the portfolio and (ii) the amount of the loss can be reasonably estimated. Required reserve balances for the performing loan portfolio are derived from estimated probabilities of principal loss and loss given default severities. Estimated probabilities of principal loss and loss severities are assigned to each loan in the portfolio during the Company's quarterly internal risk rating assessment. Probabilities of principal loss and severity factors are based on industry and/or internal experience and may be adjusted for significant factors that, based on management's judgment, impact the collectability of the loans as of the balance sheet date.

The asset-specific reserve component relates to reserves for losses on impaired loans. The Company 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 under the contractual terms of the loan agreement. A reserve is established when the present value of payments expected to be received, observable market prices, or the estimated fair value of the collateral (for loans that are dependent on the collateral for repayment) of an impaired loan is lower than the carrying value of that loan. A loan is also considered impaired if its terms are modified in a troubled debt restructuring ("TDR"). A TDR occurs when the Company grants a concession to a borrower in financial difficulty by modifying the original terms of the loan. Each of the Company's non-performing loans ("NPL's") and TDR loans are considered impaired and are evaluated individually to determine required asset-specific reserves.

Allowance for doubtful accounts – The allowance for doubtful accounts reflects management's estimate of losses inherent in the accrued operating lease income receivable and deferred operating lease income receivable balances as of the balance sheet date. The reserve covers asset-specific problems (e.g., tenant bankruptcy) as they arise, as well as a general, formula-based reserve based on management's evaluation of the credit risks associated with these receivables. At December 31, 2009 and 2008, the total allowance for doubtful accounts was \$2.8 million and \$5.3 million, respectively.

Derivative instruments and hedging activity – The Company recognizes derivatives as either assets or liabilities on the Company's Consolidated Balance Sheets at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge of the exposure to changes in the fair value of a recognized asset or liability, a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability.

Derivatives, such as foreign currency hedges and interest rate caps, that are not designated hedges are considered economic hedges, with changes in fair value reported in current earnings in "Other expense" on the Company's Consolidated Statements of Operations. The Company does not enter into derivatives for trading purposes.

Stock-based compensation – The Company has service-based restricted stock awards which are valued based on the grant-date market value of the award and market-condition based restricted stock awards which are valued based on (a) the grant-date market value of the award for equity-based awards or (b) the period-end market value for liability-based awards. Market value for the market-condition based awards is determined using a Monte Carlo simulation model to simulate a range of possible future stock prices for the Company's Common Stock. Compensation costs related to restricted stock awards are recognized ratably over the applicable vesting/service period and recorded in "General and administrative" on the Company's Consolidated Statements of Operations.

Disposal of long-lived assets – The results of operations from CTL and timber assets that were sold or held-for-sale in the current and prior periods are classified as "Income from discontinued operations" on the Company's Consolidated Statements of Operations even though such income was actually recognized by the Company prior to the asset sale. Gains from the sale of CTL and timber assets are classified as "Gain from discontinued operations" and "Gain from discontinued operations attributable to noncontrolling interests" on the Company's Consolidated Statements of Operations.

Income taxes – The Company has elected to be qualified and taxed as a REIT under section 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). 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 and certain specific reserve amounts that the Company deems to be uncollectable. 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.

The Company can participate in certain activities from which it was previously precluded in order to maintain its qualification as a REIT, as long as these activities are conducted in entities which elect to be treated as taxable subsidiaries under the Code, subject to certain limitations. As such, the Company, through its taxable REIT subsidiaries ("TRSs"), is engaged in various real estate related opportunities, including but not limited to: (1) managing corporate credit-oriented investment strategies; (2) certain activities related to the purchase and sale of timber and timberlands; (3) servicing certain loan portfolios; and (4) managing activities related to certain foreclosed assets. The Company will consider other investments through TRS entities if suitable opportunities arise. The Company's TRS entities 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 TRS entities. For the years ended December 31, 2009, 2008 and 2007, the Company recorded total income tax expense of \$4.1 million, \$10.2 million and \$7.0 million, respectively, which was included in "Other expense" on the Company's Consolidated Statements of Operations. The Company also recognizes interest expense and penalties related to uncertain tax positions, if any, as income tax expense, included in "Other expense" on the Company's Consolidated Statements Operations.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as operating loss and tax credit carryforwards. At December 31, 2009 and 2008, the Company had net deferred tax liabilities of \$9.3 million and \$6.9 million, respectively, included in "Accounts payable, accrued expenses and other liabilities" on the Company's Consolidated Balance Sheets. These deferred tax liabilities are primarily due to timing differences relating to an equity method investment. At December 31, 2009 and 2008, the Company had net deferred tax assets of \$0.1 million and \$1.4 million, respectively, included in "Deferred expenses and other assets, net" on the Company's Consolidated Balance Sheets. At December 31, 2009 and 2008, deferred tax assets of \$19.0 million and \$12.1 million, respectively, consisted primarily of expenses not currently deductible and net operating loss carryforwards, and were offset by valuation

allowances of \$18.9 million and \$10.8 million, respectively. These valuation allowances were established based on the Company's conclusion that it is more likely than not that the deductions and carryforwards will not be utilized during the carryforward periods.

Earnings per share – The Company uses the two-class method in calculating EPS when it issues securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, the company declares dividends on its common stock. Vested HPU shares are entitled to dividends of the Company when dividends are declared. Basic earnings per share ("Basic EPS") for the Company's Common Stock and HPU shares are computed by dividing net income allocable to common shareholders and HPU holders by the weighted average number of shares of Common Stock and HPU shares outstanding for the period, respectively. Diluted earnings per share ("Diluted EPS") is calculated similarly, however, it 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.

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are deemed a ("Participating Security") and are included in the computation of earnings per share pursuant to the two-class method. The Company's unvested restricted stock units with rights to dividends and common stock equivalents issued under its Long-Term Incentive Plans are considered participating securities and have been included in the two-class method when calculating EPS.

New Accounting Standards

In June 2009, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162" ("ASC 105-10-65-1"). This guidance requires the FASB Accounting Standards Codification™ ("Codification" or "ASC") to become the single official source of authoritative, nongovernmental GAAP. The Codification is effective for interim and annual periods ending on or after September 15, 2009. The Company has adopted ASC 105-10-65-1 for the period ended September 30, 2009, as required, and has included references to the Codification, as appropriate, in the Consolidated Financial Statements.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("ASC 810-10-65-2"), which eliminates the exemption for qualifying special purpose entities, creates a new approach for determining who should consolidate a variable interest entity and requires an ongoing reassessment to determine if a Company should consolidate a variable interest entity. In addition,

troubled debt restructurings will no longer be exempt from reconsideration events. The standard is effective through a cumulative-effect adjustment (with a retroactive option) at adoption and is effective for interim and annual periods beginning after November 15, 2009. The Company will adopt SFAS No. 167 on January 1, 2010, as required. As a result of implementing this new accounting standard, certain VIEs that are currently consolidated may be deconsolidated and certain VIEs that are currently not consolidated may be consolidated. The Company is currently evaluating the impact of this adoption on its Consolidated Financial Statements.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140" ("ASC 860-10-65-3"), which eliminates the qualifying special-purpose entity concept, creates a new unit of account definition that must be met for transfers of portions of financial assets to be eligible for sale accounting, clarifies and changes the de-recognition criteria for a transfer to be accounted for as a sale, changes the amount of recognized gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor and requires new disclosures. The new standard is effective prospectively for transfers of financial assets occurring in interim and annual periods beginning after November 15, 2009. The Company will adopt ASC 860-10-65-3 on January 1, 2010, as required, and is currently evaluating the impact of this adoption on its Consolidated Financial Statements.

In April 2009, the FASB issued FSPs FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("ASC 320-10-65-1"), which changes the method for determining whether an other-than-temporary impairment exists for debt securities and the amount of impairment charge to be recorded in earnings. To determine whether an other-than-temporary impairment exists, an entity will assess the likelihood of selling the security prior to recovering its cost basis, a change from the current requirements where an entity assesses whether it has the intent and ability to hold a security to recovery. If the criteria is met to assert that an entity has the positive intent to hold and it is more likely than not it will not have to sell the security before recovery, impairment charges related to credit losses would be recognized in earnings, while impairment charges related to non-credit loss (e.g., liquidity risk) would be reflected in other comprehensive income. Upon adoption, changes in assertions may require cumulative effect adjustments to the opening balance of retained earnings. ASC 320-10-65-1 is effective for interim and annual reporting periods ending after June 15, 2009. The Company adopted the standard in the period ended June 30, 2009, as required, and it did not have a significant impact on the Company's Consolidated Financial Statements. See Note 4 for additional disclosures required by the adoption of this standard.

In April 2009, the FASB issued FSP FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" ("ASC 805-10-65-1"), which amends provisions related to the initial recognition and measurement, subsequent measurement and disclosures of assets and liabilities arising from contingencies in a business combination. The amendment carries forward the requirements for acquired contingencies under ASC 805, "Business Combinations," which recognizes contingencies at fair value on the acquisition date, if fair value can be reasonably estimated during the allocation period. In addition, the amendment eliminates the requirement to disclose an estimate of the range of outcomes for recognized contingencies at the acquisition date. This guidance is effective for all business combinations on or after January 1, 2009. The Company adopted ASC 805-10-65-1 on January 1, 2009, as required, and it did not have a significant impact on the Company's Consolidated Financial Statements.

In June 2008, the FASB issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("ASC 260-10-65-2"). This guidance addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in calculating earnings per share under the two-class method. Under this guidance, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements) to conform to the provisions of this FSP. The Company adopted this standard on January 1, 2009, as required. See Note 14 for further details on the impact of the adoption of this Staff Position.

In May 2008, the FASB issued FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)" ("ASC 470-20-65-1"). This guidance requires the initial proceeds from convertible debt that may be settled in cash be bifurcated between a liability component and an equity component. The objective of the guidance is to require the liability and equity components of convertible debt to be separately accounted for in a manner such that the interest expense recorded on the convertible debt would not equal the contractual rate of interest on the convertible debt, but instead would be recorded at a rate that would reflect the issuer's conventional non-convertible debt borrowing rate at the date of issuance. This is accomplished through the creation of a discount on the debt that would be accreted using the effective interest method as additional non-cash interest expense over the period the debt is

expected to remain outstanding. The provisions of this guidance will be applied retrospectively to all periods presented for fiscal years beginning after December 31, 2008. Upon adoption, on January 1, 2009, the Company adjusted its Consolidated Balance Sheet as of December 31, 2007 (inception of the Convertible Note) by reducing the carrying value of the debt and increasing additional paid-in capital by \$36.5 million which represented the value of the conversion feature. The Consolidated Statements of Operations for the years ended December 31, 2008 and 2007 were retroactively adjusted to include an additional \$6.4 million and \$1.5 million, respectively, of interest expense from the adoption of the guidance. See Notes 9 and 14 for further details on the impact of the adoption of this guidance.

In April 2008, the FASB issued FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("ASC 350-30-65-1"). This guidance will remove the requirement for an entity to consider whether the intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions associated with the intangible asset when determining the useful life of an acquired intangible asset. The standard replaces the previous useful-life assessment criteria with a requirement that an entity considers its own experience in renewing similar arrangements. If the entity has no relevant experience, it would consider market participant assumptions regarding renewal. This guidance is effective prospectively for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption was prohibited. The Company adopted this guidance on January 1, 2009, as required, and it did not have a significant impact on the Company's Consolidated Financial Statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" ("ASC 815-10-65-1"). This guidance requires companies to provide enhanced disclosures regarding derivative instruments and hedging activities. It requires companies to better convey the purpose of derivative use in terms of the risks that the Company is intending to manage. Disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for, and (c) how derivative instruments and related hedged items affect a company's financial position, financial performance, and cash flows are required. This guidance is effective for fiscal years and interim periods beginning after November 15, 2008 and does not require comparative period disclosures in the year of adoption. The Company adopted ASC 815-10-65-1 on January 1, 2009, as required, and it did not have a significant impact on the Company's Consolidated Financial Statements. Throughout 2008 and 2009, the Company has significantly reduced its derivative activities.

In February 2008, the FASB issued FSP 157-2, "Effective Date of FASB Statement No. 157" ("ASC 820-10-65-1"). This guidance

provided a one-year deferral of the effective date of fair value measurements and disclosures for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. These non-financial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and non-financial assets acquired and liabilities assumed in a business combination. The Company adopted the provisions of ASC 820-10-65-1 on January 1, 2009, as required. See Note 16 for additional disclosures required by the adoption of this standard.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("ASC 805-10-65-1"). ASC 805-10-65-1 expands the definition of transactions and events that qualify as business combinations, requires that the acquired assets and liabilities, including contingencies, be recorded at the fair value determined on the acquisition date and changes thereafter are reflected in revenue, not goodwill; changes the recognition timing for restructuring costs, and requires acquisition costs to be expensed as incurred. Adoption of this guidance is required for combinations made in annual reporting periods on or after December 15, 2008. Early adoption and retroactive application of ASC 805-10-65-1 to fiscal years preceding the effective date are not permitted. The Company adopted this guidance on January 1, 2009, as required, and it did not have a significant impact on the Company's Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interest in Consolidated Financial Statements an amendment of ARB No. 51" ("ASC 810-10-65-1"). This guidance re-characterizes minority interests in consolidated subsidiaries as noncontrolling interests and requires the classification of minority interests as a component of equity. Under this guidance, a change in control is measured at fair value, with any gain or loss recognized in earnings. The effective date for this guidance is for annual periods beginning on or after December 15, 2008. Early adoption and retroactive application of ASC 810-10-65-1 to fiscal years preceding the effective date are not permitted. The Company adopted this standard on January 1, 2009, as required, and reclassified the carrying value of certain noncontrolling interests (previously referred to as minority interests) from the mezzanine section of the balance sheet to equity. Net income on the Consolidated Statements of Operations now includes the operating results of both the Company and its related noncontrolling interest holders. In accordance with ASC 480-10, "Distinguishing Liabilities and Equity," subsidiaries where the noncontrolling interest holder has certain redemption rights have been classified as "Redeemable noncontrolling interests" on the Consolidated Balance Sheets and their related operating income or loss have been included in "Net (income) loss attributable to noncontrolling interests" on the Consolidated Statements of Operations. See Note 11 for additional disclosures required by the adoption of this standard.

Note 4 – Loans and Other Lending Investments, net

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

Type of Investment ⁽¹⁾	As of December 31, 2009					As of December 31, 2008				
	Loan Count	Performing Loans	Loan Count	Non-performing Loans ⁽²⁾	Total	Loan Count	Performing Loans	Loan Count	Non-performing Loans ⁽²⁾	Total
Senior Mortgages	108	\$3,791,633	73	\$4,049,300	\$7,840,933	200	\$7,195,752	67	\$3,363,464	\$10,559,216
Subordinate Mortgages	17	401,532	4	89,881	491,413	20	575,942	3	13,624	589,566
Corporate/Partnership Loans	19	887,555	6	70,074	957,629	37	1,354,872	3	81,069	1,435,941
Managed Loan Value ⁽³⁾	144	5,080,720	83	4,209,255	9,289,975	257	9,126,566	73	3,458,157	12,584,723
Participated portion of loans ⁽³⁾		(174,936)		(298,333)	(473,269)		(948,585)		(349,359)	(1,297,944)
Total Loans		\$4,905,784		\$3,910,922	8,816,706		\$8,177,981		\$3,108,798	11,286,779
Reserves for loan losses					(1,417,949)					(976,788)
Total Loans, net					7,398,757					10,309,991
Other lending investments – securities					262,805					276,653
Total Loans and other lending investments, net					\$7,661,562					\$10,586,644

Explanatory Notes:

- (1) Loans and other lending investments are presented net of unearned income, unamortized discounts and premiums and net unamortized deferred fees and costs. In total, these amounts represented a net discount of \$97.0 million and \$109.8 million as of December 31, 2009 and 2008, respectively.
- (2) Non-performing loans have been determined to be impaired in accordance with the Company's policy and are on non-accrual status (see Note 3). As of December 31, 2009 and 2008, the Company had non-accrual loans with a total carrying value of \$4.13 billion and \$3.11 billion, respectively, which included non-performing loans and certain loans that were restructured in troubled debt restructurings.
- (3) Managed Loan Value represents the Company's carrying value of a loan and the outstanding participation interest on loans in the Fremont CRE portfolio (see Fremont Participation below). The structure of the participation puts the Company in the first loss position on these participated loans and Managed Loan Value is the most relevant measure of the Company's exposure to risk of loss on loans in the Fremont CRE portfolio.

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

Reserve for loan losses, December 31, 2006	\$ 52,201
Provision for loan losses	185,000
Charge-offs	(19,291)
Reserve for loan losses, December 31, 2007	217,910
Provision for loan losses	1,029,322
Charge-offs	(270,444)
Reserve for loan losses, December 31, 2008 ⁽¹⁾	976,788
Provision for loan losses	1,255,357
Charge-offs	(814,196)
Reserve for loan losses, December 31, 2009 ⁽¹⁾	\$1,417,949

Explanatory Note:

- (1) Total reserve for loan losses at December 31, 2009 and 2008, included asset-specific reserves of \$1.24 billion and \$799.6 million, respectively, and general reserves of \$174.9 million and \$177.2 million, respectively (see Note 3).

During the year ended December 31, 2009, the Company funded \$1.22 billion under existing loan commitments and received gross principal repayments of \$1.85 billion, a portion of which was allocable to the Fremont Participation (as defined below). During the same period, the Company sold loans with a total carrying value of

\$875.8 million, for which it recognized charge-offs of \$155.1 million. In addition, during 2009 the Company received title to properties in full or partial satisfaction of non-performing mortgage loans with a carrying value of \$1.88 billion for which the properties had served as collateral, and recorded charge-offs totaling \$573.6 million, related to these loans. These properties were recorded as OREO and REHI on the Company's Consolidated Balance Sheets (see Note 5).

The carrying value of impaired loans was \$4.20 billion and \$3.26 billion as of December 31, 2009 and 2008, respectively. As of December 31, 2009, the Company assessed each of the impaired loans for specific impairment and determined that non-performing loans with a carrying value of \$3.38 billion required specific reserves totaling \$1.24 billion and that the remaining impaired loans did not require any specific reserves. The average carrying value of total impaired loans was approximately \$4.04 billion and \$1.65 billion during the years ended December 31, 2009 and 2008, respectively. The Company recorded interest income on cash payments from impaired loans of \$14.3 million, \$5.3 million and \$4.9 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Fremont Participation – On July 2, 2007, the Company completed the acquisition of the commercial real estate lending business and \$6.27 billion commercial real estate loan portfolio from Fremont

Investment & Loan, a subsidiary of Fremont General Corporation, pursuant to a definitive purchase agreement dated May 21, 2007. Concurrently, the Company completed the sale of a \$4.20 billion participation interest ("Fremont Participation") in the same loan portfolio to Fremont Investment and Loan pursuant to a definitive loan participation agreement dated July 2, 2007.

The Company accounted for the business combination under the purchase method. Under the purchase method, the assets acquired and liabilities assumed were recorded at their fair values as of the acquisition date. The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill and was allocated to the Real Estate Lending reporting unit. The goodwill was subsequently written off during 2008 (see Note 3 for further detail). As of the date of the acquisition total loan principal purchased was \$6.27 billion with net loan discounts of \$265.8 million and the total loan participation interest sold was \$4.20 billion.

Under the terms of the loan participation agreement, the Company is responsible for funding unfunded loan commitments associated with the portfolio over the next several years. The balance of unfunded loan commitments required to be funded under the participation was \$198.1 million as of December 31, 2009. In addition, the Company will pay 70% of all principal collected from the purchased loan portfolio, including principal collected from the unfunded loan commitments, to the holder of the Fremont Participation, until the original \$4.20 billion principal amount of the loan participation interest is repaid. The participation interest pays floating interest at LIBOR + 1.50% and the Company accounted for the issuance of the participation as a sale in accordance with ASC 860.

Changes in the outstanding acquired loan portfolio participation balance were as follows (in thousands):

Loan participation, July 2, 2007	\$ 4,201,208
Principal repayments ⁽¹⁾	(1,220,970)
Loan participation, December 31, 2007	2,980,238
Principal repayments ⁽¹⁾	(1,682,294)
Loan participation, December 31, 2008	1,297,944
Principal repayments ⁽¹⁾	(824,675)
Loan participation, December 31, 2009	\$ 473,269

Explanatory Note:

(1) Includes \$66.8 million, \$138.0 million, \$191.9 million of principal repayments received by the Company as of December 31, 2009, 2008 and 2007, respectively, that had not yet been remitted to the Fremont Participation holder and are reflected as a payable in "Accounts payable, accrued expenses and other liabilities" on the Company's Consolidated Balance Sheets.

Loans acquired with deteriorated credit quality – The Company holds certain loans initially acquired at a discount, for which it was probable, at acquisition, that all contractually required payments would not be received. As of December 31, 2009 and 2008, these loans had cumulative principal balances of \$168.6 million and \$208.8 million, respectively, and cumulative carrying values of \$148.3 million and \$175.1 million, respectively. The Company does not have a reasonable expectation about the timing and amount of cash flows expected to be collected on these loans and is recognizing income when cash is received or applying cash to reduce the carrying value of the loans. The majority of these loans were acquired in the acquisition of Fremont CRE.

Securities – As of December 31, 2009, Other lending investments-securities included the following (in thousands):

Description	Face Value	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Net Carrying Value
Available-for-Sale Securities						
Corporate debt securities	\$ 10,000	\$ 2,594	\$4,206	\$ –	\$ 6,800	\$ 6,800
Held-to-Maturity Securities						
Corporate debt securities	238,671	238,103	–	(3,473)	234,630	238,103
Commercial mortgage-backed securities	24,098	17,902	–	(575)	17,327	17,902
Total	\$272,769	\$258,599	\$4,206	\$(4,048)	\$258,757	\$262,805

During the years ended December 31, 2009, 2008 and 2007, the Company determined that unrealized credit related losses on certain held-to-maturity and available-for-sale debt securities were other-than-temporary and recorded impairment charges totaling \$11.7 million, \$120.0 million and \$134.9 million, respectively, in "Impairment of other assets" on the Consolidated Statements of Operations. There are no other-than-temporary impairments recorded in "Accumulated other comprehensive income" on the Company's Consolidated Balance Sheet as of December 31, 2009.

As of December 31, 2009, the contractual maturities of the Company's securities were as follows (in thousands):

Maturities	Available-for-sale securities		Held-to-maturity securities	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
1 through 5 years	\$ –	\$ –	\$220,591	\$220,016
5 through 10 years	2,594	6,800	35,132	31,659
10 years and thereafter	–	–	282	282
Total	\$2,594	\$6,800	\$256,005	\$251,957

Encumbered Loans – As of December 31, 2009 and 2008, loans and other lending investments with a carrying value of \$4.39 billion and \$1.18 billion, respectively, were pledged as collateral under the Company's secured indebtedness.

Note 5 – Real Estate Held for Investment, Net and Other Real Estate Owned

During the years ended December 31, 2009 and 2008, the Company received title to properties in full or partial satisfaction of non-performing mortgage loans, with an estimated fair value of \$1.30 billion and \$316.7 million, respectively. Of the properties received in 2009, properties with a value of \$399.6 million was classified as REHI and \$904.2 million as OREO based on management's strategy to either hold the properties over a longer period or to market them for sale. All properties received in 2008 were classified as OREO.

Real estate held for investment, net – REHI consisted of the following (in thousands):

	As of December 31,	
	2009	2008
Land held for investment and development	\$290,283	\$ –
Other operating properties	135,281	–
Less: accumulated depreciation and amortization	(2,900)	–
Real estate held for investment, net	\$422,664	\$ –

The Company recorded operating income of \$5.8 million and operating expenses of \$12.5 million related to REHI for the year ended December 31, 2009.

Other real estate owned – The Company's OREO consisted of the following property types (in thousands):

	As of December 31,	
	2009	2008
Condo Construction – Completed	\$487,718	\$ 69,951
Condo Conversion	114,400	71,602
Land	111,969	8,468
Multifamily	68,467	53,579
Retail	41,587	13,532
Hotel	15,000	–
Mixed Use/Mixed Collateral	–	25,373
Gross carrying value	\$839,141	\$242,505

As a result of deteriorating market conditions, the Company recorded impairment charges to OREO properties totaling \$78.6 million and \$55.6 million, for the years ended December 31, 2009 and 2008, respectively. In addition, during the years ended December 31, 2009, 2008 and 2007, the Company recorded expenses related to holding costs for OREO properties of \$28.4 million, \$9.3 million and \$0.5 million, respectively.

Encumbered OREO and REHI assets – As of December 31, 2009, OREO assets with a carrying value of \$232.7 million and REHI assets with a carrying value of \$27.1 million were pledged as collateral for the Company's secured indebtedness.

Note 6 – Corporate Tenant Lease Assets, net

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

	As of December 31,	
	2009	2008
Facilities and improvements	\$2,761,083	\$2,828,747
Land and land improvements	639,581	669,320
Less: accumulated depreciation	(514,768)	(453,256)
Corporate tenant lease assets, net	\$2,885,896	\$3,044,811

During the year ended December 31, 2009, the Company disposed of CTL assets for net proceeds of \$64.6 million, which resulted in gains of \$12.4 million. In addition, during 2009 the Company recorded impairment charges of \$19.4 million on CTL assets as the result of deteriorating market conditions.

During the years ended December 31, 2008 and 2007, respectively, the Company acquired an aggregate of \$2.0 million and \$314.9 million of CTL assets and disposed of CTL assets for net proceeds of \$424.1 million and \$70.2 million, respectively, which resulted in gains of \$64.5 million and \$7.8 million, respectively. During 2008, the Company recorded impairment charges of \$11.6 million on CTL assets as the result of changing market conditions.

The Company receives reimbursements from customers for certain facility operating expenses including common area costs, insurance and real estate taxes. Customer expense reimbursements for the years ended December 31, 2009, 2008 and 2007 were \$36.1 million, \$37.4 million and \$34.5 million, respectively, and are included as a reduction of "Operating costs – corporate tenant lease assets" on the Company's Consolidated Statements of Operations.

Future minimum operating lease payments – Future minimum operating lease payments under non-cancelable leases, excluding customer reimbursements of expenses, in effect at December 31, 2009, are as follows (in thousands):

Year	
2010	\$ 285,215
2011	283,136
2012	274,920
2013	265,176
2014	257,079
Thereafter	1,987,671

Encumbered CTL assets – As of December 31, 2009 and 2008, CTL assets with a net book value of \$2.59 billion and \$1.52 billion, respectively, were encumbered with mortgages or pledged as collateral for the Company's debt.

Equity method investments

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

	Carrying value at December 31,		Equity in earnings for the years ended December 31,		
	2009	2008	2009	2008	2007
Oak Hill	\$180,372	\$182,638	\$ 21,745	\$20,644	\$ 25,980
Madison Funds	75,096	60,355	(5,620)	(7,392)	2,804
TimberStar Southwest	93	6,167	(255)	(3,499)	(14,460)
Other	83,441	77,088	(10,572)	(3,218)	15,302
Total	\$339,002	\$326,248	\$ 5,298	\$ 6,535	\$ 29,626

Oak Hill – As of December 31, 2009, the Company owned 47.5% interests in Oak Hill Advisors, L.P., Oak Hill Credit Alpha MGP, LLC, Oak Hill Credit Opportunities MGP, LLC, OHA Finance MGP, LLC, OHA Capital Solutions MGP, LLC, OHA Strategic Credit Fund, LLC, OHA Leveraged Loan Portfolio GenPar, LLC, Oak Hill Credit OPP Fund, LP, OHA Structured Products MGP, LLC, and 48.1% interests in OHSF GP Partners II, LLC and OHSF GP Partners (Investors), LLC, (collectively, "Oak Hill"). The Company appointed to its Board of Directors a member that holds a substantial investment in Oak Hill. As such Oak Hill is a related party of the Company. Oak Hill engages in investment and asset management services. The Company has determined that all of these entities are variable interest entities and that an external member is the primary beneficiary. Upon acquisition of the original interests in Oak Hill, there was a difference between the Company's carrying value of its equity investments and the underlying equity in the net assets of Oak Hill of \$200.2 million. The Company allocated this value to identifiable intangible assets of \$81.8 million and goodwill of \$118.4 million. The unamortized balance related to intangible assets for these investments was \$45.3 million and \$51.2 million as of December 31, 2009 and 2008, respectively.

Madison Funds – As of December 31, 2009, the Company owned a 29.52% interest in Madison International Real Estate Fund II, LP, a 32.92% interest in Madison International Real Estate Fund III, LP

Note 7 – Other Investments

Other investments consist of the following items (in thousands):

	As of December 31,	
	2009	2008
Equity method investments	\$339,002	\$326,248
CTL in-place lease intangibles, net ⁽¹⁾	48,751	58,499
Marketable securities at fair value	38,454	8,083
Cost method investments	6,923	54,488
Other investments	\$433,130	\$447,318

Explanatory Note:

(1) Accumulated amortization on CTL intangibles was \$33.1 million and \$24.1 million as of December 31, 2009 and 2008, respectively.

and a 29.52% interest in Madison GP1 Investors, LP (collectively, the "Madison Funds"). The Madison Funds invest in illiquid ownership positions of entities that own real estate assets.

Other equity method investments – The Company also had smaller investments in several other entities that were accounted for under the equity method where the Company has ownership interests up to 50.0%. Several of these investments are in real estate related funds or other strategic investment opportunities within niche markets.

During the year ended December 31, 2009, the Company recorded a non-cash out-of-period charge of \$9.4 million to recognize additional losses from an equity method investment as a result of additional depreciation expense that should have been recorded at the equity method entity. This adjustment was recorded as a reduction to "Other investments" on the Company's Consolidated Balance Sheets and a decrease to "Earnings from equity method investments," on the Company's Consolidated Statements of Operations. The Company concluded that the amount of losses that should have been recorded in periods beginning in July 2007 were not material to any of its previously issued financial statements. The Company also concluded that the cumulative out-of-period charge was not material to the fiscal year in which it has been recorded. As such,

the charge was recorded in the Company's Consolidated Statements of Operations for the year ended December 31, 2009, rather than restating prior periods.

TimberStar Southwest – Prior to selling its interest, the Company owned a 46.7% interest in TimberStar Southwest Holdco LLC ("TimberStar Southwest"), through its majority-owned subsidiary TimberStar. The Company accounted for this investment under the equity method due to the venture's external partners having certain participating rights giving them shared control. In April 2008, the Company closed on the sale of TimberStar Southwest for a gross sales price of \$1.71 billion, including the assumption of debt. The Company received net proceeds of \$417.0 million for its interest in the venture and recorded a gain of \$280.2 million, which includes \$18.6 million attributable to noncontrolling interests. The amounts were recorded in "Gain on sale of joint venture interest" and "Gain on sale of joint venture interest attributable to noncontrolling interests" on the Company's Consolidated Statements of Operations.

CTL in-place lease intangible assets, net

As of December 31, 2009 and 2008, the Company had \$48.8 million and \$58.5 million, respectively, of unamortized finite-lived intangible assets primarily related to the prior acquisition of CTL facilities. Amortization expense for these intangible assets was \$9.6 million, \$8.9 million and \$7.5 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Marketable securities at fair value

As of December 31, 2009 and 2008, marketable securities included trading securities with a fair market value of \$38.2 million and \$7.9 million, respectively. Trading securities are recorded at their fair market value with gains and losses included in "Other income" on the Company's Consolidated Statements of Operations. For the years ended December 31, 2009 and 2008, the Company recognized gains (losses) of \$15.5 million, and \$(0.9) million, respectively, from trading securities.

Cost method investments

The Company has investments in several real estate related funds or other strategic investment opportunities that are accounted for under the cost method. During the years ended December 31, 2009, 2008 and 2007, the Company determined that unrealized losses on certain of its cost method investments were other-than-temporary and recorded impairment charges of \$7.5 million, \$87.0 million and \$9.3 million, respectively.

During the year ended December 31, 2008, the Company redeemed its interest in a profits participation that was originally received as part of a prior lending investment and carried as a cost method investment prior to redemption. As a result of the transaction, the Company received cash of \$44.2 million and recorded an equal amount of income in "Other income" on the Company's Consolidated Statements of Operations. In addition, during 2008, the Company also exchanged an investment with a carrying value of \$97.4 million, net of noncontrolling interest, for a \$109.0 million

loan receivable, which resulted in a net gain of \$12.0 million. The gain was recorded in "Other income" on the Consolidated Statements of Operations.

Timber and timberlands

On June 30, 2008, the Company closed on the sale of its Maine timber property for net proceeds of \$152.7 million, resulting in a total gain of \$27.0 million, which includes \$3.7 million attributable to noncontrolling interests. These gains are included in "Gain from discontinued operations" and "Gain from discontinued operations attributable to noncontrolling interests" on the Company's Consolidated Statements of Operations. The Company reflected net income from the operations of its Maine timber property of \$2.3 million and \$3.3 million in "Income (loss) from discontinued operations" for the years ended December 31, 2008 and 2007, respectively.

Note 8 – Other Assets and Other Liabilities

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

	As of December 31,	
	2009	2008
Deferred financing fees, net ⁽¹⁾	\$ 41,959	\$ 25,387
Other receivables	15,235	29,036
Leasing costs, net ⁽²⁾	14,830	16,072
Corporate furniture, fixtures and equipment, net ⁽³⁾	14,550	16,640
Goodwill	-	4,186
Other assets	22,632	27,703
Deferred expenses and other assets, net	\$109,206	\$119,024

Explanatory Notes:

- (1) Accumulated amortization on deferred financing fees was \$30.3 million and \$24.1 million as of December 31, 2009 and 2008, respectively.
- (2) Accumulated amortization on leasing costs was \$11.2 million and \$8.7 million as of December 31, 2009 and 2008, respectively.
- (3) Accumulated depreciation on corporate furniture, fixture and equipment was \$9.4 million and \$7.2 million as of December 31, 2009 and 2008, respectively.

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

	As of December 31,	
	2009	2008
Fremont Participation payable (see Note 4)	\$ 67,711	\$141,717
Accrued interest payable	49,697	87,057
Accrued expenses	37,388	41,745
Security deposits from customers	24,763	17,550
Unearned operating lease income	17,153	21,659
Deferred tax liabilities	9,336	6,900
Property taxes payable	5,211	5,187
Other liabilities	40,851	32,677
Accounts payable, accrued expenses and other liabilities	\$252,110	\$354,492

Note 9 – Debt Obligations, net

As of December 31, 2009 and 2008, the Company's debt obligations were as follows (in thousands):

	Carrying Value as of		Stated Interest Rates	Scheduled Maturity Date
	2009	2008		
Secured revolving credit facilities:				
Line of credit ⁽¹⁾	\$ -	\$ 306,867	-	-
Line of credit	625,247	-	LIBOR + 1.50% ⁽²⁾	June 2011
Line of credit	334,180	-	LIBOR + 1.50% ⁽²⁾	June 2012
Unsecured revolving credit facilities:				
Line of credit	504,305	2,122,904	LIBOR + 0.85% ⁽²⁾	June 2011
Line of credit	244,295	1,158,369	LIBOR + 0.85% ⁽²⁾	June 2012
Total revolving credit facilities	1,708,027	3,588,140		
Secured term loans:				
Collateralized by investments in corporate debt	-	300,000	-	-
Collateralized by CTLs	947,862	947,862	Greater of 6.25% or LIBOR + 3.40%	April 2011
Collateralized by loans, CTLs, REHI and OREO	1,055,000	-	LIBOR + 1.50% ⁽²⁾	June 2011
Collateralized by loans, CTLs, REHI and OREO ⁽⁴⁾	621,221	-	LIBOR + 1.50% ⁽²⁾	June 2012
Collateralized by loans, CTLs, REHI and OREO	1,000,000	-	LIBOR + 2.50%	June 2012
Collateralized by CTLs	114,279	117,371	11.438%	December 2020
Collateralized by CTLs and OREO ⁽³⁾	260,980	241,094	LIBOR + 1.65%	
			6.4%–8.4%	Various through 2029
Total secured term loans	3,999,342	1,606,327		
Secured notes:				
8.0% senior notes ⁽⁴⁾	155,253	-	8.0%	March 2011
10.0% senior notes ⁽⁴⁾	479,548	-	10.0%	June 2014
Total secured notes	634,801	-		
Unsecured notes:				
4.875% senior notes	-	249,627	-	-
LIBOR + 0.55% senior notes	-	176,550	-	-
LIBOR + 0.34% senior notes	-	465,000	-	-
LIBOR + 0.35% senior notes	158,699	480,000	LIBOR + 0.35%	March 2010
5.375% senior notes	143,509	245,000	5.375%	April 2010
6.0% senior notes	251,086	334,820	6.0%	December 2010
5.80% senior notes	192,890	239,500	5.80%	March 2011
5.125% senior notes	175,168	241,150	5.125%	April 2011
5.650% senior notes	286,787	461,595	5.650%	September 2011
5.15% senior notes	406,996	603,768	5.15%	March 2012
5.500% senior notes	146,470	230,700	5.500%	June 2012
LIBOR + 0.50% senior convertible notes	787,750	787,750	LIBOR + 0.50%	October 2012
8.625% senior notes	508,701	697,293	8.625%	June 2013
5.95% senior notes	459,453	795,227	5.95%	October 2013
6.5% senior notes	75,635	128,715	6.5%	December 2013
5.70% senior notes	206,601	295,099	5.70%	March 2014
6.05% senior notes	105,765	201,880	6.05%	April 2015
5.875% senior notes	261,403	407,748	5.875%	March 2016
5.850% senior notes	99,722	189,530	5.850%	March 2017
Total unsecured notes	4,266,635	7,230,952		
Other debt obligations	100,000	100,000	LIBOR + 1.5%	October 2035
Total debt obligations	10,708,805	12,525,419		
Debt premiums/(discounts), net ⁽⁴⁾	186,098	(39,015)		
Total debt obligations, net	\$10,894,903	\$12,486,404		

Explanatory Notes:

- (1) This credit line was fully repaid and terminated in 2009.
- (2) These revolving and term loan commitments have an annual commitment fee of 0.20%.
- (3) Includes the balance of a \$35.2 million non-recourse senior secured term loan which the Company recorded in 2009 in conjunction with taking ownership of a property that was previously financed by a mezzanine loan funded by the Company and by a senior secured term loan of a third-party lender.
- (4) As of December 31, 2009, debt premiums/(discounts), net includes debt premiums of \$221.3 million associated with the secured notes and resulted from the unsecured/secured note exchange transactions completed in May 2009 (see below). In addition, amount includes debt discounts related to unsecured convertible notes of \$32.7 million and other premiums and discounts on other debt obligations.

Future Scheduled Maturities – As of December 31, 2009, future scheduled maturities of outstanding long-term debt obligations, net are as follows (in thousands):

2010	\$ 586,772
2011	4,022,349
2012 ⁽¹⁾	3,540,912
2013	1,099,730
2014	686,149
Thereafter	772,893
Total principal maturities	10,708,805
Unamortized debt premiums, net	186,098
Total long-term debt obligations, net	\$10,894,903

Explanatory Note:

(1) As further discussed in Debt Covenants below, although due in 2012, as presented above, if the Company does not pay down the outstanding balance of its \$1.00 billion First Priority Credit Agreement by \$500 million by September 30, 2010, payments of principal and net sale proceeds received by the Company in respect of assets constituting collateral for its obligation under this agreement must be applied towards the mandatory prepayment of the loan and commitment reductions under the agreement.

Significant debt transactions in 2009:

Credit Facilities Restructuring – In March 2009, the Company entered into a \$1.00 billion First Priority Credit Agreement with participating members of its existing bank lending group. The First Priority Credit Agreement will mature in June 2012. Borrowings bear interest at the rate of LIBOR + 2.50% per year, subject to adjustment based upon the Company's corporate credit ratings (see Ratings Triggers below) and are collateralized by a first-priority lien on a pool of collateral consisting of loans, debt securities, corporate tenant lease assets and other assets pledged under the First and Second Priority Credit Agreements and the Second Priority Secured Exchange Notes (see below). As of December 31, 2009, the First Priority Credit Agreement was fully drawn with \$1.00 billion of secured term loans outstanding.

Also in March 2009, the Company restructured its two unsecured revolving credit facilities by entering into Second Priority Credit Agreements, with \$1.70 billion maturing in 2011 and \$950.0 million maturing in 2012, with the same lenders participating in the First Priority Credit Agreement. Such lenders' commitments under the Company's unsecured facilities have been terminated and replaced by their commitments under the Second Priority Credit Agreements. Under these agreements, the participating lenders have a second priority lien on the same collateral pool securing the First Priority Credit Agreement and the Second Priority Secured Exchange Notes (see Unsecured/Secured Note Exchange below). As of December 31, 2009, outstanding borrowings under the Second Priority Credit Agreements include \$625.2 million and \$334.2 million of revolving loans as well as \$1.06 billion and \$621.2 million of term loans due in June 2011 and June 2012, respectively. Borrowings bear interest at the rate of LIBOR + 1.50% per year, subject to adjustment based upon the Company's corporate credit ratings (see Ratings

Triggers below). As of December 31, 2009, there was approximately \$2.1 million that was immediately available to draw under the Second Priority Credit Agreement.

At December 31, 2009, the total carrying value of assets pledged as collateral under the First and Second Priority Credit Agreements and the Second Priority Secured Exchange Notes was \$5.73 billion.

Concurrently with entering into the First and Second Priority Credit Agreements, the Company entered into amendments to its \$2.22 billion and \$1.20 billion unsecured revolving credit facilities. As of December 31, 2009, after giving effect to the amendments, outstanding balances on the unsecured credit facilities were \$504.3 million, which will expire in June 2011, and \$244.3 million, which will expire in June 2012. The amendments eliminated certain covenants and events of default. The unsecured revolving credit facilities may not be repaid prior to maturity while the First and Second Priority Credit Agreements remain outstanding. These facilities remain unsecured and no changes were made to the pricing terms of these facilities in connection with these amendments.

Unsecured/Secured Notes Exchange – On May 8, 2009, the Company completed a series of private offers in which the Company issued \$155.3 million aggregate principal amount of its 8.0% second priority senior secured guaranteed notes due 2011 ("2011 Notes") and \$479.5 million aggregate principal amounts of its 10.0% second priority senior secured guaranteed notes due 2014 ("2014 Notes" and together with the 2011 Notes, the "Second Priority Secured Exchange Notes") in exchange for \$1.01 billion aggregate principal amount of its senior unsecured notes of various series. The Second Priority Secured Exchange Notes are collateralized by a second priority lien on the same pool of collateral pledged under the First and Second Priority Credit Agreements. In conjunction with the exchange, the Company also purchased \$12.5 million par value of its outstanding senior floating rate notes due September 2009 in a cash tender offer.

The Company has accounted for the issuance of the 2014 Notes in exchange for various series of senior unsecured notes as a troubled debt restructuring. As such, the Company recognized a gain on the exchange to the extent that the prior carrying value of the senior unsecured notes exceeded the total future contractual cash payments of the 2014 Notes, consisting of both principal and interest. The issuance of the 2011 Notes in exchange for senior unsecured notes was considered a modification of the original debt resulting in adjustments to the carrying amounts for any new premiums or discounts. As a result of these transactions, including the purchase of \$12.5 million of outstanding senior floating notes due September 2009 in a cash tender offer, the Company recognized a \$107.9 million gain on early extinguishment of debt, net of closing costs of \$11.8 million, and recorded a deferred gain of \$262.7 million which is reflected as premiums to the par value of the new debt. These premiums are being amortized over the terms of the 2011 Notes and the 2014 Notes as a reduction to interest expense. As of

December 31, 2009, the remaining premiums to be amortized are \$215.8 million for the 2014 Notes and \$5.5 million for the 2011 Notes. In addition, in connection with the exchange for the 2011 Notes, the Company incurred \$4.3 million of direct costs which were recorded in "Other expense" on its Consolidated Statements of Operations.

Note Repurchases – During the year ended December 31, 2009, the Company repurchased, through open market and private transactions, \$1.31 billion par value of its senior unsecured notes with various maturities ranging from January 2009 to March 2017. In connection with these repurchases, the Company recorded an aggregate net gain on early extinguishment of debt of \$439.4 million for the year ended December 31, 2009.

Convertible Notes – As discussed in Note 3, the Company adopted the provisions of ASC 470-20-65-1 on January 1, 2009, as required. ASC 470-20-65-1 requires the Company to account for proceeds from the issuance of convertible notes separately between the liability component and the conversion option (or the equity component). This standard is applicable to the Company's \$800.0 million aggregate principal amount of convertible senior floating rate notes due October 2012 ("Convertible Notes"). The Convertible Notes are convertible at the option of the holders, into 22.2 shares per \$1,000 principal amount of Convertible Notes, on or after August 15, 2012, or prior to that date if (1) the price of the Company's Common Stock trades above 130% of the conversion price for a specified duration, (2) the trading price of the Convertible Notes is below a certain threshold, subject to specified exceptions, (3) the Convertible Notes have been called for redemption, or (4) specified corporate transactions have occurred. None of the conversion triggers have been met as of December 31, 2009.

As of December 31, 2009, the carrying value of the additional paid-in-capital, or equity component of the Convertible Notes, was \$37.4 million. As of December 31, 2009, the principal outstanding of the Convertible Notes was \$787.8 million, the unamortized discount was \$32.7 million and the net carrying amount of the liability was \$755.1 million. As required, the adoption was applied retrospectively to all periods presented for fiscal years beginning before December 31, 2008. For the years ended December 31, 2009, 2008 and 2007, the Company recognized interest on the Convertible Notes of \$21.0 million, \$42.3 million and \$12.1 million, respectively, in "Interest expense" on its Consolidated Statements of Operations, of which \$10.0 million, \$9.5 million and \$2.3 million, respectively, related to the amortization of the debt discount (see Note 14 for details on the impact of earnings per share due to the adoption).

Significant debt transactions in 2008:

Secured Term Loans – During 2008, the Company closed on a \$947.9 million secured term financing maturing in April 2011. This financing is collateralized by 34 properties in the Company's Corporate Tenant Lease portfolio and bears interest at the greater of 6.25% or LIBOR + 3.40%.

Note Repurchases – During the year ended December 31, 2008, the Company repurchased, through open market and private transactions \$900.7 million par value of its senior unsecured notes with various maturities ranging from January 2009 to March 2017. In connection with these repurchases, the Company recorded an aggregate net gain on early extinguishment of debt \$393.1 million for the year ended December 31, 2008.

Senior Note Issuances – In May 2008, the Company issued \$750.0 million aggregate principal amount of senior unsecured notes bearing interest at an annual rate of 8.625% and maturing in June 2013. The Company used the proceeds from the issuance of these securities primarily to repay outstanding indebtedness under its unsecured revolving credit facility. Simultaneous with the issuance of this debt, the Company also entered into interest rate swap agreements to swap the fixed interest rate on the \$750.0 million senior unsecured notes for a variable interest rate. During the year ended December 31, 2008, the Company terminated the swaps associated with these notes (see Note 12 for further details).

Debt Covenants

The Company's ability to borrow under its secured credit facilities depends on maintaining compliance with various covenants, including a minimum tangible net worth covenant and specified financial ratios, such as fixed charge coverage, unencumbered assets to unsecured indebtedness, eligible collateral coverage and leverage ratios. All of these covenants on the facilities are maintenance covenants and, if breached could result in an acceleration of the Company's facilities if a waiver or modification is not agreed upon with the requisite percentage of the unsecured lending group and lenders on the other facilities (see Business Risks and Uncertainties in Note 10). The Company's secured credit facilities also impose limitations on repayments, repurchases, refinancings and optional redemptions of its existing unsecured notes or secured exchange notes issued pursuant to the Company's exchange offer, as well as limitations on repurchases of its Common Stock. For so long as the Company maintains its qualification as a REIT, the secured credit facilities permit the Company to distribute 100% of its REIT taxable income on an annual basis. The Company may not pay common dividends if it ceases to qualify as a REIT.

The Company's publicly held debt securities also contain covenants that include fixed charge coverage and unencumbered assets to unsecured indebtedness ratios and its secured debt securities have an eligible collateral coverage requirement. The fixed charge coverage ratio is an incurrence test. If the Company does not meet the fixed charge coverage ratio, its ability to incur additional indebtedness will be restricted. The unencumbered assets to unsecured indebtedness covenant and the eligible collateral coverage covenant are maintenance covenants and, if breached and not cured within applicable cure periods, could result in acceleration of the Company's publicly held debt unless a waiver or modification is agreed upon with the requisite percentage of the bondholders.

Based on the Company's unsecured credit ratings at December 31, 2009, the financial covenants in its publicly held debt securities, including the fixed charge coverage ratio and maintenance of unencumbered assets to unsecured indebtedness ratio, are operative.

The Company's secured credit facilities and its public debt securities contain cross default provisions that would allow the lenders and the bondholders to declare an event of default and accelerate the Company's indebtedness to them if the Company fails to pay amounts due in respect of its other recourse indebtedness in excess of specified thresholds. In addition, the Company's secured credit facilities, unsecured credit facilities and the indentures governing its public debt securities provide that the lenders and bondholders may declare an event of default and accelerate its indebtedness to them if there is a non-payment default under the Company's other recourse indebtedness in excess of specified thresholds and, if the holders of the other indebtedness are permitted to accelerate, in the case of the secured credit facilities, or accelerate, in the case of its unsecured credit facilities and the bond indentures, the other recourse indebtedness.

Under certain circumstances, the First and Second Priority Credit Agreements require that payments of principal and net sale proceeds received by the Company in respect of assets constituting collateral for the Company's obligations under these agreements be applied toward the mandatory prepayment of loans and commitment reductions under them. The Company would be required to make such prepayments (i) during any time that the ratio of its EBITDA to fixed charges, as defined under the agreements, is less than 1.25 to 1.00, (ii) if, after receiving a payment of principal or net sale proceeds in respect of collateral, the Company has insufficient eligible assets available to pledge as replacement collateral or (iii) if, and for so long as, the aggregate principal amount of loans outstanding under the First Priority Credit Agreement exceeds \$500 million at any time on or after September 30, 2010, or zero at any time on or after March 31, 2011. The First and Second Priority Credit Agreements and indentures governing the Second Priority Secured Exchange Notes contain a number of covenants, including that the Company maintain collateral coverage of at least 1.3x the aggregate borrowings and letters of credit outstanding under the First Priority Credit Agreement, the Second Priority Credit Agreements and the Second Priority Secured Exchange Notes.

The Company believes it is in full compliance with all the covenants in its debt obligations as of December 31, 2009.

Ratings Triggers

The Company's First and Second Priority Secured Credit Agreements and unsecured credit agreements bear interest at LIBOR-based rates plus an applicable margin which varies between the Credit Agreements and is determined based on the Company's corporate credit ratings. The Company's ability to borrow under its credit facilities is not dependent on the level of its credit ratings. Based on the Company's current credit ratings, further downgrades in the Company's credit ratings will have no effect on its borrowing rates under these facilities.

Note 10 – Commitments and Contingencies

Business Risks and Uncertainties – The financial market conditions that began in late 2007, including the economic recession and tightening of credit markets, continued to significantly impact the commercial real estate market and financial services industry in 2009. The severe economic downturn led to a decline in commercial real estate values, which combined with a lack of available debt financing for commercial and residential real estate assets, limited borrowers' ability to repay or refinance their loans. Further, the ability of many of the Company's borrowers to sell units in residential projects has been adversely impacted by current economic conditions and the lack of end loan financing available to residential unit purchasers. The combination of these factors adversely affected our business, financial condition and operating performance, resulting in significant additions to non-performing assets, increases in the related provision for loan losses and a reduction in the level of liquidity available to finance our operations. These economic factors and their effect on our operations have resulted in increases in our financing costs, a continuing inability to access the unsecured debt markets, depressed prices for our Common Stock, the continued suspension of quarterly Common Stock dividends and has narrowed the Company's margin of compliance with debt covenants.

The Company's primary recourse debt instruments include its secured and unsecured bank credit facilities and its secured and unsecured public debt securities. The Company believes it is in full compliance with all the covenants in those debt instruments as of December 31, 2009, however, the Company's recent financial results have put pressure on the Company's ability to maintain compliance with certain of the debt covenants in its secured bank credit facilities. In particular, the Company's tangible net worth at December 31, 2009 was approximately \$1.7 billion, which is not significantly above the financial covenant minimum requirement in the Company's secured credit facilities of \$1.5 billion. The Company intends to operate its business in order to remain in compliance with the covenants in its debt instruments; however, it is possible that the Company will not be able to do so. A failure by the Company to satisfy a financial covenant in a debt instrument could trigger a default under that debt instrument and could give the lenders the ability to accelerate the debt if the default is not waived or cured. Most of the Company's recourse debt instruments contain cross default and/or cross acceleration provisions which may be triggered by defaults or accelerations of the Company's recourse debt above specified thresholds.

From a liquidity perspective, the Company expects to continue to experience significant uncertainty with respect to its sources of funds. The Company's cash flow may be affected by a variety of factors, many of which are outside of its control, including

volatility in the financial markets, the Company's borrowers' ability to repay their obligations and other general business conditions. As of December 31, 2009, the Company had \$224.6 million of unrestricted cash. The Company expects to need additional liquidity over the coming year to supplement expected loan repayments and cash generated from operations in order to meet its debt maturities and funding obligations. During 2009, the Company utilized its unencumbered assets to generate additional liquidity through secured financing transactions and a secured note exchange transaction, and also sold various assets. In addition, the Company has significantly curtailed its asset origination activities, reducing operating expenses and focused on asset management in order to maximize recoveries from existing asset resolutions. The Company intends to utilize all available sources of funds in today's financing environment, which could include additional financings secured by its assets, increased levels of asset sales, joint ventures and other third-party capital to meet its liquidity requirements. There can be no assurance that the company will possess sufficient liquidity to meet all of its debt service requirements in 2010. The failure to execute such alternatives successfully prior to debt maturity would have material adverse consequences on the Company. In addition the Company is exploring various alternatives to enable it to meet its significant 2011 debt maturities.

The Company has reacted to the adverse market conditions and liquidity and debt covenant pressures by implementing various initiatives, including the sale of assets and repurchases of its debt at a discount to par, which it believes will guide it through the difficult business conditions the Company expects to persist through 2010. The Company's public debt securities continue to trade at significant discounts to par. The Company has been able to partially mitigate the impact of the decline in operating results through the recognition of gains associated with the repurchase and retirement of debt at a discount, which has enabled it to maintain compliance with its debt covenants and to reduce outstanding indebtedness at discounts to par. The Company expects to continue to use available funds and other strategies to seek to retire its debt at a discount; however, there can be no assurance that the Company's efforts in this regard will be successful.

The Company's plans are dynamic and it expects to adjust its plans as market conditions change. If the Company is unable to successfully implement its plans, this would have material adverse consequences on the Company.

Unfunded Commitments – The Company has certain off-balance sheet unfunded commitments. The Company generally funds construction and development loans and build outs of CTL space over a period of time if and when the borrowers and tenants meet established milestones and other performance criteria. The

Company refers to these arrangements as Performance-Based Commitments. In addition, the Company will sometimes establish a maximum amount of additional fundings which it will make available to a borrower or tenant for an expansion or addition to a project if it approves of the expansion or addition at its sole discretion. The Company refers to these arrangements as Discretionary Fundings. Finally, the Company has committed to invest capital in several real estate funds and other ventures. These arrangements are referred to as Strategic Investments. As of December 31, 2009, the maximum amounts of the fundings the Company may make under each category, assuming all performance hurdles and milestones are met under Performance-Based Commitments, that it will approve all Discretionary Fundings and that 100% of its capital committed to Strategic Investments is drawn down are as follows (in thousands):

	Loans	CTL	Total
Performance-Based Commitments	\$616,400	\$13,074	\$629,474
Discretionary Fundings	137,685	-	137,685
Strategic Investments	N/A	N/A	73,139
Total	\$754,085	\$13,074	\$840,298

Other Commitments – As a result of the Company's decision to remain in its current space that is leased through 2021, the Company entered into a settlement agreement with a landlord regarding a separate long-term lease for new headquarters space dated May 22, 2007 (as amended and restated, the "Lease"). Under the settlement, the Company agreed to pay the landlord a \$42.4 million settlement payment in order to settle all disputes between the Company and the landlord relating to the Lease and the landlord agreed among other things, to terminate the Lease. For the year ended December 31, 2009, the Company recognized a \$42.4 million lease termination expense in "Other expense" on the Company's Consolidated Statements of Operations.

Total operating lease expense for the years ended December 31, 2009, 2008 and 2007 were \$13.3 million, \$7.9 million and \$7.1 million, respectively. Future minimum lease obligations under non-cancelable operating leases are as follows (in thousands):

2010	\$ 6,095
2011	5,945
2012	5,152
2013	4,558
2014	4,186
Thereafter	21,343

Note 11 – 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. As of December 31, 2009, 137.9 million common shares were issued and 94.2 million common shares were outstanding.

The Company had the following series of Cumulative Redeemable Preferred Stock outstanding as of December 31, 2009 and 2008:

Series	Shares Authorized Issued and Outstanding (in thousands)	Par Value	Cumulative Preferential Cash Dividends ⁽¹⁾⁽²⁾	
			Rate per Annum of the \$25.00 Liquidation Preference	Equivalent to Fixed Annual Rate (per share)
D	4,000	\$0.001	8.00%	\$2.00
E	5,600	\$0.001	7.875%	\$1.97
F	4,000	\$0.001	7.8%	\$1.95
G	3,200	\$0.001	7.65%	\$1.91
I	5,000	\$0.001	7.50%	\$1.88
	21,800			

Explanatory Notes:

- (1) Holders of shares of the Series D, E, F, G and I preferred stock are entitled to receive dividends, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends. 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 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.
- (2) There are no dividend arrearages on any of the preferred shares currently outstanding.

The Series D, E, F, G, and I Cumulative Redeemable Preferred Stock are redeemable without premium at the option of the Company at their respective liquidation preferences beginning on October 8, 2002, July 18, 2008, September 29, 2008, December 19, 2008 and March 1, 2009, respectively.

High Performance Unit Program

In May 2002, the Company's shareholders approved the iStar Financial High Performance Unit ("HPU") Program. The program entitled employee participants ("HPU Holders") to receive distributions if the total rate of return on the Company's Common Stock (share price appreciation plus dividends) exceeded certain performance thresholds over a specified valuation period. The Company established seven HPU plans that had valuation periods ending between 2002 and 2008 and the Company has not established any new HPU plans since 2005. HPU Holders purchased their interests in High Performance Common Stock for aggregate initial purchase prices of approximately \$2.8 million, \$1.8 million, \$1.4 million, \$0.6 million, \$0.7 million, \$0.6 million and \$0.8 million for the 2002, 2003, 2004, 2005, 2006, 2007 and 2008 plans, respectively.

The 2002, 2003 and 2004 plans all exceeded their performance thresholds and are entitled to receive distributions equivalent to the amount of dividends payable on 819,254 shares, 987,149 shares and 1,031,875 shares, respectively, of the Company's Common

Stock as and when such dividends are paid on the Company's Common Stock. Each of these three plans has 5,000 shares of High Performance Common Stock associated with it, which is recorded as a separate class of stock within shareholders' equity on the Company's Consolidated Balance Sheets. High Performance Common Stock carries 0.25 votes per share. Net income allocable to common shareholders is reduced by the HPU holders' share of earnings.

The remaining four plans that had valuation periods which ended in 2005, 2006, 2007 and 2008, did not meet their required performance thresholds and none of the plans were funded. As a result, the Company redeemed the participants' units for approximately \$1,700 resulting in the unit holders losing \$2.4 million of aggregate contributions.

In addition to these plans, a high performance unit program for executive officers was established with plans having three-year valuation periods which ended December 31, 2005, 2006, 2007 and 2008. The provisions of these plans were substantially the same as the high performance unit programs for employees. The Chief Executive Officer and former President collectively purchased 100% interests in the Company's 2005, 2006, 2007 and 2008 high performance unit program for senior executive officers for an aggregate purchase price of \$1.5 million. These plans did not meet the required performance thresholds and were not funded, resulting in the Chief Executive Officer and former President losing \$0.9 million and \$0.6 million in total contributions, respectively.

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% of its taxable income and must distribute 100% of its taxable income to avoid paying corporate federal income taxes. The Company has recorded net operating losses and may record significant net operating losses in the future, which may reduce its taxable income in future periods and lower or eliminate entirely the Company's obligation to pay dividends for such periods in order to maintain its REIT qualification. Because taxable income differs from cash flow from operations due to non-cash revenues and expenses

(such as depreciation and certain asset impairments), 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. The Company's secured credit facilities permits the Company to distribute 100% of its REIT taxable income on an annual basis, for so long as the Company maintains its qualification as a REIT. The secured credit facilities restrict the Company from paying any common dividends if it ceases to qualify as a REIT. The Company did not declare or pay any Common Stock dividends for the year ended December 31, 2009.

For tax reporting purposes:

Year	Total dividends declared in thousands ⁽¹⁾	Dividends per share	Ordinary Dividend		15% Capital Gain		25% Section 1250 Capital Gains	
			Per share	Percentage of dividends per share	Per share	Percentage of dividends per share	Per share	Percentage of dividends per share
2009	-	-	-	-	-	-	-	-
2008	\$236,052	\$1.74	\$0.1886	10.8%	\$1.3244	76.1%	\$0.2270	13.1%
2007	\$459,253	\$3.60	\$3.2622	90.7%	\$0.2875	8.0%	\$0.0453	1.3%

Explanatory Note:

(1) For the years ended December 31, 2008 and 2007, 25.6% (\$0.0483) and 2.6% (\$0.0850), respectively of the ordinary dividend qualify as a qualifying dividend for those shareholders who held shares for the Company for the entire year.

Stock Repurchase Program – On March 13, 2009, the Company's Board of Directors authorized the repurchase of up to \$50 million of Common Stock from time to time in open market and privately negotiated purchases, including pursuant to one or more trading plans.

During the year ended December 31, 2009, the Company repurchased 11.8 million shares of its outstanding Common Stock for approximately \$29.9 million, at an average cost of \$2.54 per share, and the repurchases were recorded at cost. As of December 31, 2009, the Company had \$21.5 million of Common Stock available to repurchase under authorized stock repurchase programs.

Noncontrolling Interest – The following table presents amounts attributable to iStar Financial Inc. and allocable to common shareholders, HPU holders and Participating Security holders (in thousands):

	For the Years Ended December 31,		
	2009	2008	2007
Amounts attributable to iStar Financial Inc. and allocable to common shareholders, HPU holders and Participating Security holders			
Income (loss) from continuing operations	\$(769,531)	\$(294,649)	\$199,616
Income (loss) from discontinued operations	(11,671)	3,855	29,970
Gain from discontinued operations	12,426	87,769	7,832
Net income (loss)	(768,776)	(203,025)	237,418
Preferred dividends	(42,320)	(42,320)	(42,320)
Net income (loss) allocable to common shareholders, HPU holders and Participating Security holders	\$(811,096)	\$(245,345)	\$195,098

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 points in time and potentially at different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's lending investments that result from a borrower's or corporate tenant's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of loans and other lending investments 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, the valuation of CTL facilities held by the Company and changes in foreign currency exchange rates.

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 monitors various segments of its portfolio to assess potential concentrations of credit risks. Management believes the current portfolio is reasonably well diversified and does not contain any unusual concentration of credit risks.

Substantially all of the Company's CTL assets and assets collateralizing its loans and other lending investments are located in the United States, with California 15.3%, New York 11.7%, and Florida 11.6% representing the only significant concentrations (greater than 10.0%) as of December 31, 2009. These assets also contain significant concentrations in the following asset types as of December 31, 2009: apartment/residential 27.1%, land 15.4% and office 13.3%. Additionally, 10.6% of the Company's asset base is comprised of loans collateralized by in-progress condo construction assets. These percentages are based on the gross carrying value of the assets in proportion to the total gross carrying value of the Company's total investment portfolio.

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 CTL 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, 2009, the Company's five largest borrowers or CTL tenants collectively accounted for approximately 14.8% of the Company's aggregate annualized interest and operating lease revenue, of which no single customer accounts for more than 5.0%.

Derivatives

The Company's use of derivative financial instruments is primarily limited to the utilization of interest rate hedges or other instruments to manage interest rate risk exposure and foreign exchange hedges to manage market risk exposure. The principal objective of such hedges are to minimize the risks and/or costs associated with the Company's operating and financial structure as well as to hedge specific anticipated debt issuances and to manage its exposure to foreign exchange rate movements. Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements, foreign exchange rate movements, and other identified risks, but may not meet the strict hedge accounting requirements.

At December 31, 2009 and 2008, respectively, derivatives with a fair value of \$0.8 million and \$3.9 million, respectively, were included in "Deferred expenses and other assets, net" and derivatives with a fair value of \$0.3 million and \$0.1 million, respectively, were included in "Accounts payable, accrued expenses and other liabilities" on the Company's Consolidated Balance Sheets. During the years ended December 31, 2008 and 2007, the Company recorded a net loss of \$16.7 million and net gains of \$0.2 million, respectively, related to ineffectiveness of interest rate swaps.

2009 hedging activity – During the year ended December 31, 2009, the Company did not have any significant hedging activity.

2008 hedging activity – During the year ended December 31, 2008, the Company had the following significant hedging activity:

- The Company paid \$11.1 million to terminate forward starting swap agreements with a notional amount of \$250.0 million. The Company determined the forecasted transaction was not probable of occurring and recorded \$8.2 million of losses that are recorded in "Other expense" on the Company's Consolidated Statements of Operations for the year ended December 31, 2008.
- The Company entered into two pay floating interest rate swap agreements, designated as fair value hedges, with notional amounts totaling \$750.0 million. These swap agreements were entered into in order to exchange the 8.625% fixed-rate interest payments on the Company's \$750.0 million senior notes due in 2013 for variable-rate interest payments based on three-month LIBOR + 3.84%. These swaps were terminated in 2008, as described in the following paragraph.
- The Company terminated \$1.76 billion of pay floating interest rate swaps that were designated as fair value hedges of certain unsecured notes. As a result of the terminations, the Company received \$51.1 million of cash, recorded a receivable of \$19.0 million and recorded premiums to the respective unsecured notes of \$65.7 million. The premiums amortize over the lives of the respective debt as an offset to "Interest expense" on the Company's Consolidated Statements of Operations. During the years ended December 31, 2008 and 2007, the Company recorded a net loss

of \$16.7 million and net gains of \$0.2 million, respectively, related to ineffectiveness on interest rate swaps. In addition, for the year ended December 31, 2008, the Company recognized a net loss of \$1.4 million for interest rate swaps not designated as hedges. All of these amounts were recorded in "Other expense" on the Company's Consolidated Statements of Operations.

Note 13 – Stock-Based Compensation Plans and Employee Benefits

On May 27, 2009, the Company's shareholders approved the Company's 2009 Long-Term Incentive Plan (the "2009 LTIP") which is designed to provide incentive compensation for officers, key employees, directors and advisors of the Company. The 2009 LTIP provides for awards of stock options, shares of restricted stock, phantom shares, restricted stock units, dividend equivalent rights and other share-based performance awards. A maximum of 8,000,000 shares of Common Stock may be awarded under the 2009 LTIP, plus up to an additional 500,000 shares to the extent that a corresponding number of equity awards previously granted under the Company's 1996 Long-Term Incentive Plan expire or are cancelled or forfeited. All awards under the 2009 LTIP are made at the discretion of the Board of Directors or a committee of the Board of Directors. The awards of the 10.2 million restricted stock units granted on December 19, 2008 are required to be settled on a net, after-tax basis (after deducting shares for minimum required statutory withholdings); therefore, the actual number of shares issued will be less than the gross amount of the awards. As of December 31, 2009, 2.1 million shares remain available for awards under the 2009 LTIP.

The Company's 2006 Long-Term Incentive Plan (the "2006 LTIP") is designed to provide equity-based incentive compensation for officers, key employees, directors, consultants and advisers of the Company. The 2006 LTIP provides for awards of stock options, shares of restricted stock, phantom shares, dividend equivalent rights and other share-based performance awards. A maximum of 4,550,000 shares of Common Stock may be subject to awards under the 2006 LTIP provided that the number of shares of Common Stock reserved for grants of options designated as incentive stock options is 1.0 million, subject to certain anti-dilution provisions in the 2006 LTIP. All awards under this Plan are at the discretion of the Board of Directors or a committee of the Board of Directors. As of December 31, 2009, 1.4 million shares remain available for awards under the 2006 LTIP.

The Company's 2007 Incentive Compensation Plan ("Incentive Plan") was approved and adopted by the Board of Directors in 2007 in order to establish performance goals for selected officers and other key employees and to determine bonuses that will be awarded to those officers and other key employees based on the extent to which they achieve those performance goals. Equity-based awards may be made under the Incentive Plan, subject to the terms of the Company's equity incentive plans.

The Company recorded \$23.6 million, \$23.4 million and \$18.2 million of stock-based compensation expense in "General and administrative" on the Company's Consolidated Statements of Operations for the years ended December 31, 2009, 2008 and 2007, respectively.

Stock Options – Changes in options outstanding during the year ended December 31, 2009, are as follows (amounts in thousands, except for weighted average strike price):

	Number of Shares			Weighted Average Strike Price	Aggregate Intrinsic Value
	Employees	Non-Employee Directors	Other		
Options Outstanding, December 31, 2008	396	86	47	\$19.43	
Forfeited in 2009	(4)	(2)	(3)	40.01	
Options Outstanding, December 31, 2009	392	84	44	\$19.08	\$ –

The following table summarizes information concerning outstanding and exercisable options as of December 31, 2009 (options, in thousands):

Exercise Price	Options Outstanding and Exercise Price	Remaining Contractual Life (Years)
\$16.88	364	0.01
\$17.38	14	0.21
\$19.69	47	1.01
\$24.94	40	1.38
\$27.00	11	1.48
\$29.82	44	2.41
	520	0.45

The Company has not issued any options since 2003. During the year ended December 31, 2009, no options were exercised. Cash received from option exercises during the years ended December 31, 2008 and 2007 was \$5.2 million and \$2.9 million, respectively. The intrinsic value of options exercised during the years ended December 31, 2008 and 2007 was \$2.0 million and \$3.5 million, respectively.

Restricted Stock Units – Changes in non-vested restricted stock units during the year ended December 31, 2009 are as follows (in thousands, except per share amounts):

Non-Vested Shares	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Non-vested at			
December 31, 2008	14,987	\$3.32	
Granted	2,000	2.37	
Vested	(637)	31.41	
Forfeited	(2,279)	2.94	
Non-vested at			
December 31, 2009	14,071	\$3.62	\$36,022

On May 27, 2009, the Company's shareholders approved the grant of 2,000,000 market-condition based restricted stock units which were contingently awarded, subject to shareholder approval, to its Chairman and Chief Executive Officer as a special retention award on October 9, 2008. These units will cliff vest in one installment on October 9, 2011 only if the total shareholder return on the Company's Common Stock is at least 25% per year (compounded at the end of the three-year vesting period, including dividends). Total shareholder return will be based on the average NYSE closing prices for the Company's Common Stock for the 20 days prior to: (a) the date of the award on October 9, 2008 (which was \$3.38); and (b) the vesting date (which must be at least \$6.58 if no dividends are paid). No dividends will be paid on these units prior to vesting. These units are required to be settled on a net, after-tax basis (after deducting shares for minimum required statutory withholdings); therefore the actual number of shares issued will be less than the gross amount of the award. The Company measured the fair value of the grant on May 27, 2009 and will record compensation expense based on this fair value ratably over the remaining vesting period.

As of December 31, 2009, there were 9,159,000 market-condition based restricted stock units ("Units") outstanding, which were granted to executives and other officers of the Company on December 19, 2008. The Units will vest only if specified price targets for the Company's Common Stock are achieved and if the employee is thereafter employed on the vesting date, as follows: (a) if the Common Stock achieves a price of \$4.00 or more (average NYSE closing price over 20 consecutive trading days) during the first year following the grant date (i.e., prior to December 19, 2009), the Units will vest in three equal installments on January 1, 2010, January 1, 2011, and January 1, 2012; (b) if the Units do not achieve the price target in the first year, but the Common Stock achieves a price of \$7.00 or more (average NYSE closing price over 20 consecutive trading days) prior to December 19, 2010, the Units will vest in two equal installments on January 1, 2011 and January 1, 2012; and (c) if the Units do not achieve the price target in the first or second year, but the Common Stock achieves a price of \$10.00 or more (average NYSE closing price over 20 consecutive trading days)

prior to December 19, 2011, the Units will vest in one installment on January 1, 2012. The \$4.00 price target for the initial period ended December 19, 2009 was not achieved, therefore only the \$7.00 and \$10.00 price targets remain applicable. If an applicable price target has been achieved, the Units will thereafter be entitled to dividend equivalent payments as dividends are paid on the Company's Common Stock. Upon vesting of the Units, holders will receive shares of the Company's Common Stock in the amount of the vested Units, net of statutory minimum tax withholdings. On May 27, 2009, the Company's shareholders approved the 2009 LTIP, which authorized additional shares of the Company's Common Stock to be available for awards under the Company's equity compensation plans including for settlement of the Units. The approval converted the Company's accounting for the Units from liability-based to equity-based, and accordingly, the Company reclassified its liability recorded in "Accounts Payable, accrued expenses and other liabilities" to "Additional paid-in capital" on the Consolidated Balance Sheets. The aggregate fair value of the grants on May 27, 2009 was approximately \$27.0 million, which is being recognized as compensation expense ratably over the vesting period.

As of December 31, 2009, there were 389,277 market-condition based restricted stock units outstanding that were granted to employees on January 18, 2008 and cliff vest on December 31, 2010, only if the total shareholder return on the Company's Common Stock is at least 20% (compounded annually, including dividends) from the date of the award through the end of the vesting period. Total shareholder return will be based on the average NYSE closing prices for the Company's Common Stock for the 20 days prior to (a) the date of the award on January 18, 2008 (which was \$25.04) and (b) the vesting date. No dividends will be paid on these units unless and until they are vested.

On October 9, 2008, the Company granted 2,000,000 restricted stock units as special retention incentive awards to certain officers which will cliff vest in one installment on October 9, 2011, if the RSU holders are employed on the vesting date. The unvested units are entitled to receive dividend equivalent payments as dividends are paid on shares of the Company's Common Stock. As of December 31, 2009, 1,850,000 of these restricted stock units remain outstanding. Also on October 9, 2008, the Company awarded 1,000,000 restricted stock units as a special retention incentive award to the Company's President which were forfeited during the year ended December 31, 2009, due to his resignation from the Company.

As of December 31, 2009, there were 672,984 unvested service-based restricted stock units outstanding that are entitled to be paid dividends as dividends are paid on shares of the Company's Common Stock and these dividends are accounted for as a reduction to retained earnings in a manner consistent with the Company's Common Stock dividends.

The fair values of the market-condition based restricted stock units, including the Units, were determined by utilizing a Monte

Carlo model to simulate a range of possible future stock prices for the Company's Common Stock. The following assumptions were used to estimate the fair value of market-condition based awards:

	Valued as of		
	January 18, 2008	May 27, 2009 ⁽¹⁾	May 27, 2009 ⁽²⁾
Risk-free interest rate	2.39%	1.16%	1.28%
Expected stock price volatility	27.46%	152.03%	145.45%
Expected annual dividend	-	-	-

Explanatory Notes:

(1) Contingent equity-based restricted stock units awarded on October 9, 2008 were measured on May 27, 2009, the date the Company's shareholders approved the grant of the award.

(2) The Units granted on December 19, 2008 were re-measured on May 27, 2009 when they became equity-based awards in accordance with ASC 718-20-55-135 to 138.

The total fair value of restricted stock units vested during the years ended December 31, 2009, 2008 and 2007 was \$1.4 million, \$10.1 million and \$10.6 million, respectively. As of December 31, 2009, there was \$28.2 million of total unrecognized compensation cost related to non-vested restricted stock units. That cost is expected to be recognized over the remaining vesting/service period for the respective grants.

Common Stock Equivalents – Non-employee directors are awarded common stock equivalents ("CSEs") at the time of the annual shareholders meeting in consideration for their services on the Company's Board of Directors. The CSEs generally vest at the time of the next annual shareholders meeting and pay dividends in an amount equal to the dividends paid on an equivalent number of shares of the Company's Common Stock from the date of grant, as and when dividends are paid on the Common Stock. During the year ended December 31, 2009, the Company awarded to Directors 169,814 CSEs at a weighted average fair value per share of \$3.18 at the time of grant. The CSE awards are classified as liability-based awards due to the fact that they can be settled in shares of stock or cash at the Directors' option. During the year ended December 31, 2009, the Company issued 73,147 shares of Common Stock to Directors at fair value per share of \$2.23 to settle vested CSEs outstanding. At December 31, 2009, 197,385 CSEs, with an aggregate intrinsic value of \$0.5 million were outstanding.

401(k) Plan

The Company has 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 up to the maximum percentage of compensation and dollar amount permissible under Section 402(g) of the Internal Revenue Code not to exceed the limits of Code Sections 401(k), 404 and 415. At the discretion of the Board of Directors, the Company may make matching contributions on the participant's behalf of up to 50% of the first 10% of the participant's annual compensation. The Company made gross contributions of

approximately \$1.3 million, \$1.5 million and \$1.1 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Note 14 – Earnings Per Share

EPS is calculated using the two-class method, which allocates earnings among common stock and participating securities to calculate EPS when an entity's capital structure includes either two or more classes of common stock or common stock and participating securities. HPU holders are current and former Company employees who purchased high performance common stock units under the Company's High Performance Unit (HPU) Program (see Note 12). These HPU units have been treated as a separate class of common stock. In addition, the Company adopted ASC 260-10-65-2 on January 1, 2009. Upon adoption, the Company's unvested restricted stock units which are entitled to receive dividends and CSEs issued under the Long-Term Incentive Plans are considered participating securities and have been included in the two-class method when calculating EPS. ASC 260-10-65-2 has been applied retroactively to all prior periods presented (see Note 3).

The following table presents a reconciliation of income (loss) from continuing operations used in the basic and diluted EPS calculations (in thousands, except for per share data):

	For the Years Ended December 31,		
	2009	2008	2007
Income (loss) from continuing operations	\$(770,602)	\$(295,640)	\$198,800
Net loss attributable to noncontrolling interests	1,071	991	816
Gain on sale of joint venture interest attributable to noncontrolling interests	-	(18,560)	-
Preferred dividends	(42,320)	(42,320)	(42,320)
Dividends paid to Participating Security holders ⁽¹⁾	-	(2,393)	(3,545)
Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to common shareholders and HPU holders	\$(811,851)	\$(357,922)	\$153,751

Explanatory Note:

(1) In accordance with ASC 260-10-65-1, "Application of the Two-Class Method under FASB Statement No. 128 to Master Limited Partnerships," ("ASC 260-10-65-1") the total dividends paid to Participating Security holders during the period have been deducted from income (loss) from continuing operations, because total dividends distributed by the Company exceeded earnings for the period.

	For the Years Ended December 31,		
	2009	2008	2007
Earnings allocable to common shares:			
Numerator for basic earnings per share:			
Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to common shareholders ⁽¹⁾	\$(789,304)	\$(350,340)	\$150,385
Income (loss) from discontinued operations	(11,349)	21,940	29,313
Gain from discontinued operations, net of noncontrolling interests	12,083	85,910	7,661
Net income (loss) attributable to iStar Financial Inc. and allocable to common shareholders	\$(788,570)	\$(242,490)	\$187,359
Numerator for diluted earnings per share:			
Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to common shareholders ⁽¹⁾⁽²⁾	\$(789,304)	\$(350,340)	\$150,487
Income (loss) from discontinued operations	(11,349)	21,940	29,317
Gain from discontinued operations, net of noncontrolling interests	12,083	85,910	7,662
Net income (loss) attributable to iStar Financial Inc. and allocable to common shareholders	\$(788,570)	\$(242,490)	\$187,466
Denominator:			
Weighted average common shares outstanding for basic earnings per common share	100,071	131,153	126,801
Add: effect of assumed shares issued under treasury stock method for stock options and restricted shares	-	-	480
Add: effect of joint venture shares	-	-	261
Weighted average common shares outstanding for diluted earnings per common share	100,071	131,153	\$127,542
Basic earnings per common share:			
Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to common shareholders ⁽¹⁾	\$ (7.89)	\$ (2.68)	\$ 1.19
Income (loss) from discontinued operations	(0.11)	0.17	0.23
Gain from discontinued operations, net of noncontrolling interests	0.12	0.66	0.06
Net income (loss) attributable to iStar Financial Inc. and allocable to common shareholders	\$ (7.88)	\$ (1.85)	\$ 1.48
Diluted earnings per common share:			
Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to common shareholders ⁽¹⁾⁽²⁾	\$ (7.89)	\$ (2.68)	\$ 1.18
Income (loss) from discontinued operations	(0.11)	0.17	0.23
Gain from discontinued operations, net of noncontrolling interests	0.12	0.66	0.06
Net income (loss) attributable to iStar Financial Inc. and allocable to common shareholders	\$ (7.88)	\$ (1.85)	\$ 1.47

Explanatory Notes:

- (1) Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to common shareholders has been adjusted for net (income) loss attributable to noncontrolling interests and preferred dividends. In addition, for the years ended December 31, 2008 and 2007, income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to common shareholders has been adjusted to exclude dividends paid to Participating Security holders (see preceding table).
- (2) For the year ended December 31, 2007, amount includes the allocable portion of \$85 of joint venture income.

	For the Years Ended December 31,		
	2009	2008	2007
Earnings allocable to High Performance Units:			
Numerator for basic earnings per HPU share:			
Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to HPU holders ⁽¹⁾	\$ (22,547)	\$ (7,582)	\$ 3,366
Income (loss) from discontinued operations	(322)	475	656
Gain from discontinued operations, net of noncontrolling interests	343	1,859	171
Net income (loss) attributable to iStar Financial Inc. and allocable to HPU holders	\$ (22,526)	\$ (5,248)	\$ 4,193
Numerator for diluted earnings per HPU share:			
Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to HPU holders ⁽¹⁾⁽²⁾	\$ (22,547)	\$ (7,582)	\$ 3,349
Income (loss) from discontinued operations	(322)	475	652
Gain from discontinued operations, net of noncontrolling interests	343	1,859	170
Net income (loss) attributable to iStar Financial Inc. and allocable to HPU holders	\$ (22,526)	\$ (5,248)	\$ 4,171
Denominator (basic and diluted):			
Weighted average High Performance Units outstanding for basic and diluted earnings per share	15	15	15
Basic earnings per HPU share:			
Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to HPU holders ⁽¹⁾	\$(1,503.13)	\$(505.47)	\$224.40
Income (loss) from discontinued operations	(21.47)	31.67	43.73
Gain from discontinued operations, net of noncontrolling interests	22.87	123.93	11.40
Net income (loss) attributable to iStar Financial Inc. and allocable to HPU holders	\$(1,501.73)	\$(349.87)	\$279.53
Diluted earnings per HPU share:			
Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to HPU holders ⁽¹⁾⁽²⁾	\$(1,503.13)	\$(505.47)	\$223.27
Income (loss) from discontinued operations	(21.47)	31.67	43.47
Gain from discontinued operations, net of noncontrolling interests	22.87	123.93	11.33
Net income (loss) attributable to iStar Financial Inc. and allocable to HPU holders	\$(1,501.73)	\$(349.87)	\$278.07

Explanatory Notes:

- (1) Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to High Performance Units has been adjusted for net (income) loss attributable to noncontrolling interests and preferred dividends. In addition, for the years ended December 31, 2008 and 2007, income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to High Performance Units has been adjusted to exclude dividends paid to Participating Security holders (see preceding table).
- (2) For the year ended December 31, 2007, amount includes the allocable portion of \$85 of joint venture income.

For the years ended December 31, 2008 and 2007, basic and diluted net income allocable to common shareholders and HPU holders per share were retroactively adjusted to reflect the adoption of ASC 260-10-65-2. The Company reduced its diluted weighted average common shares outstanding for each reporting period by unvested restricted stock units that are entitled to receive dividends and common stock equivalents deemed to be Participating Securities. In addition, pursuant to ASC 260-10-65-1, as a result of dividends paid in excess of earnings during the years ended December 31, 2008 and 2007, the Company allocated \$2.4 million and \$3.5 million, respectively, of earnings from common shares and HPU shares to Participating Securities. This adoption, along with the adoption of ASC 470-20-65-1 (see Notes 3 and 9) changed basic and diluted earnings per share as follows: (a) for the year ended December 31, 2008, basic and diluted net income allocable to common shareholders decreased by \$0.07 per share, and basic and diluted net income allocable to HPU holders decreased by \$13.54 per share; and (b) for the year ended December 30, 2007, basic and diluted net income allocable to common shareholders decreased by \$0.04 per share, and basic and diluted net income allocable to HPU holders decreased by \$8.40 and \$6.93 per share, respectively.

For the years ended December 31, 2009, 2008 and 2007, the following shares were anti-dilutive (in thousands):

	For the Years Ended December 31,		
	2009	2008	2007
Joint venture shares	298	298	88
Stock options	520	529	5
Restricted stock units	11,548	10,633	-

Note 15 – Comprehensive Income (Loss)

The statement of comprehensive income (loss) attributable to iStar Financial, Inc. is as follows (in thousands):

	For the Years Ended December 31,		
	2009	2008	2007
Net income (loss)	\$(769,847)	\$(181,767)	\$236,602
Other comprehensive income:			
Reclassification of (gains)/losses on available-for-sale securities into earnings upon realization	2,727	4,967	(2,566)
Reclassification of (gains)/losses on cash flow hedges into earnings upon realization	(4,357)	3,401	(943)
Unrealized gains/(losses) on available-for-sale securities	6,515	(5,797)	(6,023)
Unrealized gains/(losses) on cash flow hedges	(30)	2,986	(9,719)
Unrealized gains/(losses) on cumulative translation adjustment	(416)	(1,554)	-
Comprehensive income (loss)	\$(765,408)	\$(177,764)	\$217,351
Net loss attributable to noncontrolling interests	1,071	991	816
Gain on sale of joint venture interest attributable to noncontrolling interests	-	(18,560)	-
Gain from discontinued operations attributable to noncontrolling interests	-	(3,689)	-
Comprehensive income (loss) attributable to iStar Financial Inc.	\$(764,337)	\$(199,022)	\$218,167

Unrealized gains/(losses) on available-for-sale securities, cash flow hedges and foreign currency translation adjustments are recorded as adjustments to shareholders' equity through "Accumulated other comprehensive income" on the Company's Consolidated Balance Sheets and are not included in net income unless realized. As of December 31, 2009 and 2008, accumulated other comprehensive income reflected in the Company's shareholders' equity is comprised of the following (in thousands):

	As of December 31,	
	2009	2008
Unrealized gains/(losses) on available-for-sale securities	\$ 3,959	\$(5,283)
Unrealized gains on cash flow hedges	4,156	8,544
Unrealized losses on cumulative translation adjustment	(1,970)	(1,554)
Accumulated other comprehensive income	\$ 6,145	\$ 1,707

Note 16 – Fair Values

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy prioritizes the inputs used in valuation techniques to measure fair value:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Certain of the Company's assets and liabilities are recorded at fair value on a recurring or non-recurring basis as of December 31, 2009 and 2008. Assets required to be marked-to-market and reported at fair value every reporting period are classified as being valued on a recurring basis. Other assets not required to be recorded at fair value every period may be recorded at fair value if a specific provision or other impairment is recorded within the period to mark the carrying value of the asset to market as of the reporting date. Such assets are classified as being valued on a non-recurring basis.

The following table summarizes the Company's assets and liabilities recorded at fair value on a recurring and non-recurring basis by the above categories (in thousands):

	Total	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (level 3)
As of December 31, 2009:				
Recurring basis:				
Financial Assets:				
Derivative assets	\$ 800	\$ -	\$ 800	\$ -
Other lending investments – available-for-sale debt securities	\$ 6,800	\$ 6,800	\$ -	\$ -
Marketable securities at fair value	\$ 38,454	\$ 254	\$38,200	\$ -
Financial Liabilities:				
Derivative liabilities	\$ 254	\$ -	\$ 254	\$ -
Non-recurring basis:				
Financial Assets:				
Impaired loans	\$1,167,498	\$ -	\$ -	\$1,167,498
Non-financial Assets:				
Impaired OREO	\$ 181,540	\$ -	\$ -	\$ 181,540
Impaired assets held-for-sale	\$ 17,282	\$ -	\$ -	\$ 17,282
Impaired CTL assets	\$ 48,000	\$ -	\$ -	\$ 48,000
As of December 31, 2008:				
Recurring basis:				
Financial Assets:				
Derivative assets	\$ 3,872	\$ -	\$ 3,872	\$ -
Other lending investments – available-for-sale securities	\$ 10,856	\$10,856	\$ -	\$ -
Marketable securities	\$ 8,083	\$ 8,083	\$ -	\$ -
Financial Liabilities:				
Derivative liabilities	\$ 131	\$ -	\$ 131	\$ -
Non-recurring basis:				
Financial Assets:				
Impaired loans	\$ 1,821,012	\$ -	\$ -	\$ 1,821,012
Impaired other lending investments – held-to-maturity securities	\$ 10,128	\$10,128	\$ -	\$ -
Impaired cost method investments	\$ 3,888	\$ -	\$ -	\$ 3,888

In addition to the Company's disclosures regarding assets and liabilities recorded at fair value in the financial statements, it is also required to disclose the estimated fair values of all financial instruments, regardless of whether they are recorded at fair value in the financial statements.

The book and estimated fair values of financial instruments were as follows (in thousands):⁽¹⁾

	As of December 31, 2009		As of December 31, 2008	
	Book Value	Fair Value	Book Value	Fair Value
Financial assets:				
Loans and other lending investments, net	\$ 7,661,562	\$6,638,840	\$10,586,644	\$9,279,946
Financial liabilities:				
Debt obligations, net	\$10,894,903	\$8,115,023	\$12,486,404	\$6,277,177

Explanatory Note:

(1) The carrying values of other financial instruments including cash and cash equivalents, restricted cash, accrued interest receivable, accounts payable, accrued expenses and other liabilities approximate the fair values of the instruments. The fair value of other financial instruments, including derivative assets and liabilities and marketable securities are included in the previous table.

Given the nature of certain assets and liabilities, clearly determinable market-based valuation inputs are often not available; therefore, these assets and liabilities are valued using internal valuation techniques. Subjectivity exists with respect to these internal valuation techniques, therefore, the fair values disclosed may not equal prices the Company may ultimately realize if the assets were sold or the liabilities were settled with third parties. The methods the Company used to estimate the fair values presented in the two tables are described more fully below for each type of asset and liability.

Derivatives – The Company uses interest rate swaps, interest rate caps and foreign currency derivatives to manage its interest rate and foreign currency risk. The valuation of these instruments is determined using discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates, and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the respective counterparty's non-performance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of non-performance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. The Company has determined that the significant inputs used to value its derivatives fall within Level 2 of the fair value hierarchy.

Securities – All of the Company's available-for-sale and impaired held-to-maturity debt and equity securities are actively traded and have been valued using quoted market prices. The Company's traded marketable securities are valued using market quotes, to the extent they are available, or broker quotes that fall within Level 2 of the fair value hierarchy.

Impaired loans – The Company's loans identified as being impaired are collateral dependent loans and are evaluated for impairment by comparing the estimated fair value of the underlying collateral, less costs to sell, to the carrying value of each loan. Due to the nature of the individual properties collateralizing the Company's loans, the Company generally uses the income approach through internally developed valuation models to estimate the fair value of the collateral. This approach requires the Company to make significant judgments in respect to discount rates, capitalization rates and the timing and amounts of estimated future cash flows that are all considered Level 3 inputs. These cash flows include costs of completion, operating costs, and lot and unit sale prices.

Impaired OREO – The Company periodically evaluates its OREO assets to determine if events or changes in circumstances have occurred during the reporting period that may have a significant adverse effect on their fair value. Due to the nature of the individual properties in the OREO portfolio, the Company uses the income approach through internally developed valuation models to estimate the fair value of the assets. This approach requires the Company to make significant judgments with respect to discount

rates, capitalization rates and the timing and amounts of estimated future cash flows that are all considered Level 3 inputs. These cash flows include costs of completion, operating costs, and lot and unit sale prices.

Impaired assets held-for-sale – The estimated fair value of impaired assets held-for-sale is determined using observable market information, typically including bids from prospective purchasers.

Impaired CTL assets – If the Company determines a CTL asset is impaired it records an impairment charge to mark the asset to its estimated fair market value (see Note 3). Any such assets that have been impaired based on their estimated fair value as of the Company's reporting date are considered to be reported at fair value on a non-recurring basis and are included in the first table above. Due to the nature of the individual properties in the CTL portfolio, the Company uses the income approach through internally developed valuation models to estimate the fair value of the assets. This approach requires the Company to make significant judgments with respect to discount rates, capitalization rates and the timing and amounts of estimated future cash flows that are all considered Level 3 inputs. These cash flows are primarily based on expected future leasing rates and operating costs.

Cost method investments – The Company periodically evaluates its cost method investments to determine if events or changes in circumstances have occurred in that period that may have a significant adverse effect on the fair value of an investment. Many of the Company's cost method investments are in managed funds and the Company estimates the fair value of these investments using its ratable share of the net asset value of the impaired funds.

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 interest in performing loans and other lending investments, the fair values were determined using a discounted cash flow methodology. This method discounts future estimated cash flows using rates management determined best reflect current market interest rates that would be offered for loans with similar characteristics and credit quality. The valuation of non-performing loans is discussed in impaired loans above.

Debt obligations, net – For debt obligations traded in secondary markets, the Company uses market quotes, to the extent they are available to determine fair value. For debt obligations not traded in secondary markets, the Company determines fair value using the discounted cash flow methodology, whereby contractual cash flows are discounted at rates that the Company determined best reflect current market interest rates that would be charged for debt with similar characteristics and credit quality.

Note 17 – Segment Reporting

The Company has determined that it has two reportable operating segments: Real Estate Lending and Corporate Tenant Leasing. The reportable segments were determined based on the management approach, which looks to the Company's internal organizational structure. These two lines of business require different support infrastructures. The Real Estate Lending segment includes all of the Company's activities related to senior and mezzanine real estate debt and corporate capital investments, OREO and REHI. The Corporate Tenant Leasing segment includes all of the Company's activities related to the ownership and leasing of corporate facilities.

The Company evaluates performance based on the following financial measures for each segment (in thousands):

	Real Estate Lending ⁽¹⁾	Corporate Tenant Leasing	Corporate/Other ⁽²⁾	Company Total
2009:				
Total revenues ⁽³⁾	\$ 569,670	\$ 306,364	\$ 17,250	\$ 893,284
Earnings from equity method investments	–	2,500	2,798	5,298
Total operating and interest expense ⁽⁴⁾	1,392,234	232,124	592,175	2,216,533
Net operating income (loss) ⁽⁵⁾	(822,564)	76,740	(572,127)	(1,317,951)
Total long-lived assets ⁽⁶⁾	\$ 8,923,367	\$2,903,178	\$ –	\$11,826,545
Total assets ⁽⁷⁾⁽⁸⁾	8,999,558	3,149,783	661,234	12,810,575
2008:				
Total revenues ⁽³⁾	\$ 1,024,906	\$ 312,365	\$ 16,983	\$ 1,354,254
Earnings from equity method investments	–	2,520	4,015	6,535
Total operating and interest expense ⁽⁴⁾	1,299,832	187,127	842,820	2,329,779
Net operating income (loss) ⁽⁵⁾	(274,926)	127,758	(821,822)	(968,990)
Total long-lived assets ⁽⁶⁾	\$10,829,149	\$3,044,811	\$ –	\$13,873,960
Total assets ⁽⁷⁾⁽⁸⁾	11,037,624	3,330,907	928,217	15,296,748
2007:				
Total revenues ⁽³⁾	\$ 1,088,323	\$ 307,470	\$ 8,666	\$ 1,404,459
Earnings from equity method investments	–	7,347	22,279	29,626
Total operating and interest expense ⁽⁴⁾	334,410	123,539	777,561	1,235,510
Net operating income (loss) ⁽⁵⁾	753,913	191,278	(746,616)	198,575
Total long-lived assets ⁽⁶⁾	\$11,077,912	\$3,384,201	\$ 128,720	\$14,590,833
Total assets ⁽⁷⁾⁽⁸⁾	11,282,123	3,703,339	862,836	15,848,298

Explanatory Notes:

- (1) Real Estate Lending includes the Company's OREO and REHI assets and related operating revenue and expenses.
- (2) Corporate/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 timber operations, non-CTL related joint venture investments, strategic investments and marketable securities, which are not considered material separate segments.
- (3) Total revenue represents all revenue earned during the period from the assets in each segment. Revenue from the Real Estate Lending segment primarily represents interest income and revenue from the Corporate Tenant Leasing segment primarily represents operating lease income.
- (4) Total operating and interest expense primarily includes provision for loan losses for the Real Estate Lending business and operating costs on CTL assets for the Corporate Tenant Leasing business, as well as interest expense specifically related to each segment. Interest expense on secured and unsecured notes, the interim financing facility, unsecured and secured revolving credit facilities and general and administrative expense are included in Corporate/Other for all periods. Depreciation and amortization of \$97.9 million, \$94.7 million and \$83.7 million for the years ended December 31, 2009, 2008 and 2007 respectively, are included in the amounts presented above.
- (5) Net operating income (loss) represents income attributable to iStar Financial Inc. before gain on early extinguishment of debt, gain on sale of joint venture interest, income (loss) from discontinued operations and gain from discontinued operations.
- (6) Total long-lived assets are comprised of Loans and other lending investments, net, REHI and OREO for the Real Estate Lending segment, and Corporate tenant lease assets, net and Assets held-for-sale are included for the Corporate Tenant Leasing segment and timber and timberlands are included in Corporate/other.
- (7) Intangible assets included in Real Estate Lending at December 31, 2007 were \$17.4 million. Intangible assets included in Corporate Tenant Leasing at December 31, 2009, 2008 and 2007 were \$48.8 million, \$58.5 million and \$69.9 million, respectively. Intangible assets included in Corporate/Other at December 31, 2009, 2008 and 2007 were \$1.1 million, \$2.7 million and \$11.3 million, respectively.
- (8) Goodwill included in Real Estate Lending at December 31, 2007 was \$39.1 million. Goodwill included in Corporate Tenant Leasing at December 31, 2008 and 2007 was \$4.2 million.

Note 18 – Quarterly Financial Information (Unaudited)

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

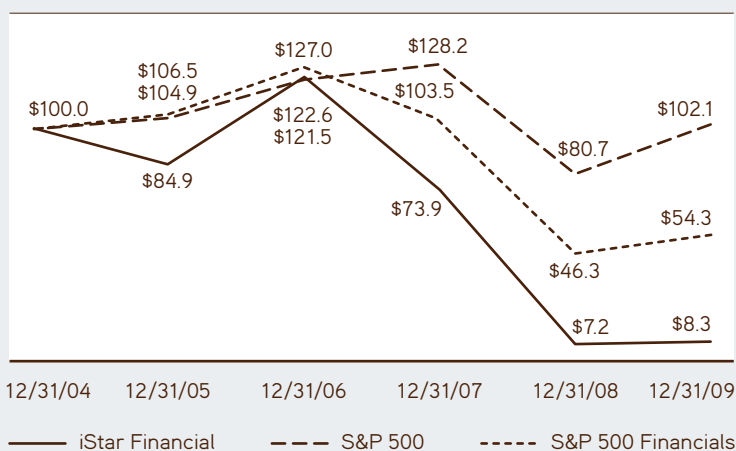
	For the Quarters Ended			
	December 31,	September 30,	June 30,	March 31,
2009:⁽¹⁾				
Revenue	\$ 199,834	\$ 210,088	\$ 224,282	\$259,080
Net loss	(153,359)	(247,442)	(281,973)	(87,072)
Net loss attributable to iStar Financial Inc. and allocable to common shareholders	(159,177)	(251,308)	(284,197)	(93,886)
Net loss attributable to iStar Financial Inc. per common share – basic and diluted	\$ (1.65)	\$ (2.55)	\$ (2.85)	\$ (0.89)
Weighted average common shares outstanding – basic and diluted	96,354	98,674	99,769	105,606
Net loss attributable to iStar Financial Inc. and allocable to HPU holders	(4,689)	(7,229)	(8,085)	(2,523)
Net loss attributable to iStar Financial Inc. per HPU share – basic and diluted	\$ (312.60)	\$ (481.93)	\$ (539.00)	\$ (168.20)
Weighted average HPU shares outstanding – basic and diluted	15	15	15	15
2008:⁽²⁾				
Revenue	\$ 287,443	\$ 337,202	\$ 318,894	\$ 410,716
Net income (loss)	(13,890)	(303,883)	50,975	85,029
Net income (loss) attributable to iStar Financial Inc. and allocable to common shareholders	(23,993)	(308,655)	18,526	71,609
Net income (loss) attributable to iStar Financial Inc. per common share – basic and diluted	\$ (0.20)	\$ (2.32)	\$ 0.14	\$ 0.53
Weighted average common shares outstanding – basic	122,809	133,199	134,399	134,262
Weighted average common shares outstanding – diluted	122,809	133,199	134,399	134,843
Net income (loss) attributable to iStar Financial Inc. allocable to HPU holders	555	6,577	(391)	(1,514)
Net income (loss) attributable to iStar Financial Inc. per HPU share – basic	\$ (37.00)	\$ (438.47)	\$ 26.07	\$ 100.94
Net income (loss) attributable to iStar Financial Inc. and per HPU share – diluted	\$ (37.00)	\$ (438.47)	\$ 26.07	\$ 100.47
Weighted average HPU shares outstanding – basic and diluted	15	15	15	15

Explanatory Notes:

- (1) During the quarter ended December 31, 2009, the Company recorded Provision for loan losses of \$216.4 million, Impairment of other assets of \$61.8 million and Gain on early extinguishment of debt of \$100.4 million.
- (2) During the quarter ended June 30, the Company recorded gains of \$285.1 million on the sales of TimberStar Southwest and Maine timber properties. During the quarter ended December 31, 2008, the Company recorded Provision for loan losses of \$252.0 million, Impairment of other assets of \$150.0 million and Gain on early extinguishment of debt of \$323.2 million.

Performance Graph

The following graph compares the total cumulative shareholder returns on our Common Stock from December 31, 2004 to December 31, 2009 to that of: (1) the Standard & Poor's 500 Index (the "S&P 500"); and (2) the Standard & Poor's 500 Financials Index (the "S&P 500 Financials"). Our prior comparative index, the Russell 1000 Financial Services Index, was discontinued on October 1, 2009.



COMMON STOCK PRICE AND DIVIDENDS (UNAUDITED)

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

Quarter Ended	High	Low
2008		
March 31, 2008	\$27.66	\$13.76
June 30, 2008	\$22.06	\$13.21
September 30, 2008	\$13.67	\$ 1.75
December 31, 2008	\$ 3.34	\$ 0.97
2009		
March 31, 2009	\$ 2.99	\$ 0.76
June 30, 2009	\$ 3.98	\$ 2.51
September 30, 2009	\$ 3.37	\$ 2.04
December 31, 2009	\$ 3.08	\$ 2.09

On February 16, 2010, the closing sale price of the Common Stock as reported by the NYSE was \$2.94. The Company had 3,078 holders of record of Common Stock as of February 16, 2010.

At December 31, 2009, the Company had five series of preferred stock outstanding: 8.000% Series D Preferred Stock, 7.875% Series E Preferred Stock, 7.8% Series F Preferred Stock, 7.65% Series G Preferred Stock and 7.50% Series I Preferred Stock. Each of the Series D, E, F, G and I preferred stock is publicly traded.

Dividends

The Board of Directors has not established any minimum distribution level. In order to maintain its qualification as a REIT, the Company intends to pay dividends to its shareholders that, on an annual basis, will represent at least 90% of its taxable income (which may not necessarily equal net income as calculated in accordance with GAAP), determined without regard to the deduction for dividends paid and excluding any net capital gains. The Company has recorded net operating losses and may record significant net operating losses in the future, which may reduce its taxable income in future periods and lower or eliminate entirely the Company's obligation to pay dividends for such periods in order to maintain its REIT qualification.

Holders of Common Stock, vested High Performance Units and certain unvested restricted stock units and common share equivalent will be entitled to receive distributions if, as and when the Board of Directors authorizes and declares distributions. However, rights to distributions may be subordinated to the rights of holders of preferred stock, when preferred stock is issued and outstanding. In addition, the Company's secured credit facilities permit the Company to distribute 100% of its REIT taxable income on an annual basis, for so long as the Company maintains its qualifications as a REIT. The secured credit facilities restrict the Company from paying

any common dividends if it ceases to qualify as a REIT. In any liquidation, dissolution or winding up of the Company, each outstanding share of Common Stock and HPU share equivalents will entitle its holder to a proportionate share of the assets that remain after the Company pays its liabilities and any preferential distributions owed to preferred shareholders.

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

Quarter Ended	Shareholder Record Date	Dividend/Share
2008⁽¹⁾		
March 31, 2008	March 17, 2008	\$0.8700
June 30, 2008	July 15, 2008	\$0.8700
September 30, 2008 ⁽²⁾	-	-
December 31, 2008 ⁽²⁾	-	-
2009		
March 31, 2009 ⁽²⁾	-	-
June 30, 2009 ⁽²⁾	-	-
September 30, 2009 ⁽²⁾	-	-
December 31, 2009 ⁽²⁾	-	-

Explanatory Notes:

- (1) For tax reporting purposes, the 2008 dividends were classified as 10.8% (\$0.1886) ordinary dividend, 76.1% (\$1.3244) 15% capital gain and 13.1% (\$0.2270) 25% Section 1250 capital gain. Of the ordinary dividend, 25.6% (\$0.0483) qualifies as a qualifying dividend for those shareholders who held shares of the Company for the entire year.
- (2) No dividends were declared or paid.

The Company declared and paid dividends aggregating \$8.0 million, \$11.0 million, \$7.8 million, \$6.1 million and \$9.4 million on its Series D, E, F, G, and I preferred stock, respectively, for the year ended December 31, 2009. There are no dividend arrearages on any of the preferred shares currently outstanding.

Distributions to shareholders will generally be taxable as ordinary income, although a portion of such dividends may be designated by the Company as capital gain or may constitute a tax-free return of capital. The Company annually furnishes to each of its shareholders a statement setting forth the distributions paid during the preceding year and their characterization as ordinary income, capital gain or return of capital.

No assurance can be given as to the amounts or timing of future distributions, as such distributions are subject to the Company's taxable income after giving effect to its net operating loss carryforwards, financial condition, capital requirements, debt covenants, any change in the Company's intention to maintain its REIT qualification and such other factors as the Company's Board of Directors deems relevant. In addition, based upon recent guidance announced by the Internal Revenue Service, the Company may elect to satisfy some of its 2010 REIT distribution requirements, if any, through stock dividends.

DIRECTORS AND OFFICERS

Directors

Jay Sugarman ⁽³⁾
Chairman and
Chief Executive Officer,
iStar Financial Inc.

Glenn R. August
President,
Oak Hill Advisors, LP

Robert W. Holman, Jr. ^{(1) (2)}
Chairman and
Chief Executive Officer,
National Warehouse
Investment Company;
Managing Director,
Group Holman

Robin Josepfs ^{(1) (2) (4)}
Lead Independent Director,
iStar Financial Inc.

John G. McDonald ^{(3) (4)}
Stanford Investors Professor,
Stanford University
Graduate School of Business

George R. Puskar ^{(1) (3)}
Former Chairman and
Chief Executive Officer,
Equitable Real Estate
Investment Management

Dale Anne Reiss ^{(1) (3)}
Senior Consultant,
Global Real Estate Center
Global & Americas Director of
Real Estate,
Ernst & Young, LLP (Retired)

Jeffrey A. Weber ^{(2) (4)}
President,
York Capital Management

(1) Audit Committee

(2) Compensation Committee

(3) Investment and

Asset Management Committee

(4) Nominating and Governance Committee

Executive Officers

Jay Sugarman
Chairman and
Chief Executive Officer

Nina B. Matis
Chief Legal Officer and
Chief Investment Officer

James D. Burns
Chief Financial Officer

Executive Vice Presidents

Steven R. Blomquist
Investments

Chase S. Curtis, Jr.
Credit

R. Michael Dorsch III
Investments

Barclay Jones III
Investments

Michelle MacKay
Investments

Barbara Rubin
iStar Asset Services, Inc.

Vernon B. Schwartz
Autostar & Europe

CORPORATE INFORMATION

Headquarters

iStar Financial Inc.
1114 Avenue of the Americas
New York, NY 10036
tel: 212.930.9400
fax: 212.930.9494

Regional Offices

3480 Preston Ridge Road
Suite 575
Alpharetta, GA 30005
tel: 678.297.0100
fax: 678.297.0101

800 Boylston Street
33rd Floor
Boston, MA 02199
tel: 617.292.3333
fax: 617.423.3322

2727 East Imperial Highway
Brea, CA 92821
tel: 714.961.4700
fax: 714.961.4701

525 West Monroe Street
20th Floor
Chicago, IL 60661
tel: 312.577.8549
fax: 312.612.4162

One Galleria Tower
13355 Noel Road
Suite 900
Dallas, TX 75240
tel: 972.506.3131
fax: 972.501.0078

180 Glastonbury Boulevard
Suite 201
Glastonbury, CT 06033
tel: 860.815.5900
fax: 860.815.5901

5 Park Plaza
Suite 1450
Irvine, CA 92614
tel: 949.567.2400
fax: 949.567.2411

One Sansome Street
30th Floor
San Francisco, CA 94104
tel: 415.391.4300
fax: 415.391.6259

2425 Olympic Boulevard
Suite 520E
Santa Monica, CA 90404
tel: 310.315.7019
fax: 310.315.7017

Employees

As of March 9, 2010, the Company had 236 employees.

Independent Auditors

PricewaterhouseCoopers LLP
New York, NY

Registrar and Transfer Agent

Computershare Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940-3078
tel: 800.756.8200
www.computershare.com

Dividend Reinvestment and Direct Stock Purchase Plan

Registered shareholders may reinvest dividends and may also purchase stock directly from the Company through the Company's Dividend Reinvestment and Direct Stock Purchase Plan. For more information, please call the Transfer Agent or the Company's Investor Relations Department.

Annual Meeting of Shareholders

May 26, 2010, 9:00 a.m. ET
Harvard Club of New York City
35 West 44th Street
New York, NY 10036

Investor Information Services

iStar Financial is a listed company on the New York Stock Exchange and is traded under the ticker "SFI." The Company has filed all required Annual Chief Executive Officer Certifications with the NYSE. In addition, the Company has filed with the SEC the certifications of the Chief Executive Officer and Chief Financial Officer required under Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002 as exhibits to our most recently filed Annual Report on Form 10-K. For help with questions about the Company, or to receive additional corporate information, please contact:

Investor Relations

Andrew G. Backman
Senior Vice President
Investor Relations & Marketing
1114 Avenue of the Americas
New York, NY 10036
tel: 212.930.9450

e-mail: investors@istarfinancial.com

iStar Financial Website:
www.istarfinancial.com

839728460183625790