LOOK
BACK

iStar Financial Annual Report **2013**

LOOK FORWARD

TO OUR VALUED INVESTORS,

After more than 20 years in the real estate finance and investment business, 15 of those as a public company, iStar is one of the oldest and most experienced companies in the sector. With over $35 billion invested in real estate during that time, we have worked through many cycles, been involved in almost every asset type and transacted in almost every major market in the U.S.

Our goal now, in what we are calling iStar 3.0, is to put that knowledge, experience and hard-won (and sometimes expensively-learned) wisdom to work for shareholders.

Well aware that those who ignore real estate history are doomed to repeat it, we are taking a hard look at the innovative ideas and successes that made us a leader in our business for over a decade, as well as the mistakes that cost us deeply during the financial crisis.

Now it's time to begin anew, building on our core philosophies — that the most inefficient sectors in real estate involve the intersection of real estate, corporate credit and capital markets, and that each investment must be considered as carefully as personal capital.

We should also highlight a few of the important accomplishments we've already made. Our residential operating strategy has proven quite successful, recording $177 million of gains since the beginning of 2012 and $87 million of gains in 2013 alone. The credit profile of our real estate finance portfolio has also continued to improve, evidenced through the resolution of 60% of our NPLs over the past year as well as a 90% reduction in loan loss provisions in 2013. In addition, we made meaningful progress on a number of our land projects, as we won key approvals, entered into strategic ventures and began development.

We plan to build on this momentum, growing investment originations, positioning our land for meaningful income contribution in the future, and lowering our cost of capital and improving our credit profile. A combination of hard work, talent and experience should be a successful formula going forward.

Thanks for your continued support.

Jay Sugarman
Chairman and Chief Executive Officer

LOOK BACK

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LOOK FORWARD

LOOK BACK

From our pioneering work in mezzanine finance, whole envelope financing, in-house servicing, and custom-tailored structuring and flexibility, iStar has sought better ways to provide capital to the real estate world. Our goal in searching out innovative and non-commodity investment themes has been to generate above-market returns with below-market risk by providing what the capital markets don't or can't provide.

REAL ESTATE FINANCE

$1.4 Billion

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LOOK FORWARD

With CMBS and traditional sources of capital flowing back into the real estate markets, our focus is on finding good, or even great, real estate that doesn't naturally fit in the standardized structures of those capital sources.

One recent example is a transaction we closed earlier this year in which we committed to provide 50% of an $815 million financing for a ground-up construction project in New York City. The project comprises a 40-story EDITION hotel, six levels of retail space, and high-visibility, wraparound LED signage situated in the heart of Times Square. EDITION is a new hotel brand created in partnership by Marriott International and Ian Schrager.

iStar's relationships with many members of the equity group, and our ability to rapidly analyze and structure a multilayered capital stack, provided an opportunity to participate in a deal not widely understood. Coupled with our deep knowledge of the Times Square sub-market, we were able to assemble a financing that was custom-tailored to the borrower's needs.

LOOK BACK

Net lease has been a core part of iStar's business for more than 15 years. At its heart, the net lease business is a combination of corporate credit, capital market pricing and real estate. iStar's platform has emphasized the intersection of these three disciplines and has made net lease a highly successful business, with over $4 billion of transactions completed across office, industrial, retail, hotel, entertainment and other property types. Our in-house capabilities in underwriting, lease structuring, asset management and build-to-suit construction serve as competitive advantages as we seek out attractive risk-adjusted opportunities.

NET LEASE
$1.7 Billion

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LOOK FORWARD

Leveraging our proven capabilities and broad platform, iStar recently entered into a venture with a sovereign wealth fund to jointly acquire net lease assets. iStar and its partner will contribute an aggregate of up to $500 million to acquire or develop up to $1.25 billion of net lease assets. We will be responsible for sourcing new opportunities and managing the venture and its assets in exchange for a management fee and promote.

Our first investment in the fund was a $93 million property net leased to AT&T for 12 years. Situated on 33 acres just outside of Washington, DC, and right off of Interstate 66, the 400,000 square foot property includes a three-story office building and data center.

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OPERATING PROPERTIES

$1 Billion

LOOK BACK

A good real estate finance business should have at its foundation a strong understanding of and capability in the underlying real estate operations. Owning and operating a large, diversified portfolio of operating properties has further honed our skills and will make us stronger and smarter as we go forward.

LOOK FORWARD

iStar has many years of experience working through transitional real estate properties to maximize their values. The successful repositioning and recent sale of Sotelo, a 170-unit multi-family asset in Tempe, AZ, provides a good example of iStar's strategy. When we took ownership of Sotelo, only its first phase had been completed, including two of six buildings, podium structures for the other four buildings, the garages and common area amenities. Instead of selling it as a half-built condominium, iStar launched a highly successful rental marketing program and leased all of the completed units at market rents within four months. Seeing the longer-term potential, we worked to ensure all building plans and permits were maintained to retain the optionality of a quick and efficient completion of the project. As the market recovered, iStar used its in-house capabilities to quickly move forward with construction of the remaining four buildings, at an upgraded finish quality, selling the stabilized project for a 37% gain above book value.

LOOK BACK

Our entry into the land development business was not by design. Trying to lend at low levels relative to projected sell-out cash flows seemed to make sense when all asset values were inflated beyond fair value. Unfortunately, we learned the hard way how far land values can fall when a historical financial and economic disruption occurs.

And yet, as we saw in the residential condominium space, lessons learned at the bottom of the market lead to new insights and new knowledge that can become the basis for attractive returns and new opportunities.

LAND

$1 Billion

LOOK FORWARD

In 2013, we cleared critical hurdles on a number of assets. Our focus this year is to build on that momentum and continue to push our projects forward.

One example of a project that has benefitted from our efforts to enhance value is our waterfront development in Asbury Park, NJ.

We saw something special in Asbury Park — the beginning of a broader resurgence of a cultural icon — and made a long-term commitment to the waterfront redevelopment. Our beliefs were confirmed when we developed our first project, a town-home community called Vive, which sold out each phase in just one day.

With multiple projects on the drawing board in Asbury Park and elsewhere, iStar's land portfolio should see increased activity in 2014 and increased opportunity for value creation.

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FINANCIALS

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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 2013 presentation.

For the Years Ended December 31,	2013	2012	2011	2010	2009
(In thousands, except per share data and ratios)					
Operating Data:					
Operating lease income	**$ 234,567**	$ 216,291	$ 195,872	$ 183,443	$ 183,207
Interest income	**108,015**	133,410	226,871	364,094	557,809
Other income	**48,208**	47,838	39,722	51,069	32,343
Total revenue	**$ 390,790**	$ 397,539	$ 462,465	$ 598,606	$ 773,359
Interest expense	**$ 266,225**	$ 355,097	$ 342,186	$ 313,766	$ 411,790
Real estate expense	**157,441**	151,458	138,714	121,036	81,421
Depreciation and amortization	**71,266**	68,770	58,091	56,668	57,189
General and administrative	**92,114**	80,856	105,039	109,526	124,152
Provision for loan losses	**5,489**	81,740	46,412	331,487	1,255,357
Impairment of assets	**12,589**	13,778	13,239	12,809	114,117
Other expense	**8,050**	17,266	11,070	16,055	62,329
Total costs and expenses	**$ 613,174**	$ 768,965	$ 714,751	$ 961,347	$ 2,106,355
Income (loss) before earnings from equity method investments and other items	**$(222,384)**	$(371,426)	$(252,286)	$(362,741)	$(1,332,996)
Gain (loss) on early extinguishment of debt, net	**(33,190)**	(37,816)	101,466	108,923	547,349
Earnings from equity method investments	**41,520**	103,009	95,091	51,908	5,298
Loss on transfer of interest to unconsolidated subsidiary	**(7,373)**	–	–	–	–
Income (loss) from continuing operations before income taxes	**$(221,427)**	$(306,233)	$ (55,729)	$(201,910)	$ (780,349)
Income tax (expense) benefit	**659**	(8,445)	4,719	(7,023)	(4,141)
Income (loss) from continuing operations	**$(220,768)**	$(314,678)	$ (51,010)	$(208,933)	$ (784,490)
Income (loss) from discontinued operations	**644**	(17,481)	(5,514)	18,757	2,217
Gain from discontinued operations	**22,233**	27,257	25,110	270,382	12,426
Income from sales of residential property	**86,658**	63,472	5,721	–	–
Net income (loss)	**$(111,233)**	$(241,430)	$ (25,693)	$ 80,206	$ (769,847)
Net (income) loss attributable to noncontrolling interests	**(718)**	1,500	3,629	(523)	1,071
Net income (loss) attributable to iStar Financial Inc.	**$(111,951)**	$(239,930)	$ (22,064)	$ 79,683	$ (768,776)
Preferred dividends	**(49,020)**	(42,320)	(42,320)	(42,320)	(42,320)
Net (income) loss allocable to HPU holders and Participating Security holders[1]	**5,202**	9,253	1,997	(1,084)	22,526
Net income (loss) allocable to common shareholders	**$(155,769)**	$(272,997)	$ (62,387)	$ 36,279	$ (788,570)
Per common share data[2]:					
Income (loss) attributable to iStar Financial Inc. from continuing operations:					
Basic and diluted	**$ (2.09)**	$ (3.37)	$ (0.91)	$ (2.62)	$ (8.02)
Net income (loss) attributable to iStar Financial Inc.:					
Basic and diluted	**$ (1.83)**	$ (3.26)	$ (0.70)	$ 0.39	$ (7.88)
Per HPU share data[2]:					
Income (loss) attributable to iStar Financial Inc. from continuing operations:					
Basic and diluted	**$ (396.07)**	$ (638.27)	$ (173.66)	$ (497.13)	$ (1,528.67)
Net income (loss) attributable to iStar Financial Inc.:					
Basic and diluted	**$ (346.80)**	$ (616.87)	$ (133.13)	$ 72.27	$ (1,501.73)
Dividends declared per common share	**$ –**	$ –	$ –	$ –	$ –

For the Years Ended December 31,	2013	2012	2011	2010	2009
(In thousands, except per share data and ratios)					
Supplemental Data:					
Adjusted Income[(3)]	**$ (21,677)**	$ (53,847)	$ (3,316)	$ 360,525	$ 155,324
Adjusted EBITDA[(3)]	**$ 298,833**	$ 349,754	$ 376,464	$ 767,663	$ 686,267
Ratio of Adjusted EBITDA to interest expense and preferred dividends[(3)]	**0.9x**	0.9x	1.0x	2.0x	1.3x
Ratio of earnings to fixed charges[(4)]	–	–	–	–	–
Ratio of earnings to fixed charges and preferred dividends[(4)]	–	–	–	–	–
Weighted average common shares outstanding – basic and diluted	**84,990**	83,742	88,688	93,244	100,071
Weighted average HPU shares outstanding – basic and diluted	**15**	15	15	15	15
Cash flows from:					
Operating activities	**$(180,465)**	$ (191,932)	$ (28,577)	$ (45,883)	$ 77,795
Investing activities	**$ 893,447**	$ 1,267,047	$ 1,461,257	$ 3,738,823	$ 724,702
Financing activities	**$(455,758)**	$(1,175,597)	$(1,580,719)	$(3,412,707)	$(1,074,402)

As of December 31,	2013	2012	2011	2010	2009
(In thousands)					
Balance Sheet Data:					
Real estate, net	**$2,796,181**	$2,739,099	$2,893,482	$2,599,203	$ 3,302,584
Real estate available and held for sale	**$ 360,517**	$ 635,865	$ 677,458	$ 746,081	$ 856,422
Loans receivable and other lending investments, net	**$1,370,109**	$1,829,985	$2,860,762	$4,587,352	$ 7,661,562
Total assets	**$5,642,011**	$6,159,999	$7,523,083	$9,175,681	$12,811,885
Debt obligations, net	**$4,158,125**	$4,691,494	$5,837,540	$7,345,433	$10,894,903
Total equity	**$1,301,465**	$1,313,154	$1,573,604	$1,694,659	$ 1,656,118

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, restricted stock awards and common stock equivalents granted under the Company's Long Term Incentive Plans.

(2) See Note 13 of the Notes to Consolidated Financial Statements.

(3) Adjusted income and Adjusted EBITDA should be examined in conjunction with net income (loss) as shown in our Consolidated Statements of Operations. Adjusted income and Adjusted EBITDA should not be considered as an alternative to net income (loss) (determined in accordance with GAAP), as an indicator of our performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor are Adjusted income and Adjusted EBITDA indicative of funds available to fund our cash needs or available for distribution to shareholders. Rather, Adjusted income and Adjusted EBITDA are additional measures for us to use to analyze how our business is performing. It should be noted that our manner of calculating Adjusted income and Adjusted EBITDA may differ from the calculations of similarly-titled measures by other companies. See computation of Adjusted income and Adjusted EBITDA on pages 32 and 33.

(4) This ratio of earnings to fixed charges is calculated in accordance with SEC Regulation S-K Item 503. The Company's unsecured debt securities have a fixed charge coverage covenant which is calculated differently in accordance with the terms of the agreements governing such securities. For the years ended December 31, 2013, 2012, 2011, 2010 and 2009, earnings were not sufficient to cover fixed charges by $240,912, $305,450, $65,842, $221,634 and $749,144, respectively, and earnings were not sufficient to cover fixed charges and preferred dividends by $289,932, $347,770, $108,162, $263,954 and $791,464, respectively.

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 and Section 21E of the Exchange Act. Forward-looking statements are included with respect to, among other things, the Company's current business plan, business strategy, portfolio management, prospects 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 iStar Financial's Form 10-K or otherwise accompany the forward-looking statements contained in this Annual Report. 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 Annual Report. For purposes of this 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, 2013. This discussion should be read in conjunction with our consolidated financial statements and related notes for the three-year period ended December 31, 2013 included elsewhere in this Annual Report. These historical financial statements may not be indicative of our future performance. We have reclassified certain items in our consolidated financial statements from prior years in order to conform to our current year presentation (see Note 2 of the Notes to Consolidated Financial Statements).

Introduction

iStar Financial Inc. is a fully-integrated finance and investment company focused on the commercial real estate industry. We provide custom-tailored investment capital to high-end private and corporate owners of real estate and invest directly across a range of real estate sectors. We are taxed as a real estate investment trust, or "REIT," and have invested more than $35 billion over the past two decades. Our primary business segments are real estate finance, net lease, operating properties and land.

Our real estate finance portfolio is comprised of senior and mezzanine real estate loans that may be either fixed-rate or variable-rate and are structured to meet the specific financing needs of borrowers. Our portfolio also includes preferred equity investments and senior and subordinated loans to corporations, particularly those engaged in real estate or real estate related businesses, and may be either secured or unsecured. Our loan portfolio includes whole loans and loan participations.

Our net lease portfolio is primarily comprised of properties owned by us and leased to single creditworthy tenants where the properties are subject to long-term leases. Most of the leases provide for expenses at the facility to be paid by the tenant on a triple net lease basis. The properties in this portfolio are diversified by property type and geographic location.

Our operating properties portfolio is comprised of commercial and residential properties which represent a diverse pool of assets across a broad range of geographies and property types. We generally seek to reposition or redevelop these assets with the objective of maximizing their value through the infusion of capital and/or intensive asset management efforts. The commercial properties within this portfolio include office, retail and hotel properties. The residential properties within this portfolio are generally luxury condominium projects located in major U.S. cities where our strategy is to sell individual condominium units through retail distribution channels.

Our land portfolio primarily consists of 11 master planned community projects, 10 urban infill land parcels and 6 waterfront land parcels located throughout the United States. Master planned communities represent large-scale residential projects that we will entitle, plan and/or develop and may sell through retail channels to home builders or in bulk. We currently have entitlements at these projects for more than 25,000 lots. The remainder of the Company's land includes infill and waterfront parcels located in and around major cities that the Company will develop, sell to or partner with commercial real estate developers. Waterfront parcels are generally entitled for residential projects and urban infill parcels are generally entitled for mixed-use projects. These projects are currently entitled for approximately 6,000 residential units, and select projects include commercial, retail and office uses. As of December 31, 2013, we had 5 land projects in production, 11 in development and 11 in the pre-development phase.

Executive Overview

We have made significant progress over the past two years in strengthening our balance sheet and positioning the Company for the future. During this period, our credit ratings were upgraded and we executed several capital markets transactions across a broad spectrum of debt products that have satisfied all of our significant near term debt maturities and meaningfully extended our debt maturity profile. These transactions have included five unsecured note issuances at declining interest rates, a refinancing of our largest secured credit facility at a reduced interest rate and the issuance of convertible preferred stock. These transactions, along with fundamental improvements in the overall economy and real estate markets, have allowed us to reduce our overall cost of capital while maintaining lower leverage.

As conditions in the economy and financing markets have improved, we have been increasing our originations of new lending and net lease investments, repositioning or redeveloping our operating properties and progressing on the entitlement and development of our land assets. We intend to continue these efforts, with the objective of having these assets contribute positively to earnings in the future. During the year, we resolved a number of non-performing loans including loans that were repaid, sold, returned to performing status and foreclosed on. Non-performing loans, net of specific reserves, declined 60% from $503.1 million at December 31, 2012 to $203.6 million at December 31, 2013.

During the year ended December 31, 2013, our performing loans, net lease assets and sales of our residential operating properties contributed positively to our earnings. However, the performance of nonperforming loans, transitional commercial operating properties and the sizable carrying costs associated with our land assets continued to negatively impact our earnings. In addition, we realized less earnings from equity method investments as a result of the sale of our investment in LNR Property Corporation ("LNR") during 2013. For the year ended December 31, 2013, we recorded a net loss allocable to common shareholders of $(155.8) million, compared to a loss of $(273.0) million during 2012. Adjusted income (loss) allocable to common shareholders for 2013 was $(21.7) million, compared to $(53.8) million for 2012.

With respect to liquidity, we originated and funded investments totaling $483.7 million and received $1.40 billion of proceeds from our portfolio during 2013. As of December 31, 2013, we had satisfied all of our significant near term debt maturities. We had $513.6 million of cash at that date, a portion of which we have since used to fund new investments, and we expect similarly to use the remainder to primarily fund investment activities.

Results of Operations for the Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012

For the Years Ended December 31,	2013	2012	$ Change	% Change
(in thousands)				
Operating lease income	**$ 234,567**	$ 216,291	$ 18,276	8%
Interest income	**108,015**	133,410	(25,395)	(19)%
Other income	**48,208**	47,838	370	1%
Total revenue	**$ 390,790**	$ 397,539	$ (6,749)	(2)%
Interest expense	**$ 266,225**	$ 355,097	$ (88,872)	(25)%
Real estate expenses	**157,441**	151,458	5,983	4%
Depreciation and amortization	**71,266**	68,770	2,496	4%
General and administrative	**92,114**	80,856	11,258	14%
Provision for loan losses	**5,489**	81,740	(76,251)	(93)%
Impairment of assets	**12,589**	13,778	(1,189)	(9)%
Other expense	**8,050**	17,266	(9,216)	(53)%
Total costs and expenses	**$ 613,174**	$ 768,965	$(155,791)	(20)%
Loss on early extinguishment of debt, net	**$ (33,190)**	$ (37,816)	$ 4,626	(12)%
Earnings from equity method investments	**41,520**	103,009	(61,489)	(60)%
Loss on transfer of interest to unconsolidated subsidiary	**(7,373)**	–	(7,373)	100%
Income tax (expense) benefit	**659**	(8,445)	9,104	>100%
Income (loss) from discontinued operations	**644**	(17,481)	18,125	>100%
Gain from discontinued operations	**22,233**	27,257	(5,024)	(18)%
Income from sales of residential property	**86,658**	63,472	23,186	37%
Net income (loss)	**$(111,233)**	$(241,430)	$ 130,197	(54)%

Revenue – Operating lease income, which includes income from net lease assets and commercial operating properties, increased to $234.6 million during the year ended December 31, 2013 from $216.3 million for the same period in 2012.

Operating lease income from commercial operating properties increased to $86.4 million in 2013 from $65.7 million in 2012. For the year ended December 31, 2013, the commercial operating properties generated a weighted average effective yield of 4.7% compared to 2.9% during the same period in 2012 based on gross carrying value. We acquired title to additional commercial operating properties at the end of 2012, which contributed $15.0 million to the increase in operating lease income in 2013. The net impact of new leases and other leasing related activities within the portfolio contributed $7.9 million to the year over year increase. Lease terminations and other leasing related activities offset the increase by $1.9 million period over period. As of December 31, 2013, commercial operating properties, excluding hotels, were 61.1% leased compared to 58.1% leased as of December 31, 2012.

Operating lease income from net lease assets decreased to $147.3 million in 2013 from $149.1 million in 2012 primarily due to lease expirations which were partially offset by new leases since December 31, 2012. As of December 31, 2013, net lease assets were 94.4% leased compared to 94.8% leased as of December 31, 2012. For the year ended December 31, 2013, the net lease portfolio generated a weighted average effective yield of 7.2% compared to 7.5% during the same period in 2012 based on gross carrying value.

Interest income declined to $108.0 million in 2013 as compared to $133.4 million in 2012 primarily due to a decrease in the average balance of performing loans to $1.23 billion in 2013 from $1.67 billion in 2012. The decrease in performing loans was primarily due to loan repayments received during the period. Offsetting the decline were new investment originations that increased our weighted average effective yield and our interest income. For the year ended December 31, 2013, performing loans generated a weighted average effective yield of 7.6% as compared to 7.5% in 2012.

Other income increased to $48.2 million in 2013 as compared to $47.8 million in 2012. The increase was due to $4.0 million received for the settlement of a property-related lawsuit and $3.5 million recognized for the termination of certain leases. Other income includes revenue related to hotel properties included in the operating property portfolio, which decreased to $29.3 million in 2013 from $32.6 million in 2012 due to a reduction in ancillary revenue related to a hotel property and the conversion of some hotel rooms to condo units within one property. In addition, there was a decline of $3.9 million in loan related income due primarily to the sale of a loan in 2012.

Costs and expenses – Interest expense decreased $88.9 million to $266.2 million in 2013 as compared to $355.1 million in 2012 due to a lower average outstanding debt balance and a lower weighted average cost of debt. The average outstanding balance of our debt declined to $4.46 billion in 2013 from $5.49 billion in 2012. Due to an upgrade in our credit ratings in late 2012 and strong credit markets in 2013, we refinanced our largest senior secured credit facility to a lower interest rate in February 2013 and refinanced higher rate senior unsecured notes with lower rate senior unsecured notes during 2013. As a result, our weighted average effective cost of debt decreased to 5.9% during 2013 as compared to 6.5% during 2012.

Real estate expenses increased to $157.4 million in 2013 as compared to $151.5 million in 2012. Expenses for commercial operating properties increased to $81.1 million in 2013 from $73.7 million in 2012, primarily driven by a property to which we took title at the end of 2012, offset by a reduction in ancillary expenses related to a hotel property.

Carrying costs and other expenses on our land assets increased to $33.8 million in 2013 from $27.3 million in 2012, primarily related to increased pre-development activities. The increases were offset by a decrease in costs associated with residential units to $19.8 million in 2013 from $26.6 million in 2012 due to continued unit sales, which reduced our homeowners' association fees and other related expenses. Additionally, operating expenses for net lease assets decreased to $22.7 million in 2013 from $23.9 million in 2012 due primarily to improvements in collectability of receivables in 2013.

Depreciation and amortization increased to $71.3 million in 2013 from $68.8 million in 2012 primarily due to the acquisition of additional operating properties in late 2012 and during 2013.

General and administrative expenses increased to $92.1 million in 2013 as compared to $80.9 million in 2012 primarily due to an increase in compensation related costs pertaining to annual performance based bonuses.

Provisions for loan losses declined by $76.3 million to $5.5 million in 2013 as compared to $81.7 million in 2012 as less specific reserves were required on a lower balance of non-performing loans. Included in the provision for the year ended December 31, 2013 were specific reserves totaling $72.5 million which were established on non-performing loans offset by recoveries of previously recorded loan loss reserves of $63.1 million.

Impairment of assets for the year ended December 31, 2013 resulted from changes in local market conditions and business strategy for certain assets and consisted of $14.4 million related to real estate properties. Of these amounts, $1.8 million of impairments related to real estate assets held for sale or sold and were therefore included in discontinued operations for the year ended December 31, 2013. For the year ended December 31, 2012, we recorded impairments of $27.7 million on operating properties and $7.7 million on net lease assets, which resulted from changes in local market conditions and business strategy for certain assets. Of these amounts, $22.6 million related to real estate assets held for sale or sold and therefore, were included in discontinued operations for the year ended December 31, 2012.

Other expense decreased to $8.1 million in 2013 as compared to $17.3 million in 2012 due primarily to $8.1 million of third party expenses incurred in 2012 in connection with the refinancing of our 2011 Secured Credit Facilities with our October 2012 Credit Facility (see Liquidity and Capital Resources below).

Loss on early extinguishment of debt, net – During 2013, we incurred losses on the early extinguishment of debt due to accelerated amortization of discounts and fees of $7.7 million relating to the refinancing of our October 2012 Secured Credit Facility in February 2013 and $13.2 million relating to accelerated amortization of discount and fees associated with repayments on our 2012 and 2013 Secured Credit Facilities. We also redeemed our 5.95% senior unsecured notes due October 2013 and our 5.70% senior unsecured notes due March 2014 prior to maturity and incurred $12.3 million of losses related to a prepayment penalty and the acceleration of amortization of discounts (see Liquidity and Capital Resources below).

During 2012, net losses on the early extinguishment of debt included a $14.9 million prepayment fee on the early redemption of our 8.625% Senior Unsecured Notes due in June 2013 as well as $12.1 million related to the accelerated amortization of discounts and fees in connection with the refinancing of our 2011 Secured Credit Facilities in October 2012 (see Liquidity and Capital Resources below). We also recorded $13.8 million of losses in 2012 related to the accelerated amortization of discounts and fees in connection with amortization payments that we made on our 2011 and 2012 Secured Credit Facilities. These losses were partially offset by gains on the repurchases of unsecured notes during 2012.

Earnings from equity method investments – Earnings from equity method investments decreased to $41.5 million in 2013 as compared to $103.0 million in 2012. For one of our real estate equity investments, our equity in earnings decreased to $4.3 million in 2013 from $25.2 million in 2012 due to lower income from sales of residential property units for a building that is approaching complete sell-out. Our equity in earnings from LNR decreased to $47.3 million in 2013 from $60.7 million in 2012 due to the sale of our interest in LNR in April 2013. Our equity in earnings in 2013 was offset by an other than temporary impairment of $30.9 million arising from the terms of the sale of the Company's investment in LNR. The Company and other owners of LNR entered into negotiations with potential purchasers of LNR beginning in September 2012. After an extensive due diligence and negotiation process, the LNR owners entered into a definitive contract to sell LNR in January 2013 at a fixed sale price which, from the Company's perspective, reflected in part the Company's then-current expectations about the future results of LNR and potential volatility in its business. The definitive sale contract provided that LNR would not make cash distributions to its owners during the fourth quarter of 2012 through the closing of the sale. Notwithstanding the fixed terms of the contract, our investment balance in LNR increased due to equity in earnings recorded which resulted in our recognition of other than temporary impairment on our investment during 2013.

Loss on transfer of interest to unconsolidated subsidiary – During 2013, we entered into a venture with a national homebuilder to jointly develop residential lots in the first phase of Spring Mountain Ranch, a 1,400-lot master planned community. We contributed the initial phase of land, which had a carrying value of $24.1 million, to the venture in exchange for a retained interest of $16.7 million, resulting in a $7.4 million loss.

Income tax (expense) benefit – Income taxes are primarily generated by assets held in our taxable REIT subsidiaries ("TRS's"). Income taxes decreased to a net benefit of $0.7 million in 2013 as compared to a net expense of $8.4 million in 2012 due primarily to a tax benefit generated by certain property level expenses as well as lower taxable income from LNR, which was sold in April 2013.

Discontinued operations – During 2013, we sold commercial operating properties with a total carrying value of $72.6 million which resulted in a gain of $18.6 million and net lease assets with a total carrying value of $18.7 million which resulted in a net gain of $2.2 million. During 2012, we sold net lease assets with a carrying value of $115.5 million and recorded gains of $27.3 million.

Income (loss) from discontinued operations includes operating results from net lease assets and commercial operating properties held for sale or sold as of December 31, 2013. For the years ended December 31, 2013 and 2012, income (loss) from discontinued operations includes impairment of assets of $1.8 million and $22.6 million, respectively.

Income from sales of residential property – During 2013 and 2012, we sold residential condominiums for total net proceeds of $269.7 million and $319.3 million, respectively, that resulted in income from sales of residential properties totaling $82.6 million and $63.5 million, respectively. During 2013, we also sold land for proceeds of $36.7 million that resulted in income of $4.0 million.

Results of Operations for the Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

(in thousands)	2012	2011	$ Change	% Change
Operating lease income	$ 216,291	$195,872	$ 20,419	10%
Interest income	133,410	226,871	(93,461)	(41)%
Other income	47,838	39,722	8,116	20%
Total revenue	$ 397,539	$462,465	$ (64,926)	(14)%
Interest expense	$ 355,097	$342,186	$ 12,911	4%
Real estate expenses	151,458	138,714	12,744	9%
Depreciation and amortization	68,770	58,091	10,679	18%
General and administrative	80,856	105,039	(24,183)	(23)%
Provision for loan losses	81,740	46,412	35,328	76%
Impairment of assets	13,778	13,239	539	4%
Other expense	17,266	11,070	6,196	56%
Total costs and expenses	$ 768,965	$714,751	$ 54,214	8%
Gain (loss) on early extinguishment of debt, net	$ (37,816)	$101,466	$(139,282)	>100%
Earnings from equity method investments	103,009	95,091	7,918	8%
Income tax (expense) benefit	(8,445)	4,719	(13,164)	>100%
Income (loss) from discontinued operations	(17,481)	(5,514)	(11,967)	>100%
Gain from discontinued operations	27,257	25,110	2,147	9%
Income from sales of residential property	63,472	5,721	57,751	>100%
Net income (loss)	$(241,430)	$ (25,693)	$(215,737)	>100%

Revenue – Operating lease income, which includes income from net lease assets and commercial operating properties, increased to $216.3 million during the year ended December 31, 2012 from $195.9 million for the same period in 2011.

Operating lease income from commercial operating properties increased to $65.7 million in 2012 from $51.2 million in 2011. We acquired title to additional commercial operating properties at the end of 2011 and during 2012, which contributed $20.6 million in operating lease income in 2012. The impact of certain lease terminations offset this increase by $6.3 million year over year. As of December 31, 2012, commercial operating properties, excluding hotels, were 58.1% leased compared to 41.0% leased as of December 31, 2011.

Operating lease income from net lease assets increased to $149.1 million in 2012 from $144.5 million in 2011 primarily due to new leasing activity. As of December 31, 2012, net lease assets were 94.8% leased compared to 94.4% leased as of December 31, 2011. For the year ended December 31, 2012, the net lease portfolio generated a weighted average effective yield of 7.5% compared to 7.3% during the same period in 2011 based on gross carrying value.

Interest income declined to $133.4 million in 2012 as compared to $226.9 million in 2011 primarily due to a decrease in the average balance of performing loans to $1.67 billion in 2012 from $2.58 billion in 2011. The decrease in performing loans was primarily due to loan repayments as well as performing loans moving to non-performing status. For the year ended December 31, 2012, performing loans generated a weighted average effective yield of 7.5% as compared to 7.2% in 2011.

Other income increased to $47.8 million in 2012 as compared to $39.7 million in 2011. Other income includes revenue related to hotel properties included in the operating property portfolio, which was $32.6 million in 2012 compared to $32.5 million in 2011. For the year ended December 31, 2012, other income also includes $8.6 million of loan income related to the prepayment and sales of loans as compared to $2.9 million for the year ended December 31, 2011.

Costs and expenses – Interest expense increased to $355.1 million in 2012 as compared to $342.2 million in 2011 primarily due to a higher weighted average cost of debt offset by a lower average outstanding balance. Our weighted average effective cost of debt increased to 6.49% for the year ended December 31, 2012 as compared to 5.34% during 2011 primarily due to the refinancing of existing debt in 2011 and the first half of 2012 at higher rates. The average outstanding balance of our debt declined to $5.49 billion for the year ended December 31, 2012 from $6.47 billion for the year ended December 31, 2011.

Real estate expenses increased to $151.5 million in 2012 as compared to $138.7 million in 2011 primarily driven by additional properties to which we took title in 2012 and late 2011 through resolution of non-performing loans. Expenses for operating properties were

$100.2 million in 2012 as compared to $92.0 million in 2011, which includes carrying costs on our residential operating properties totaling $26.6 million in 2012 and $24.4 million in 2011. Operating expenses for net lease assets declined slightly to $23.9 million in 2012 from $25.1 million in 2011. Carrying costs and other expenses on our land assets increased to $27.3 million in 2012 from $21.6 million in 2011, primarily related to acquiring title to assets in resolution of non-performing loans as well as increased legal and consulting expenses.

Depreciation and amortization increased to $68.8 million in 2012 from $58.1 million in 2011 primarily due to the acquisition of additional operating properties in late 2011 and 2012.

General and administrative expenses decreased primarily due to lower stock-based compensation expense, lower payroll and employee related costs and decreased legal expenses. Stock-based compensation expense declined to $15.3 million in 2012 from $29.7 million in 2011, primarily resulting from the recognition of incremental expense in 2011 associated with the modification of certain restricted stock units. Payroll and employee related costs declined due to staffing reductions, while legal expenses declined due to the settlement of litigation in June 2012.

Provisions for loan losses totaled $81.7 million in 2012 and included higher specific reserves on non-performing loans, offset by a reduction in the general reserve primarily due to a reduction in the balance of performing loans outstanding during the current year.

Impairment of assets for the year ended December 31, 2012 resulted from changes in local market conditions and business strategy for certain assets and consisted of $27.7 million on operating properties and $7.7 million on net lease assets. Of these amounts, $22.6 million of impairments related to real estate assets held for sale or sold and were therefore included in discontinued operations for the year ended December 31, 2012. For the year ended December 31, 2011, we recorded impairments of $22.4 million related to operating properties which resulted from changing market conditions and changes in business strategy for certain assets. Of this amount, $9.1 million relates to real estate assets held for sale or sold and therefore, were included in discontinued operations for the year ended December 31, 2011.

Other expense for 2012 increased primarily due to $8.1 million of third party expenses incurred in connection with the refinancing of our 2011 Secured Credit Facilities with our October 2012 Credit Facility (see Liquidity and Capital Resources below).

Gain (loss) on early extinguishment of debt, net – During 2012, net losses on the early extinguishment of debt included a $14.9 million prepayment fee on the early redemption of our 8.625% Senior Unsecured Notes due in June 2013 as well as $12.1 million related to the accelerated amortization of discounts and fees in connection with the refinancing of our 2011 Secured Credit Facilities in October 2012 (see Liquidity and Capital Resources below). We also recorded $13.8 million of losses in 2012 related to the accelerated amortization of discounts and fees in connection with amortization payments that we made on our 2011 and 2012 Secured Credit Facilities. These losses were partially offset by gains on the repurchases of unsecured notes during 2012.

During the same period in 2011, we fully redeemed the $312.3 million remaining principal balance of our 10% senior secured notes due June 2014 which resulted in a $109.0 million gain on early extinguishment of debt primarily related to the recognition of deferred gain that resulted from a previous debt exchange. This was offset by losses on extinguishment of debt related to the accelerated amortization of discounts and fees in connection with amortization payments that we made on our secured credit facilities, including the A-1 Tranche of the 2011 Secured Credit Facilities.

Earnings from equity method investments – Earnings from equity method investments increased to $103.0 million in 2012 as compared to $95.1 million in 2011, primarily due to $26.0 million of equity in earnings recognized from income from sales of residential property units recorded by one of our real estate equity investments. These increases were partially offset by the impact of the sale of Oak Hill Advisors, L.P. and related entities in October 2011, which contributed $38.4 million to earnings, including a pre-tax gain of $30.3 million during the year ended December 31, 2011.

Income tax (expense) benefit – Income taxes are primarily generated by assets held in our taxable REIT subsidiaries, and increased to an expense of $8.4 million in 2012 as compared to a benefit of $4.7 million in 2011. During the years ended December 31, 2012 and 2011, TRS-generated taxable income was partially offset by the utilization of net operating loss carryforwards, resulting in current tax expense. In addition, in 2011, we recognized a non-cash deferred tax benefit that resulted from the reversal of a deferred tax liability related to our Oak Hill investments that were sold in October of 2011, which resulted in a net benefit for the year then ended.

Discontinued operations – During 2012, we sold net lease assets with a carrying value of $115.5 million and recorded gains of $27.3 million. During the 2011, we realized a $22.2 million gain from discontinued operations previously deferred as part of the June 2010 sale of 32 net lease assets.

Income (loss) from discontinued operations includes operating results from net lease assets and commercial operating properties held for sale or sold as of December 31, 2012. For the years ended December 31, 2012 and 2011, income (loss) from discontinued operations includes impairment of assets of $22.6 million and $9.1 million, respectively.

Income from sales of residential property – During 2012 and 2011, we sold residential condominiums for total net proceeds of $319.3 million and $154.0 million, respectively, that resulted in income from sales of residential properties totaling $63.5 million and $5.7 million, respectively.

Adjusted Income and Adjusted EBITDA

In addition to net income (loss), we use Adjusted income and Adjusted EBITDA to measure our operating performance. Adjusted income represents net income (loss) allocable to common shareholders, prior to the effect of depreciation and amortization, provision for loan losses, impairment of assets, loss on transfer of interest to unconsolidated subsidiary, stock-based compensation expense, and the non-cash portion of gain (loss) on early extinguishment of debt. Adjusted EBITDA represents net income (loss) plus the sum of interest expense, income taxes, depreciation and amortization, provision for loan losses, impairment of assets, stock-based compensation expense and loss on transfer of interest to unconsolidated subsidiary, adjusted for gain (loss) on early extinguishment of debt.

We believe Adjusted income and Adjusted EBITDA are useful measures to consider, in addition to net income (loss), as they may help investors evaluate our core operating performance prior to certain non-cash items.

Adjusted income and Adjusted EBITDA should be examined in conjunction with net income (loss) as shown in our Consolidated Statements of Operations. Adjusted income and Adjusted EBITDA should not be considered as an alternative to net income (loss) (determined in accordance with GAAP), as an indicator of our performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor are Adjusted income and Adjusted EBITDA indicative of funds available to fund our cash needs or available for distribution to shareholders. Rather, Adjusted income and Adjusted EBITDA are additional measures for us to use to analyze how our business is performing. It should be noted that our manner of calculating Adjusted income and Adjusted EBITDA may differ from the calculations of similarly-titled measures by other companies.

For the Years Ended December 31,	2013	2012	2011	2010	2009
(in thousands)					
Adjusted income					
Net income (loss) allocable to common shareholders	**$(155,769)**	$(272,997)	$ (62,387)	$ 36,279	$ (788,570)
Add: Depreciation and amortization[1]	**72,439**	70,786	63,928	70,786	98,238
Add: Provision for loan losses	**5,489**	81,740	46,412	331,487	1,255,357
Add: Impairment of assets[2]	**14,353**	36,354	22,386	22,381	141,018
Add: Loss on transfer of interest to unconsolidated subsidiary	**7,373**	–	–	–	–
Add: Stock-based compensation expense	**19,261**	15,293	29,702	19,355	23,593
Add: (Gain) loss on early extinguishment of debt, net[3]	**19,655**	22,405	(101,466)	(110,075)	(547,349)
Less: HPU/Participating Security allocation	**(4,478)**	(7,428)	(1,891)	(9,688)	(26,963)
Adjusted income (loss) allocable to common shareholders	**$ (21,677)**	$ (53,847)	$ (3,316)	$ 360,525	$ 155,324

Explanatory Notes:

(1) For the years ended December 31, 2013, 2012, 2011, 2010 and 2009, depreciation and amortization includes $264, $2,016, $5,837, $14,117 and $42,099, respectively, of depreciation and amortization reclassified to discontinued operations. Depreciation and amortization also includes our proportionate share of depreciation and amortization expense for equity method investments and excludes the portion of depreciation and amortization expense allocable to noncontrolling interests.

(2) For the years ended December 31, 2013, 2012, 2011, 2010 and 2009, impairment of assets includes $1,764, $22,576, $9,147, $9,572 and $26,901, respectively, of impairment of assets reclassified to discontinued operations.

(3) For the years ended December 31, 2013, 2012 and 2010, (gain) loss on early extinguishment of debt excludes the portion of losses paid in cash of $13,535, $15,411 and $1,152, respectively.

For the Years Ended December 31,	2013	2012	2011	2010	2009
(in thousands)					
Adjusted EBITDA					
Net income (loss)	**$(111,233)**	$(241,430)	$ (25,693)	$ 80,206	$ (769,847)
Add: Interest expense[1]	**269,921**	356,161	345,914	346,500	481,116
Less: Income tax expense (benefit)	**(659)**	8,445	(4,719)	7,023	4,141
Add: Depreciation and amortization[2]	**74,673**	70,786	63,928	70,786	98,238
EBITDA	**$ 232,702**	$ 193,962	$ 379,430	$ 504,515	$ (186,352)
Add: Provision for loan losses	**5,489**	81,740	46,412	331,487	1,255,357
Add: Impairment of assets[3]	**14,353**	36,354	22,386	22,381	141,018
Add: Loss on transfer of interest to unconsolidated subsidiary	**7,373**	–	–	–	–
Add: Stock-based compensation expense	**19,261**	15,293	29,702	19,355	23,593
Add: (Gain) loss on early extinguishment of debt, net[4]	**19,655**	22,405	(101,466)	(110,075)	(547,349)
Adjusted EBITDA[5]	**$ 298,833**	$ 349,754	$ 376,464	$ 767,663	$ 686,267

Explanatory Notes:

(1) For the years ended December 31, 2013, 2012, 2011, 2010 and 2009, interest expense includes $0, $1,064, $3,728, $32,734 and $69,326, respectively, of interest expense reclassified to discontinued operations. Interest expense also includes our proportionate share of interest for equity method investments.

(2) For the years ended December 31, 2013, 2012, 2011, 2010 and 2009, depreciation and amortization includes $264, $2,016, $5,837, $14,117 and $42,099, respectively, of depreciation and amortization reclassified to discontinued operations. Depreciation and amortization also includes our proportionate share of depreciation and amortization expense for equity method investments.

(3) For the years ended December 31, 2013, 2012, 2011, 2010 and 2009, impairment of assets includes $1,764, $22,576, $9,147, $9,572 and $26,901, respectively, of impairment of assets reclassified to discontinued operations.

(4) For the years ended December 31, 2013, 2012 and 2010, (gain) loss on early extinguishment of debt excludes the portion of losses paid in cash of $13,535, $15,411 and $1,152, respectively.

(5) Prior period presentation has been adjusted to conform to current year presentation.

Loan Credit Statistics – The table below summarizes our non-performing loans and the reserves for loan losses associated with our loans ($ in thousands):

As of December 31,	2013	2012
Non-performing loans		
Carrying value[1]	**$203,604**	$503,112
As a percentage of total carrying value of loans	**16.6%**	27.5%
Reserve for loan losses		
Impaired loan asset-specific reserves for loan losses	**$348,004**	$491,399
As a percentage of gross carrying value of impaired loans	**46.3%**	42.6%
Total reserve for loan losses	**$377,204**	$524,499
As a percentage of total loans before loan loss reserves	**23.5%**	22.3%

Explanatory Note:

(1) As of December 31, 2013 and 2012, carrying values of non-performing loans are net of asset-specific reserves for loan losses of $317.0 million and $476.1 million, respectively.

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, 2013, we had non-performing loans with an aggregate carrying value of $203.6 million compared to non-performing loans of $503.1 million at December 31, 2012. Our non-performing loans significantly decreased during year ended December 31, 2013, primarily due to paydowns received on non-performing loans, reclassification of certain non-performing loans to performing status and receiving title to properties serving as collateral in full or partial satisfaction of such loans. We expect that our level of non-performing loans will fluctuate from period to period.

Reserve for Loan Losses – The reserve for loan losses was $377.2 million as of December 31, 2013, or 23.5% of the gross carrying value of total loans, compared to $524.5 million or 22.3% at December 31, 2012. The change in the balance of the reserve was the result of $5.5 million of net provisioning for loan losses, reduced by $152.8 million of charge-offs during the year ended December 31, 2013. During the year ended December 31, 2013, the provision for loan losses includes recoveries of previously recorded loan loss reserves of $63.1 million as compared to $4.6 million for the year ended December 31, 2012. We expect that our level of reserve for loan losses will fluctuate from period to period. Due to the volatility of the commercial real estate market, the process of estimating collateral values and reserves requires the use of significant judgment. In addition, the process of estimating values and reserves for our European loan assets (which had a carrying value of $118.8 million as of December 31, 2013), is subject to additional risks related to the economic uncertainty in the Eurozone. We currently believe there are adequate collateral and reserves to support the carrying values of the loans.

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, 2013, asset-specific reserves decreased to $348.0 million compared to $491.4 million at December 31, 2012, primarily due to charge-offs on loans where we took title to properties serving as collateral in full or partial satisfaction of such loans or loans that were sold. The decrease was partially offset by additional reserves established on new non-performing loans.

The formula-based general reserve is derived from estimated principal default probabilities and loss severities applied to groups of performing loans based upon risk ratings assigned to loans with similar risk characteristics during our quarterly loan portfolio assessment. During this assessment, we perform a comprehensive analysis of our loan portfolio and assign risk ratings to loans that incorporate management's current judgments about their credit quality based on all known and relevant factors that may affect collectability. We consider, among other things, payment status, lien position, borrower financial resources and investment in collateral, collateral type, project economics and geographical location as well as national and regional economic factors. This methodology results in loans being segmented by risk classification into risk rating categories that are associated with estimated probabilities of default and principal loss. We estimate loss rates based on historical realized losses experienced within our portfolio and take into account current economic conditions affecting the commercial real estate market when establishing appropriate time frames to evaluate loss experience.

The general reserve decreased to $29.2 million or 2.7% of the gross carrying value of performing loans as of December 31, 2013, compared to $33.1 million or 2.4% of the gross carrying value of performing loans at December 31, 2012. This reduction is primarily attributable to the reduction in the balance of performing loans offset by a slight increase in the weighted average risk ratings of performing loans to 3.11 as of December 31, 2013 compared to 3.01 as of December 31, 2012.

Risk concentrations – As of December 31, 2013, based on current gross carrying values, the Company's total investment portfolio has the following characteristics ($ in thousands)(1):

Property/Collateral Types	Real Estate Finance	Net Lease	Operating Properties	Land	Total	% of Total
Land	$ 152,992	$ –	$ –	$965,192	$1,118,184	21.6%
Office	9,889	484,535	293,928	–	788,352	15.2%
Industrial/R&D	96,283	550,413	52,258	–	698,954	13.5%
Entertainment/Leisure	77,427	475,437	–	–	552,864	10.7%
Hotel	246,180	136,080	96,708	–	478,968	9.2%
Mixed Use/Mixed Collateral	237,161	–	169,120	–	406,281	7.8%
Retail	208,990	57,348	129,604	–	395,942	7.6%
Condominium	107,975	–	223,250	–	331,225	6.4%
Other Property Types	262,412	9,483	–	–	271,895	5.2%
Strategic Investments	–	–	–	–	145,004	2.8%
Total	$1,399,309	$1,713,296	$964,868	$965,192	$5,187,669	100.0%

Geographic Region	Real Estate Finance	Net Lease	Operating Properties	Land	Total	% of Total
Northeast	$ 391,967	$ 374,478	$152,779	$193,055	$1,112,279	21.4%
West	142,029	427,052	190,356	351,374	1,110,811	21.4%
Southeast	264,100	237,433	229,504	86,472	817,509	15.8%
Mid-Atlantic	160,091	193,735	158,148	183,102	695,076	13.4%
Southwest	171,815	220,714	179,806	122,160	694,495	13.4%
Central	87,390	102,755	47,332	9,500	246,977	4.8%
Northwest	50,118	80,858	6,943	19,529	157,448	3.0%
International(2)	121,733	–	–	–	121,733	2.3%
Various	10,066	76,271	–	–	86,337	1.7%
Strategic Investments(2)	–	–	–	–	145,004	2.8%
Total	$1,399,309	$1,713,296	$964,868	$965,192	$5,187,669	100.0%

Explanatory Notes:

(1) Based on the carrying value of our total investment portfolio gross of accumulated depreciation and general loan loss reserves.

(2) Strategic investments include $47.0 million of international assets. Additionally, international and strategic investments include $118.8 million of European assets, including $79.8 million in Germany and $39.0 million in the United Kingdom.

Concentrations of credit risks arise when a number of borrowers or tenants related to our 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 us, to be similarly affected by changes in economic conditions.

Substantially all of our real estate as well as assets collateralizing our loans receivable are located in the United States. As of December 31, 2013, the only state with a concentration greater than 10.0% was California with 15.1%.

We underwrite the credit of prospective borrowers and tenants and often require them to provide some form of credit support such as corporate guarantees, letters of credit and/or cash security deposits. Although our loans and real estate assets are geographically diverse and the borrowers and tenants operate in a variety of industries, to the extent we have a significant concentration of interest or operating lease revenues from any single borrower or tenant, the inability of that borrower or tenant to make its payment could have an adverse effect on us. As of December 31, 2013, our five largest borrowers or tenants collectively accounted for approximately 25% of our aggregate annualized interest and operating lease revenue, of which no single customer accounts for more than 8%.

Liquidity and Capital Resources

During the year ended December 31, 2013, we funded investments totaling $483.7 million. Also during 2013, we received $1.40 billion of proceeds from our portfolios, comprised of $703.3 million from repayments and sales of loans, $376.5 million from sales of operating properties, $239.9 million from sales and distributions from other investments, and $83.6 million from sales of land and net lease assets. Included in the proceeds from other investments are net proceeds of $220.3 million from the sale of our interest in LNR. The transaction provided us with additional liquidity for new investment activities which should contribute positively to our earnings; however, those investments may not fully replace the earnings contributed by LNR (see Note 6 to the Consolidated Financial Statements). In addition, we raised $194.0 million in net proceeds from our Series J Preferred Stock issuance to provide liquidity for new investment originations and general corporate purposes. As of December 31, 2013, we had unrestricted cash of $513.6 million, a portion of which we have since used to fund new investments, and we expect similarly to use the remainder to primarily fund investment activities.

As of December 31, 2013, we had $21.7 million of debt maturities due before December 31, 2014. Over the next 12 months, we currently expect to fund in the range of $275 million to $350 million of capital expenditures within our portfolio. The majority of these amounts relate to our land portfolio and the amount spent will depend on the pace of our land development activities. Our capital sources to meet expected cash uses through the next 12 months will primarily include cash on hand, loan repayments from borrowers, proceeds from unencumbered asset sales and raising capital through debt refinancings or equity capital transactions. As of December 31, 2013, we had unencumbered assets with a carrying value of approximately $3.0 billion.

We cannot predict with certainty the specific transactions we will undertake to generate sufficient liquidity to meet our obligations as they come due. We will adjust our plans as appropriate in response to changes in our expectations and changes in market conditions. While economic trends have been improving, it is not possible for us to predict whether the improving trends will continue or to quantify the impact of these or other trends on our financial results.

Contractual Obligations – The following table outlines the contractual obligations related to our long-term debt agreements and operating lease obligations as of December 31, 2013 (see Note 8 of the Notes to the Consolidated Financial Statements).

	Amounts Due by Period					
	Total	**Less Than 1 Year**	**1–3 Years**	**3–5 Years**	**5–10 Years**	**After 10 Years**
(in thousands)						
Long-Term Debt Obligations:						
Secured credit facilities	$1,810,882	$ –	$ –	$1,810,882	$ –	$ –
Unsecured notes	2,006,890	–	1,032,168	974,722	–	–
Secured term loans	278,817	29,917	17,978	26,916	200,613	3,393
Other debt obligations	100,000	–	–	–	–	100,000
Total principal maturities	$4,196,589	$ 29,917	$1,050,146	$2,812,520	$200,613	$103,393
Interest Payable(1)	857,356	226,279	414,401	158,971	36,152	21,553
Operating Lease Obligations	37,403	5,797	10,695	9,202	9,523	2,186
Total(2)	$5,091,348	$261,993	$1,475,242	$2,980,693	$246,288	$127,132

Explanatory Notes:

(1) All variable-rate debt assumes a 3-month LIBOR rate of 0.24% and 1-month LIBOR rate of 0.17%.

(2) We also have issued letters of credit totaling $3.7 million in connection with four of our investments. See Unfunded Commitments below, for a discussion of certain unfunded commitments related to our lending and net lease businesses.

February 2013 Secured Credit Facility – On February 11, 2013, we entered into a $1.71 billion senior secured credit facility due October 15, 2017 (the "February 2013 Secured Credit Facility") that amended and restated our $1.82 billion senior secured credit facility, dated October 15, 2012 (the "October 2012 Secured Credit Facility"). The February 2013 Credit Facility amended the October 2012 Secured Credit Facility by: (i) reducing the interest rate from LIBOR plus 4.50%, with a 1.25% LIBOR floor, to LIBOR plus 3.50%, with a 1.00% LIBOR floor; and (ii) extending the call protection period for the lenders from October 15, 2013 to December 31, 2013.

Borrowings under the February 2013 Secured Credit Facility are collateralized by a first lien on a fixed pool of assets, with required minimum collateral coverage of not less than 125% of outstanding borrowings. If collateral coverage is less than 137.5% of outstanding borrowings, 100% of the proceeds from principal repayments and sales of collateral will be applied to repay outstanding borrowings under the February 2013 Secured Credit Facility. For so long as collateral coverage is between 137.5% and 150% of outstanding borrowings, 50% of proceeds from principal repayments and sales of collateral will be applied to repay outstanding borrowings under the February 2013 Secured Credit Facility and for so long as collateral coverage is greater than 150% of outstanding borrowings, we may retain all proceeds from principal repayments and sales of collateral. We retain proceeds from interest, rent, lease payments and fee income in all cases.

In connection with the February 2013 Secured Credit Facility transaction, we incurred $17.1 million of lender fees, of which $14.4 million was capitalized in "Debt Obligations, net" on our Consolidated Balance Sheets and $2.7 million was recorded as a loss in "Gain (loss) on early extinguishment of debt, net" on our Consolidated Statements of Operations as it related to the lenders who did not participate in the new facility. We also incurred $3.8 million in third party fees, of which $3.6 million was recognized in "Other expense" on our Consolidated Statements of Operations, as it related primarily to those lenders from the original facility that modified their debt under the new facility, and $0.2 million was recorded in "Deferred expenses and other assets, net" on our Consolidated Balance Sheets, as it related to the new lenders.

The February 2013 Secured Credit Facility contains certain covenants relating to the collateral, among other matters, but does not contain corporate level financial covenants. For so long as we maintain our qualification as a REIT, we are permitted to distribute 100% of our REIT taxable income on an annual basis. In addition, we may distribute to our stockholders real estate assets, or interests therein, having an aggregate equity value not to exceed $200 million, that are not collateral securing the borrowings under the February 2013 Secured Credit Facility. Except for the distribution of real estate assets described in the preceding sentence, we may not pay common dividends if we cease to qualify as a REIT.

Through December 31, 2013, we have made cumulative amortization repayments of $327.6 million on the February 2013 Secured Credit Facility bringing the outstanding balance to $1.38 billion. Repayments of the February 2013 Secured Credit Facility prior to the scheduled maturity date have resulted in losses on early extinguishment of debt of $7.0 million for the year ended December 31, 2013 related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid.

October 2012 Secured Credit Facility – On October 15, 2012, we entered into the October 2012 Secured Credit Facility. Proceeds from the October 2012 Secured Credit Facility were used to refinance the remaining outstanding balances of our then existing 2011 Secured Credit Facilities.

During the year ended December 31, 2012, in connection with the October 2012 Secured Credit Facility transaction, we incurred $14.8 million in third party fees, of which $8.1 million was recognized in "Other expense" on our Consolidated Statements of Operations as it related to the portion of lenders from the original facility that modified their debt under the new facility. The remaining $6.6 million of fees were recorded in "Deferred expenses and other assets, net" on our Consolidated Balance Sheets, as they related to the portion of lenders that were new to the facility.

The October 2012 Secured Credit Facility was refinanced by the February 2013 Secured Credit Facility. Prior to refinancing, we made cumulative amortization repayments of $113.0 million on the October 2012 Secured Credit Facility, which resulted in losses on early extinguishment of debt of $0.8 million and $1.2 million during the year ended December 31, 2013 and 2012, respectively, related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid.

At the time of the refinancing, we had $30.5 million of unamortized discounts and financing fees related to the October 2012 Secured Credit Facility. During the year ended December 31, 2013, in connection with the refinancing, we recorded a loss on early extinguishment of debt of $4.9 million, related primarily to the portion of lenders in the original facility that did not participate in the new facility. The remaining $25.6 million of unamortized fees and discounts will continue to be amortized into interest expense over the remaining term of the February 2013 Secured Credit Facility.

March 2012 Secured Credit Facilities – In March 2012, we entered into an $880.0 million senior secured credit agreement providing for two tranches of term loans: a $410.0 million 2012 A-1 tranche due March 2016, which bears interest at a rate of LIBOR + 4.00% (the "2012 Tranche A-1 Facility"), and a $470.0 million 2012 A-2 tranche due March 2017, which bears interest at a rate of LIBOR + 5.75% (the "2012 Tranche A-2 Facility," together the "March 2012 Secured Credit Facilities"). The 2012 A-1 and A-2 tranches were issued at 98.0% of par and 98.5% of par, respectively, and both tranches include a LIBOR floor of 1.25%. Proceeds from the March 2012 Secured Credit Facilities, together with cash on hand, were used to repurchase and repay at maturity $606.7 million aggregate principal amount of our convertible notes due October 2012, to fully repay the $244.0 million balance on our unsecured credit facility due June 2012, and to repay, upon maturity, $90.3 million outstanding principal balance of our 5.50% senior unsecured notes.

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

During the year ended December 31, 2013, we repaid the remaining outstanding balance of the 2012 Tranche A-1 Facility. Repayments of the 2012 Tranche A-1 Facility prior to scheduled amortization dates have resulted in losses on early extinguishment of debt of $4.4 million and $8.1 million during the years ended December 31, 2013 and 2012, respectively, related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid.

Additionally, during the year ended December 31, 2013, we made cumulative amortization repayments of $38.5 million on the 2012 Tranche A-2 Facility prior to maturity have resulted in losses on early extinguishment of debt of $1.0 million related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid during the year.

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

The 2011 Secured Credit Facilities were refinanced by the October 2012 Secured Credit Facility. Prior to refinancing, we made cumulative amortization repayments of $1.07 billion on the 2011 Secured Credit Facilities, which resulted in losses on early extinguishment of debt of $4.5 million and $12.0 million for the years ended December 31, 2012 and 2011, respectively, related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid.

At the time of the refinancing, we had $21.2 million of unamortized discounts and financing fees related to the 2011 Secured Credit Facilities. In connection with the refinancing, we recorded a loss on early extinguishment of debt of $12.1 million, related primarily to the portion of lenders in the original facility that did not participate in the new facility. The remaining $9.0 million of unamortized fees and discounts will continue to be amortized to interest expense over the remaining term of the October 2012 Secured Credit Facility.

Secured Term Loans – In October 2012, a consolidated subsidiary of the Company entered into a $28.0 million secured term loan maturing in November 2019, bearing interest at a rate of LIBOR + 2.00%.

Simultaneously with the financing, we entered into an interest rate swap to exchange our variable rate on the loan for a fixed interest rate (see Note 10).

In September 2012, we refinanced two secured term loans with an aggregate outstanding principal balance of $53.3 million, bearing interest at rates of 5.3% and 8.2% and maturing in January 2013 with a new $54.5 million secured term loan. The new loan bears interest at 4.851%, matures in October 2022 and is collateralized by the same net lease asset as the original term loan. In connection with the refinancing, we incurred $0.5 million of losses related to a prepayment penalty, which was recorded in "Gain (loss) on early extinguishment of debt, net" on our Consolidated Statements of Operations for the year ended December 31, 2012.

In addition, during the year ended December 31, 2012, in conjunction with the sale of a portfolio of 12 net lease assets, we repaid the $50.8 million outstanding balances of our LIBOR + 4.50% secured term loans due in 2014 and terminated the related interest rate swaps associated with the loans (see Note 10).

Unsecured Credit Facility – During the year ended December 31, 2012, we repaid the $243.7 million remaining principal balance of our LIBOR + 0.85% unsecured credit facility due June 2012. In connection with the repayment, we recorded a loss on early extinguishment of debt of $0.2 million related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid.

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

Unsecured Notes – In November 2013, we issued $200.0 million aggregate principal of 1.50% convertible senior unsecured notes due November 2016. Proceeds from the transaction, together with cash on hand, were used to fully repay the remaining $200.6 million of outstanding 5.70% senior unsecured notes due March 2014. In connection with the repayment of the 5.70% senior unsecured notes, we incurred $2.8 million of losses related to a prepayment penalty and the accelerated amortization of discounts, which was recorded in "Gain (loss) on early extinguishment of debt, net" on our Consolidated Statements of Operations for the year ended December 31, 2013.

In May 2013, we issued $265.0 million aggregate principal of 3.875% senior unsecured notes due July 2016 and issued $300.0 million aggregate principal of 4.875% senior unsecured notes due July 2018. Net proceeds from these transactions, together with cash on hand, were used to fully repay the remaining $96.8 million of outstanding 8.625% senior unsecured notes due June 2013 and the remaining $448.5 million of outstanding 5.95% senior unsecured notes due in October 2013. In connection with the repayment of the 5.95% senior unsecured notes, we incurred $9.5 million of losses related to a prepayment penalty and the accelerated amortization of discounts, which was recorded in "Gain (loss) on early extinguishment of debt, net" on our Consolidated Statements of Operations for the year ended December 31, 2013.

In November 2012, we issued $300.0 million aggregate principal of 7.125% senior unsecured notes due February 2018 and issued $200.0 million aggregate principal of 3.00% convertible senior unsecured notes due November 2016. Proceeds from these transactions were used to fully repay $67.1 million of the 6.5% senior unsecured notes due December 2013 and partially repay $404.9 million of the 8.625% senior unsecured notes due June 2013. In connection with these repurchases, we paid a $14.9 million prepayment penalty which was reflected in "Gain (loss) on early extinguishment of debt, net" on our Consolidated Statements of Operations for the year ended December 31, 2012.

In May 2012, we issued $275.0 million aggregate principal of 9.0% senior unsecured notes due June 2017 that were sold at 98.012% of their principal amount.

During the year ended December 31, 2012, we repaid, upon maturity, the $460.7 million outstanding principal balance of our LIBOR + 0.50% senior unsecured convertible notes, the $169.7 million outstanding principal balance of our 5.15% senior unsecured notes and the $90.3 million outstanding principal balance of our 5.50% senior unsecured notes. In addition, we repurchased $420.4 million par value of senior unsecured notes with various maturities ranging from March 2012 to October 2012. In connection with these repurchases, we recorded aggregate gains on early extinguishment of debt of $3.2 million, for the year ended December 31, 2012.

Encumbered/Unencumbered Assets – As of December 31, 2013, the carrying value of our encumbered and unencumbered assets by asset type are as follows ($ in thousands):

	As of December 31,			
	2013		2012	
	Encumbered Assets	Unencumbered Assets	Encumbered Assets	Unencumbered Assets
Real estate, net	**$1,644,463**	**$1,151,718**	$1,640,005	$1,099,094
Real estate available and held for sale	**152,604**	**207,913**	263,842	372,023
Loans receivable, net(1)	**860,557**	**538,752**	1,197,403	665,682
Other investments	**24,093**	**183,116**	43,545	355,298
Cash and other assets	**–**	**907,995**	–	556,207
Total	**$2,681,717**	**$2,989,494**	$3,144,795	$3,048,304

Explanatory Note:

(1) As of December 31, 2013 and 2012, the amounts presented exclude general reserves for loan losses of $29.2 million and $33.1 million, respectively.

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

Our March 2012 Secured Credit Facilities and February 2013 Secured Credit Facility are collectively defined as the "Secured Credit Facilities." Our Secured Credit Facilities contain certain covenants, including covenants relating to collateral coverage, dividend payments, restrictions on fundamental changes, transactions with affiliates, matters relating to the liens granted to the lenders and the delivery of information to the lenders. In particular, we are required to maintain collateral coverage of 1.25x outstanding borrowings. In addition, 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 and the February 2013 Secured Credit Facility permits us to distribute to our shareholders real estate assets, or interests therein, having an aggregate equity value not to exceed $200 million, so long as such assets are not collateral for the February 2013 Secured Credit Facility. We may not pay common dividends if we cease to qualify as a REIT (except that the February 2013 Secured Credit Facility permits us to distribute certain real estate assets as described in the preceding sentence).

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

Derivatives – Our use of derivative financial instruments is primarily limited to the utilization of interest rate swaps, interest rate caps or other instruments to manage interest rate risk exposure and foreign exchange contracts to manage our risk to changes in foreign currencies (see Note 10 of the Notes to the Consolidated Financial Statements). In 2013, we entered into a $500 million notional interest rate cap agreement to reduce exposure to expected increases in future interest rates and the resulting payments associated with variable interest rate debt. The agreement is effective in July 2014, matures in July 2017 and caps our LIBOR interest rates at 1.00% for the notional amount.

Off-Balance Sheet Arrangements – We are not dependent on the use of any off-balance sheet financing arrangements for liquidity. We have made investments in various unconsolidated ventures. See Note 6 of the Notes to the Consolidated Financial Statements for further details of our unconsolidated investments. Our maximum exposure to loss from these investments is limited to the carrying value of our investments and any unfunded commitments (see below).

Unfunded Commitments – We generally fund construction and development loans and build-outs of space in net lease assets 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, 2013, the maximum amounts of the fundings we may make under each category, assuming all performance hurdles and milestones are met under the 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 and Other Lending Investments	Real Estate	Strategic Investments	Total
Performance-Based Commitments	$19,436	$53,164	$ –	$ 72,600
Discretionary Fundings	–	–	–	–
Strategic Investments	–	–	46,591	46,591
Total	$19,436	$53,164	$46,591	$119,191

Transactions with Related Parties – We previously held an equity interest of approximately 24% in LNR and two of our executive officers formerly served on LNR's board of managers. In April 2013, we sold our interest in LNR for net proceeds of $220.3 million.

Stock Repurchase Programs – Our Board of Directors has approved a stock repurchase program that authorizes repurchases of our 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, 2013, we repurchased 1.7 million shares of our outstanding Common Stock for approximately $21.0 million, at an average cost of $12.35 per share. During the year ended December 31, 2012, we repurchased 0.8 million shares of our outstanding Common Stock for approximately $4.6 million, at an average cost of $5.69 per share. As of December 31, 2013, we had remaining authorization to repurchase up to $29.0 million of Common Stock out of the $50.0 million authorized by our Board in 2013.

Subsequent Events – In February 2014, we partnered with a sovereign wealth fund to form a venture in which the partners plan to contribute up to an aggregate $500 million of equity to acquire and develop up to $1.25 billion of net lease assets over time. We own approximately 52% of the venture and will be responsible for sourcing new opportunities and managing the venture and its assets in exchange for a promote and management fee. The venture's first investment was acquired by us for $93.6 million during 2013 and was subsequently sold to the venture.

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 2013, management reviewed and evaluated these critical accounting estimates and believes they are appropriate. Our significant accounting policies are described in Note 3 of the Notes to the 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 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. We have one portfolio segment, represented by commercial real estate lending, whereby we utilize a uniform process for determining our reserves for loan losses. The reserve for loan losses includes a general, formula-based component and an asset-specific component.

The general 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. The formula-based general reserve is derived from estimated principal default probabilities and loss severities applied to groups of loans based upon risk ratings assigned to loans with similar risk characteristics during our quarterly loan portfolio assessment. During this assessment, we perform a comprehensive analysis of our loan portfolio and assign risk ratings to loans that incorporate management's current judgments about their credit quality based on all known and relevant internal and external factors that may affect collectability. We consider, among other things, payment status, lien position, borrower financial resources and investment in collateral, collateral type, project economics and geographical location as well as national and regional economic factors. This methodology results in loans being segmented by risk classification into risk rating categories that are associated with estimated probabilities of default and principal loss. Ratings range from "1" to "5" with "1" representing the lowest risk of loss and "5" representing the highest risk of loss. We estimate loss rates based on historical realized losses experienced within our portfolio and take into account current economic conditions affecting the commercial real estate market when establishing appropriate time frames to evaluate loss experience.

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. This assessment is made on a loan-by-loan basis each quarter based on such factors as payment status, lien position, borrower financial resources and investment in collateral, collateral type, project economics and geographical location as well as national and regional economic factors. A reserve is established for an impaired loan 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) is lower than the carrying value of that loan.

Substantially all of our impaired loans are collateral dependent and impairment is measured using the estimated fair value of collateral, less costs to sell. We generally use the income approach through internally developed valuation models to estimate the fair value of the collateral for such loans. In more limited cases, we obtain external "as is" appraisals for loan collateral, generally when third party participations exist. Valuations are performed or obtained at the time a loan is determined to be impaired and designated non-performing, and they are updated if circumstances indicate that a significant change in value has occurred. In limited cases, appraised values may be discounted when real estate markets rapidly deteriorate.

A loan is also considered impaired if its terms are modified in a troubled debt restructuring ("TDR"). A TDR occurs when we grant a concession to a debtor that is experiencing financial difficulties. Impairments on TDR loans are generally measured based on the present value of expected future cash flows discounted at the effective interest rate of the original loan.

The provisions for loan losses for the years ended December 31, 2013, 2012 and 2011 were $5.5 million, $81.7 million and$46.4 million, respectively. The total reserve for loan losses at December 31, 2013 and 2012, included asset specific reserves of $348.0 million and $491.4 million, respectively, and general reserves of $29.2 million and $33.1 million, respectively.

Acquisition of real estate – We generally acquire real estate assets through cash purchases or through foreclosure or deed-in-lieu of foreclosure in full or partial satisfaction of non-performing loans. When we acquire assets through foreclosure or deed in lieu of foreclosure, based on our strategic plan to realize the maximum value from the collateral received, these properties are classified as "Real estate, net" or "Real estate available and held for sale" on our Consolidated Balance Sheets. When we intend to hold, operate or develop the property for a period of at least 12 months, assets are classified as "Real estate, net," and when we intend to market these properties for sale in the near term, assets are classified as "Real estate available and held for sale." Assets classified as real estate are initially recorded at their estimated fair value and assets classified as assets held for sale are recorded at their estimated fair value less costs to sell. The excess of the carrying value of the loan over these amounts is charged-off against the reserve for loan losses. In both cases, upon acquisition, tangible and intangible assets and liabilities acquired are recorded at their estimated fair values.

During the years ended December 31, 2013, 2012 and 2011 we received title to properties in satisfaction of senior mortgage loans with fair values of $31.1 million, $267.5 million and $502.5 million, respectively, for which those properties had served as collateral.

Impairment or disposal of long-lived assets – Real estate 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 "Real estate 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 (loss) 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 (loss) 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 real estate assets are recorded in "Impairment of assets," on our Consolidated Statements of Operations.

During the years ended December 31, 2013, 2012 and 2011, we recorded impairment charges on real estate assets of $14.4 million, $35.4 million and $22.4 million, respectively, due to changes in local market conditions and business strategy. Of these amounts, $1.8 million, $22.6 million and $9.1 million, respectively, were included in "Income (loss) from discontinued operations."

Identified intangible assets and liabilities – We record intangible assets and liabilities acquired at their estimated fair values separate and apart from goodwill. We determine whether such intangible assets and liabilities have finite or indefinite lives. As of December 31, 2013, all such acquired intangible assets and liabilities have finite lives. We amortize finite lived intangible assets and liabilities based on the period over which the assets and liabilities 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 assets" on our Consolidated Statements of Operations.

Valuation of deferred tax assets – 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. We evaluate the realizability of our deferred tax assets and recognize a valuation allowance if, based on the available evidence, both positive and negative, it is more likely than not that some portion or all of our deferred tax assets will not be realized. When evaluating the realizability of our deferred tax assets, we consider, among other matters, estimates of expected future taxable income, nature of current and cumulative losses, existing and projected book/tax differences, tax planning strategies available, and the general and industry specific economic outlook. This realizability analysis is inherently subjective, as it requires us to forecast our business and general economic environment in future periods. Changes in estimate of deferred tax asset realizability, if any are included in "Income tax (expense) benefit" on the Consolidated Statements of Operations.

While certain entities with net operating losses ("NOLs") may generate profits in the future, which may allow us to utilize the NOLs, we continue to record a full valuation allowance on the net deferred tax asset due to the history of losses and the uncertainty of the entities' ability to generate such profits. We recorded a full valuation allowance of $56.0 million and $40.8 million as of December 31, 2013 and 2012, respectively.

Variable interest entities – We evaluate our investments and other contractual arrangements to determine if our interests constitute variable interests in 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, which interests create or absorb variability, the contractual terms, the key decision making powers, impact on the VIE's economic performance and related party relationships. 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 nonfinancial 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 14 of the Notes to the Consolidated Financial Statements for a complete discussion on how we determine fair value of financial and non-financial assets and financial liabilities and the related measurement techniques and estimates involved.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risks

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. In pursuing our business plan, the primary market risk to which we are exposed is interest rate risk. 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. Changes in the general level of interest rates prevailing in the financial markets will affect the spread between our floating rate assets and liabilities subject to the net amount of floating rate assets/liabilities and the impact of interest rate floors and caps. Any significant compression of the spreads between interest-earning assets and interest-bearing liabilities could have a material adverse effect on us.

In the event of a significant rising interest rate environment or economic downturn, defaults could increase and cause us to incur additional credit losses which would adversely affect our liquidity and operating results. Such delinquencies or defaults would likely have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities. In addition, an increase in interest rates could, among other things, reduce the value of our fixed-rate interest-bearing assets and our ability to realize gains from the sale of such assets.

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. We monitor the spreads between our interest-earning assets and interest-bearing liabilities and may implement hedging strategies to limit the effects of changes in interest rates on our operations, including engaging in interest rate swaps, interest rate caps and other interest rate-related derivative contracts. Such strategies are 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.

The following table quantifies the potential changes in net income should interest rates increase by 50 or 100 basis points and decrease by 10 basis points, assuming no change in the shape of the yield curve (i.e., relative interest rates). The base interest rate scenario assumes the one-month LIBOR rate of 0.17% as of December 31, 2013. Actual results could differ significantly from those estimated in the table.

Estimated Percentage Change in Net Income

Change in Interest Rates	Net Income[1]
-10 Basis Points	(0.59)%
Base Interest Rate	—
+50 Basis Points	2.93%
+100 Basis Points	3.86%

Explanatory Note:

(1) We have an overall net variable-rate debt exposure. However, this is negated by interest rate floors that cause the debt to act as fixed rate until such time as market interest rates move above the floor minimums. As such, we are effectively in a net variable-rate asset exposure, which results in an increase in net income when rates increase and a decrease in net income when rates decrease. A 10 basis point decrease in interest rates would decrease net income by $0.7 million. A 50 and 100 basis increase in interest rates would increase net income by $3.3 million and $4.3 million, respectively. As of December 31, 2013, $117.9 million of our floating rate loans have a cumulative weighted average interest rate floor of 3.24% and $1.81 billion of our floating rate debt has a cumulative weighted average interest rate floor of 1.06%.

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 in 1992 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, 2013.

The Company's internal control over financial reporting as of December 31, 2013, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page 36.

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 income, comprehensive income (loss), changes in equity and cash flows present fairly, in all material respects, the financial position of iStar Financial Inc. and its subsidiaries (collectively, the "Company") at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 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, 2013, based on criteria established in *Internal Control—Integrated Framework (1992)* 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 Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these 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.

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.

PricewaterhouseCoopers LLP

New York, New York
February 28, 2014

CONSOLIDATED BALANCE SHEETS

As of December 31,	2013	2012
(In thousands, except per share data)		
Assets		
Real estate		
Real estate, at cost	$ 3,220,634	$ 3,117,405
Less: accumulated depreciation	(424,453)	(378,306)
Real estate, net	$ 2,796,181	$ 2,739,099
Real estate available and held for sale	360,517	635,865
	$ 3,156,698	$ 3,374,964
Loans receivable and other lending investments, net	1,370,109	1,829,985
Other investments	207,209	398,843
Cash and cash equivalents	513,568	256,344
Restricted cash	48,769	36,778
Accrued interest and operating lease income receivable, net	14,941	15,226
Deferred operating lease income receivable	92,737	84,735
Deferred expenses and other assets, net	237,980	163,124
Total assets	$ 5,642,011	$ 6,159,999
Liabilities and Equity		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 170,831	$ 141,670
Debt obligations, net	4,158,125	4,691,494
Total liabilities	$ 4,328,956	$ 4,833,164
Commitments and contingencies	–	–
Redeemable noncontrolling interests	11,590	13,681
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
Convertible Preferred Stock Series J, liquidation preference $50.00 per share (see Note 11)	4	–
High Performance Units	9,800	9,800
Common Stock, $0.001 par value, 200,000 shares authorized, 144,334 issued and 83,717 outstanding at December 31, 2013 and 142,699 issued and 83,782 outstanding at December 31, 2012	144	143
Additional paid-in capital	4,022,138	3,832,780
Retained earnings (deficit)	(2,521,618)	(2,360,647)
Accumulated other comprehensive income (loss) (see Note 11)	(4,276)	(1,185)
Treasury stock, at cost, $0.001 par value, 60,617 shares at December 31, 2013 and 58,917 shares at December 31, 2012	(262,954)	(241,969)
Total iStar Financial Inc. shareholders' equity	$ 1,243,260	$ 1,238,944
Noncontrolling interests	58,205	74,210
Total equity	$ 1,301,465	$ 1,313,154
Total liabilities and equity	$ 5,642,011	$ 6,159,999

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

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31,	2013	2012	2011
(In thousands, except per share data)			
Revenues:			
Operating lease income	**$ 234,567**	$ 216,291	$ 195,872
Interest income	**108,015**	133,410	226,871
Other income	**48,208**	47,838	39,722
Total revenues	**$ 390,790**	$ 397,539	$ 462,465
Costs and expenses:			
Interest expense	**$ 266,225**	$ 355,097	$ 342,186
Real estate expense	**157,441**	151,458	138,714
Depreciation and amortization	**71,266**	68,770	58,091
General and administrative	**92,114**	80,856	105,039
Provision for loan losses	**5,489**	81,740	46,412
Impairment of assets	**12,589**	13,778	13,239
Other expense	**8,050**	17,266	11,070
Total costs and expenses	**$ 613,174**	$ 768,965	$ 714,751
Income (loss) before earnings from equity method investments and other items	**$(222,384)**	$(371,426)	$(252,286)
Gain (loss) on early extinguishment of debt, net	**(33,190)**	(37,816)	101,466
Earnings from equity method investments	**41,520**	103,009	95,091
Loss on transfer of interest to unconsolidated subsidiary	**(7,373)**	–	–
Income (loss) from continuing operations before income taxes	**$(221,427)**	$(306,233)	$ (55,729)
Income tax (expense) benefit	**659**	(8,445)	4,719
Income (loss) from continuing operations[(1)]	**$(220,768)**	$(314,678)	$ (51,010)
Income (loss) from discontinued operations	**644**	(17,481)	(5,514)
Gain from discontinued operations	**22,233**	27,257	25,110
Income from sales of residential property	**86,658**	63,472	5,721
Net income (loss)	**$(111,233)**	$(241,430)	$ (25,693)
Net (income) loss attributable to noncontrolling interests	**(718)**	1,500	3,629
Net income (loss) attributable to iStar Financial Inc.	**$(111,951)**	$(239,930)	$ (22,064)
Preferred dividends	**(49,020)**	(42,320)	(42,320)
Net (income) loss allocable to HPU holders and Participating Security holders[(2)(3)]	**5,202**	9,253	1,997
Net income (loss) allocable to common shareholders	**$(155,769)**	$(272,997)	$ (62,387)
Per common share data[(1)]:			
Income (loss) attributable to iStar Financial Inc. from continuing operations:			
Basic and diluted	**$ (2.09)**	$ (3.37)	$ (0.91)
Net income (loss) attributable to iStar Financial Inc.:			
Basic and diluted	**$ (1.83)**	$ (3.26)	$ (0.70)
Weighted average number of common shares – basic and diluted	**84,990**	83,742	88,688
Per HPU share data[(1)(2)]:			
Income (loss) attributable to iStar Financial Inc. from continuing operations:			
Basic and diluted	**$ (396.07)**	$ (638.27)	$ (173.66)
Net income (loss) attributable to iStar Financial Inc.:			
Basic and diluted	**$ (346.80)**	$ (616.87)	$ (133.13)
Weighted average number of HPU shares – basic and diluted	**15**	15	15

Explanatory Notes:

(1) Income (loss) from continuing operations attributable to iStar Financial Inc. for the years ended December 31, 2013, 2012 and 2011 was $(221.5) million, $(313.2) million and $(47.4) million, respectively. See Note 13 for details on the calculation of earnings per share.

(2) HPU holders are current and former Company employees who purchased high performance common stock units under the Company's High Performance Unit Program (see Note 11).

(3) Participating Security holders are Company employees and directors who hold unvested restricted stock units, restricted stock awards and common stock equivalents granted under the Company's Long Term Incentive Plans that are eligible to participate in dividends (see Note 12 and Note 13).

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Years Ended December 31,	2013	2012	2011
(In thousands)			
Net income (loss)	**$(111,233)**	$(241,430)	$(25,693)
Other comprehensive income (loss):			
Reclassification of (gains)/losses on available-for-sale securities into earnings upon realization[1]	**(859)**	–	–
Reclassification of (gains)/losses on cash flow hedges into earnings upon realization[2]	**310**	(44)	(180)
Reclassification of (gains)/losses on cumulative translation adjustment into earnings upon realization[3]	**(1,310)**	–	–
Unrealized gains/(losses) on available-for-sale securities	**(302)**	278	391
Unrealized gains/(losses) on cash flow hedges	**(255)**	(1,335)	(1,191)
Unrealized gains/(losses) on cumulative translation adjustment	**(675)**	244	(957)
Other comprehensive income (loss)	**$ (3,091)**	$ (857)	$ (1,937)
Comprehensive income (loss)	**$(114,324)**	$(242,287)	$(27,630)
Net (income) loss attributable to noncontrolling interests	**(718)**	1,500	3,629
Comprehensive income (loss) attributable to iStar Financial Inc.	**$(115,042)**	$(240,787)	$(24,001)

Explanatory Notes:

(1) For the year ended December 31, 2013, $266 and $593 are included in "Other income" and "Earnings from equity method investments," respectively, on the Company's Consolidated Statements of Operations.

(2) Included in "Interest expense" on the Company's Consolidated Statements of Operations.

(3) Included in "Earnings from equity method investments" on the Company's Consolidated Statements of Operations.

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

For the Years Ended December 31, 2013, 2012 and 2011	iStar Financial Inc. Shareholders' Equity									
	Preferred Stock[1]	Preferred Stock Series J[1]	HPU's	Common Stock at Par	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock at Cost	Noncontrolling Interests	Total Equity
(In thousands)										
Balance at December 31, 2010	$22	$ –	$9,800	$138	$3,809,071	$(2,014,013)	$1,609	$(158,492)	$46,524	$1,694,659
Dividends declared – preferred	–	–	–	–	–	(42,320)	–	–	–	(42,320)
Issuance of stock/restricted stock amortization, net	–	–	–	2	25,389	–	–	–	–	25,391
Net loss for the period[2]	–	–	–	–	–	(22,064)	–	–	(3,603)	(25,667)
Change in accumulated other comprehensive income (loss)	–	–	–	–	–	–	(1,937)	–	–	(1,937)
Repurchase of stock	–	–	–	–	–	–	–	(78,849)	–	(78,849)
Contributions from noncontrolling interests	–	–	–	–	–	–	–	–	3,917	3,917
Distributions to noncontrolling interests	–	–	–	–	–	–	–	–	(1,590)	(1,590)
Balance at December 31, 2011	$22	$ –	$9,800	$140	$3,834,460	$(2,078,397)	$(328)	$(237,341)	$45,248	$1,573,604
Dividends declared – preferred	–	–	–	–	–	(42,320)	–	–	–	(42,320)
Repurchase of stock	–	–	–	–	–	–	–	(4,628)	–	(4,628)
Issuance of stock/restricted stock unit amortization, net	–	–	–	3	2,705	–	–	–	–	2,708
Net loss for the period[2]	–	–	–	–	–	(239,930)	–	–	(688)	(240,618)
Change in accumulated other comprehensive income (loss)	–	–	–	–	–	–	(857)	–	–	(857)
Repurchase of convertible notes	–	–	–	–	(2,728)	–	–	–	–	(2,728)
Additional paid in capital attributable to redeemable noncontrolling interest	–	–	–	–	(1,657)	–	–	–	–	(1,657)
Contributions from noncontrolling interests[3]	–	–	–	–	–	–	–	–	32,654	32,654
Distributions to noncontrolling interests	–	–	–	–	–	–	–	–	(3,004)	(3,004)
Balance at December 31, 2012	$22	$ –	$9,800	$143	$3,832,780	$(2,360,647)	$(1,185)	$(241,969)	$74,210	$1,313,154
Issuance of Preferred Stock	–	4	–	–	193,506	–	–	–	–	193,510
Dividends declared – preferred	–	–	–	–	–	(49,020)	–	–	–	(49,020)
Repurchase of stock	–	–	–	–	–	–	–	(20,985)	–	(20,985)
Issuance of stock/restricted stock unit amortization, net	–	–	–	1	(1,376)	–	–	–	–	(1,375)
Net loss for the period[2]	–	–	–	–	–	(111,951)	–	–	3,837	(108,114)
Change in accumulated other comprehensive income (loss)	–	–	–	–	–	–	(3,091)	–	–	(3,091)
Additional paid in capital attributable to redeemable noncontrolling interest[4]	–	–	–	–	(2,772)	–	–	–	–	(2,772)
Contributions from noncontrolling interests[5]	–	–	–	–	–	–	–	–	10,264	10,264
Distributions to noncontrolling interests[4]	–	–	–	–	–	–	–	–	(30,106)	(30,106)
Balance at December 31, 2013	**$22**	**$4**	**$9,800**	**$144**	**$4,022,138**	**$(2,521,618)**	**$(4,276)**	**$(262,954)**	**$58,205**	**$1,301,465**

Explanatory Notes:

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

(2) For the years ended December 31, 2013, 2012 and 2011, net loss shown above excludes $(3,119), $(812) and $(26), respectively, of net loss attributable to redeemable noncontrolling interests.

(3) Includes $27.3 million of land assets contributed by a noncontrolling partner (see Note 4).

(4) Includes an $8.8 million payment to redeem a noncontrolling member's interest.

(5) Includes $9.4 million of operating property assets contributed by a noncontrolling partner (see Note 4).

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2013	2012	2011
(In thousands)			
Cash flows from operating activities:			
Net income (loss)	$ (111,233)	$ (241,430)	$ (25,693)
Adjustments to reconcile net income (loss) to cash flows from operating activities:			
Provision for loan losses	5,489	81,740	46,412
Impairment of assets	14,507	38,077	22,386
Loss on transfer of interest to unconsolidated subsidiary	7,373	–	–
Depreciation and amortization	71,530	70,786	63,928
Payments for withholding taxes upon vesting of stock-based compensation	(14,098)	(12,589)	(6,273)
Non-cash expense for stock-based compensation	19,261	15,293	29,702
Amortization of discounts/premiums and deferred financing costs on debt	20,915	31,981	32,345
Amortization of discounts/premiums and deferred interest on loans	(36,787)	(47,279)	(62,194)
Earnings from equity method investments	(41,520)	(103,009)	(95,091)
Distributions from operations of equity method investments	17,252	105,586	85,766
Deferred operating lease income	(12,077)	(11,812)	(9,390)
Deferred income taxes	–	–	(13,729)
Income from sales of residential property	(86,658)	(63,472)	(5,721)
Gain from discontinued operations	(22,233)	(27,257)	(25,110)
(Gain) loss on early extinguishment of debt, net	19,655	22,405	(97,742)
Repayments and repurchases of debt – debt discount and prepayment penalty	(24,001)	(74,712)	(5,748)
Other operating activities, net	6,917	9,427	6,492
Changes in assets and liabilities:			
Changes in accrued interest and operating lease income receivable, net	2,310	1,337	4,793
Changes in deferred expenses and other assets, net	(23,012)	1,271	20,580
Changes in accounts payable, accrued expenses and other liabilities	5,945	11,725	5,710
Cash flows from operating activities	$ (180,465)	$ (191,932)	$ (28,577)
Cash flows from investing activities:			
Investment originations and fundings	$ (257,600)	$ (47,603)	$ (120,333)
Acquisitions of and capital expenditures on real estate assets	(211,767)	(92,820)	(64,169)
Repayments of and principal collections on loans	613,615	728,657	1,208,403
Net proceeds from sales of loans	81,614	56,998	95,859
Net proceeds from sales of real estate	437,817	562,705	215,930
Net proceeds from sale of other investments	220,281	–	–
Distributions from other investments	36,918	78,238	188,467
Contributions to other investments	(12,784)	(10,640)	(41,820)
Changes in restricted cash held in connection with investing activities	(19,388)	(5,127)	(20,042)
Other investing activities, net	4,741	(3,361)	(1,038)
Cash flows from investing activities	$ 893,447	$ 1,267,047	$ 1,461,257
Cash flows from financing activities:			
Borrowings from debt obligations	1,444,565	3,498,794	3,037,825
Repayments of debt obligations	(1,984,102)	(4,608,133)	(4,464,254)
Payments for deferred financing costs	(17,539)	(21,662)	(35,545)
Preferred dividends paid	(49,020)	(42,320)	(42,320)
Proceeds from issuance of preferred stock	193,510	–	–
Purchase of treasury stock	(20,985)	(4,628)	(78,849)
Other financing activities, net	(22,187)	2,352	2,424
Cash flows from financing activities	$ (455,758)	$(1,175,597)	$(1,580,719)
Changes in cash and cash equivalents	$ 257,224	$ (100,482)	$ (148,039)
Cash and cash equivalents at beginning of period	256,344	356,826	504,865
Cash and cash equivalents at end of period	$ 513,568	$ 256,344	$ 356,826
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest, net of amount capitalized	$ 237,457	$ 329,546	$ 322,601

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 fully-integrated finance and investment company focused on the commercial real estate industry. The Company provides custom-tailored investment capital to high-end private and corporate owners of real estate and invests directly across a range of real estate sectors. The Company, which is taxed as a real estate investment trust, or "REIT," has invested more than $35 billion over the past two decades. The Company's primary business segments are real estate finance, net lease, operating properties and land.

Organization – The Company began its business in 1993 through the management of private investment funds and became publicly traded in 1998. Since that time, the Company has grown through the origination of new lending and leasing transactions, as well as through corporate acquisitions.

Note 2 – Basis of Presentation and Principles of Consolidation

Basis of Presentation – The accompanying 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.

Principles of Consolidation – The Consolidated Financial Statements include the financial statements of the Company, its wholly owned subsidiaries, controlled partnerships and variable interest entities ("VIEs") for which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation. The Company's involvement with VIEs affects its financial performance and cash flows primarily through amounts recorded in "operating lease income," "interest income," "earnings from equity method investments," "real estate expense" and "interest expense" in the Company's Consolidated Statements of Operations. The Company has not provided financial support to these VIEs that it was not previously contractually required to provide.

Consolidated VIEs – As of December 31, 2013, the Company consolidated five VIEs for which the Company is considered the primary beneficiary. At December 31, 2013, the total assets of these consolidated VIEs were $216.1 million and total liabilities were $33.9 million. The classifications of these assets are primarily within "real estate, net," "loans receivable and other lending investments, net" and "other investments" on the Company's Consolidated Balance Sheets. The classifications of liabilities are primarily within "debt obligations, net," and "accounts payable, accrued expenses and other liabilities" on the Company's Consolidated Balance Sheets. The liabilities of these VIEs are non-recourse to the Company and can only be satisfied from each VIE's respective assets. The Company's total unfunded commitments related to consolidated VIEs was $38.8 million as of December 31, 2013.

Unconsolidated VIEs – As of December 31, 2013, 28 of the Company's other investments were in VIEs where it is not the primary beneficiary and accordingly the VIEs have not been consolidated in the Company's Consolidated Financial Statements. As of December 31, 2013, the Company's maximum exposure to loss from these investments does not exceed the sum of the $179.2 million carrying value of the investments, which are classified in "other investments" on the Company's Consolidated Balance Sheets, and $29.6 million of related unfunded commitments.

Note 3 – Summary of Significant Accounting Policies

Real estate – Real estate assets are recorded at cost less accumulated depreciation and amortization, as follows:

Capitalization and depreciation – Certain improvements and replacements are capitalized when they extend the useful life of the asset. Qualified development and construction costs, including interest and certain other carrying costs incurred during the construction and/or renovation periods are also capitalized and charged to operations through depreciation over the asset's estimated useful life. The Company ceases capitalization on the portions substantially completed and capitalizes only those costs associated with the portions under development. Repairs and maintenance items are expensed as incurred. Depreciation is computed using the straight-line method of cost recovery over the estimated useful life, which is generally 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.

Purchase price allocation – Upon acquisition of real estate, the Company determines whether the transaction is a business combination, which is accounted for under the acquisition method, or an acquisition of assets. For both types of transactions, the Company recognizes and measures identifiable assets acquired, liabilities assumed and any noncontrolling interest in the acquiree based on their relative fair values. For business combinations, the Company recognizes and measures goodwill or gain from a bargain purchase, if applicable, and expenses acquisition-related costs in the periods in which the costs are incurred and the services are received. For acquisitions of assets, acquisition-related costs are capitalized and recorded in "Real estate, net" on the Company's Consolidated Balance Sheets.

The Company accounts for its acquisition of properties by recording the purchase price of 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. Intangible assets may include the value of above-market leases, in-place leases and the value of customer relationships, which are each recorded at their estimated fair values and included in "Deferred expenses and other assets, net" on the Company's Consolidated Balance Sheets. Intangible liabilities may include the value of below-market leases, which are recorded at their estimated fair values and included in "Accounts payable, accrued expenses and other liabilities" on the Company's

Consolidated Balance Sheets. In-place leases and customer relationships are amortized over the remaining non-cancelable term and the amortization expense is included in "Depreciation and amortization" on the Company's Consolidated Statements of Operations. 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 also engages in sale/leaseback transactions and typically executes leases with the occupant simultaneously with the purchase of the net lease asset.

Impairments – 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, 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 estimated fair value of the asset and reflected as an adjustment to the basis of the asset. Impairments of real estate assets that are not held for sale are recorded in "Impairment of assets" on the Company's Consolidated Statements of Operations.

Real estate available and held for sale – The Company reports real estate assets to be disposed of at the lower of their carrying amount or estimated fair value less costs to sell and classifies them as "Real estate available and 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 (loss) from discontinued operations" on the Company's Consolidated Statements of Operations. Once a real estate asset is classified as held for sale, depreciation expense is no longer recorded and historical operating results, including impairments, are reclassified to "Income (loss) from discontinued operations" on the Company's Consolidated Statements of Operations.

If circumstances arise that were previously considered unlikely and, as a result the Company decides not to sell a property previously classified as held for sale, the property is reclassified as held and used and included in "Real estate, net" on the Company's Consolidated Balance Sheets. The Company measures and records a property that is reclassified as held and used at the lower of (i) its carrying amount before the property was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the property been continuously classified as held and used, or (ii) the estimated fair value at the date of the subsequent decision not to sell.

The Company reports residential property units to be disposed of at the lower of their carrying amount or estimated fair value less costs to sell and classifies them as "Real estate available and 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 "Impairment of assets" on the Company's Consolidated Statements of Operations. The net carrying costs for residential property units are recorded in "Real estate expense" on the Company's Consolidated Statements of Operations.

Dispositions – Sales and the associated gains or losses on real estate assets, including residential property, are recognized in accordance with Accounting Standards Codification ("ASC") 360-20, *Real Estate Sales*. Sales and the associated gains for residential property are recognized for full profit recognition upon closing of the sale transactions, when the profit is determinable, the earnings process is virtually complete, the parties are bound by the terms of the contract, all consideration has been exchanged, any permanent financing for which the seller is responsible has been arranged and all conditions for closing have been performed. The Company uses the relative sales value method to allocate costs. Profits on sales of residential property are included in "Income from sales of residential property" and gains on sales of net lease assets or commercial operating properties are recorded in "Gains from discontinued operations" on the Company's Consolidated Statements of Operations.

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

Loans receivable classified as held-for-investment and debt securities classified as 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 loans and debt securities 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 unrealized gains and losses included in "Accumulated other comprehensive income (loss)" on the Company's Consolidated Balance Sheets.

Loans receivable and other lending investments designated for sale are classified as held-for-sale and are carried at lower of amortized historical cost or estimated 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 (loss) in the period in which the change occurs.

For held-to-maturity and available-for-sale debt securities held in "Loans receivable 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 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 not 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 assets" on the Company's Consolidated Statements of Operations, and the remainder will be recorded in "Accumulated other comprehensive income (loss)" on the Company's Consolidated Balance Sheets.

The Company acquires properties through foreclosure or by deed-in-lieu of foreclosure in full or partial satisfaction of non-performing loans. Based on the Company's strategic plan to realize the maximum value from the collateral received, property is classified as "Real estate, net" or "Real estate available and held for sale" at its estimated fair value when title to the property is obtained. Any excess of the carrying value of the loan over the estimated fair value of the property (less costs to sell for assets held for sale) is charged-off against the reserve for loan losses as of the date of foreclosure.

Equity and cost method investments – Equity interests 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 certain limited liability companies. The Company's periodic share of earnings and losses in equity method investees is included in "Earnings 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.

To the extent that the Company contributes assets to an unconsolidated subsidiary, the Company's investment in the subsidiary is recorded at the Company's cost basis in the assets that were contributed to the unconsolidated subsidiary. To the extent that the Company's cost basis is different from the basis reflected at the subsidiary level, the basis difference is amortized over the life of the related assets and included in the Company's share of equity in net (loss) income of the unconsolidated subsidiary. The Company recognizes gains on the contribution of real estate to unconsolidated subsidiaries, relating solely to the outside partner's interest, to the extent the economic substance of the transaction is a sale. The Company recognizes a loss when it contributes property to an unconsolidated subsidiary and receives a disproportionately small interest in the subsidiary based on a comparison of the carrying amount of the property with the cash and other consideration contributed by the other investors.

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 "Earnings from equity method investments" on the Company's Consolidated Statements of Operations.

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 under certain of the Company's debt obligations, loans, leasing, land development, sale and derivative transactions.

Variable interest entities – The Company evaluated its investments and other contractual arrangements to determine if they constitute variable interests in a VIE. 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 has the power to direct matters that most significantly impact the activities of the VIE and has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. This overall consolidation assessment includes a review of, among other factors, which interests create or absorb variability, contractual terms, the key decision making powers, their impact on the VIE's economic performance, and related party relationships. Where qualitative assessment is not conclusive, the Company performs a quantitative analysis. The Company reassesses its evaluation of the primary beneficiary of a VIE on an ongoing basis and assesses its evaluation of an entity as a VIE upon certain reconsideration events.

The Company has investments in certain funds that meet the deferral criteria in Accounting Standards Update ("ASU") 2010-10 and will continue to assess consolidation of these entities under the overall guidance on the consolidation of VIEs in ASC 810-10. The consolidation evaluation is similar to the process noted above, except that the primary beneficiary 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. In addition, for entities that meet the deferral criteria, the Company reassesses its initial evaluation of the primary beneficiary and whether an entity is 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 or the straight line method, as appropriate. Amortization of leasing costs is included in "Depreciation and amortization" and amortization of deferred financing fees is included in "Interest expense" on the Company's Consolidated Statements of Operations.

Identified intangible assets and liabilities – Upon the acquisition of a business, the Company records intangible assets or liabilities acquired at their estimated fair values separate and apart from goodwill. The Company determines whether such intangible assets or liabilities have finite or indefinite lives. As of December 31, 2013, all such intangible assets and liabilities acquired by the Company have finite lives. Intangible assets are included in "Deferred expenses and other assets, net" and intangible liabilities are included in "Accounts payable, accrued expenses and other liabilities" on the Company's Consolidated Balance Sheets. The Company amortizes finite lived intangible assets and liabilities 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 intangible assets are recorded in "Impairment of assets" on the Company's Consolidated Statements of Operations.

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

Operating lease income: The Company's leases have all been determined to be operating leases based on an analysis performed in accordance with ASC 840. Operating lease income 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.

The Company also recognizes revenue from certain tenant leases for reimbursements of all or a portion of operating expenses, including common area costs, insurance, utilities and real estate taxes of the respective property. This revenue is accrued in the same periods as the expense is incurred and is recorded as "Operating lease income" on the Company's Consolidated Statements of Operations. Revenue is also recorded from certain tenant leases that is contingent upon tenant sales exceeding defined thresholds. These rents are recognized only after the defined threshold has been met for the period.

Management estimates losses within its operating lease income receivable and deferred operating lease income receivable balances as of the balance sheet date and incorporates an asset-specific component, as well as a general, formula-based reserve based on management's evaluation of the credit risks associated with these receivables. At December 31, 2013 and 2012, the total allowance for doubtful accounts related to tenant receivables, including deferred operating lease income receivable, was $5.9 million and $5.6 million, respectively.

Interest Income: Interest income on loans receivable 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, 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. Non-accrual loans are returned to accrual status when a loan has become contractually current and management believes all amounts contractually owed will be received.

Certain of the Company's loans contractually 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 interest income only upon receipt of cash.

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. The Company does not have a reasonable expectation about the timing and amount of cash flows expected to be collected on these loans and recognizes income when cash is received.

Other income: Other income includes revenues from hotel operations, which are recognized when rooms are occupied and the related services are provided. Revenues include room sales, food and beverage sales, parking, telephone, spa services and gift shop sales.

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 "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 Company has one portfolio segment, represented by commercial real estate lending, whereby it utilizes a uniform process for determining its reserve for loan losses. The reserve for loan losses includes a general, formula-based component and an asset-specific component.

The general 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. The formula-based general reserve is derived from estimated principal default probabilities and loss severities applied to groups of loans based upon risk ratings assigned to loans with similar risk characteristics during the Company's quarterly loan portfolio assessment. During this assessment, the Company performs a comprehensive analysis of its loan portfolio and assigns risk ratings to loans that incorporate management's current judgments about their credit quality based on all known and relevant internal and external factors that may affect collectability. The Company considers, among other things, payment status, lien position, borrower financial resources and investment in collateral, collateral type, project economics and geographical location as well as national and regional economic factors. This methodology results in loans being segmented by risk classification into risk rating categories that are associated with estimated probabilities of default and principal loss. Ratings range from "1" to "5" with "1" representing the lowest risk of loss and "5" representing the highest risk of loss. The Company estimates loss rates based on historical realized losses experienced within its portfolio and takes into account current economic conditions affecting the commercial real estate market when establishing appropriate time frames to evaluate loss experience.

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. This assessment is made on a loan-by-loan basis each quarter based on such factors as payment status, lien position, borrower financial resources and investment in collateral, collateral type, project economics and geographical location as well as national and regional economic factors. A reserve is established for an impaired loan 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) is lower than the carrying value of that loan.

Substantially all of the Company's impaired loans are collateral dependent and impairment is measured using the estimated fair value of collateral, less costs to sell. The Company generally uses the income approach through internally developed valuation models to estimate the fair value of the collateral for such loans. In more limited cases, the Company obtains external "as is" appraisals for loan collateral, generally when third party participations exist. Valuations are performed or obtained at the time a loan is determined to be impaired and designated non-performing, and they are updated if circumstances indicate that a significant change in value has occurred. In limited cases, appraised values may be discounted when real estate markets rapidly deteriorate.

A loan is also considered impaired if its terms are modified in a troubled debt restructuring ("TDR"). A TDR occurs when the Company has granted a concession and the debtor is experiencing financial difficulties. Impairments on TDR loans are generally measured based on the present value of expected future cash flows discounted at the effective interest rate of the original loan.

Gain or loss on debt extinguishments – The Company recognizes the difference between the reacquisition price of debt and the net carrying amount of extinguished debt currently in earnings. Such amounts may include prepayment penalties or the write-off of unamortized debt issuance costs, and are recorded in "Gain (loss) on early extinguishment of debt, net" on the Company's Consolidated Statements of Operations.

Derivative instruments and hedging activity – The Company's use of derivative financial instruments is primarily limited to the utilization of interest rate swaps, interest rate caps or other instruments to manage interest rate risk exposure and foreign exchange contracts to manage our risk to changes in foreign currencies.

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.

For derivatives designated as net investment hedges, the effective portion of changes in the fair value of the derivatives are reported in Accumulated Other Comprehensive Income as part of the cumulative translation adjustment. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. Amounts are reclassified out of Accumulated Other Comprehensive Income into earnings when the hedged net investment is either sold or substantially liquidated.

Derivatives 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 – Compensation cost for stock-based awards is measured on the grant date and adjusted over the period of the employees' services to reflect (i) actual forfeitures and (ii) the outcome of awards with performance or service conditions through the requisite service period. The Company recognizes compensation cost for performance-based awards if and when the Company concludes that it is probable that the performance condition will be achieved. Compensation cost for market condition-based awards is determined using a Monte Carlo model to simulate a range of possible future stock prices for the Company's Common Stock, which is reflected in the grant date fair value. All compensation cost for market-condition based awards in which the service conditions are met is recognized regardless of whether the market condition is satisfied. Compensation costs are recognized ratably over the applicable vesting/service period and recorded in "General and administrative" 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. While it must distribute at least 90% of its taxable income in order to maintain its REIT status, the Company typically distributes all of its taxable income, if any, in order to minimize any tax on undistributed taxable income. 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 reduce its dividend payout requirement under federal tax laws. In addition, the Company has made foreclosure elections for certain properties acquired through foreclosure which allows the Company to operate these properties within the REIT but subjects them to certain tax obligations. The carrying value of assets with foreclosure elections as of December 31, 2013 is $1.12 billion. The Company intends to operate in a manner consistent with and its election to be treated as a REIT for tax purposes. As of December 31, 2012, the Company had $634.2 million of net operating loss carryforwards at the corporate REIT level, which can generally be used to offset both ordinary and capital taxable income in future years and will expire through 2032 if unused. The amount of net operating loss carryforwards as of December 31, 2013 will be subject to finalization of the Company's 2013 tax return. The Company recognizes interest expense and penalties related to uncertain tax positions, if any, as "Income tax (expense) benefit" on the Company's Consolidated Statements of Operations.

The Company can participate in certain activities from which it would be otherwise 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, primarily related to managing activities related to certain foreclosed assets, as well as managing various investments in equity affiliates. As of December 31, 2013, $633.9 million of the Company's assets were owned by TRS entities. 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 on the portion of earnings recognized by the Company with respect to its interest in TRS entities.

The following represents the Company's TRS income tax expense ($ in thousands):

For the Years Ended December 31,	2013	2012	2011
Current tax (expense) benefit	**$659**	$(8,445)	$ (9,010)
Deferred tax (expense) benefit	**–**	–	13,729
Total income tax (expense) benefit	**$659**	$(8,445)	$ 4,719

During the year ended December 31, 2013, the Company's TRS entities generated a taxable loss of $1.8 million, resulting in current tax benefit of $0.7 million. During the year ended December 31, 2012, the Company's TRS entities generated taxable income of $42.2 million which was partially offset by the utilization of net operating loss carryforwards, resulting in current tax expense of $8.4 million. During the year ended December 31, 2011, the Company's TRS entities generated taxable income of $75.8 million, which was partially offset by the utilization of net operating loss carryforwards, resulting in tax expense of $9.0 million. In addition, during the year ended December 31, 2011, the Company sold its investment in Oak Hill Advisors L.P. (see Note 6) and recognized a deferred tax benefit resulting from the reversal of a deferred tax liability associated with the investment.

Total cash paid for taxes for the years ended December 31, 2013, 2012 and 2011, was $9.2 million, $5.5 million and $8.5 million, respectively.

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. The Company evaluates the realizability of its deferred tax assets and recognizes a valuation allowance if, based on the available evidence, both positive and negative, it is more likely than not that some portion or all of its deferred tax assets will not be realized. When evaluating the realizability of its deferred tax assets, the Company considers, among other matters, estimates of expected future taxable income, nature of current and cumulative losses, existing and projected book/tax differences, tax planning strategies available, and the general and industry specific economic outlook. This realizability analysis is inherently subjective, as it requires the Company to forecast its business and general economic environment in future periods. Based on an assessment of all factors, including historical losses and continued volatility of the activities within the TRS entities, it was determined that full valuation allowances were required on the net deferred tax assets as of December 31, 2013 and 2012, respectively. Changes in estimate of deferred tax asset realizability, if any are included in "Income tax (expense) benefit" on the Consolidated Statements of Operations.

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

As of December 31,	2013	2012
Deferred tax assets[1]	**$ 55,962**	$ 40,800
Valuation allowance	**(55,962)**	(40,800)
Net deferred tax assets (liabilities)	**$ –**	$ –

Explanatory Note:

(1) Deferred tax assets as of December 31, 2013, include real estate basis differences of $33.0 million, net operating loss carryforwards of $14.9 million and investment basis differences of $8.1 million. Deferred tax assets as of December 31, 2012, include real estate basis differences of $31.2 million, net operating loss carryforwards of $10.8 million and investment basis differences of $(1.2) million.

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 nonforfeitable 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 and restricted stock awards 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.

Note 4 – Real Estate

The Company's real estate assets were comprised of the following ($ in thousands):

	Net Lease	Operating Properties	Land	Total
As of December 31, 2013				
Land and land improvements	$ 350,817	$ 132,934	$803,238	$1,286,989
Buildings and improvements	1,346,071	587,574	–	1,933,645
Less: accumulated depreciation and amortization	(338,640)	(82,420)	(3,393)	(424,453)
Real estate, net	$1,358,248	$ 638,088	$799,845	$2,796,181
Real estate available and held for sale	–	228,328	132,189	360,517
Total real estate	$1,358,248	$ 866,416	$932,034	$3,156,698
As of December 31, 2012				
Land and land improvements	$ 344,239	$ 132,028	$ 786,114	$ 1,262,381
Buildings and improvements	1,282,571	572,453	–	1,855,024
Less: accumulated depreciation and amortization	(310,605)	(65,409)	(2,292)	(378,306)
Real estate, net	$ 1,316,205	$ 639,072	$ 783,822	$ 2,739,099
Real estate available and held for sale	–	454,587	181,278	635,865
Total real estate	$ 1,316,205	$1,093,659	$ 965,100	$ 3,374,964

Real estate available and held for sale – As of December 31, 2013 and 2012, the Company had $221.0 million and $374.1 million, respectively, of residential properties available for sale in its operating properties portfolio.

During the year ended December 31, 2013, the Company reclassified two land properties with a carrying value of $49.7 million from held for sale to held for investment due to changes in the Company's business plan for the properties. These assets are included in "Real estate, net" on the Company's Consolidated Balance Sheets. There were no operations to reclassify on the Company's Consolidated Statement of Operations as a result of this change. During the same period, the Company reclassified three land assets with a carrying value of $31.8 million and a net lease asset with a carrying value of $9.8 million to held for sale due to executed contracts with third parties. The net lease asset was disposed of for a gain of $3.6 million during the year ended December 31, 2013. The gain was recorded in "Gain from discontinued operations" on the Company's Consolidated Statements of Operations. The results of operations for the net lease assets that were reclassified are included in "Income (loss) from discontinued operations" on the Company's Consolidated Statements of Operations for all periods presented (see table below). The three land properties were sold during the year ended December 31, 2013 for a gain of $0.6 million. These gains were recorded in "Income from residential property" on the Company's Consolidated Statements of Operations.

During the year ended December 31, 2012, the Company had a change in its business plans to sell two commercial operating properties previously considered held for sale. As of December 31, 2012, the carrying amount of these assets was $49.8 million and was recorded in Real Estate, net. The assets were reclassified back to real estate held and used at their carrying value prior to classification as held for sale and adjusted for depreciation expense of $3.3 million during the held for sale period, which was lower than the assets' fair value at the time of the change in plans to sell. In connection with the reclassification of these assets to held and used, the Company reclassified their results of operations for each of the periods presented, as follows:

For the Years Ended December 31,	2012	2011
Other income	$ 21,148	$ 21,663
Real estate expenses	$(22,603)	$(24,297)

Acquisitions – During the year ended December 31, 2013, the Company acquired a net lease asset, which was leased back to the seller, for a purchase price of $93.6 million, including intangible assets of $36.1 million, intangible liabilities of $11.9 million and acquisition-related costs of $0.2 million. The Company concluded that the transaction was a real estate asset acquisition and capitalized the acquisition-related costs. The intangible assets are included in "Deferred expenses and other assets, net" and the intangible liabilities are included in "Accounts payable, accrued expenses and other liabilities" on the Company's Consolidated Balance Sheets. The lease is classified as an operating lease.

During the year ended December 31, 2013, the Company acquired, via foreclosure, title to a residential operating property and two land properties, each of which previously served as collateral on loans receivable held by the Company. The total fair value of the land properties was $15.6 million. The Company contributed the residential operating property, which had a fair value of $25.5 million, to an entity, of which it owns 63%. Based on the control provisions in the partnership agreement, the Company consolidates the entity and reflects its partner's 37% share of equity in "Noncontrolling interests" on the Company's Consolidated Balance Sheets. The acquisition was accounted for at fair value. No gain or loss was recorded in conjunction with these transactions.

During the year ended December 31, 2012, the Company acquired, via foreclosure, title to properties, which previously served as collateral on loan receivables held by the Company with a total fair value of $269.1 million at the time of foreclosure. These properties included $172.4 million of residential operating properties, $63.4 million of commercial operating properties and $33.3 million of land assets.

During the year ended December 31, 2012, the Company also acquired land and other assets with a fair value of $27.3 million from a third party to form a new venture related to one of the Company's commercial operating properties. The third party contributed land into the venture in a non-cash exchange for a non-controlling interest and the Company continues to consolidate the subsidiary. In conjunction with the formation of this new venture, the venture contributed land with a recorded value of $11.6 million in a non-cash exchange for a 40% noncontrolling equity interest in a separate new venture. The Company did not recognize any gains or losses associated with these transactions.

In addition, during 2012, the Company acquired land and other assets with a fair value of $11.5 million from a third party to form a new strategic venture related to one of the Company's active land development projects. The third party contributed land into the venture in a non-cash exchange for a non-controlling interest and the Company continues to consolidate the subsidiary. The Company did not recognize any gains or losses associated with the transaction. Based upon certain rights held by the minority partner in this land venture that provide it with an option to redeem its interest at fair value after seven years, the Company has reflected the partner's non-controlling interest in this venture as a redeemable non-controlling interest within its Consolidated Balance Sheets. As it is probable that the interest will become redeemable, subsequent changes in fair value are being accreted over the seven year period from the date of issuance to the earliest redemption date using the interest method. As of December 31, 2013 and 2012, the estimated redemption value of the redeemable non-controlling interest was $17.4 million and $17.9 million, respectively.

Dispositions – During the years ended December 31, 2013, 2012, and 2011, the Company sold residential condominiums for total net proceeds of $269.7 million, $319.3 million and $154.0 million, respectively, and recorded income from sales of residential properties totaling $82.6 million, $63.5 million and $5.7 million, respectively.

During the year ended December 31, 2013, the Company sold land for net proceeds of $21.4 million to a newly formed unconsolidated entity in which the Company also received a preferred partnership interest and a 47.5% equity interest. The Company recognized a gain of $3.4 million, reflecting the proportionate share of our sold interest, which was recorded as "Income from sales of residential property" on the Company's Consolidated Statements of Operations. The Company also sold land with a carrying value of $18.9 million for proceeds that approximated carrying value.

During the year ended December 31, 2013, the Company contributed land with carrying value of $24.1 million to a newly formed unconsolidated entity in which the Company received an equity interest of 75.6%. As a result of the transfer, the Company recognized a $7.4 million loss, which was recorded as "Loss on transfer of interest to unconsolidated subsidiary" on the Company's Consolidated Statements of Operations. In addition, during the year ended December 31, 2013, the Company contributed land with a carrying value of $2.8 million to a newly formed unconsolidated entity in which the Company also received a 50.0% equity interest. No gain or loss was recorded in conjunction with the transaction.

Additionally, during the year ended December 31, 2013, the Company sold five net lease assets with a carrying value of $18.7 million resulting in a net gain of $2.2 million. During the same period the Company sold six commercial operating properties with a carrying value of $72.6 million resulting in a net gain of $18.6 million. These gains were recorded as "Gain from discontinued operations" on the Company's Consolidated Statements of Operations. The Company also sold a land asset with a carrying value of $14.8 million resulting in a gain of $0.6 million, which was included in "Income from sales of residential property" on the Company's Consolidated Statements of Operations.

Also, during the year ended December 31, 2013, the Company transferred title of net lease assets with a carrying value of $8.7 million to its tenant for consideration that approximated our carrying value.

During the year ended December 31, 2012, the Company sold a portfolio of 12 net lease assets with an aggregate carrying value of $105.7 million and recorded a gain of $24.9 million resulting from the transaction. Certain of the properties were subject to secured term loans with a remaining principal balance of $50.8 million that were repaid in full at closing (see Note 8). In addition to this portfolio sale, during 2012, the Company sold net lease assets with a carrying value of $9.8 million, resulting in a net gain of $2.4 million. These gains were recorded as "Gain from discontinued operations" on the Company's Consolidated Statements of Operations. During the year ended December 31, 2012, the Company sold commercial operating properties with an aggregate carrying value of $29.3 million and land assets with a carrying value of $72.1 million for proceeds that approximated carrying value.

During the year ended December 31, 2011, the Company sold net lease assets with carrying values of $34.1 million, resulting in a net gain of $3.2 million, which was recorded in "Gain from discontinued operations" on the Company's Consolidated Statements of Operations. During 2011, the Company also sold commercial operating properties with an aggregate carrying value of $17.9 million and land assets with a carrying value of $9.5 million for proceeds that approximated carrying value. In addition, during 2011, the Company realized $22.2 million of a gain previously deferred resulting from the sale of a portfolio of 32 net lease assets in 2010. The gain was recorded in "Gain from discontinued operations" on the Company's Consolidated Statements of Operations during the year ended December 31, 2011.

Discontinued Operations – The following table summarizes income (loss) from discontinued operations for the years ended December 31, 2013, 2012 and 2011, respectively ($ in thousands):

For the Years Ended December 31,	2013	2012	2011
Revenues	**$ 5,545**	$ 14,132	$ 23,090
Total expenses	**(3,138)**	(9,037)	(19,457)
Impairment of assets	**(1,763)**	(22,576)	(9,147)
Income (loss) from discontinued operations	**$ 644**	$(17,481)	$ (5,514)

Impairments – During the years ended December 31, 2013, 2012 and 2011 the Company recorded impairments on real estate assets totaling $14.4 million, $35.4 million and $22.4 million, respectively, resulting from changes in local market conditions and business strategy for certain assets. Of these amounts, $1.8 million, $22.6 million and $9.1 million for the years ended December 31, 2013, 2012 and 2011, respectively, have been recorded in "Income (loss) from discontinued operations" on the Company's Consolidated Statements of Operations due to the assets being sold or classified as held for sale as of December 31, 2013 (see above).

Tenant Reimbursements – The Company receives reimbursements from tenants for certain facility operating expenses including common area costs, insurance, utilities and real estate taxes. Tenant expense reimbursements for the years ended December 31, 2013, 2012 and 2011 were $31.8 million, $30.9 million and $29.4 million, respectively, and are included in "Operating lease income" 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, 2013, are as follows ($ in thousands):

Year	Net Lease Assets	Operating Properties
2014	$132,996	$53,283
2015	$133,272	$48,851
2016	$131,738	$46,476
2017	$125,142	$44,516
2018	$123,464	$37,979

Note 5 – Loans Receivable and Other Lending Investments, net

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

As of December 31,	2013	2012
Type of Investment		
Senior mortgages	**$1,071,662**	$1,751,256
Subordinate mortgages	**60,679**	152,737
Corporate/Partnership loans	**473,045**	450,491
Total gross carrying value of loans	**$1,605,386**	$2,354,484
Reserves for loan losses	**(377,204)**	(524,499)
Total loans receivable, net	**$1,228,182**	$1,829,985
Other lending investments – securities	**141,927**	–
Total loans receivable and other lending investments, net(1)	**$1,370,109**	$1,829,985

Explanatory Note:

(1) The Company's recorded investment in loans as of December 31, 2013 and 2012 also includes accrued interest of $6.5 million and $9.8 million, respectively, which are included in "Accrued interest and operating lease income receivable, net" on the Company's Consolidated Balance Sheets.

During the years ended December 31, 2013, 2012 and 2011, the Company sold loans with total carrying values of $95.1 million, $53.9 million and $144.9 million, respectively, which resulted in a net realized loss of $0.6 million, a net gain of $6.4 million and no gain or loss, respectively. Gains and losses on sales of loans are included in "Other income" on the Company's Consolidated Statements of Operations.

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

For the Years Ended December 31,	2013	2012	2011
Reserve for loan losses at beginning of period	**$ 524,499**	$ 646,624	$ 814,625
Provision for loan losses(1)	**5,489**	81,740	46,412
Charge-offs	**(152,784)**	(203,865)	(214,413)
Reserve for loan losses at end of period	**$ 377,204**	$ 524,499	$ 646,624

Explanatory Note:

(1) For the years ended December 31, 2013, 2012 and 2011, the provision for loan losses includes recoveries of previously recorded loan loss reserves of $63.1 million, $4.6 million and $23.6 million, respectively.

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

	Individually Evaluated for Impairment(1)	Collectively Evaluated for Impairment(2)	Loans Acquired with Deteriorated Credit Quality(3)	Total
As of December 31, 2013				
Loans	**$ 752,425**	**$ 849,613**	**$ 9,889**	**$1,611,927**
Less: Reserve for loan losses	**(348,004)**	**(29,200)**	**–**	**(377,204)**
Total	**$ 404,421**	**$ 820,413**	**$ 9,889**	**$1,234,723**
As of December 31, 2012				
Loans	$1,095,957	$1,210,077	$ 58,281	$ 2,364,315
Less: Reserve for loan losses	(472,058)	(33,100)	(19,341)	(524,499)
Total	$ 623,899	$1,176,977	$ 38,940	$ 1,839,816

Explanatory Notes:

(1) The carrying value of these loans include unamortized discounts, premiums, deferred fees and costs aggregating to a net premium of $0.5 million and a net discount of $4.0 million as of December 31, 2013 and 2012, respectively. The Company's loans individually evaluated for impairment primarily represent loans on non-accrual status and therefore, the unamortized amounts associated with these loans are not currently being amortized into income.

(2) The carrying value of these loans include unamortized discounts, premiums, deferred fees and costs aggregating to a net discount of $4.6 million and $3.8 million as of December 31, 2013 and 2012, respectively.

(3) The carrying value of these loans include unamortized discounts, premiums, deferred fees and costs aggregating to a net premium of $0.4 million and $0.1 million as of December 31, 2013 and 2012, respectively. These loans had cumulative principal balances of $10.2 million and $58.8 million, as of December 31, 2013 and 2012, respectively.

Credit Characteristics – As part of the Company's process for monitoring the credit quality of its loans, it performs a quarterly loan portfolio assessment and assigns risk ratings to each of its performing loans. Risk ratings are based on judgments which are inherently uncertain and there can be no assurance that actual performance will not be different than current expectation.

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

	As of			
	December 31, 2013		December 31, 2012	
	Performing Loans	Weighted Average Risk Ratings	Performing Loans	Weighted Average Risk Ratings
Senior mortgages	**$ 591,145**	**2.50**	$ 840,593	2.75
Subordinate mortgages	**61,364**	**3.37**	99,698	2.27
Corporate/Partnership loans	**438,831**	**3.88**	444,772	3.69
Total	**$1,091,340**	**3.11**	$1,385,063	3.01

As of December 31, 2013, the Company's recorded investment in loans, aged by payment status and presented by class, were as follows ($ in thousands):

	Current	Less Than and Equal to 90 Days	Greater Than 90 Days	Total Past Due	Total
Senior mortgages	$ 625,267	$ –	$449,085	$449,085	$1,074,352
Subordinate mortgages	61,364	–	–	–	61,364
Corporate/Partnership loans	476,211	–	–	–	476,211
Total	$1,162,842	$ –	$449,085	$449,085	$1,611,927

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

	As of December 31, 2013			As of December 31, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Senior mortgages	$ 3,012	$ 2,992	$ –	$ 108,077	$ 107,850	$ –
Corporate/Partnership loans	–	–	–	10,110	10,160	–
Subtotal	$ 3,012	$ 2,992	$ –	$ 118,187	$ 118,010	$ –
With an allowance recorded:						
Senior mortgages	$650,337	$645,463	$(304,544)	$ 918,975	$ 918,496	$(442,760)
Subordinate mortgages	–	–	–	53,979	53,679	(39,579)
Corporate/Partnership loans	99,076	99,067	(43,460)	63,096	63,246	(9,060)
Subtotal	$749,413	$744,530	$(348,004)	$1,036,050	$1,035,421	$(491,399)
Total:						
Senior mortgages	$653,349	$648,455	$(304,544)	$1,027,052	$1,026,346	$(442,760)
Subordinate mortgages	–	–	–	53,979	53,679	(39,579)
Corporate/Partnership loans	99,076	99,067	(43,460)	73,206	73,406	(9,060)
Total	$752,425	$747,522	$(348,004)	$1,154,237	$1,153,431	$(491,399)

Explanatory Note:

(1) All of the Company's non-accrual loans are considered impaired and included in the table above. In addition, as of December 31, 2013 and 2012, certain loans modified through troubled debt restructurings with a recorded investment of $231.8 million and $175.0 million, respectively, are also included as impaired loans in accordance with GAAP although they are performing and on accrual status.

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

	For the Years Ended December 31,					
	2013		2012		2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:						
Senior mortgages	$ 31,409	$ 9,269	$ 162,093	$2,765	$ 309,079	$31,799
Corporate/Partnership loans	8,062	6,050	10,110	160	10,110	680
Subtotal	$ 39,471	$15,319	$ 172,203	$2,925	$ 319,189	$32,479
With an allowance recorded:						
Senior mortgages	$794,247	$ 1,976	$1,064,045	$3,865	$1,608,486	$ 7,187
Subordinate mortgages	32,382	–	52,208	–	19,477	–
Corporate/Partnership loans	77,661	323	62,248	312	66,087	332
Subtotal	$904,290	$ 2,299	$1,178,501	$4,177	$1,694,050	$ 7,519
Total:						
Senior mortgages	$825,656	$11,245	$1,226,138	$6,630	$1,917,565	$38,986
Subordinate mortgages	32,382	–	52,208	–	19,477	–
Corporate/Partnership loans	85,723	6,373	72,358	472	76,197	1,012
Total	$943,761	$17,618	$1,350,704	$7,102	$2,013,239	$39,998

During the years ended December 31, 2013, 2012 and 2011, the Company recorded interest income of $13.3 million, $0.0 million and $26.3 million, respectively, related to the resolution of certain non-performing loans. Interest income was not previously recorded while the loans were on non-accrual status.

Troubled Debt Restructurings – During the years ended December 31, 2013 and 2012, the Company modified loans that were determined to be troubled debt restructurings. The recorded investment in these loans was impacted by the modifications as follows, presented by class ($ in thousands):

	For the Years Ended December 31,					
	2013			2012		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Senior mortgages	6	$179,030	$154,278	8	$319,667	$272,753

Troubled debt restructurings that occurred during the year ended December 31, 2013 included the modification of two performing loans with a combined recorded investment of $4.6 million. The modified terms of these loans granted maturity extensions of one year. In each case, the Company believes the borrowers can perform under the modified terms of the loans and continues to classify these loans as performing.

Non-performing loans with a combined investment of $174.5 million were also modified during the year ended December 31, 2013. Included in this balance were two loans with a combined recorded investment of $98.3 million in which the Company received $15.4 million of paydowns and accepted discounted payoff options on these loans, with final payments expected to be made in January 2014 and July 2014 and the loans were reclassified from non-performing to performing status as the Company believes the borrowers can perform under the modified terms of the agreements. The remaining loans were granted payoff option extensions ranging from one year to three years. These loans continued to be classified as non-performing subsequent to modification.

Troubled debt restructurings that occurred during the year ended December 31, 2012 included the modifications of performing loans with a combined recorded investment of $64.1 million. The modified terms of these loans granted maturity extensions ranging from one year to three years and included conditional extension options in certain cases dependent on borrower-specific performance hurdles. In each case, the Company believes the borrowers can perform under the modified terms of the loans and continues to classify these loans as performing.

Non-performing loans with a combined recorded investment of $255.6 million were also modified during the year ended December 31, 2012 and continued to be classified as non-performing subsequent to modification. Included in this balance was a loan with a recorded investment of $181.5 million prior to modification, for which the Company agreed to reduce the outstanding principal balance and recorded charge-offs totaling $45.5 million, and also reduce the loan's interest rate. The remaining non-performing loans were granted maturity extensions ranging from one month to seven months and the interest rate was reduced on one loan.

Generally when granting concessions, the Company will seek to protect its position by requiring incremental pay downs, additional collateral or guarantees and in some cases lookback features or equity kickers to offset concessions granted should conditions impacting the loan improve. The Company's determination of credit losses is impacted by troubled debt restructurings whereby loans that have gone through troubled debt restructurings are considered impaired, assessed for specific reserves, and are not included in the Company's assessment of general loan loss reserves. Loans previously restructured under troubled debt restructurings that subsequently default are reassessed to incorporate the Company's current assumptions on expected cash flows and additional provision expense is recorded to the extent necessary. As of December 31, 2013, the Company had $13.3 million of unfunded commitments associated with modified loans considered troubled debt restructurings.

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

	For the Years Ended December 31,			
	2013		2012	
	Number of Loans	Outstanding Recorded Investment	Number of Loans	Outstanding Recorded Investment
Senior mortgages	1	$26,693	1	$18,511

Securities – As of December 31, 2013, Other lending investments – securities includes the following ($ in thousands):

	Face Value	Amortized Cost Basis	Net Unrealized Gain (Loss)	Estimated Fair Value	Net Carrying Value
Available-for-Sale Securities					
Municipal debt securities	$ 1,055	$ 1,055	$(18)	$ 1,037	$ 1,037
Held-to-Maturity Securities					
Corporate debt securities	139,842	140,890	–	140,890	140,890
Total	$140,897	$141,945	$(18)	$141,927	$141,927

During the year ended December 31, 2013, the Company originated a mandatorily redeemable preferred equity investment, which has an initial term of three years with two 12-month extensions. At December 31, 2013, the Company's investment was $140.9 million and the unfunded commitment was $6.2 million. The investment is classified as a held-to-maturity debt security as the Company has the ability and intent to hold the investment until maturity.

As of December 31, 2013, the contractual maturities of the Company's securities were as follows ($ in thousands):

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Amortized Cost Basis	Estimated Fair Value	Amortized Cost Basis	Estimated Fair Value
Maturities				
Within one year	$ –	$ –	$ –	$ –
After one year through 5 years	140,890	140,890	–	–
After 5 years through 10 years	–	–	–	–
After 10 years	–	–	1,055	1,037
Total	$140,890	$140,890	$1,055	$1,037

Note 6 – Other Investments

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

	Carrying Value		Equity in Earnings		
	As of December 31,		For the Years Ended December 31,		
	2013	2012	2013	2012	2011
LNR	$ –	$205,773	$16,465	$ 60,669	$53,861
Madison Funds	67,782	56,547	14,796	10,246	3,641
Oak Hill Funds	21,366	29,840	4,174	5,844	1,918
Real estate equity investments	62,205	47,619	2,753	21,636	(5,273)
Other equity method investments[1]	45,954	47,939	3,332	4,614	40,944
Total equity method investments	$197,307	$387,718	$41,520	$103,009	$95,091
Other	9,902	11,125			
Total other investments	$207,209	$398,843			

Explanatory Note:

(1) For the year ended December 31, 2011, equity in earnings includes $38.4 million of earnings related to Oak Hill Advisors, L.P. and related entities that were sold in October 2011.

LNR – In July 2010, the Company acquired an ownership interest of approximately 24% in LNR Property Corporation ("LNR"). LNR is a servicer and special servicer of commercial mortgage loans and CMBS and a diversified real estate investment, finance and management company. In the transaction, the Company and a group of investors, including other creditors of LNR, acquired 100% of the common stock of LNR in exchange for cash and the extinguishment of existing senior notes of LNR's parent holding company (the "Holdco Notes"). The Company contributed $100.0 million aggregate principal amount of Holdco Notes and $100.0 million in cash in exchange for an equity interest of $120.0 million.

Beginning in September 2012, the Company and other owners of LNR entered into negotiations with potential purchasers of LNR. After an extensive due diligence and negotiation process, the LNR owners entered into a definitive contract to sell LNR in January 2013 at a fixed sale price which, from the Company's perspective, reflected in part the Company's then-current expectations about the future results of LNR and potential volatility in its business. The definitive sale contract provided that LNR would not make cash distributions to its owners during the fourth quarter of 2012 through the closing of the sale. Notwithstanding the fixed terms of the contract, our investment balance in LNR increased due to equity in earnings recorded which resulted in our recognition of other than temporary impairment on our investment during the year ended December 31, 2013. In April 2013, the Company completed the sale of its 24% equity interest in LNR and received $220.3 million in net proceeds. Approximately $25.2 million of net proceeds were placed in escrow for potential indemnification obligations through April 2014. The Company is not currently aware that any material indemnification claims are probable of occurring.

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

	For the Period from October 1, 2012 to April 19,	For the Years Ended September 30,	
	2013	**2012**	**2011**
Income Statements			
Total revenue[2]	**$179,373**	$332,902	$327,032
Income tax (expense) benefit[3]	**$ (2,137)**	$ (6,731)	$ 76,558
Net income attributable to LNR[4]	**$113,478**	$253,039	$225,190
iStar's ownership percentage	**24%**	24%	24%
iStar's equity in earnings from LNR[5]	**$ 45,375**	$ 60,669	$ 53,861

	As of September 30,	
	2013	**2012**
Balance Sheets		
Total assets[2]	**$ –**	$98,513,452
Total debt[2]	**$ –**	$97,521,520
Total liabilities[2]	**$ –**	$97,639,696
Noncontrolling interests	**$ –**	$ 8,067
LNR Property LLC equity	**$ –**	$ 865,689
iStar's ownership percentage	**–%**	24%
iStar's equity in LNR[6]	**$ –**	$ 205,773

	For the Period from October 1, 2012 to April 19,	For the Years Ended September 30,	
	2013	**2012**	**2011**
Cash Flows			
Operating cash flows	**$(127,075)**	$ (85,909)	$ 170,703
Cash flows from investing activities	**$ (36,543)**	$ (55,686)	$ 45,488
Cash flows from financing activities	**$ 217,241**	$229,634	$(123,506)
Net cash flows	**$ 53,623**	$ 88,039	$ 92,685
Cash distributions	**$ –**	$ 61,179	$ 73,916
iStar's ownership percentage	**24%**	24%	24%
Cash distributions received by iStar	**–**	14,690	17,722

Explanatory Notes:

(1) The Company recorded its investment in LNR, which was sold in April 2013, on a one quarter lag, therefore, amounts in the Company's financial statements for the year ended December 31, 2013 are based on balances and results from LNR for the period from October 1, 2012 to April 19, 2013. The amounts in the Company's financial statements for the year ended December 31, 2012 and 2011 are based on balances and results from LNR for the years ended September 30, 2012 and 2011, respectively.

(2) LNR consolidates certain commercial mortgage-backed securities and collateralized debt obligation trusts that are considered VIEs (and for which it is the primary beneficiary), that have been included in the amounts presented above. As of September 30, 2012, the assets of these trusts, which aggregated $97.52 billion, were the sole source of repayment of the related liabilities, which aggregated $97.21 billion and are non-recourse to LNR and its equity holders, including the Company. Excluding the amounts related to VIEs, as of September 30, 2012, total assets were $1.38 billion , total debt was $398.9 million, and total liabilities were $517.1 million. In addition, total revenue presented above includes $55.5 million, $95.4 million, and $119.0 million for the period from October 1, 2012 to April 19, 2013 and for the years ended September 30, 2012 and 2011, respectively, of servicing fee revenue that is eliminated upon consolidation of the VIE's at the LNR level. This income is then added back through consolidation at the LNR level as an adjustment to income allocable to noncontrolling entities and has no net impact on net income attributable to LNR.

(3) During the year ended December 31, 2011, LNR recorded an income tax benefit from the settlement of certain tax liabilities.

(4) Subsequent to the sale of the Company's interest in LNR, LNR reported a reduction in their earnings of $66.2 million related to a purchase price allocation adjustment. The reduction was reflected in LNR's operations for the three months ended March 31, 2013, which resulted in a net loss for the period. Because the Company recorded its investment in LNR on a one quarter lag, the adjustment was reflected in the quarter ended June 30, 2013. There was no net impact on the Company's previously reported equity in earnings as the Company limited its proportionate share of earnings from LNR as described above.

(5) LNR reported a net loss for the period from April 1, 2013 to April 19, 2013 which had already been considered in the Company's other than temporary impairment assessment. As such, no equity in earnings was recorded during the quarter ended September 30, 2013. The total equity in earnings recognized for LNR was $45.4 million for the year ended December 31, 2013.

(6) Represents the Company's investment in LNR at December 31, 2013 and 2012, respectively.

The following table reconciles the activity related to the Company's investment in LNR for the three months ended March 31, 2013 and June 30, 2013, the six months ended December 31, 2013 and for the year ended December 31, 2013 ($ in thousands):

	For the Three Months Ended March 31, 2013	For the Three Months Ended June 30, 2013	For the Six Months Ended December 31, 2013	For the Year Ended December 31, 2013
Carrying value of LNR at beginning of period	$205,773	$ 220,281	$ –	$ 205,773
Equity in earnings of LNR for the period[(1)]	$ 45,375	$ –	$ –	$ 45,375[(a)]
Balance before other than temporary impairment	$251,148	$ 220,281	$ –	$ 251,148
Other than temporary impairment[(1)]	$ (30,867)	$ –	$ –	$ (30,867)[(b)]
Sales proceeds pursuant to contract	$ –	$(220,281)	$ –	$(220,281)
Carrying value of LNR at end of period	$220,281	$ –	$ –	$ –

Explanatory Note:

(1) Subsequent to the sale of the Company's interest in LNR, LNR reported a reduction in their earnings of $66.2 million related to a purchase price allocation adjustment. The reduction was reflected in LNR's operations for the three months ended March 31, 2013, which resulted in a net loss for the period. Because the Company recorded its investment in LNR on a one quarter lag, the adjustment was reflected in the quarter ended June 30, 2013. There was no net impact on the Company's previously reported equity in earnings as the Company limited its proportionate share of earnings from LNR as described above.

For the year ended December 31, 2013, the amount that was recognized as income in the Company's Consolidated Statements of Operations is the sum of items (a), (b) and $1.7 million of income recognized for the release of other comprehensive income related to LNR upon sale, or $16.5 million.

Madison Funds – As of December 31, 2013, 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 and a 29.52% interest in Madison GP1 Investors, LP (collectively, the "Madison Funds"). The Madison Funds invest in ownership positions of entities that own real estate assets. The Company determined that these entities are variable interest entities and that the Company is not the primary beneficiary.

Oak Hill Funds – As of December 31, 2013, the Company owned a 5.92% interest in OHA Strategic Credit Master Fund, L.P. ("OHASCF"). OHASCF was formed to acquire and manage a diverse portfolio of assets, investing in distressed, stressed and undervalued loans, bonds, equities and other investments. The Company determined that this entity is a variable interest entity and that the Company is not the primary beneficiary.

Real estate equity investments – During the year ended December 31, 2013, the Company sold land for net proceeds of $21.4 million to a newly formed unconsolidated entity in which the Company had a preferred partnership interest and a 47.5% equity interest. The Company's proportionate share of the assets retained on a carryover basis on the date of sale was $10.6 million. The Company held a preferred partnership interest of $6.6 million, which was repaid and no longer outstanding at December 31, 2013. As of December 31, 2013, the Company had a recorded equity interest of $5.5 million.

During the year ended December 31, 2013, the Company contributed land to a newly formed unconsolidated entity in which the Company received an equity interest of 75.6%. As of December 31, 2013, the Company had a recorded equity interest of $18.0 million. In addition, during the year ended December 31, 2013, the Company contributed land to a newly formed unconsolidated entity in which the Company also received a 50.0% equity interest. As of December 31, 2013, the Company had a recorded equity interest of $3.5 million.

In addition, as of December 31, 2013, the Company's other real estate equity investments included equity interests in real estate ventures ranging from 31% to 70%, comprised of investments of $16.4 million in net lease assets, $16.0 million in operating properties and $2.7 million in land assets. As of December 31, 2012, the Company's real estate equity investments included $16.4 million in net lease assets, $25.7 million in operating properties and $5.5 million in land assets. One of the Company's equity investments in operating properties represents a 33% interest in residential property units. During the years ended December 31, 2013 and 2012, the Company's earnings from its interest in this property includes income from sales of residential units of $4.7 million and $26.0 million, respectively.

Oak Hill Advisors – In October 2011, the Company sold a substantial portion of its interests in Oak Hill Advisors, L.P. and related entities for $183.7 million of net cash proceeds, which resulted in a net gain of $30.3 million that was recorded in "Earnings from equity method investments" on the Company's Consolidated Statements of Operations. Glenn R. August, a former director of the Company and the president and senior partner of Oak Hill Advisors, L.P., participated in the transaction as a purchaser. In conjunction with the sale of its interests in Oak Hill Advisors, L.P., the Company retained interests in its share of certain unearned incentive fees of various funds. These fees are contingent on the future performance of the funds and the Company will recognize income related to these fees if and when the amounts are realized.

Other investments – The Company also had smaller investments in real estate related funds and other strategic investments in several other entities that were accounted for under the equity method or cost method.

Summarized financial information – The following table presents the investee level summarized financial information of the Company's equity method investments, excluding LNR ($ in thousands):

For the Years Ended December 31,	2013	2012	2011
Income Statements			
Revenues	**$284,513**	$401,870	$198,340
Net income attributable to parent entities	**$206,198**	$304,960	$ 97,066

As of December 31,	2013	2012
Balance Sheets		
Total assets	**$2,980,737**	$2,758,889
Total liabilities	**$ 303,100**	$ 170,997
Noncontrolling interests	**$ 333**	$ 2,253
Total equity	**$2,677,304**	$2,585,639

Note 7 – Other Assets and Other Liabilities

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

As of December 31,	2013	2012
Intangible assets, net(1)	**$100,652**	$ 69,134
Other receivables	**34,655**	11,517
Deferred financing fees, net(2)	**33,591**	26,629
Leasing costs, net(3)	**21,799**	20,205
Corporate furniture, fixtures and equipment, net(4)	**6,557**	7,537
Other assets	**40,726**	28,102
Deferred expenses and other assets, net	**$237,980**	$163,124

Explanatory Notes:

(1) Intangible assets, net are primarily related to the acquisition of real estate assets. Accumulated amortization on intangible assets was $38.1 million and $51.5 million as of December 31, 2013 and 2012, respectively. The amortization of above market leases decreased operating lease income on the Company's Consolidated Statements of Operations by $7.0 million, $5.8 million and $2.7 million for the years ended December 31, 2013, 2012 and 2011, respectively. The total amortization expense for intangible assets was $8.2 million, $7.0 million and $7.7 million for the years ended December 31, 2013, 2012 and 2011, respectively. These amounts are included in "Depreciation and amortization" on the Company's Consolidated Statements of Operations.

(2) Accumulated amortization on deferred financing fees was $9.9 million and $4.1 million as of December 31, 2013 and 2012, respectively.

(3) Accumulated amortization on leasing costs was $7.1 million and $6.6 million as of December 31, 2013 and 2012, respectively.

(4) Accumulated depreciation on corporate furniture, fixtures and equipment was $6.2 million and $6.2 million as of December 31, 2013 and 2012, respectively.

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

As of December 31,	2013	2012
Accrued expenses	**$ 58,840**	$ 50,467
Accrued interest payable	**40,015**	29,521
Intangible liabilities, net(1)	**26,223**	9,210
Other liabilities	**45,753**	52,472
Accounts payable, accrued expenses and other liabilities	**$170,831**	$141,670

Explanatory Note:

(1) Intangible liabilities, net are primarily related to the acquisition of real estate assets. Accumulated amortization on intangible liabilities was $4.6 million and $2.2 million as of December 31, 2013 and 2012, respectively. The amortization of intangible liabilities increased operating lease income on the Company's Consolidated Statements of Operations by $2.8 million, $1.4 million and $0.6 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Intangible assets and liabilities – The estimated aggregate amortization costs for each of the five succeeding fiscal years are as follows ($ in thousands):

2014	$10,530
2015	$ 7,886
2016	$ 7,122
2017	$ 6,145
2018	$ 4,295

Note 8 – Debt Obligations, net

As of December 31, 2013 and 2012, the Company's debt obligations were as follows ($ in thousands):

	Carrying Value as of December 31, 2013	2012	Stated Interest Rates	Scheduled Maturity Date
Secured credit facilities and term loans:				
2012 Tranche A-1 Facility	**$ –**	$ 169,164	LIBOR + 4.00%(1)	–
2012 Tranche A-2 Facility	**431,475**	470,000	LIBOR + 5.75%(1)	March 2017
October 2012 Secured Credit Facility	**–**	1,754,466	LIBOR + 4.50%(2)	–
February 2013 Secured Credit Facility	**1,379,407**	–	LIBOR + 3.50%(3)	October 2017
Term loans collateralized by net lease assets	**278,817**	264,432	4.851% – 7.26%(4)	Various through 2026
Total secured credit facilities and term loans	**$2,089,699**	$2,658,062		
Unsecured notes:				
8.625% senior notes	**$ –**	$ 96,801	8.625%	–
5.95% senior notes	**–**	448,453	5.95%	–
5.70% senior notes	**–**	200,601	5.70%	–
6.05% senior notes	**105,765**	105,765	6.05%	April 2015
5.875% senior notes	**261,403**	261,403	5.875%	March 2016
3.875% senior notes	**265,000**	–	3.875%	July 2016
3.0% senior convertible notes(5)	**200,000**	200,000	3.0%	November 2016
1.50% senior convertible notes(6)	**200,000**	–	1.50%	November 2016
5.85% senior notes	**99,722**	99,722	5.85%	March 2017
9.0% senior notes	**275,000**	275,000	9.0%	June 2017
7.125% senior notes	**300,000**	300,000	7.125%	February 2018
4.875% senior notes	**300,000**	–	4.875%	July 2018
Total unsecured notes	**$2,006,890**	$1,987,745		
Other debt obligations:				
Other debt obligations	**$ 100,000**	$ 100,000	LIBOR + 1.50%	October 2035
Total debt obligations	**$4,196,589**	$4,745,807		
Debt discounts, net	**(38,464)**	(54,313)		
Total debt obligations, net	**$4,158,125**	$4,691,494		

Explanatory Notes:

(1) These loans each have a LIBOR floor of 1.25%. As of December 31, 2013, inclusive of the floor, the 2012 Tranche A-2 Facility loan incurred interest at a rate of 7.00%.

(2) This loan has a LIBOR floor of 1.25%.

(3) This loan has a LIBOR floor of 1.00%. As of December 31, 2013, inclusive of the floor, the February 2013 Secured Credit Facility incurred interest at a rate of 4.50%.

(4) Includes a loan with a floating rate of LIBOR plus 2.00% and a loan with a floating rate of LIBOR plus 2.75%.

(5) The Company's 3.0% senior convertible fixed rate notes due November 2016 ("3.0% Convertible Notes") are convertible at the option of the holders, into 85.0 shares per $1,000 principal amount of 3.0% Convertible Notes, at any time prior to the close of business on November 14, 2016.

(6) The Company's 1.50% senior convertible fixed rate notes due November 2016 ("1.50% Convertible Notes") are convertible at the option of the holders, into 57.8 shares per $1,000 principal amount of 1.50% Convertible Notes, at any time prior to the close of business on November 14, 2016.

Future Scheduled Maturities – As of December 31, 2013, future scheduled maturities of outstanding long-term debt obligations are as follows ($ in thousands):

	Unsecured Debt	Secured Debt	Total
2014	$ –	$ 21,657	$ 21,657
2015	105,765	–	105,765
2016	926,403	–	926,403
2017	374,722	1,810,882	2,185,604
2018	600,000	17,052	617,052
Thereafter	100,000	240,108	340,108
Total principal maturities	$2,106,890	$2,089,699	$4,196,589
Unamortized debt discounts, net	(11,081)	(27,383)	(38,464)
Total long-term debt obligations, net	$2,095,809	$2,062,316	$4,158,125

February 2013 Secured Credit Facility – On February 11, 2013, the Company entered into a $1.71 billion senior secured credit facility due October 15, 2017 (the "February 2013 Secured Credit Facility") that amended and restated its $1.82 billion senior secured credit facility, dated October 15, 2012 (the "October 2012 Secured Credit Facility"). The February 2013 Credit Facility amended the October 2012 Secured Credit Facility by: (i) reducing the interest rate from LIBOR plus 4.50%, with a 1.25% LIBOR floor, to LIBOR plus 3.50%, with a 1.00% LIBOR floor; and (ii) extending the call protection period for the lenders from October 15, 2013 to December 31, 2013.

Borrowings under the February 2013 Secured Credit Facility are collateralized by a first lien on a fixed pool of assets, with required minimum collateral coverage of not less than 125% of outstanding borrowings. If collateral coverage is less than 137.5% of outstanding borrowings, 100% of the proceeds from principal repayments and sales of collateral will be applied to repay outstanding borrowings under the February 2013 Secured Credit Facility. For so long as collateral coverage is between 137.5% and 150% of outstanding borrowings, 50% of proceeds from principal repayments and sales of collateral will be applied to repay outstanding borrowings under the February 2013 Secured Credit Facility and for so long as collateral coverage is greater than 150% of outstanding borrowings, the Company may retain all proceeds from principal repayments and sales of collateral. The Company retains proceeds from interest, rent, lease payments and fee income in all cases.

In connection with the February 2013 Secured Credit Facility transaction, the Company incurred $17.1 million of lender fees, of which $14.4 million was capitalized in "Debt Obligations, net" on the Company's Consolidated Balance Sheets and $2.7 million was recorded as a loss in "Gain (loss) on early extinguishment of debt, net" on the Company's Consolidated Statements of Operations as it related to the lenders who did not participate in the new facility. The Company also incurred $3.8 million in third party fees, of which $3.6 million was recognized in "Other expense" on the Company's Consolidated Statements of Operations, as it related primarily to those lenders from the original facility that modified their debt under the new facility, and $0.2 million was recorded in "Deferred expenses and other assets, net" on the Company's Consolidated Balance Sheets, as it related to the new lenders.

The February 2013 Secured Credit Facility contains certain covenants relating to the collateral, among other matters, but does not contain corporate level financial covenants. For so long as the Company maintains its qualification as a REIT, it is permitted to distribute 100% of its REIT taxable income on an annual basis. In addition, the Company may distribute to its stockholders real estate assets, or interests therein, having an aggregate equity value not to exceed $200 million, that are not collateral securing the borrowings under the February 2013 Secured Credit Facility. Except for the distribution of real estate assets described in the preceding sentence, the Company may not pay common dividends if it ceases to qualify as a REIT.

Through December 31, 2013, the Company has made cumulative amortization repayments of $327.6 million on the February 2013 Secured Credit Facility bringing the outstanding balance to $1.38 billion. Repayments of the February 2013 Secured Credit Facility prior to the scheduled maturity date have resulted in losses on early extinguishment of debt of $7.0 million for the year ended December 31, 2013 related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid.

October 2012 Secured Credit Facility – On October 15, 2012, the Company entered into the October 2012 Secured Credit Facility. Proceeds from the October 2012 Secured Credit Facility were used to refinance the remaining outstanding balances of the Company's then existing 2011 Secured Credit Facilities.

During the year ended December 31, 2012, in connection with the October 2012 Secured Credit Facility transaction, the Company incurred $14.8 million in third party fees, of which $8.1 million was recognized in "Other expense" on the Company's Consolidated Statements of Operations as it related to the portion of lenders from the original facility that modified their debt under the new facility. The remaining $6.6 million of fees were recorded in "Deferred expenses and other assets, net" on the Company's Consolidated Balance Sheets, as they related to the portion of lenders that were new to the facility.

The October 2012 Secured Credit Facility was refinanced by the February 2013 Secured Credit Facility. Prior to refinancing, the Company made cumulative amortization repayments of $113.0 million on the October 2012 Secured Credit Facility, which resulted in losses on early extinguishment of debt of $0.8 million and $1.2 million during the year ended December 31, 2013 and 2012, respectively, related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid.

At the time of the refinancing, the Company had $30.5 million of unamortized discounts and financing fees related to the October 2012 Secured Credit Facility. During the year ended December 31, 2013, in connection with the refinancing, the Company recorded a loss on early extinguishment of debt of $4.9 million, related primarily to the portion of lenders in the original facility that did not participate in the new facility. The remaining $25.6 million of unamortized fees and discounts will continue to be amortized into interest expense over the remaining term of the February 2013 Secured Credit Facility.

March 2012 Secured Credit Facilities – In March 2012, the Company entered into an $880.0 million senior secured credit agreement providing for two tranches of term loans: a $410.0 million 2012 A-1 tranche due March 2016, which bears interest at a rate of LIBOR + 4.00% (the "2012 Tranche A-1 Facility"), and a $470.0 million 2012 A-2 tranche due March 2017, which bears interest at a rate of LIBOR + 5.75% (the "2012 Tranche A-2 Facility," together the "March 2012 Secured Credit Facilities"). The 2012 A-1 and A-2 tranches were issued at 98.0% of par and 98.5% of par, respectively, and both tranches include a LIBOR floor of 1.25%. Proceeds from the March 2012 Secured Credit Facilities, together with cash on hand, were used to repurchase and repay at maturity $606.7 million aggregate principal amount of the Company's convertible notes due October 2012, to fully repay the $244.0 million balance on the Company's unsecured credit facility due June 2012, and to repay, upon maturity, $90.3 million outstanding principal balance of its 5.50% senior unsecured notes.

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

During the year ended December 31, 2013, the Company repaid the remaining outstanding balance of the 2012 Tranche A-1 Facility. Repayments of the 2012 Tranche A-1 Facility prior to scheduled amortization dates have resulted in losses on early extinguishment of debt of $4.4 million and $8.1 million during the years ended December 31, 2013 and 2012, respectively, related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid.

Additionally, during the year ended December 31, 2013, the Company made cumulative amortization repayments of $38.5 million on the 2012 Tranche A-2 Facility prior to maturity have resulted in losses on early extinguishment of debt of $1.0 million related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid during the year.

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

The 2011 Secured Credit Facilities were refinanced by the October 2012 Secured Credit Facility. Prior to refinancing, the Company made cumulative amortization repayments of $1.07 billion on the 2011 Secured Credit Facilities, which resulted in losses on early extinguishment of debt of $4.5 million and $12.0 million for the years ended December 31, 2012 and 2011, respectively, related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid.

At the time of the refinancing, the Company had $21.2 million of unamortized discounts and financing fees related to the 2011 Secured Credit Facilities. In connection with the refinancing, the Company recorded a loss on early extinguishment of debt of $12.1 million, related primarily to the portion of lenders in the original facility that did not participate in the new facility. The remaining $9.0 million of unamortized fees and discounts will continue to be amortized to interest expense over the remaining term of the October 2012 Secured Credit Facility.

Secured Term Loans – In October 2012, a consolidated subsidiary of the Company entered into a $28.0 million secured term loan maturing in November 2019, bearing interest at a rate of LIBOR + 2.00%. Simultaneously with the financing, the subsidiary entered into an interest rate swap to exchange its variable rate on the loan for a fixed interest rate (see Note 10).

In September 2012, the Company refinanced two secured term loans with an aggregate outstanding principal balance of $53.3 million, bearing interest at rates of 5.3% and 8.2% and maturing in January 2013 with a new $54.5 million secured term loan. The new loan bears interest at 4.851%, matures in October 2022 and is collateralized by the same net lease asset as the original term loan. In connection with the refinancing, the Company incurred $0.5 million of losses related to a prepayment penalty, which was recorded in "Gain (loss) on early extinguishment of debt, net" on the Company's Consolidated Statements of Operations for the year ended December 31, 2012.

In addition, during the year ended December 31, 2012, in conjunction with the sale of a portfolio of 12 net lease assets, the Company repaid the $50.8 million outstanding balances of its LIBOR + 4.50% secured term loans due in 2014 and terminated the related interest rate swaps associated with the loans (see Note 10).

Unsecured Credit Facility – During the year ended December 31, 2012, the Company repaid the $243.7 million remaining principal balance of its LIBOR + 0.85% unsecured credit facility due June 2012. In connection with the repayments, the Company recorded a loss on early extinguishment of debt of $0.2 million related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid.

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

Unsecured Notes – In November 2013, the Company issued $200.0 million aggregate principal of 1.50% convertible senior unsecured notes due November 2016. Proceeds from the transaction, together with cash on hand, was used to fully repay the remaining $200.6 million of outstanding 5.70% senior unsecured notes due March 2014. In connection with the repayment of the 5.70% senior unsecured notes, the Company incurred $2.8 million of losses related to a prepayment penalty and the accelerated amortization of discounts, which was recorded in "Gain (loss) on early extinguishment of debt, net" on the Company's Consolidated Statements of Operations for the year ended December 31, 2013.

In May 2013, the Company issued $265.0 million aggregate principal of 3.875% senior unsecured notes due July 2016 and issued $300.0 million aggregate principal of 4.875% senior unsecured notes due July 2018. Net proceeds from these transactions, together with cash on hand, were used to fully repay the remaining $96.8 million of outstanding 8.625% senior unsecured notes due June 2013 and the remaining $448.5 million of outstanding 5.95% senior unsecured notes due in October 2013. In connection with the repayment of the 5.95% senior unsecured notes, the Company incurred $9.5 million of losses related to a prepayment penalty and the accelerated amortization of discounts, which was recorded in "Gain (loss) on early extinguishment of debt, net" on the Company's Consolidated Statements of Operations for the year ended December 31, 2013.

In November 2012, the Company issued $300.0 million aggregate principal of 7.125% senior unsecured notes due February 2018 and issued $200.0 million aggregate principal of 3.00% convertible senior unsecured notes due November 2016. Proceeds from these transactions were used to fully repay $67.1 million of the 6.5% senior unsecured notes due December 2013 and partially repay $404.9 million of the 8.625% senior unsecured notes due June 2013. In connection with these repurchases, the Company paid a $14.9 million prepayment penalty which was reflected in "Gain (loss) on early extinguishment of debt, net" on the Company's Consolidated Statements of Operations for the year ended December 31, 2012.

In May 2012, the Company issued $275.0 million aggregate principal of 9.0% senior unsecured notes due June 2017 that were sold at 98.012% of their principal amount.

During the year ended December 31, 2012, the Company repaid, upon maturity, the $460.7 million outstanding principal balance of its LIBOR + 0.50% senior unsecured convertible notes, the $169.7 million outstanding principal balance of its 5.15% senior unsecured notes and the $90.3 million outstanding principal balance of its 5.50% senior unsecured notes. In addition, the Company repurchased $420.4 million par value of senior unsecured notes with various maturities ranging from March 2012 to October 2012. In connection with these repurchases, the Company recorded aggregate gains on early extinguishment of debt of $3.2 million, for the year ended December 31, 2012.

Encumbered/Unencumbered Assets – As of December 31, 2013, the carrying value of the Company's encumbered and unencumbered assets by asset type are as follows ($ in thousands):

	As of December 31,			
	2013		2012	
	Encumbered Assets	Unencumbered Assets	Encumbered Assets	Unencumbered Assets
Real estate, net	**$1,644,463**	**$1,151,718**	$1,640,005	$1,099,094
Real estate available and held for sale	**152,604**	**207,913**	263,842	372,023
Loans receivable, net[(1)]	**860,557**	**538,752**	1,197,403	665,682
Other investments	**24,093**	**183,116**	43,545	355,298
Cash and other assets	**–**	**907,995**	–	556,207
Total	**$2,681,717**	**$2,989,494**	$3,144,795	$3,048,304

Explanatory Note:

(1) As of December 31, 2013 and 2012, the amounts presented exclude general reserves for loan losses of $29.2 million and $33.1 million, respectively.

Debt Covenants

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

The Company's March 2012 Secured Credit Facilities and February 2013 Secured Credit Facility are collectively defined as the "Secured Credit Facilities." The Company's Secured Credit Facilities contain certain covenants, including covenants relating to collateral coverage, dividend payments, restrictions on fundamental changes, transactions with affiliates, matters relating to the liens granted to the lenders and the delivery of information to the lenders. In particular, the Company is required to maintain collateral coverage of 1.25x outstanding borrowings. In addition, for so long as the Company maintains its qualification as a REIT, the Secured Credit Facilities permit the Company to distribute 100% of its REIT taxable income on an annual basis and the February 2013 Secured Credit Facility permits the Company to distribute to its shareholders real estate assets, or interests therein, having an aggregate equity value not to exceed $200 million, so long as such assets are not collateral for the February 2013 Secured Credit Facility. The Company may not pay common dividends if it ceases to qualify as a REIT (except that the February 2013 Secured Credit Facility permits the Company to distribute certain real estate assets as described in the preceding sentence).

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

Note 9 – Commitments and Contingencies

Unfunded Commitments – The Company generally funds construction and development loans and build-outs of space in net lease assets 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 sometimes establishes a maximum amount of additional funding 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 in 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, 2013, the maximum amount of fundings the Company may be required to make under each category, assuming all performance hurdles and milestones are met under the Performance-Based Commitments, that it approves all Discretionary Fundings and that 100% of its capital committed to Strategic Investments is drawn down, are as follows ($ in thousands):

	Loans and Other Lending Investments	Real Estate	Strategic Investments	Total
Performance-Based Commitments	$19,436	$53,164	$ –	$ 72,600
Discretionary Fundings	–	–	–	–
Strategic Investments	–	–	46,591	46,591
Total	$19,436	$53,164	$46,591	$119,191

Other Commitments – Total operating lease expense for the years ended December 31, 2013, 2012 and 2011 were $6.1 million, $6.5 million and $7.2 million, respectively. Future minimum lease obligations under non-cancelable operating leases are as follows ($ in thousands):

2014	$ 5,797
2015	$ 5,287
2016	$ 5,408
2017	$ 5,023
2018	$ 4,179
Thereafter	$11,709

The Company also has issued letters of credit totaling $3.7 million in connection with its investments.

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

On June 4, 2012, the Company reached an agreement in principle with the plaintiffs' Court-appointed representatives in the previously reported Citiline class action to settle the litigation. Settlement payments will be primarily funded by the Company's insurance carriers, with the Company contributing $2.0 million to the settlement, which was included in "Other expense" on the Consolidated Statement of Operations for the year ended December 31, 2012. On April 5, 2013, the Court approved the settlement, entered a Final Judgment and Order of Dismissal With Prejudice and the Citiline Action was concluded.

The Company evaluates, on a quarterly basis, developments in legal proceedings that could require a liability to be accrued and/or disclosed. Based on its current knowledge, and after consultation with legal counsel, the Company believes it is not a party to, nor are any of its properties the subject of, any pending legal proceeding that would have a material adverse effect on the Company's consolidated financial condition.

Note 10 – Risk Management and Derivatives

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 or leases that result from a borrower's or 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 real estate assets by the Company as well as changes in foreign currency exchange rates.

Risk concentrations – Concentrations of credit risks arise when a number of borrowers or tenants 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.

Substantially all of the Company's real estate as well as assets collateralizing its loans receivable are located in the United States. As of December 31, 2013, the only state with a concentration greater than 10.0% was California with 15.1%. As of December 31, 2013, the Company's portfolio contains concentrations in the following asset types: land 21.6%, office 15.2%, industrial/R&D 13.5% and entertainment/leisure 10.7%.

The Company underwrites the credit of prospective borrowers and tenants 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 real estate assets are geographically diverse and the borrowers and tenants 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 tenant, the inability of that borrower or tenant to make its payment could have an adverse effect on the Company. As of December 31, 2013, the Company's five largest borrowers or tenants collectively accounted for approximately $99.8 million of the Company's aggregate annualized interest and operating lease revenue, of which no single customer accounts for more than 8%.

Derivatives

The Company's use of derivative financial instruments is primarily limited to the utilization of interest rate swaps, interest rate caps and foreign exchange contracts. The principal objective of such financial instruments is to minimize the risks and/or costs associated with the Company's operating and financial structure and to manage its exposure to interest rates and foreign exchange rates. 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.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of December 31, 2013 and 2012 ($ in thousands):

	Derivative Assets as of December 31,				Derivative Liabilities as of December 31,			
	2013		2012		2013		2012	
Derivative	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Other Assets	$ 1,418	N/A	$–	Other Liabilities	$1,653	Other Liabilities	$2,855
Interest rate swap	Other Assets	650	N/A	–	N/A	–	Other Liabilities	580
Interest rate cap	Other Assets	9,107	N/A	–	N/A	–	N/A	–
Total		$11,175		$–		$1,653		$3,435

The tables below present the effect of the Company's derivative financial instruments on the Consolidated Statements of Operations for the years ended December 31, 2013 and 2012 ($ in thousands):

Derivatives Designated in Hedging Relationships	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Earnings (Effective Portion)	Amount of Gain (Loss) Recognized in Earnings (Ineffective Portion)
For the Year Ended December 31, 2013				
Interest rate cap	Interest Expense	$(1,517)	$ –	N/A
Interest rate swap	Interest Expense	$ 869	$ 310	N/A
Foreign exchange contracts	Other Expense	$ 393	$ –	N/A
For the Year Ended December 31, 2012				
Interest rate swap	Interest Expense	$ (968)	$ (44)	N/A
For the Year Ended December 31, 2011				
Interest rate swap	Interest Expense	$(1,553)	$(180)	N/A

Foreign exchange contracts – The Company is exposed to fluctuations in foreign exchange rates on investments it holds in foreign entities. The Company uses foreign exchange contracts to hedge its exposure to changes in foreign exchange rates on its foreign investments. Foreign exchange contracts involve fixing the USD to the respective foreign currency exchange rate for delivery of a specified amount of foreign currency on a specified date. The foreign exchange contracts are typically cash settled in US dollars for their fair value at or close to their settlement date.

For derivatives designated as net investment hedges, the effective portion of changes in the fair value of the derivatives are reported in Accumulated Other Comprehensive Income as part of the cumulative translation adjustment. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. Amounts are reclassified out of Accumulated Other Comprehensive Income into earnings when the hedged net investment is either sold or substantially liquidated. In June 2013, the Company entered into a foreign exchange contract to hedge its exposure in a subsidiary whose functional currency is INR. As of December 31, 2013, the Company had the following outstanding foreign currency derivatives that were used to hedge its net investments in foreign operations that were designated ($ in thousands):

Derivative Type	Notional Amount	Notional (USD Equivalent)	Maturity
Sells INR/Buys USD Forward	Rs 456,000	$7,379	January 2014

For derivatives not designated as net investment hedges, the changes in the fair value of the derivatives are reported in the Consolidated Statements of Operations within other expense. As of December 31, 2013, the Company had the following outstanding foreign currency derivatives that were used to hedge its net investments in foreign operations that were not designated ($ in thousands):

Derivative Type	Notional Amount	Notional (USD Equivalent)	Maturity
Sells EUR/Buys USD Forward	€80,500	$110,696	January 2014
Sells GBP/Buys USD Forward	£3,800	$ 6,295	January 2014
Sells CAD/Buys USD Forward	C$41,500	$ 39,036	January 2014

Derivatives not Designated in Hedging Relationships	Location of Gain or (Loss) Recognized in Income	Amount of Gain or (Loss) Recognized in Income		
		For the Years Ended December 31,		
		2013	2012	2011
Foreign Exchange Contracts	Other Expense	**$880**	$(8,920)	$17,406

The Company marks its foreign investments to market each quarter based on current exchange rates and records the gain or loss through "Other expense" on its Consolidated Statements of Operations for loan investments or "Accumulated other comprehensive income (loss)," on its Consolidated Balance Sheets for net investments in foreign subsidiaries. During the years ended December 31, 2013, 2012 and 2011, the Company recorded net losses related to foreign investments of $2.0 million, $0.7 million and $2.3 million, in its Consolidated Statements of Operations.

Qualifying cash flow hedges – In August 2013, the Company entered into an interest rate cap agreement to reduce exposure to expected increases in future interest rates and the resulting payments associated with variable interest rate debt. In October 2012, the Company entered into an interest rate swap to convert its variable rate debt to fixed rate on a $28.0 million secured term loan maturing in 2019. The following table presents the Company's qualifying cash flow hedges outstanding as of year ended December 31, 2013 ($ in thousands).

Derivative Type	Notional Amount	Variable Rate	Fixed Rate	Effective Date	Maturity
Interest Rate Cap	$500,000	LIBOR	1.00%	July 2014	July 2017
Interest Rate Swap	$ 27,958	LIBOR + 2.00%	3.47%	October 2012	November 2019

During the year ended December 31, 2012, the Company terminated its previously outstanding interest rate swaps in conjunction with the early repayment of its secured term loans (see also Note 8).

Over the next 12 months, the Company expects that $0.4 million will be reclassified to interest expense from cash flow hedges and $0.4 million will be reclassified to income related to terminated cash flow hedges from "Accumulated other comprehensive income (loss)" into earnings.

Credit risk-related contingent features – The Company has agreements with each of its derivative counterparties that contain a provision where if the Company either defaults or is capable of being declared in default on any of its indebtedness, then the Company could also be declared in default on its derivative obligations.

In connection with its foreign currency derivatives, as of December 31, 2013 and December 31, 2012, the Company has posted collateral of $7.2 million and $9.6 million, respectively, which is included in "Restricted cash" on the Company's Consolidated Balance Sheets.

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, 2013, 144.3 million common shares were issued and 83.7 million common shares were outstanding.

Preferred Stock – The Company had the following series of Cumulative Redeemable Preferred Stock outstanding:

For the Year Ended December 31, 2013

			Cumulative Preferential Cash Dividends(1)(2)		
Series	**Shares Issued and Outstanding (in thousands)**	**Par Value**	**Liquidation Preference**	**Rate per Annum**	**Equivalent to Fixed Annual Rate (per share)**
D	4,000	$0.001	$25.00	8.000%	$2.00
E	5,600	$0.001	$25.00	7.875%	$1.97
F	4,000	$0.001	$25.00	7.8%	$1.95
G	3,200	$0.001	$25.00	7.65%	$1.91
I	5,000	$0.001	$25.00	7.50%	$1.88
J	4,000	$0.001	$50.00	4.50%	$2.25
	25,800				

For the Year Ended December 31, 2012

			Cumulative Preferential Cash Dividends(1)(2)		
Series	**Shares Issued and Outstanding (in thousands)**	**Par Value**	**Liquidation Preference**	**Rate per Annum**	**Equivalent to Fixed Annual Rate (per share)**
D	4,000	$0.001	$25.00	8.000%	$2.00
E	5,600	$0.001	$25.00	7.875%	$1.97
F	4,000	$0.001	$25.00	7.8%	$1.95
G	3,200	$0.001	$25.00	7.65%	$1.91
I	5,000	$0.001	$25.00	7.50%	$1.88
	21,800				

Explanatory Notes:

(1) Holders of shares of the Series D, E, F, G, I and J 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 10 days prior to the dividend payment date.

(2) The Company declared and paid dividends of $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, during each of the years ended December 31, 2013 and 2012. The Company also declared and paid dividends of $6.7 million on its Series J preferred stock during the year ended December 31, 2013. All of the dividends qualified as return of capital for tax reporting purposes. There are no dividend arrearages on any of the preferred shares currently outstanding.

In March 2013, the Company completed a public offering of $200.0 million of its 4.5% Series J Cumulative Convertible Perpetual Preferred Stock, having a liquidation preference of $50.00 per share. Each share of the Series J Preferred Stock is convertible at the holder's option at any time, initially into 3.9087 shares of the Company's common stock (equal to an initial conversion price of approximately $12.79 per share), subject to specified adjustments. The Company may not redeem the Series J Preferred Stock prior to March 15, 2018. On or after March 15, 2018, the Company may, at its option, redeem the Series J Preferred Stock, in whole or in part, at any time and from time to time, for cash at a redemption price equal to 100% of the liquidation preference of $50.00 per share, plus accrued and unpaid dividends, if any, to the redemption date.

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.

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 interests in the High Performance Common Stock for an aggregate initial purchase price of $9.8 million. The remaining four plans that had valuation periods which ended in 2005, 2006, 2007 and 2008, did not meet their required performance thresholds, none of the plans were funded and the Company redeemed the participants' units.

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.

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, excluding net capital gains, and must distribute 100% of its taxable income (including net capital gains) to avoid paying corporate federal income taxes. The Company has recorded net operating losses and may record 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. As of December 31, 2012, the Company had $634.2 million of net operating loss carryforwards at the corporate REIT level that can generally be used to offset both ordinary and capital taxable income in future years and will expire through 2032 if unused. The amount net of operating loss carryforwards as of December 31, 2013 will be subject to finalization of the 2013 tax returns. 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 need to make dividend payments in excess of operating cash flows. The Company's 2013 and 2012 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 qualification as a REIT. The 2013 and 2012 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 years ended December 31, 2013 and 2012.

Stock Repurchase Programs – On May 15, 2012, the Company's Board of Directors approved a stock repurchase program that authorized the repurchase of up to $20.0 million of its Common Stock from time to time in open market and privately negotiated purchases, including pursuant to one or more trading plans. In September 2013, the Company's Board of Directors approved an increase in the repurchase limit to $50.0 million from the $16.0 million that remained from the previously approved program.

During the year ended December 31, 2013, the Company repurchased 1.7 million shares of its outstanding Common Stock for approximately $21.0 million, at an average cost of $12.35 per share. During the year ended December 31, 2012, the Company repurchased 0.8 million shares of its outstanding Common Stock for approximately $4.6 million, at an average cost of $5.69 per share. As of December 31, 2013, the Company had remaining authorization to repurchase up to $29.0 million of Common Stock out of the $50.0 million authorized by its Board in 2013.

Accumulated Other Comprehensive Income (Loss) – "Accumulated other comprehensive income (loss)" reflected in the Company's shareholders' equity is comprised of the following ($ in thousands):

As of December 31,	2013	2012
Unrealized gains (losses) on available-for-sale securities	$ (294)	$ 867
Unrealized gains on cash flow hedges	662	607
Unrealized losses on cumulative translation adjustment	(4,644)	(2,659)
Accumulated other comprehensive income (loss)	$(4,276)	$(1,185)

Note 12 – 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 canceled 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 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 advisors 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.

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.

As of December 31, 2013, an aggregate of 4.0 million shares remain available for issuance pursuant to future awards under the Company's 2006 and 2009 Long-Term Incentive Plans.

Stock-based Compensation – The Company recorded stock-based compensation expense of $19.3 million, $15.3 million and $29.7 million for the years ended December 31, 2013, 2012 and 2011, respectively, in "General and administrative" on the Company's Consolidated Statements of Operations. As of December 31, 2013, there was $4.3 million of total unrecognized compensation cost related to all unvested restricted stock units that are expected to be recognized over a weighted average remaining vesting/service period of 0.34 years. As of December 31, 2013, approximately $5.2 million of stock-based compensation was included in "Accounts payable, accrued expenses and other liabilities" on the Company's Consolidated Balance Sheets.

Restricted Stock Units

Changes in non-vested restricted stock units during the year ended December 31, 2013 were as follows ($ in thousands, except per share amounts):

	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Non-vested at December 31, 2012	5,276	$ 5.24	$ 43,000
Granted	795	$11.88	
Vested	(3,271)	$ 6.33	
Forfeited	(21)	$ 4.94	
Non-vested at December 31, 2013	**2,779**	**$ 5.85**	**$39,659**

The total fair value of restricted stock units vested during the years ended December 31, 2013, 2012 and 2011 was $31.6 million, $29.1 million and $15.5 million, respectively.

2013 Activity – During the year ended December 31, 2013, 3,271,272 restricted stock units vested, resulting in the issuance of 1,678,961 shares of Common Stock to employees, net of statutory minimum required tax withholdings. These vested restricted stock units were primarily comprised of (a) 1,719,304 Amended Units which vested in January 2013 (see below), (b) 185,720 service-based restricted stock units granted to employees in February 2011 that cliff vested in February 2013, (c) 164,685 of annual incentive restricted shares granted to employees and vested in February 2013 (see below), (d) 313,334 service-based restricted stock units granted to employees in March 2011 that cliff vested in March 2013, (e) 600,000 service-based restricted stock units granted to the Company's Chairman and Chief Executive Officer in October 2011 that vested in June 2013, and (f) 195,588 performance based restricted stock units granted to employees in February 2013 that vested in December 2013 (see below).

During the year ended December 31, 2013, the Company made stock-based compensation awards to certain employees in the form of annual incentive awards and long-term incentive awards:

Effective February 1, 2013, the Company granted 164,685 shares of our Common Stock in connection with annual incentive awards. The shares are fully-vested and were issued to certain employees, net of statutory minimum required tax withholdings. The employees are restricted from selling these shares for up to two years from the date of grant.

Effective February 1, 2013, the Company also granted service-based restricted stock units, or Units, representing the right to receive an equivalent number of shares of our Common Stock (after deducting shares for minimum required statutory withholdings) if and when the Units vest. The Units will cliff vest in one installment three years from the grant date, if the employee remains employed by the Company on the vesting date, subject to certain accelerated vesting rights. Dividends will accrue but will not be paid unless and until the Units vest and are settled. As of December 31, 2013, 196,902 units were outstanding.

Effective February 1, 2013, the Company also granted performance-based Units based on the Company's total shareholder return, or TSR, measured over the one-year and two-year performance periods ending on the vesting dates, respectively. Vesting will range from 0% to 200% of the target amount of the awards, depending on the Company's TSR performance relative to the NAREIT All REITs Index (one-half of the target amount of the award) and the Russell 2000 Index (one-half of the target amount of the award). The Company and any companies not included in the index at the beginning and end of the performance period are excluded from calculation of the performance of such index. To the extent Units vest based on the Company's TSR performance, holders will receive an equivalent number of shares of our Common Stock (after deducting shares for minimum required statutory withholdings), if the employee remains employed by the Company on the vesting date, subject to certain accelerated vesting rights. Dividends will accrue but will not be paid unless and until the Units vest and are settled. The fair values of the performance-based 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 assumptions used to estimate the fair value of these performance-based awards were 0.26% for risk-free interest rate and 50.44% for expected stock price volatility. As of December 31, 2013, 195,547 units measured over the two-year performance period with a vesting date on December 31, 2014 were outstanding. The units measured over the one-year performance period vested, and met the 200% target amount of the original awards, and 195,588 shares were issued.

As of December 31, 2013, the Company had the following additional restricted stock awards outstanding:

- 600,000 service-based restricted stock units granted to the Company's Chairman and Chief Executive Officer that will vest on June 15, 2014. Upon vesting of these units, the holder will receive shares of the Company's Common Stock in the amount of the vested units, net of statutory minimum required tax withholdings. These awards carry dividend equivalent rights that entitle the holder to receive dividend payments prior to vesting, if and when dividends are paid on shares of the Company's Common Stock.

- 1,696,053 restricted stock units originally granted to executives and other officers of the Company on December 19, 2008 (the "Original Units") and subsequently modified in July 2011 (the "Amended Units"). The number of Amended Units is equal to 75% of the Original Units granted to an employee *less*, in the case of each executive level employee, the number of restricted stock units granted to the executive in March 2011. The remaining Amended Units will vest on January 1, 2014, so long as the employee remains employed by the Company on the vesting dates, subject to certain accelerated vesting rights in the event of termination of employment without cause. Upon vesting of these units, holders will receive shares of the Company's Common Stock in the amount of the vested units, net of statutory minimum required tax withholdings. These awards carry dividend equivalent rights that entitle the holders to receive dividend payments prior to vesting, if and when dividends are paid on shares of the Company's Common Stock. The fair values of the market-condition based restricted stock 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 assumptions used to estimate the fair value of these market-condition based awards were 0.092% for risk-free interest rate and 57.75% for expected stock price volatility. The modified December 19, 2008 market-condition based restricted stock units were measured on July 1, 2011, the date the Company's Board of Directors' approved the modification of the award.

- 90,666 service-based restricted stock units granted to employees with an original vesting term of three years. Upon vesting of these units, holders will receive shares of the Company's Common Stock in the amount of the vested units, net of statutory minimum required tax withholdings. These awards carry dividend equivalent rights that entitle the holders to receive dividend payments prior to vesting, if and when dividends are paid on shares of the Company's Common Stock.

Directors' Awards – Non-employee directors are awarded common stock equivalents ("CSEs") or restricted shares at the time of the annual shareholders' meeting in consideration for their services on the Company's Board of Directors. The CSEs and restricted shares 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, 2013, the Company awarded to Directors 33,474 CSEs and restricted shares at a fair value per share of $12.30 at the time of grant. These CSEs and restricted shares have a one year vesting period and pay dividends in an amount equal to the dividends paid on the equivalent number of shares of the Company's Common Stock from the date of grant, as and when dividends are paid on Common Stock. In addition, during the year ended December 31, 2013, the Company issued 51,091 shares to a former director in settlement of previously vested CSE awards. As of December 31, 2013, there were 367,134 CSEs and restricted shares granted to members of the Company's Board of Directors that remained outstanding with an aggregate intrinsic value of $5.2 million.

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 $0.9 million, $0.9 million and $0.9 million for each of the years ended December 31, 2013, 2012 and 2011, respectively.

Note 13 – 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 11). These HPU units are treated as a separate class of common stock.

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

For the Years Ended December 31,	2013	2012	2011
Income (loss) from continuing operations	**$(220,768)**	$(314,678)	$(51,010)
Net (income) loss attributable to noncontrolling interests	**(718)**	1,500	3,629
Income from sales of residential property	**86,658**	63,472	5,721
Preferred dividends	**(49,020)**	(42,320)	(42,320)
Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to common shareholders, HPU holders and Participating Security Holders	**$(183,848)**	$(292,026)	$(83,980)

For the Years Ended December 31,	2013	2012	2011
Earnings allocable to common shares:			
Numerator for basic and diluted earnings per share:			
Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to common shareholders	**$(177,907)**	$(282,452)	$(81,375)
Income (loss) from discontinued operations	**623**	(16,908)	(5,343)
Gain from discontinued operations	**21,515**	26,363	24,331
Net income (loss) attributable to iStar Financial Inc. and allocable to common shareholders	**$(155,769)**	$(272,997)	$(62,387)
Denominator for basic and diluted earnings per share:			
Weighted average common shares outstanding for basic and diluted earnings per common share	**84,990**	83,742	88,688
Basic and diluted earnings per common share:			
Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to common shareholders	**$ (2.09)**	$ (3.37)	$ (0.91)
Income (loss) from discontinued operations	**0.01**	(0.20)	(0.06)
Gain from discontinued operations	**0.25**	0.31	0.27
Net income (loss) attributable to iStar Financial Inc. and allocable to common shareholders	**$ (1.83)**	$ (3.26)	$ (0.70)

For the Years Ended December 31,	2013	2012	2011
Earnings allocable to High Performance Units:			
Numerator for basic and diluted earnings per HPU share:			
Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to HPU holders	**$ (5,941)**	$ (9,574)	$ (2,605)
Income (loss) from discontinued operations	**21**	(573)	(171)
Gain from discontinued operations	**718**	894	779
Net income (loss) attributable to iStar Financial Inc. and allocable to HPU holders	**$ (5,202)**	$ (9,253)	$ (1,997)
Denominator for basic and diluted earnings per HPU share:			
Weighted average High Performance Units outstanding for basic and diluted earnings per share	**15**	15	15
Basic and diluted earnings per HPU share:			
Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to HPU holders	**$(396.07)**	$(638.27)	$(173.66)
Income (loss) from discontinued operations	**1.40**	(38.20)	(11.40)
Gain from discontinued operations	**47.87**	59.60	51.93
Net income (loss) attributable to iStar Financial Inc. and allocable to HPU holders	**$(346.80)**	$(616.87)	$(133.13)

For the years ended December 31, 2013, 2012 and 2011 the following shares were anti-dilutive ($ in thousands):

For the Years Ended December 31,	2013	2012	2011
Joint venture shares	**298**	298	298
Stock options	**–**	–	44
3.00% convertible senior unsecured notes	**16,992**	–	–
Series J convertible perpetual preferred stock	**15,635**	–	–
1.50% convertible senior unsecured notes	**11,567**	–	–

Note 14 – 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 to be 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; and

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 either on a recurring or non-recurring basis. Assets required to be marked-to-market and reported at fair value every reporting period are classified as being valued on a recurring basis. 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 fair value hierarchy 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):

		Fair Value Using		
	Total	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As of December 31, 2013				
Recurring basis:				
Derivative assets	**$ 11,175**	**$–**	**$11,175**	**$ –**
Derivative liabilities	**$ 1,653**	**$–**	**$ 1,653**	**$ –**
Non-recurring basis:				
Impaired loans(1)	**$115,423**	**$–**	**$ –**	**$115,423**
Impaired real estate(2)	**$ 35,680**	**$–**	**$ 5,744**	**$ 29,936**
As of December 31, 2012				
Recurring basis:				
Derivative liabilities	$ 3,435	$–	$ 3,435	$ –
Non-recurring basis:				
Impaired loans	$ 57,201	$–	$ –	$ 57,201
Impaired real estate	$ 31,597	$–	$ 7,649	$ 23,948

Explanatory Notes:

(1) The Company recorded a recovery of loan losses on one loan with a fair value of $55.5 million based on the loan's remaining loan term of 2.6 years and interest rate of 4.7% using discounted cash flow analysis. In addition, the Company recorded a recovery of loan losses on one loan with a fair value of $53.6 million based upon a letter of intent executed by the borrower as well as recorded an impairment on one loan with a fair value of $6.3 million based upon a settlement agreement executed by the borrower.

(2) The Company recorded the fair value of two impaired real estate assets with a total fair value of $29.9 million based on a discount rate of 13.0%, average annual rent growth of 4.0% and remaining inventory sell out period with a range of 3.5 to 4.6 years using discounted cash flows.

Fair values of financial instruments – The Company's estimated fair values of its loans receivable and other lending investments and debt obligations were $1.4 billion and $4.5 billion, respectively, as of December 31, 2013 and $1.9 billion and $4.9 billion, respectively, as of December 31, 2012. The Company determined that the significant inputs used to value its loans receivable and other lending investments and debt obligations fall within Level 3 of the fair value hierarchy. The carrying value of other financial instruments including cash and cash equivalents, restricted cash, accrued interest receivable and accounts payable, approximate the fair values of the instruments. Cash and cash equivalents and restricted cash values are considered Level 1 on the fair value hierarchy. The fair value of other financial instruments, including derivative assets and liabilities, are included in the fair value hierarchy table above.

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 ultimately be realized by the Company 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 three tables above are described more fully below for each type of asset and liability.

Derivatives – The Company uses interest rate swaps, interest rate caps and foreign exchange contracts 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. In addition, upon adoption of ASU 2011-04, the Company made an accounting policy election to measure derivative financial instruments subject to master netting agreements on a net basis. The Company has determined that the significant inputs used to value its derivatives fall within Level 2 of the fair value hierarchy.

Impaired loans – The Company's loans identified as being impaired are nearly all 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 a discounted cash flow methodology through internally developed valuation models to estimate the fair value of the collateral. This approach requires the Company to make judgments in respect to significant unobservable inputs, which may include discount rates, capitalization rates and the timing and amounts of estimated future cash flows. For income producing properties, cash flows generally include property revenues, operating costs and capital expenditures that are based on current observable market rates and estimates for market rate growth and occupancy levels. For other real estate, cash flows may include lot and unit sales that are based on current observable market rates and estimates for annual revenue growth, operating costs and costs of completion and the remaining inventory sell out periods. The Company will also consider market comparables if available. In more limited cases, the Company obtains external "as is" appraisals for loan collateral, generally when third party participations exist, and appraised values may be discounted when real estate markets rapidly deteriorate. The Company has determined that significant inputs used in its internal valuation models and appraisals fall within Level 3 of the fair value hierarchy.

Impaired real estate – If the Company determines a real estate asset available and held for sale is impaired, it records an impairment charge to adjust the asset to its estimated fair market value less costs to sell. Due to the nature of individual real estate properties, the Company generally uses a discounted cash flow methodology through internally developed valuation models to estimate the fair value of the assets. This approach requires the Company to make judgments with respect to significant unobservable inputs, which may include discount rates, capitalization rates and the timing and amounts of estimated future cash flows. For income producing properties, cash flows generally include property revenues, operating costs and capital expenditures that are based on current observable market rates and estimates for market rate growth and occupancy levels. For other real estate, cash flows may include lot and unit sales that are based on current observable market rates and estimates for annual market rate growth, operating costs and costs of completion and the remaining inventory sell out periods. The Company will also consider market comparables if available. In more limited cases, the Company obtains external "as is" appraisals for real estate assets and appraised values may be discounted when real estate markets rapidly deteriorate. The Company has determined that significant inputs used in its internal valuation models and appraisals fall within Level 3 of the fair value hierarchy. Additionally, in certain cases, if the Company is under contract to sell an asset, it will mark the asset to the contracted sales price less costs to sell. The Company considers this to be a Level 2 input under the fair value hierarchy.

Loans receivable and other lending investments – The Company estimates the fair value of its performing loans and other lending investments using a discounted cash flow methodology. This method discounts estimated future cash flows using rates management determines best reflect current market interest rates that would be offered for loans with similar characteristics and credit quality. The Company determined that the significant inputs used to value its loans and other lending investments fall within Level 3 of the fair value hierarchy. For certain lending investments, the Company uses market quotes, to the extent they are available, or broker quotes that fall within Level 2 of the fair value hierarchy.

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 a discounted cash flow methodology, whereby contractual cash flows are discounted at rates that management determines best reflect current market interest rates that would be charged for debt with similar characteristics and credit quality. The Company has determined that the inputs used to value its debt obligations under the discounted cash flow methodology fall within Level 3 of the fair value hierarchy.

Note 15 – Segment Reporting

The Company has determined that it has four reportable segments based on how management reviews and manages its business. These reportable segments include: Real Estate Finance, Net Lease, Operating Properties and Land. The Real Estate Finance segment includes all of the Company's activities related to senior and mezzanine real estate loans and real estate related securities. The Net Lease segment includes all of the Company's activities related to the ownership and leasing of corporate facilities. The Operating Properties segment includes all of the Company's activities and operations related to its commercial and residential properties. The Land segment includes the Company's activities related to its developable land portfolio.

The Company evaluates performance based on the following financial measures for each segment. The Company's segment information is as follows ($ in thousands):

For the Year Ended December 31, 2013	Real Estate Finance	Net Lease	Operating Properties	Land	Corporate/ Other[1]	Company Total
Operating lease income	$ –	$ 147,313	$ 86,352	$ 902	$ –	$ 234,567
Interest income	108,015	–	–	–	–	108,015
Other income	4,748	250	38,164	1,474	3,572	48,208
Total revenue	$ 112,763	$ 147,563	$ 124,516	$ 2,376	$ 3,572	$ 390,790
Earnings (loss) from equity method investments	–	2,699	5,546	(5,331)	38,606	41,520
Income from sales of residential property	–	–	82,603	4,055	–	86,658
Net operating income from discontinued operations[2]	–	1,484	1,251	–	–	2,735
Gain from discontinued operations	–	3,395	18,838	–	–	22,233
Revenue and other earnings	$ 112,763	$ 155,141	$ 232,754	$ 1,100	$ 42,178	$ 543,936
Real estate expense	–	(22,565)	(101,044)	(33,832)	–	(157,441)
Other expense	(1,625)	–	–	–	(6,425)	(8,050)
Allocated interest expense[2]	(74,377)	(80,034)	(49,114)	(30,368)	(32,332)	(266,225)
Allocated general and administrative[3]	(13,186)	(14,330)	(9,189)	(12,365)	(23,783)	(72,853)
Segment profit (loss)[4]	$ 23,575	$ 38,212	$ 73,407	$ (75,465)	$ (20,362)	$ 39,367
Other significant non-cash items:						
Provision for loan losses	$ 5,489	$ –	$ –	$ –	$ –	$ 5,489
Impairment of assets[2]	$ –	$ 1,176	$ 12,449	$ 728	$ –	$ 14,353
Loss on transfer of interest to unconsolidated subsidiary	$ –	$ –	$ –	$ 7,373	$ –	$ 7,373
Depreciation and amortization[2]	$ –	$ 38,582	$ 30,599	$ 1,105	$ 1,244	$ 71,530
Capitalized expenditures	$ –	$ 34,076	$ 41,131	$ 36,346	$ –	$ 111,553
As of December 31, 2013						
Real estate						
Real estate, at cost	$ –	$1,696,888	$ 720,508	$803,238	$ –	$3,220,634
Less: accumulated depreciation	–	(338,640)	(82,420)	(3,393)	–	(424,453)
Real estate, net	$ –	$1,358,248	$ 638,088	$799,845	$ –	$2,796,181
Real estate available and held for sale	–	–	228,328	132,189	–	360,517
Total real estate	$ –	$1,358,248	$ 866,416	$932,034	$ –	$3,156,698
Loans receivable and other lending investments, net	1,370,109	–	–	–	–	1,370,109
Other investments	–	16,408	16,032	29,765	145,004	207,209
Total portfolio assets	$1,370,109	$1,374,656	$ 882,448	$961,799	$145,004	$4,734,016
Cash and other assets						907,995
Total assets						$5,642,011

For the Year Ended December 31, 2012[5]	Real Estate Finance	Net Lease	Operating Properties	Land	Corporate/ Other[1]	Company Total
Operating lease income	$ –	$ 149,058	$ 65,706	$ 1,527	$ –	$ 216,291
Interest income	133,410	–	–	–	–	133,410
Other income	8,613	–	32,615	2,635	3,975	47,838
Total revenue	$ 142,023	$ 149,058	$ 98,321	$ 4,162	$ 3,975	$ 397,539
Earnings (loss) from equity method investments	–	2,632	25,142	(6,138)	81,373	103,009
Income from sales of residential property	–	–	63,472	–	–	63,472
Net operating income from discontinued operations[2]	–	7,289	886	–	–	8,175
Gain from discontinued operations	–	27,257	–	–	–	27,257
Revenue and other earnings	$ 142,023	$ 186,236	$ 187,821	$ (1,976)	$ 85,348	$ 599,452
Real estate expense	–	(23,886)	(100,258)	(27,314)	–	(151,458)
Other expense	(4,775)	–	–	–	(12,491)	(17,266)
Allocated interest expense[2]	(111,898)	(92,579)	(69,259)	(44,125)	(38,300)	(356,161)
Allocated general and administrative[3]	(14,263)	(10,618)	(7,572)	(7,405)	(25,705)	(65,563)
Segment profit (loss)[4]	$ 11,087	$ 59,153	$ 10,732	$ (80,820)	$ 8,852	$ 9,004
Other significant non-cash items:						
Provision for loan losses	$ 81,740	$ –	$ –	$ –	$ –	$ 81,740
Impairment of assets[2]	$ –	$ 6,670	$ 28,501	$ 205	$ 978	$ 36,354
Depreciation and amortization[2]	$ –	$ 39,250	$ 28,450	$ 1,276	$ 1,810	$ 70,786
Capitalized expenditures	$ –	$ 10,994	$ 51,579	$ 20,497	$ –	$ 83,070
As of December 31, 2012						
Real estate						
Real estate, at cost	$ –	$1,626,810	$ 704,481	$786,114	$ –	$3,117,405
Less: accumulated depreciation	–	(310,605)	(65,409)	(2,292)	–	(378,306)
Real estate, net	$ –	$1,316,205	$ 639,072	$783,822	$ –	$2,739,099
Real estate available and held for sale	–	–	454,587	181,278	–	635,865
Total real estate	$ –	$1,316,205	$1,093,659	$965,100	$ –	$3,374,964
Loans receivable and other lending investments, net	1,829,985	–	–	–	–	1,829,985
Other investments	–	16,380	25,745	5,493	351,225	398,843
Total portfolio assets	$1,829,985	$1,332,585	$1,119,404	$970,593	$351,225	$5,603,792
Cash and other assets						556,207
Total assets						$6,159,999

For the Year Ended December 31, 2011[5]	Real Estate Finance	Net Lease	Operating Properties	Land	Corporate/ Other[1]	Company Total
Operating lease income	$ –	$144,548	$ 51,153	$ 171	$ –	$ 195,872
Interest income	226,871	–	–	–	–	226,871
Other income	3,176	–	32,538	1,637	2,371	39,722
Total revenue	$ 230,047	$144,548	$ 83,691	$ 1,808	$ 2,371	$ 462,465
Earnings (loss) from equity method investments	–	2,566	(626)	(7,213)	100,364	95,091
Income from sales of residential property	–	–	5,721	–	–	5,721
Net operating income from discontinued operations[2]	–	14,135	(937)	–	–	13,198
Gain from discontinued operations	–	25,110	–	–	–	25,110
Revenue and other earnings	$ 230,047	$186,359	$ 87,849	$ (5,405)	$102,735	$ 601,585
Real estate expense	–	(25,054)	(92,012)	(21,648)	–	(138,714)
Other expense	(2,866)	–	–	–	(8,204)	(11,070)
Allocated interest expense[2]	(156,163)	(75,844)	(52,774)	(40,480)	(20,653)	(345,914)
Allocated general and administrative[3]	(19,934)	(9,681)	(6,737)	(6,959)	(32,026)	(75,337)
Segment profit (loss)[4]	$ 51,084	$ 75,780	$(63,674)	$(74,492)	$ 41,852	$ 30,550
Other significant non-cash items:						
Provision for loan losses	$ 46,412	$ –	$ –	$ –	$ –	$ 46,412
Impairment of assets[2]	$ –	$ 668	$ 21,030	$ (184)	$ 872	$ 22,386
Depreciation and amortization[2]	$ –	$ 42,080	$ 18,169	$ 1,534	$ 2,145	$ 63,928
Capitalized expenditures	$ –	$ 8,699	$ 38,477	$ 16,993	$ –	$ 64,169

Explanatory Notes:

(1) Corporate/Other represents all corporate level and unallocated items including any intercompany eliminations necessary to reconcile to consolidated Company totals. This caption also includes the Company's joint venture investments and strategic investments that are not related to the other reportable segments above, including the Company's equity investment in LNR of $205.8 million as of December 31, 2012 and the Company's share of equity in earnings from LNR of $16.5 million, $60.7 million and $53.9 million for the years ended December 31, 2013, 2012 and 2011, respectively. See Note 6 for further details on the Company's investment in LNR and summarized financial information of LNR.

(2) Includes related amounts reclassified to discontinued operations on the Company's Consolidated Statements of Operations.

(3) General and administrative excludes stock-based compensation expense of $19.3 million, $15.3 million and $29.7 million for the years ended December 31, 2013, 2012 and 2011, respectively.

(4) The following is a reconciliation of segment profit (loss) to net income (loss) ($ in thousands):

For the Years Ended December 31,	2013	2012	2011
Segment profit (loss)	**$ 39,367**	$ 9,004	$ 30,550
Less: Provision for loan losses	**(5,489)**	(81,740)	(46,412)
Less: Impairment of assets[2]	**(14,353)**	(36,354)	(22,386)
Less: Loss on transfer of interest to unconsolidated subsidiary	**(7,373)**	–	–
Less: Stock-based compensation expense	**(19,261)**	(15,293)	(29,702)
Less: Depreciation and amortization[2]	**(71,530)**	(70,786)	(63,928)
Less: Income tax (expense) benefit[2]	**596**	(8,445)	4,719
Add: Gain (loss) on early extinguishment of debt, net	**(33,190)**	(37,816)	101,466
Net income (loss)	**$(111,233)**	$(241,430)	$ (25,693)

(5) The prior periods' presentation have been conformed for the change in the methodology of allocating interest expense and general and administrative expenses to each segment based on gross carrying value of assets. The allocation was previously based on carrying value of assets net of accumulated depreciation and amortization and general loan loss reserves.

Note 16 – Quarterly Financial Information (Unaudited)

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

For the Quarters Ended	December 31,	September 30,	June 30,	March 31,
2013:				
Revenue[1]	**$101,073**	**$ 95,696**	**$ 99,919**	**$ 94,102**
Net income (loss)	**$ (45,992)**	**$ (18,590)**	**$ (14,398)**	**$ (32,253)**
Earnings per common share data:				
Net income (loss) attributable to iStar Financial Inc.	**$ (47,043)**	**$ (18,757)**	**$ (14,087)**	**$ (32,064)**
Basic and diluted earnings per share	**$ (0.68)**	**$ (0.36)**	**$ (0.31)**	**$ (0.49)**
Weighted average number of common shares – basic and diluted	**84,617**	**85,392**	**85,125**	**84,824**
Earnings per HPU share data:				
Net income (loss) attributable to iStar Financial Inc.	**$ (1,939)**	**$ (1,016)**	**$ (866)**	**$ (1,381)**
Basic and diluted earnings per share	**$ (129.26)**	**$ (67.73)**	**$ (57.74)**	**$ (92.07)**
Weighted average number of HPU shares – basic and diluted	**15**	**15**	**15**	**15**
2012[2]:				
Revenue[1]	$ 96,421	$ 93,462	$106,886	$100,770
Net income (loss)	$ (79,948)	$ (64,306)	$ (51,129)	$ (46,048)
Earnings per common share data:				
Net income (loss) attributable to iStar Financial Inc.	$ (79,810)	$ (63,640)	$ (50,407)	$ (46,073)
Basic and diluted earnings per share	$ (1.04)	$ (0.86)	$ (0.70)	$ (0.66)
Weighted average number of common shares – basic and diluted	83,674	83,629	84,113	83,556
Earnings per HPU share data:				
Net income (loss) attributable to iStar Financial Inc.	$ (2,966)	$ (2,436)	$ (1,991)	$ (1,861)
Basic and diluted earnings per share	$ (197.73)	$ (162.40)	$ (132.73)	$ (124.07)
Weighted average number of HPU shares – basic and diluted	15	15	15	15

Explanatory Notes:

(1) All periods have been adjusted to reflect the impact of properties sold during 2013 and 2012 and properties classified as held for sale as of December 31, 2013, which are reflected in "Income (loss) from discontinued operations" on the Consolidated Statements of Operations.

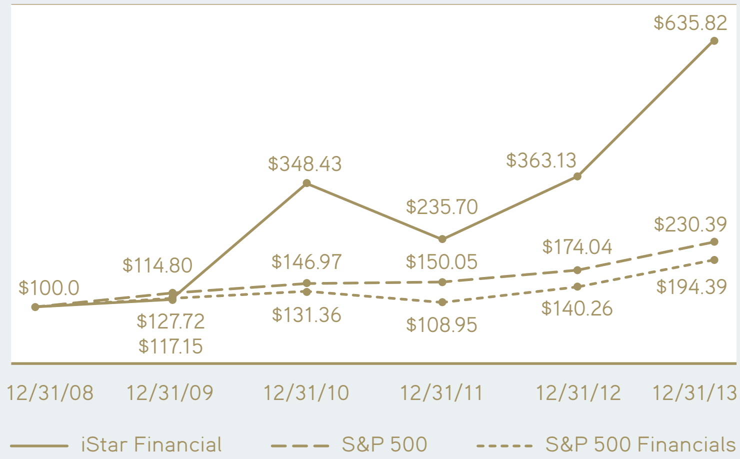
(2) During the quarter ended December 31, 2012, the Company recorded a loss on early extinguishment of debt of $31.0 million primarily related to a prepayment penalty on the early repayment of 8.625% Senior Notes, as well as a loss due to the acceleration of unamortized fees and discounts related to the refinancing of the 2011 Secured Credit Facilities (see Note 8). The Company also recorded $27.9 million related to Income from sales of residential property. During the quarter ended March 31, 2012, the Madison Funds recorded a significant gain related to the sale of an investment for which the Company recorded its $13.7 million proportionate share.

Note 17 – Subsequent Events

In February 2014, the Company partnered with a sovereign wealth fund to form a venture in which the partners plan to contribute up to an aggregate $500 million of equity to acquire and develop up to $1.25 billion of net lease assets over time. The Company owns approximately 52% of the venture and will be responsible for sourcing new opportunities and managing the venture and its assets in exchange for a promote and management fee. The venture's first investment was acquired by the Company for $93.6 million during 2013 and was subsequently sold to the venture.

Performance Graph

The following graph compares the total cumulative shareholder returns on our Common Stock from December 31, 2008 to December 31, 2013 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").



COMMON STOCK PRICE AND DIVIDENDS (UNAUDITED)

Beginning December 19, 2013, the Company's Common Stock trades on the New York Stock Exchange ("NYSE") under the symbol "STAR." Prior to that date, the Company's Common Stock previously traded under the symbol "SFI." The high and low sales prices per share of Common Stock are set forth below for the periods indicated.

	2013		2012	
Quarter Ended	**High**	**Low**	**High**	**Low**
December 31	**$14.65**	**$11.57**	$9.09	$7.12
September 30	**$12.25**	**$10.20**	$8.82	$6.39
June 30	**$12.55**	**$ 9.99**	$7.52	$5.37
March 31	**$11.00**	**$ 8.26**	$7.89	$5.43

On February 21, 2014, the closing sale price of the Common Stock as reported by the NYSE was $15.69. The Company had 2,281 holders of record of Common Stock as of February 21, 2014.

At December 31, 2013, the Company had six 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, 7.50% Series I Preferred Stock and 4.50% Series J Preferred Stock. Each of the Series D, E, F, G and I preferred stock is listed on the NYSE. The Series J Preferred Stock is not listed on an exchange.

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 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 equivalents 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 (see Note 8 of the Notes to the Consolidated Financial Statements) permit 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 generally 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 equivalent 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 Company did not declare or pay dividends on its Common Stock for the years ended December 31, 2013 and 2012. The Company declared and paid dividends of $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, during each of the years ended December 31, 2013 and 2012. During the year ended December 31, 2013, the Company also declared and paid dividends of $6.7 million on its Series J preferred stock, which was issued in March 2013. All of the dividends qualified as return of capital for tax reporting purposes. There are no dividend arrearages on any of the preferred shares currently outstanding.

Distributions to shareholders will generally be taxable as ordinary income, although all or a portion of such distributions 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. The Company may elect to satisfy some of its REIT distribution requirements, if any, through qualifying stock dividends.

DIRECTORS AND OFFICERS

DIRECTORS

Jay Sugarman
Chairman & Chief Executive Officer,
iStar Financial Inc.

Robert W. Holman, Jr. (1) (2) (4)
Chairman & Chief Executive Officer,
National Warehouse
Investment Company

Robin Josephs (2) (4)
Lead Director, iStar Financial Inc.

John G. McDonald (2) (3) (4)
Stanford Investors Professor,
Stanford University Graduate School
of Business

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

Barry W. Ridings (1) (2) (3)
Vice Chairman of
US Investment Banking
Lazard Freres & Co. LLC

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

EXECUTIVE OFFICERS

Jay Sugarman
Chairman &
Chief Executive Officer

Nina B. Matis
Executive Vice President,
Chief Investment Officer &
Chief Legal Officer

David M. DiStaso
Chief Financial Officer

EXECUTIVE VICE PRESIDENTS

Chase S. Curtis, Jr.
Credit

Karl Frey
Land

Barclay G. Jones III
Investments

Michelle M. MacKay
Investments / Head of
Capital Markets

Steven Magee
Land

Barbara Rubin
iStar Asset Services, Inc.

Vernon B. Schwartz
Investments

CORPORATE INFORMATION

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EMPLOYEES

As of January 31, 2014,
the Company had 175 employees.

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
New York, NY

REGISTRAR AND TRANSFER AGENT

Computershare Trust
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PO Box 43078
Providence, RI 02940-3078
Tel: 800.756.8200

www.computershare.com

ANNUAL MEETING OF SHAREHOLDERS

May 22, 2014, 9:00 a.m. ET
Sofitel Hotel
45 West 44th Street, 2nd Floor
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 "STAR." 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

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LOOK
BACK

iSTAR | FINANCIAL
Return on Ideas®

LOOK
FORWARD