

At iStar, we seek the white space beyond commodity capital. After 20 years in the business, we've had success, learned from our challenges and remain resilient, opportunistic and true to our word.

2014 was a turning point for our company. Actively focused on making new investments, and extracting value from our existing portfolio, we began putting in place a plan to expand our presence in the market and identify areas of competitive advantage and growth. (In other words, we made money last year and are pretty excited for the years ahead.) What's important now is to create a path forward that will give us a significant position in our industry and the investment world.

- Let me review some of our key successes in the past year. We began the year with several goals: to accelerate our investment activity, to extend and shift our debt profile to a mostly unsecured structure and to position the company for increasing profitability. I am very pleased with how we performed on all three fronts. Our investment activity during the year totaled over \$1.3 billion and centered on our themes of large transactions (less competition), heavily invested sponsors (lower risk) and gateway cities (better capital flows). On the liability side we executed a refinancing of our \$1.3 billion in short term secured debt with the same amount of longer term unsecured debt, freeing up almost \$2 billion in previously encumbered collateral. An unsecured balance sheet not only gives us additional flexibility in terms of raising capital, but it also supports the needs of our contrarian and adaptable investment strategy. And perhaps most importantly, we generated significant income from three of our business lines to push adjusted income solidly into positive territory. And while land continued to be a drag on earnings, we should begin to see several projects in that segment produce positive earnings in 2015 and progress made on others.
- With land beginning to contribute, and our investment team uncovering interesting opportunities to deploy our cash holdings, we look forward to the coming years with renewed excitement. We've been working to get each of our business lines to the point where all can be a positive part of the iStar story, and can now see that beginning to happen. We truly appreciate your patience and support.



our businesses



Real Estate Finance

iStar excels where high expectations demand premium, tailored financing solutions and thoughtful execution. Delivering what the capital markets can't or won't provide, we have pioneered forward thinking and non-commodity investment themes for more than 20 years.

Not many deals go through as many twists and turns as the W Fort Lauderdale, but it exemplifies the creative tenacity it takes to see complex projects through. We created an innovative structure to finance the separate hotel and condo-hotel components, despite both being constructed concurrently, and partnered with another lender to split the deal. When markets turned difficult, we offered flexibility through multiple modifications as the sponsor continued to support the deal through the infusion of fresh equity. When our co-lender expressed interest in exiting the deal, we opportunistically acquired their position. We were confident in our basis and value of the property, believing it was just a question of when and not if the property would sell. Four months later, the property sold at full value, generating a strong return on our opportunistic acquisition.



Net Lease

At the intersection of corporate credit, capital market pricing and real estate disciplines, iStar has completed more than \$4 billion of net lease transactions across office, industrial, retail, hotel, entertainment and other property types—facilities we own and lease long-term primarily to single corporate tenants in order to generate stable, long-term and inflation-hedged cash flow.

The key lies in zeroing in on properties that are mission-critical to the business. When Solo Cup sought to refinance debt taken on in a significant merger, they turned to iStar. Our net lease transaction involved six of their manufacturing facilities that represented roughly three-fourths of Solo's EBIDTA and included their most state-of-the-art production lines. We saw through to the underlying business and recognized the stability of the cash flows due to the high switching costs of their customers. In 2014, following Solo's acquisition by Dart Container, the new owners bought us out of the lease, generating a significant round-trip return on our investment.



Operating Properties

Reimagined commercial and residential assets form the core of iStar's operating properties portfolio. We unlock their value through inventive redesign, the infusion of capital, repositioning and intensive asset management efforts.

Operating and revitalizing such properties in major cities across the U.S. has further honed our skills, making iStar stronger in all parts of our business. For example, The Ilikai Hotel, an iconic Hawaiian hotel, had fallen into neglect and was mired in controversy. When iStar took ownership of the hotel portion of the 30-story tower, we worked hard to rebuild trust with the hotel employees and condo owners, while investing in upgrades and a lobby/retail experience worthy of The Ilikai's name. We secured permission to add kitchens to the hotel units as per the original design and began selling them as condos. It took a full mix of iStar disciplines—architecture and engineering, legal, public relations, finance, operations—working in concert to bring to life The Ilikai's inherent value and best use.



Land & Development

Creating communities. Reimagining landscapes and the urban core. Breaking new ground. iStar's land business focuses our creative energies and agile disciplines on transforming bare spaces into unique developments.

Our land portfolio consists primarily of master planned community projects, urban infill sites and waterfront parcels, located across the U.S. Successful development often comes down to finding the right partners. 1000 South Clark, a 2.5 acre site in Chicago's South Loop, had been slated to become luxury condos, but we saw it as better suited for premium rentals. When iStar took ownership, we had the land and capital, but needed a local builder's vision and "know-how." JDL had the local experience, expertise and complementary ideas but needed a flexible capital solution. Most importantly, we were on the same page from day one—quickly structuring a mutually beneficial joint venture, with iStar as both equity investor and lender. As the 29-story tower has risen, our knowledge of the local market and our partner's capabilities has grown, furthering the potential for additional partnerships.

financials

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SELECTED FINANCIAL DATA

The following table sets forth selected financial data on a consolidated historical basis for iStar Financial Inc. (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."

For the Years Ended December 31,	2014	2013	2012	2011	2010
(In thousands, except per share data and ratios)					
Operating Data:					
Operating lease income	\$ 243,100	\$ 234,567	\$ 216,291	\$ 195,872	\$ 183,443
Interest income	122,704	108,015	133,410	226,871	364,094
Other income	81,033	48,208	47,838	39,722	51,069
Land sales revenue	15,191	-	-	-	-
Total revenue	462,028	390,790	397,539	462,465	598,606
Interest expense	224,483	266,225	355,097	342,186	313,766
Real estate expense	163,389	157,441	151,458	138,714	121,036
Land cost of sales	12,840	-	-	-	-
Depreciation and amortization	73,571	71,266	68,770	58,091	56,668
General and administrative	88,806	92,114	80,856	105,039	109,526
Provision for (recovery of) loan losses	(1,714)	5,489	81,740	46,412	331,487
Impairment of assets	34,634	12,589	13,778	13,239	12,809
Other expense	5,821	8,050	17,266	11,070	16,055
Total costs and expenses	601,830	613,174	768,965	714,751	961,347
Income (loss) before earnings from equity method investments and other items	(139,802)	(222,384)	(371,426)	(252,286)	(362,741)
Gain (loss) on early extinguishment of debt, net	(25,369)	(33,190)	(37,816)	101,466	108,923
Earnings from equity method investments	94,905	41,520	103,009	95,091	51,908
Loss on transfer of interest to unconsolidated subsidiary	-	(7,373)	-	-	-
Income (loss) from continuing operations before income taxes	(70,266)	(221,427)	(306,233)	(55,729)	(201,910)
Income tax (expense) benefit	(3,912)	659	(8,445)	4,719	(7,023)
Income (loss) from continuing operations	(74,178)	(220,768)	(314,678)	(51,010)	(208,933)
Income (loss) from discontinued operations	-	644	(17,481)	(5,514)	18,757
Gain from discontinued operations	-	22,233	27,257	25,110	270,382
Income from sales of real estate	89,943	86,658	63,472	5,721	-
Net income (loss)	15,765	(111,233)	(241,430)	(25,693)	80,206
Net (income) loss attributable to noncontrolling interests	704	(718)	1,500	3,629	(523)
Net income (loss) attributable to iStar Financial Inc.	16,469	(111,951)	(239,930)	(22,064)	79,683
Preferred dividends	(51,320)	(49,020)	(42,320)	(42,320)	(42,320)
Net (income) loss allocable to HPU holders and Participating Security holders ⁽¹⁾	1,129	5,202	9,253	1,997	(1,084)
Net income (loss) allocable to common shareholders	\$ (33,722)	\$ (155,769)	\$ (272,997)	\$ (62,387)	\$ 36,279
Per common share data ⁽²⁾ :					
Income (loss) attributable to iStar Financial Inc. from continuing operations:					
Basic and diluted	\$ (0.40)	\$ (2.09)	\$ (3.37)	\$ (0.91)	\$ (2.62)
Net income (loss) attributable to iStar Financial Inc.:					
Basic and diluted	\$ (0.40)	\$ (1.83)	\$ (3.26)	\$ (0.70)	\$ 0.39
Per HPU share data ⁽²⁾ :					
Income (loss) attributable to iStar Financial Inc. from continuing operations:					
Basic and diluted	\$ (75.27)	\$ (396.07)	\$ (638.27)	\$ (173.66)	\$ (497.13)
Net income (loss) attributable to iStar Financial Inc.:					
Basic and diluted	\$ (75.27)	\$ (346.80)	\$ (616.87)	\$ (133.13)	\$ 72.27
Dividends declared per common share	\$ -	\$ -	\$ -	\$ -	\$ -

For the Years Ended December 31,	2014	2013	2012	2011	2010
(In thousands, except per share data and ratios)					
Supplemental Data:					
Adjusted Income ⁽³⁾	\$ 109,377	\$ (21,677)	\$ (53,847)	\$ (3,316)	\$ 360,525
Adjusted EBITDA ⁽³⁾	398,717	298,833	349,754	376,464	767,663
Ratio of Adjusted EBITDA to interest expense and preferred dividends ⁽³⁾	1.4x	0.9x	0.9x	1.0x	2.0x
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	85,031	84,990	83,742	88,688	93,244
Weighted average HPU shares outstanding – basic and diluted	15	15	15	15	15
Cash flows from:					
Operating activities	\$ (10,342)	\$(180,465)	\$(191,932)	\$(28,577)	\$(45,883)
Investing activities	159,793	893,447	1,267,047	1,461,257	3,738,823
Financing activities	(190,958)	(455,758)	(1,175,597)	(1,580,719)	(3,412,707)

As of December 31,	2014	2013	2012	2011	2010
(In thousands)					
Balance Sheet Data:					
Real estate, net	\$2,676,714	\$2,796,181	\$2,739,099	\$2,893,482	\$2,599,203
Real estate available and held for sale	285,982	360,517	635,865	677,458	746,081
Loans receivable and other lending investments, net	1,377,843	1,370,109	1,829,985	2,860,762	4,587,352
Total assets	5,463,133	5,642,011	6,159,999	7,523,083	9,175,681
Debt obligations, net	4,022,684	4,158,125	4,691,494	5,837,540	7,345,433
Total equity	1,248,348	1,301,465	1,313,154	1,573,604	1,694,659

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 22 and 23.
- (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, 2014, 2013, 2012, 2011 and 2010, earnings were not sufficient to cover fixed charges by \$89,948, \$240,912, \$305,450, \$65,842 and \$221,634, respectively, and earnings were not sufficient to cover fixed charges and preferred dividends by \$141,268, \$289,932, \$347,770, \$108,162 and \$263,954, 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 the Company'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, 2014. This discussion should be read in conjunction with our consolidated financial statements and related notes for the three-year period ended December 31, 2014 included elsewhere in this Annual Report. These historical financial statements may not be indicative of our future performance. Certain prior year amounts have been reclassified in the Company's Consolidated Financial Statements and the related notes to conform to the current period presentation.

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. In 2014, the Company partnered with a sovereign wealth fund to form a venture in which the partners plan to contribute equity to acquire and develop net lease assets.

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, hotel and other property types. 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, 15 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, 2014, we had 6 land projects in production, 13 in development and 13 in the pre-development phase.

Executive Overview

In conjunction with improving economic and commercial real estate market conditions, we have continued to make meaningful progress towards achieving a number of our strategic corporate objectives. We increased investment originations to \$1.27 billion in 2014 focused primarily within our core business segments of real estate finance and net lease, which we anticipate should drive future revenue growth. Through strategic ventures, we have partnered with other providers of capital within our net lease segment and with developers with homebuilding expertise within our land segment. In addition, we have made significant investments within our operating property and land portfolios in order to better position assets for sale.

Access to the capital markets has allowed us to extend our debt maturity profile, lower our cost of capital and become primarily an unsecured borrower. During 2014, we fully repaid our largest secured credit facility using proceeds from unsecured notes issuances. This repayment unencumbered \$2.0 billion of collateral and provides us with additional liquidity as we now retain 100% of the proceeds from sales and repayments of these previously encumbered assets, rather than directing them to repay the facility. At December 31, 2014, we had \$472.1 million of cash, which we expect to be used primarily to fund future investment activities.

Over the past two years, we have significantly reduced our level of non-performing loans. Non-performing loans, net of specific reserves, declined 68% to \$65.0 million at December 31, 2014 from \$203.6 million at December 31, 2013 as loans were repaid, sold or foreclosed on.

During the year ended December 31, 2014, three of our four business segments, including real estate finance, net lease and operating properties, contributed positively to our earnings. We continue to work on repositioning or redeveloping our transitional operating properties and progressing on the entitlement and development of our land assets in order to maximize their value. We intend to continue these efforts, with the objective of having these assets contribute positively to earnings in the future. For the year ended December 31, 2014, we recorded net loss allocable to common shareholders of \$(33.7) million, compared to a loss of \$(155.8) million during the prior year. Adjusted income (loss) allocable to common shareholders for the year ended December 31, 2014 was \$109.4 million, compared to \$(21.7) million during the prior year.

Results of Operations for the Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

For the Years Ended December 31,	2014	2013	\$ Change	% Change
(in thousands)				
Operating lease income	\$243,100	\$ 234,567	\$ 8,533	4%
Interest income	122,704	108,015	14,689	14%
Other income	81,033	48,208	32,825	68%
Land sales revenue	15,191	-	15,191	100%
Total revenue	462,028	390,790	71,238	18%
Interest expense	224,483	266,225	(41,742)	(16)%
Real estate expenses	163,389	157,441	5,948	4%
Cost of land sales	12,840	-	12,840	100%
Depreciation and amortization	73,571	71,266	2,305	3%
General and administrative	88,806	92,114	(3,308)	(4)%
Provision for (recovery of) loan losses	(1,714)	5,489	(7,203)	>(100)%
Impairment of assets	34,634	12,589	22,045	>100%
Other expense	5,821	8,050	(2,229)	(28)%
Total costs and expenses	601,830	613,174	(11,344)	(2)%
Loss on early extinguishment of debt, net	(25,369)	(33,190)	7,821	24%
Earnings from equity method investments	94,905	41,520	53,385	>100%
Loss on transfer of interest to unconsolidated subsidiary	-	(7,373)	7,373	100%
Income tax (expense) benefit	(3,912)	659	(4,571)	>(100)%
Income (loss) from discontinued operations	-	644	(644)	(100)%
Gain from discontinued operations	-	22,233	(22,233)	(100)%
Income from sales of real estate	89,943	86,658	3,285	4%
Net income (loss)	\$ 15,765	\$(111,233)	\$126,998	>100%

Revenue – Operating lease income, which primarily includes income from net lease assets and commercial operating properties, increased to \$243.1 million in 2014 from \$234.6 million in 2013.

Operating lease income from net lease assets increased to \$151.9 million in 2014 from \$147.3 million in 2013. The net lease portfolio generated an unleveraged yield of 7.5% for 2014 as compared to 7.2% for 2013 as rental rates for new leases were greater than rental rates for leases that terminated since December 31, 2013. Operating lease income for same store net lease assets, defined as net lease assets we owned on or prior to January 1, 2013 and were in service through December 31, 2014, increased to \$148.3 million in 2014 from \$146.2 million in 2013 due primarily to an increase in rent per occupied square foot for same store net lease assets, which was \$9.86 for 2014 as compared to \$9.62 for 2013. The increase in operating lease income was also due to higher occupancy rates for same store net lease assets, which was 95.2% at December 31, 2014 as compared to 93.0% at December 31, 2013. We had two net lease assets which were sold to our Net Lease Venture in 2014 that, prior to their sale, contributed an additional \$2.0 million of operating lease income in 2014 as compared to 2013.

Operating lease income from commercial operating properties increased to \$87.7 million in 2014 from \$86.4 million in 2013 as rental rates for new leases were greater than leases that terminated since December 31, 2013. Operating lease income for same store commercial operating properties, defined as commercial operating properties, excluding hotels, we owned on or prior to January 1, 2013 and were in service through December 31, 2014, decreased to \$81.6 million in 2014 from \$84.9 million in 2013 due primarily to a decline in rent per occupied

square foot for same store commercial operating properties, which was \$24.52 for 2014 and \$26.06 for 2013. The decline was partially offset by an increase in occupancy rates for same store commercial operating properties, which increased to 65.0% at December 31, 2014 from 62.8% at December 31, 2013. In addition, we acquired title to additional commercial operating properties in 2014, which contributed \$4.5 million to operating lease income in 2014. Ancillary operating lease income for residential operating properties increased \$2.6 million in 2014 as compared to 2013.

Interest income increased to \$122.7 million in 2014 as compared to \$108.0 million in 2013 due primarily to increases in the volume and interest rates of performing loans. New investment originations and additional fundings of existing loans raised our average balance of performing loans to \$1.27 billion for 2014 from \$1.23 billion for 2013. The weighted average yield of our performing loans increased to 9.1%, excluding \$6.3 million amortization of discounts, for 2014 from 7.6% for 2013 due primarily to higher interest rates for new loan originations in 2014 and payoffs of loans with lower interest rates.

Other income increased to \$81.0 million in 2014 as compared to \$48.2 million in 2013. The increase was due to gains on sales of non-performing loans of \$19.1 million as well as \$16.5 million of income related to asset related settlements, \$3.8 million of ancillary income from properties acquired in 2014 and \$2.3 million of prior year tax refunds. The increases were offset in part by a decline of \$7.2 million due primarily to the conversion of hotel rooms to residential units to be sold at a property and \$4.0 million received for the settlement of a property-related lawsuit in 2013.

Land sales and costs – In 2014, we sold residential lots from three of our master planned community properties for proceeds of \$15.2 million which had associated cost of sales of \$12.8 million.

Costs and expenses – Interest expense decreased to \$224.5 million in 2014 as compared to \$266.2 million in 2013 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 \$4.08 billion for 2014 from \$4.46 billion for 2013. Our weighted average effective cost of debt decreased to 5.5% for 2014 from 5.9% for 2013. The decline was primarily a result of the refinancing of higher interest rate senior unsecured notes with lower interest rate senior unsecured notes during 2013.

Real estate expenses increased to \$163.4 million in 2014 as compared to \$157.4 million in 2013. Expenses for commercial operating properties increased to \$87.9 million in 2014 from \$81.1 million in 2013. In 2014, expenses for same store commercial operating properties, excluding hotels, increased to \$53.3 million from \$51.7 million in 2013 due primarily to higher operating expenses at two properties. We acquired title to additional commercial operating properties in 2014, which contributed \$9.2 million to real estate expenses in 2014. Additionally, expenses for hotel properties decreased to \$22.7 million in 2014 from \$28.5 million in 2013 due primarily to the conversion of hotel rooms to residential units being sold at a hotel property. Costs associated with residential units increased to \$25.6 million in 2014 from \$19.8 million in 2013 due to sales assessments at one of our residential properties and carrying costs for additional residential units where construction was completed, offset by a reduction of expenses due to the sale of residential units since December 31, 2013. Carry costs and other expenses on our land assets decreased to \$26.9 million in 2014 as compared to \$33.8 million in 2013, primarily related to a decrease in costs incurred on certain land assets prior to development.

General and administrative expenses decreased to \$88.8 million in 2014 as compared to \$92.1 million in 2013, primarily due to a reduction in stock-based compensation expense, based on the full amortization of certain previously issued awards, which were fully amortized in 2013.

The net recovery of loan losses was \$1.7 million in 2014 as compared to a net provision for loan losses of \$5.5 million in 2013. Included in the net recovery for 2014 were recoveries of previously recorded loan loss reserves of \$10.1 million, provisions for specific reserves of \$4.1 million and an increase of \$4.3 million in the general reserve due primarily to new investment originations. Included in the net recovery for 2013 were specific reserves of \$72.5 million, which were established on non-performing loans, offset by recoveries of previously recorded loan loss reserves of \$63.1 million during the year.

In 2014, we recorded impairments on real estate assets totaling \$34.6 million resulting from changes in business strategies for a residential property and a land asset, continued unfavorable local market conditions at two real estate properties and the sale of net lease assets. In 2013, we recorded \$14.4 million of impairments on real estate assets, including \$1.8 million recorded in discontinued operations, due primarily to a changes in local market conditions and a change in business strategy for a residential property.

Loss on early extinguishment of debt, net – In 2014 and 2013, we incurred losses on early extinguishment of debt of \$25.4 million and \$33.2 million, respectively. Together with cash on hand, net proceeds from the 2014 issuances of our 4.00% senior unsecured notes due November 2017 and our 5.00% senior unsecured notes due July 2019 were used to fully repay and terminate our secured credit facility entered into in February 2013. As a result, in 2014, we expensed \$22.8 million relating to accelerated amortization of discount and fees associated with the payoff of that secured credit facility. We also recorded \$2.6 million of losses related to the accelerated amortization of discounts and fees in connection with amortization payments that we made on our secured credit facilities.

In 2013, we incurred \$7.7 million of losses on the early extinguishment of debt due to the accelerated amortization of discounts and fees in connection with the refinancing of a secured credit facility. We also recorded \$13.2 million of losses related to the accelerated amortization of discounts and fees in connection with amortization payments that we made on our secured credit facilities. We also redeemed our 5.95% senior unsecured notes due October 2013 and 5.70% senior unsecured notes due March 2014 prior to maturity and incurred \$12.3 million of losses related to prepayment penalties and the acceleration of amortization of discounts.

Earnings from equity method investments – Earnings from equity method investments increased to \$94.9 million in 2014 as compared to \$41.5 million in 2013. In 2014, we recognized \$56.8 million of income resulting from asset sales by two of our equity method investees and a legal settlement received by one of the investees. We also recognized \$14.7 million of earnings related to sales activity from an equity method investee and \$9.0 million of income related to carried interest from a previously held strategic investment. The increase was offset by \$12.0 million of income primarily related to asset sales by one of our strategic investments in 2013 and the sale of our interest in LNR Property Corp. in April 2013. We had no equity in earnings from LNR during 2014 as compared to 2013 in which we recorded net equity in earnings of \$14.5 million.

Loss on transfer of interest to unconsolidated subsidiary – In 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 increased to a net tax expense of \$3.9 million in 2014 as compared to a tax benefit of \$0.7 million in 2013. The period to period difference was due primarily to taxable income generated by sales of TRS properties.

Discontinued operations – In 2014, we adopted ASU 2014-08 (see Note 3), which raised the threshold for discontinued operations reporting to disposals of components that are considered strategic shifts in a company's business. There were no disposals that met this threshold during 2014. Income (loss) from discontinued operations in 2013 includes operating results from net lease assets and commercial operating properties held for sale or sold as of December 31, 2013. During 2013, we sold commercial operating properties with a total

carrying value of \$72.6 million, which resulted in a net 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.

Income from sales of real estate – In 2014 and 2013, we sold residential condominiums for total net proceeds of \$236.2 million and

\$269.7 million, respectively, that resulted in income of \$79.1 million and \$82.6 million, respectively. In 2014, we sold net lease assets with a carrying value of \$8.0 million resulting in a net gain of \$5.7 million and a commercial operating property with a carrying value of \$29.4 million resulting in a gain of \$4.6 million. In 2013, we 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, 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 real estate	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 in 2013 from \$216.3 million in 2012.

Operating lease income from net lease assets decreased to \$147.3 million in 2013 from \$149.1 million in 2012. The net lease portfolio generated a weighted average effective yield of 7.2% for 2013 as compared to 7.5% for 2012 as rental rates for new leases were less than rental rates for leases that terminated since December 31, 2012. Operating lease income for same store net lease assets, defined as net lease assets we owned on or prior to January 1, 2012 and were in service through December 31, 2013, decreased to \$146.8 million in 2013 from \$149.1 million in 2012 due primarily to a decline in occupancy rates for same store net lease assets, which was 93.1% at December 31, 2013 as compared to 93.8% at December 31, 2012. The decrease was partially offset by an increase in rent per occupied square foot for same store net lease assets, which was \$9.50 for 2013 as compared to \$9.28 for 2012. Additionally, a new net lease asset commenced in 2013, which resulted in an additional \$0.5 million of operating lease income in 2013 as compared to 2012.

Operating lease income from commercial operating properties increased to \$86.4 million in 2013 from \$65.7 million in 2012 due primarily to the acquisition of a commercial operating property at the end of 2012. Operating lease income for same store commercial operating properties, defined as commercial operating properties, excluding

hotels, we owned on or prior to January 1, 2012 and were in service through December 31, 2013, increased to \$70.2 million in 2013 from \$64.5 million in 2012 due primarily to an increase in occupancy for same store commercial operating properties, which was 55.9% at December 31, 2013 and 50.1% at December 31, 2012. The increase was also due to higher rent per occupied square foot for same store commercial operating properties, which increased to \$28.64 for 2013 from \$27.12 at December 31, 2012. In addition, 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.

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 for 2013 from \$1.67 billion for 2012. The decrease in performing loans was primarily due to loan repayments received during 2013. Offsetting the decline were new investment originations that increased our weighted average effective yield and our interest income. For 2013, performing loans generated a weighted average effective yield of 7.6% as compared to 7.5% for 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 for 2013 from \$5.49 billion for 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% for 2013 as compared to 6.5% for 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. For 2013, expenses for same store commercial operating properties, excluding hotels, increased to \$41.5 million from \$41.0 million for 2012 due primarily to increased operating expenses at a property. At the end of 2012, we acquired title to a property, which contributed \$10.3 million to real estate expenses for 2013. The increase was 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. For 2013 and 2012, expenses for same store net lease assets were \$22.7 million as there was no significant changes year over year.

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.

Provision for loan losses declined 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 in 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 in 2013. In 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.

Loss on early extinguishment of debt, net – In 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.

In 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 was 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 – In 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 – In 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. In 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. In 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 real estate – In 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. In 2013, we also sold land for proceeds of \$36.7 million that resulted in income of \$4.0 million.

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 (recovery of) 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 (recovery of) loan losses, impairment of assets, loss on transfer of interest to unconsolidated subsidiary, stock-based compensation expense and 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,	2014	2013	2012	2011	2010
(in thousands)					
Adjusted income					
Net income (loss) allocable to common shareholders	\$ (33,722)	\$(155,769)	\$(272,997)	\$ (62,387)	\$ 36,279
Add: Depreciation and amortization ⁽¹⁾	76,287	72,439	70,786	63,928	70,786
Add/Less: Provision for (recovery of) loan losses	(1,714)	5,489	81,740	46,412	331,487
Add: Impairment of assets ⁽²⁾	34,634	14,353	36,354	22,386	22,381
Add: Loss on transfer of interest to unconsolidated subsidiary	–	7,373	–	–	–
Add: Stock-based compensation expense	13,314	19,261	15,293	29,702	19,355
Add: Loss (gain) on early extinguishment of debt, net ⁽³⁾	25,369	19,655	22,405	(101,466)	(110,075)
Less: HPU/Participating Security allocation	(4,791)	(4,478)	(7,428)	(1,891)	(9,688)
Adjusted income (loss) allocable to common shareholders	<u>\$109,377</u>	<u>\$ (21,677)</u>	<u>\$ (53,847)</u>	<u>\$ (3,316)</u>	<u>\$ 360,525</u>

Explanatory Notes:

- (1) For the years ended December 31, 2013, 2012, 2011 and 2010, depreciation and amortization includes \$264, \$2,016, \$5,837 and \$14,117, 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 and 2010, impairment of assets includes \$1,764, \$22,576, \$9,147 and \$9,572, respectively, of impairment of assets reclassified to discontinued operations.
- (3) For the years ended December 31, 2013, 2012 and 2010, 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,	2014	2013	2012	2011	2010
(in thousands)					
Adjusted EBITDA					
Net income (loss)	\$ 15,765	\$(111,233)	\$(241,430)	\$ (25,693)	\$ 80,206
Add: Interest expense ⁽¹⁾	228,395	269,921	356,161	345,914	346,500
Add: Income tax expense (benefit)	3,912	(659)	8,445	(4,719)	7,023
Add: Depreciation and amortization ⁽²⁾	79,042	74,673	70,786	63,928	70,786
EBITDA	327,114	232,702	193,962	379,430	504,515
Add: Provision for (recovery of) loan losses	(1,714)	5,489	81,740	46,412	331,487
Add: Impairment of assets ⁽³⁾	34,634	14,353	36,354	22,386	22,381
Add: Loss on transfer of interest to unconsolidated subsidiary	-	7,373	-	-	-
Add: Stock-based compensation expense	13,314	19,261	15,293	29,702	19,355
Add: Loss (gain) on early extinguishment of debt, net ⁽⁴⁾	25,369	19,655	22,405	(101,466)	(110,075)
Adjusted EBITDA	\$398,717	\$ 298,833	\$ 349,754	\$ 376,464	\$ 767,663

Explanatory Notes:

- (1) For the years ended December 31, 2012, 2011 and 2010, interest expense includes \$1,064, \$3,728 and \$32,734, respectively, of interest expense reclassified to discontinued operations. Interest expense includes our proportionate share of interest for equity method investments.
- (2) For the years ended December 31, 2013, 2012, 2011 and 2010 depreciation and amortization includes \$264, \$2,016, \$5,837 and \$14,117, 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 and 2010 impairment of assets includes \$1,764, \$22,576, \$9,147 and \$9,572, respectively, of impairment of assets reclassified to discontinued operations.
- (4) For the years ended December 31, 2013, 2012 and 2010, loss on early extinguishment of debt excludes the portion of losses paid in cash of \$13,535, \$15,411 and \$1,152, respectively.

Risk Management

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,	2014	2013
Non-performing loans		
Carrying value ⁽¹⁾	\$65,047	\$203,604
As a percentage of total carrying value of loans	5.5%	16.6%
Reserve for loan losses		
Impaired loan asset-specific reserves for loan losses	\$64,990	\$348,004
As a percentage of gross carrying value of impaired loans	46.5%	46.3%
Total reserve for loan losses	\$98,490	\$377,204
As a percentage of total loans before loan loss reserves	7.6%	23.5%

Explanatory Note:

- (1) As of December 31, 2014 and 2013, carrying values of non-performing loans are net of asset-specific reserves for loan losses of \$64.2 million and \$317.0 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, 2014, we had non-performing loans with an aggregate carrying value of \$65.0 million compared to non-performing loans of \$203.6 million at December 31, 2013. Our non-performing loans decreased during the year ended December 31, 2014 as we sold two non-performing loans with a total carrying value of \$30.8 million

and received title to and equity interests in properties that served as collateral in full satisfaction for other non-performing loans with a total carrying value of \$103.7 million. 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 \$98.5 million as of December 31, 2014, or 7.6% of total loans, compared to \$377.2 million or 23.5% at December 31, 2013. The reduction in the balance of the reserve was the result of \$277.0 million of charge-offs associated with the resolutions of non-performing loans and \$10.1 million of recoveries of loan losses during the year ended December 31, 2014. For the year ended December 31, 2014, the provision for loan losses includes recoveries of previously recorded loan loss reserves of \$10.1 million offset by provisions for specific reserves of \$4.1 million and an increase of \$4.3 million in the general reserve due primarily to new investment originations. 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 \$19.5 million as of December 31, 2014, 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, 2014, asset-specific reserves decreased to \$65.0 million compared to \$348.0 million at December 31, 2013, primarily due to charge-offs on non-performing loans that were sold and non-performing loans where we received title to properties that served as collateral in full satisfaction of such 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 increased to \$33.5 million or 2.9% of performing loans as of December 31, 2014, compared to \$29.2 million or 2.7% of performing loans at December 31, 2013. This increase was primarily attributable to the increase in the balance of performing loans, which was driven by new investment originations.

Risk concentrations – 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, 2014, the only states with a concentration greater than 10.0% were California with 14.6% and New York with 13.9%. As of that date, we also had approximately 26.3% of the carrying value of our assets related to properties located in the northeastern U.S., 19.2% related to properties located in the western U.S., 15.2% related to properties located in the mid-Atlantic U.S., 14.7% related to properties located in the southeastern U.S. and 13.4% related to properties located in the southwestern region of the U.S. In addition, as of December 31, 2014, we had \$25.5 million of European assets. As of December 31, 2014, our portfolio contains concentrations in the following asset types: office/industrial 26.7%, land 21.7%, mixed use/mixed collateral 13.0% and entertainment/leisure 11.0%. Additional information regarding property/collateral type and geographical region for each segment is in Item 1 – "Business."

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, 2014, our five largest borrowers or tenants collectively accounted for approximately 21% of our 2014 revenues, of which no single customer accounts for more than 6%.

Liquidity and Capital Resources

During the year ended December 31, 2014, we committed to new investments totaling \$1.27 billion, of which we funded \$905.8 million. The fundings included \$624.1 million in lending and other investments, \$116.3 million to acquire and invest in net lease assets and \$165.4 million of capital to reposition or redevelop our operating properties and develop our land assets. Also during the year ended December 31, 2014, we generated \$1.10 billion of proceeds from loan repayments and asset sales within our portfolio, comprised of \$584.2 million from real estate finance, \$272.7 million from operating properties, \$118.4 million from other investments, \$103.6 million from net lease assets and \$22.2 million from land. These amounts are inclusive of fundings and proceeds from both consolidated and equity method investments. As of December 31, 2014, we had unrestricted cash of \$472.1 million.

The following table outlines our capital expenditures on real estate assets reflected in our Consolidated Statements of Cash Flows for the years ended December 31, 2014 and 2013, by segment (\$ in thousands):

For the Years Ended December 31,	2014	2013
Land	\$ 74,323	\$ 36,346
Operating Properties	58,631	43,329
Net Lease	9,833	29,728
Total capital expenditures on real estate assets	\$142,787	\$109,403

Our primary cash uses over the next 12 months are expected to be capital expenditures, repayments of debt, funding of investments and funding ongoing business operations. We have debt maturities of \$105.8 million due before December 31, 2015. Over the next 12 months, we currently expect to fund in the range of \$200 million to \$275 million of capital expenditures within our portfolio. The majority of these amounts relate to our land, multifamily and residential development activities and operating properties. The amount spent will depend on the pace of our development activities as well as the extent to which we strategically partner with others to complete these projects. As of December 31, 2014, we also had approximately \$630 million of maximum unfunded commitments under our investments, assuming borrowers and tenants meet all milestones and performance hurdles and all other conditions to fundings are met. See "Unfunded Commitments" below. Our capital sources to meet expected cash uses through the next 12 months will primarily include cash on hand, income from our portfolio, loan repayments from borrowers, proceeds from asset sales and capital raised through debt refinancings or equity capital transactions.

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 continued to improve, 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, 2014 (see Note 8 of the Notes to 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	\$ 358,504	\$ –	\$ 358,504	\$ –	\$ –	\$ –
Unsecured notes	3,326,890	105,765	1,851,125	1,370,000	–	–
Secured term loans	248,955	8,723	19,132	49,427	169,296	2,377
Other debt obligations	100,000	–	–	–	–	100,000
Total principal maturities	4,034,349	114,488	2,228,761	1,419,427	169,296	102,377
Interest Payable ⁽¹⁾	704,202	207,079	324,699	126,711	26,203	19,510
Operating Lease Obligations	32,065	5,598	10,580	7,621	6,809	1,457
Total⁽²⁾	\$4,770,616	\$327,165	\$2,564,040	\$1,553,759	\$202,308	\$123,344

Explanatory Notes:

(1) All variable-rate debt assumes a 3-month LIBOR rate of 0.23%.

(2) We also have issued letters of credit totaling \$3.7 million in connection with 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.

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 “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.

During the year ended December 31, 2014, net proceeds from the issuances of our \$550.0 million aggregate principal amount of 4.00% senior unsecured notes and \$770.0 million aggregate principal amount of 5.00% senior unsecured notes, together with cash on hand, were used to fully repay and terminate the February 2013 Secured Credit Facility. The transaction supported our strategy to become primarily an unsecured borrower. The refinancing allowed us to reduce our percentage of secured debt outstanding down to 16% of total debt from 49% prior to the transaction. Through the transaction, we also unencumbered \$2.0 billion of collateral, which included more than \$1.5 billion of net lease

assets and performing loans. Furthermore, the transaction provides us with additional liquidity as we will now retain 100% of proceeds from the sales and repayments of these previously encumbered assets rather than directing them to repay the February 2013 Secured Credit Facility.

From February 2013 through full payoff in June 2014, we made cumulative amortization repayments of \$388.5 million. During the year ended December 31, 2014 and 2013, amortization repayments made by us resulted in losses on early extinguishment of debt of \$1.1 million and \$7.0 million, respectively, related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid. In connection with the repayment and termination of the facility in 2014, we recorded a loss on early extinguishment of debt of \$22.8 million related to unamortized discounts and financing fees at the time of refinancing. These amounts were included in “Loss on early extinguishment of debt, net” on our Consolidated Statements of Operations.

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. We may also make optional prepayments, subject to prepayment fees. The 2012 Tranche A-1 Facility was fully repaid in August 2013. Additionally, through December 31, 2014, we made cumulative amortization repayments of \$111.5 million on the 2012 Tranche A-2 Facility. For the years ended December 31, 2014 and 2013, repayments of the 2012 Tranche A-2 Facility prior to maturity resulted in losses on early extinguishment of debt of \$1.5 million and \$1.0 million, respectively, related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid. These amounts were included in "Loss on early extinguishment of debt, net" on our Consolidated Statements of Operations.

Repayments of the 2012 Tranche A-1 Facility prior to scheduled amortization dates 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. These amounts were included in "Loss on early extinguishment of debt, net" on our Consolidated Statements of Operations.

Unsecured Notes – In June 2014, we issued \$550.0 million aggregate principal amount of 4.00% senior unsecured notes due November 2017 and \$770.0 million aggregate principal amount of

5.00% senior unsecured notes due July 2019. Net proceeds from these transactions, together with cash on hand, were used to fully repay and terminate the February 2013 Secured Credit Facility which had an outstanding balance of \$1.32 billion.

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 "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 "Loss on early extinguishment of debt, net" on our Consolidated Statements of Operations for the year ended December 31, 2013.

Encumbered/Unencumbered Assets – As of December 31, 2014 and 2013, the carrying value of our encumbered and unencumbered assets by asset type are as follows (\$ in thousands):

	As of December 31,			
	2014		2013	
	Encumbered Assets	Unencumbered Assets	Encumbered Assets	Unencumbered Assets
Real estate, net	\$620,378	\$2,056,336	\$1,644,463	\$1,151,718
Real estate available and held for sale	10,496	275,486	152,604	207,913
Loans receivable and other lending investments, net ⁽¹⁾	46,515	1,364,828	860,557	538,752
Other investments	17,708	336,411	24,093	183,116
Cash and other assets	–	768,475	–	907,995
Total	\$695,097	\$4,801,536	\$2,681,717	\$2,989,494

Explanatory Note:

(1) As of December 31, 2014 and 2013, the amounts presented exclude general reserves for loan losses of \$33.5 million and \$29.2 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 our ability to incur new indebtedness under the fixed charge coverage ratio is currently limited, which may put limitations on our ability to make new investments, we are 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 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 March 2012 Secured Credit Facilities permit us to distribute 100% of our REIT taxable income on an annual basis. We may not pay common dividends if we cease to qualify as a REIT.

Our March 2012 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. 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 was effective in July 2014, matures in July 2017 and has a LIBOR interest rate cap of 1.00%. See Note 10 of the Notes to Consolidated Financial Statements.

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 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, 2014, 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	Other Investments	Total
Performance-Based Commitments	\$537,924	\$14,667	\$27,004	\$579,595
Strategic Investments	-	-	45,714	45,714
Discretionary Fundings	5,000	-	-	5,000
Total	\$542,924	\$14,667	\$72,718	\$630,309

Stock Repurchase Programs – In September 2013, our Board of Directors approved an increase in the repurchase limit under our previously approved stock repurchase program to \$50.0 million. The program authorizes the repurchase of Common Stock from time to time in open market and privately negotiated purchases, including pursuant to one or more trading plans. During the year ended December 31, 2013, we repurchased 1.7 million shares of our outstanding Common Stock for \$21.0 million, at an average cost of \$12.35 per share. There were no stock repurchases during the year ended December 31, 2014. As of December 31, 2014, we had up to \$29.0 million of Common Stock available to repurchase under our Board authorized stock repurchase program.

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 2014, 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 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. If we determine that the collateral value is less than the carrying value of a collateral-dependent loan, we will record a reserve. The reserve is increased (decreased) through “Provision for (recovery of) loan losses” on our Consolidated Statements of Operations and is decreased by charge-offs. During delinquency and the foreclosure process, there are typically numerous points of negotiation with the borrower as we work toward a settlement or other alternative resolution, which can impact the potential for loan repayment or receipt of collateral. Our policy is to charge off a loan when we determine, based on a variety of factors, that all commercially reasonable means of recovering the loan balance have been exhausted. This may occur at different times, including when we receive cash or other assets in a pre-foreclosure sale or take control of the underlying collateral in full satisfaction of the loan upon foreclosure or deed-in-lieu, or when we have otherwise ceased significant collection efforts. We consider circumstances such as the foregoing to be indicators that the final steps in the loan collection process have occurred and that a loan is uncollectible. At this point, a loss is confirmed and the loan and related reserve will be charged off. 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 provision for (recovery of) loan losses for the years ended December 31, 2014, 2013 and 2012 were \$(1.7) million, \$5.5 million and \$81.7 million, respectively. The total reserve for loan losses at December 31, 2014 and 2013, included asset specific reserves of \$65.0 million and \$348.0 million, respectively, and general reserves of \$33.5 million and \$29.2 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, 2014, 2013 and 2012, we received title to properties in satisfaction of senior mortgage loans with fair values of \$77.9 million, \$31.1 million and \$267.5 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 available and 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. Impairment for real estate assets disposed of or classified as held for sale on or before December 31, 2013 are included in "Income (loss) from discontinued operations" on our Consolidated Statements of Operations. Impairment for real estate assets disposed of or classified as held for sale after December 31, 2013 are included in "Impairment of assets" on our Consolidated Statements of Operations. Once the asset is classified as held for sale and represents a strategic shift, depreciation expense is no longer recorded and historical operating results are reclassified to "Income (loss) from discontinued operations" on our 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 year ended December 31, 2014, the Company recorded impairments on real estate assets totaling \$34.6 million resulting from continued unfavorable local market conditions, changes in business strategy and the sale of a property. During the years ended December 31, 2013 and 2012, the Company recorded impairments on real estate assets totaling \$14.4 million and \$35.4 million, respectively, resulting from changes in local market conditions and business strategy for certain assets. Of these amounts, \$1.8 million and \$22.6 million for the years ended December 31, 2013 and 2012, respectively, have been recorded in "Income (loss) from discontinued operations" on the Company's Consolidated Statements of Operations due to the assets being disposed of or classified as held for sale as of December 31, 2013.

Identified intangible assets and liabilities – We record intangible assets and liabilities acquired at their estimated fair values, and determine whether such intangible assets and liabilities have finite or indefinite lives. As of December 31, 2014, 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 \$54.3 million and \$56.0 million as of December 31, 2014 and 2013, 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 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.

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, 2014. 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	\$ (713)
Base Interest Rate	-
+50 Basis Points	4,680
+100 Basis Points	10,438

Explanatory Note:

- (1) We have an overall net variable-rate asset position, which results in an increase in net income when rates increase and a decrease in net income when rates decrease. As of December 31, 2014, \$282.5 million of our floating rate loans have a cumulative weighted average interest rate floor of 0.4% and \$358.5 million of our floating rate debt has a cumulative weighted average interest rate floor of 1.25%.

**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 2013 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, 2014.

The Company's internal control over financial reporting as of December 31, 2014, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page 31.

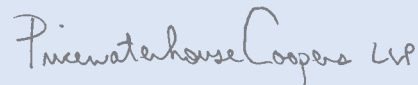
To the Board of Directors and Shareholders of iStar Financial Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, 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, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 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, 2014, based on criteria established in *Internal Control – Integrated Framework (2013)* 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.

As discussed in Note 3 to the consolidated financial statements, the Company adopted accounting standards update ("ASU") No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", which changed the criteria for reporting discontinued operations in 2014.

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.



New York, New York

March 2, 2015

CONSOLIDATED BALANCE SHEETS

As of December 31,

2014

2013

(In thousands, except per share data)		
Assets		
Real estate		
Real estate, at cost	\$ 3,145,563	\$ 3,220,634
Less: accumulated depreciation	(468,849)	(424,453)
Real estate, net	2,676,714	2,796,181
Real estate available and held for sale	285,982	360,517
Total real estate	2,962,696	3,156,698
Loans receivable and other lending investments, net	1,377,843	1,370,109
Other investments	354,119	207,209
Cash and cash equivalents	472,061	513,568
Restricted cash	19,283	48,769
Accrued interest and operating lease income receivable, net	16,367	14,941
Deferred operating lease income receivable	98,262	92,737
Deferred expenses and other assets, net	162,502	237,980
Total assets	\$ 5,463,133	\$ 5,642,011
Liabilities and Equity		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 180,902	\$ 170,831
Debt obligations, net	4,022,684	4,158,125
Total liabilities	4,203,586	4,328,956
Commitments and contingencies	-	-
Redeemable noncontrolling interests	11,199	11,590
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	4
High Performance Units	9,800	9,800
Common Stock, \$0.001 par value, 200,000 shares authorized, 145,807 issued and 85,191 outstanding at December 31, 2014 and 144,334 issued and 83,717 outstanding at December 31, 2013	146	144
Additional paid-in capital	4,007,514	4,022,138
Retained earnings (deficit)	(2,556,469)	(2,521,618)
Accumulated other comprehensive income (loss) (see Note 11)	(971)	(4,276)
Treasury stock, at cost, \$0.001 par value, 60,617 shares at December 31, 2014 and December 31, 2013	(262,954)	(262,954)
Total iStar Financial Inc. shareholders' equity	1,197,092	1,243,260
Noncontrolling interests	51,256	58,205
Total equity	1,248,348	1,301,465
Total liabilities and equity	\$ 5,463,133	\$ 5,642,011

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

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31,	2014	2013	2012
(In thousands, except per share data)			
Revenues:			
Operating lease income	\$ 243,100	\$ 234,567	\$ 216,291
Interest income	122,704	108,015	133,410
Other income	81,033	48,208	47,838
Land sales revenue	15,191	-	-
Total revenues	462,028	390,790	397,539
Costs and expenses:			
Interest expense	224,483	266,225	355,097
Real estate expense	163,389	157,441	151,458
Land cost of sales	12,840	-	-
Depreciation and amortization	73,571	71,266	68,770
General and administrative	88,806	92,114	80,856
Provision for (recovery of) loan losses	(1,714)	5,489	81,740
Impairment of assets	34,634	12,589	13,778
Other expense	5,821	8,050	17,266
Total costs and expenses	601,830	613,174	768,965
Income (loss) before earnings from equity method investments and other items	(139,802)	(222,384)	(371,426)
Loss on early extinguishment of debt, net	(25,369)	(33,190)	(37,816)
Earnings from equity method investments	94,905	41,520	103,009
Loss on transfer of interest to unconsolidated subsidiary	-	(7,373)	-
Income (loss) from continuing operations before income taxes	(70,266)	(221,427)	(306,233)
Income tax (expense) benefit	(3,912)	659	(8,445)
Income (loss) from continuing operations ⁽¹⁾	(74,178)	(220,768)	(314,678)
Income (loss) from discontinued operations	-	644	(17,481)
Gain from discontinued operations	-	22,233	27,257
Income from sales of real estate	89,943	86,658	63,472
Net income (loss)	15,765	(111,233)	(241,430)
Net (income) loss attributable to noncontrolling interests	704	(718)	1,500
Net income (loss) attributable to iStar Financial Inc.	16,469	(111,951)	(239,930)
Preferred dividends	(51,320)	(49,020)	(42,320)
Net (income) loss allocable to HPU holders and Participating Security holders ⁽²⁾⁽³⁾	1,129	5,202	9,253
Net income (loss) allocable to common shareholders	\$ (33,722)	\$(155,769)	\$(272,997)
Per common share data⁽¹⁾:			
Income (loss) attributable to iStar Financial Inc. from continuing operations – Basic and diluted	\$ (0.40)	\$ (2.09)	\$ (3.37)
Net income (loss) attributable to iStar Financial Inc. – Basic and diluted	\$ (0.40)	\$ (1.83)	\$ (3.26)
Weighted average number of common shares – Basic and diluted	85,031	84,990	83,742
Per HPU share data⁽¹⁾⁽²⁾:			
Income (loss) attributable to iStar Financial Inc. from continuing operations – Basic and diluted	\$ (75.27)	\$ (396.07)	\$ (638.27)
Net income (loss) attributable to iStar Financial Inc. – Basic and diluted	\$ (75.27)	\$ (346.80)	\$ (616.87)
Weighted average number of HPU share – Basic and diluted	15	15	15

Explanatory Notes:

- (1) Income (loss) from continuing operations attributable to iStar Financial Inc. was \$(73.5) million, \$(221.5) million and \$(313.2) million for the years ended December 31, 2014, 2013 and 2012, 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.
- (3) Participating Security holders are non-employee directors who hold 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,	2014	2013	2012
(In thousands)			
Net income (loss)	\$ 15,765	\$(111,233)	\$(241,430)
Other comprehensive income (loss):			
Reclassification of (gains)/losses on available-for-sale securities into earnings upon realization ⁽¹⁾	(90)	(859)	-
Reclassification of (gains)/losses on cash flow hedges into earnings upon realization ⁽²⁾	4,116	310	(44)
Realization of (gains)/losses on cumulative translation adjustment into earnings upon realization ⁽³⁾	968	(1,310)	-
Unrealized gains/(losses) on available-for-sale securities	3,367	(302)	278
Unrealized gains/(losses) on cash flow hedges	(5,187)	(255)	(1,335)
Unrealized gains/(losses) on cumulative translation adjustment	131	(675)	244
Other comprehensive income (loss)	<u>3,305</u>	<u>(3,091)</u>	<u>(857)</u>
Comprehensive income (loss)	19,070	(114,324)	(242,287)
Comprehensive (income) loss attributable to noncontrolling interests	710	(718)	1,500
Comprehensive income (loss) attributable to iStar Financial Inc.	<u>\$ 19,780</u>	<u>\$(115,042)</u>	<u>\$(240,787)</u>

Explanatory Notes:

- (1) For the years ended December 31, 2014 and 2013, \$90 and \$266, respectively, are included in "Other income" on the Company's Consolidated Statements of Operations. For the year ended December 31, 2013, \$593 is included in "Earnings from equity method investments" on the Company's Consolidated Statements of Operations.
- (2) For the year ended December 31, 2014, \$3,634 is included in "Other expense" on the Company's Consolidated Statements of Operations (see Note 10) and \$420 is included in "Earnings from equity method investments" on the Company's Consolidated Statements of Operations. Included in "Interest expense" on the Company's Consolidated Statements of Operations are \$62, \$310 and \$(44) for years ended December 31, 2014, 2013 and 2012, respectively.
- (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.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

iStar Financial Inc. Shareholders' Equity										
For the Years Ended December 31, 2014, 2013 and 2012	Preferred Stock ⁽¹⁾	Preferred Stock Series J ⁽¹⁾	Common Stock at HPU's Par	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Com- prehensive Income (Loss)	Treasury Stock at Cost	Non- controlling Interests	Total Equity	
									Balance at December 31, 2011	\$22
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 income (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
Dividends declared – preferred	-	-	-	-	-	(51,320)	-	-	(51,320)	
Issuance of stock/restricted stock unit amortization, net	-	-	-	2	(13,091)	-	-	-	(13,089)	
Net income for the period ⁽²⁾	-	-	-	-	-	16,469	-	1,221	17,690	
Change in accumulated other comprehensive income (loss)	-	-	-	-	-	-	3,305	-	3,305	
Additional paid in capital attributable to redeemable noncontrolling interest	-	-	-	-	(1,533)	-	-	-	(1,533)	
Contributions from noncontrolling interests	-	-	-	-	-	-	-	565	565	
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(4,820)	(4,820)	
Change in noncontrolling interests ⁽⁶⁾	-	-	-	-	-	-	-	(3,915)	(3,915)	
Balance at December 31, 2014	\$22	\$4	\$9,800	\$146	\$4,007,514	\$ (2,556,469)	\$ (971)	\$ (262,954)	\$51,256	\$1,248,348

Explanatory Notes:

- (1) See Note 11 for details on the Company's Cumulative Redeemable Preferred Stock.
- (2) For the years ended December 31, 2014, 2013 and 2012 net (loss) income shown above excludes \$(1,925), \$(3,119) and \$(812) of net loss attributable to redeemable noncontrolling interests.
- (3) Includes \$27.3 million of land assets contributed by a noncontrolling partner.
- (4) Includes an \$8.8 million payment to redeem a noncontrolling member's interest (see Note 4).
- (5) Includes \$9.4 million of operating property assets contributed by a noncontrolling partner.
- (6) During the year ended December 31, 2014, the Company sold its 72% interest in a previously consolidated entity to one of its unconsolidated ventures (see Note 4 and Note 6).

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2014	2013	2012
(In thousands)			
Cash flows from operating activities:			
Net income (loss)	\$ 15,765	\$ (111,233)	\$ (241,430)
Adjustments to reconcile net income (loss) to cash flows from operating activities:			
Provision for (recovery of) loan losses	(1,714)	5,489	81,740
Impairment of assets	34,634	14,507	38,077
Loss on transfer of interest to unconsolidated subsidiary	-	7,373	-
Depreciation and amortization	73,571	71,530	70,786
Payments for withholding taxes upon vesting of stock-based compensation	(21,250)	(14,098)	(12,589)
Non-cash expense for stock-based compensation	13,314	19,261	15,293
Amortization of discounts/premiums and deferred financing costs on debt	16,891	20,915	31,981
Amortization of discounts/premiums and deferred interest on loans	(59,747)	(37,383)	(40,912)
(Gain) loss from sales of loans	(19,067)	596	(6,367)
Earnings from equity method investments	(94,905)	(41,520)	(103,009)
Distributions from operations of equity method investments	80,116	17,252	105,586
Deferred operating lease income	(8,492)	(12,077)	(11,812)
Income from sales of real estate	(92,294)	(86,658)	(63,472)
Gain from discontinued operations	-	(22,233)	(27,257)
Loss on early extinguishment of debt, net	25,369	19,655	22,405
Repayments and repurchases of debt – debt discount and prepayment penalty	(14,888)	(24,001)	(74,712)
Other operating activities, net	31,935	6,917	9,427
Changes in assets and liabilities:			
Changes in accrued interest and operating lease income receivable, net	(1,426)	2,310	1,337
Changes in deferred expenses and other assets, net	4,601	(23,012)	1,271
Changes in accounts payable, accrued expenses and other liabilities	7,245	5,945	11,725
Cash flows from operating activities	\$ (10,342)	\$ (180,465)	\$ (191,932)
Cash flows from investing activities:			
Investment originations and fundings	\$ (622,428)	\$ (257,600)	\$ (47,603)
Capital expenditures on real estate assets	(142,787)	(109,403)	(83,070)
Acquisitions of real estate assets	(4,666)	(102,364)	(9,750)
Repayments of and principal collections on loans	512,528	613,615	728,657
Net proceeds from sales of loans	65,438	81,614	56,998
Net proceeds from sales of real estate	419,527	437,817	562,705
Net proceeds from sale of other investments	-	220,281	-
Distributions from other investments	61,031	36,918	78,238
Contributions to other investments	(159,424)	(12,784)	(10,640)
Changes in restricted cash held in connection with investing activities	29,283	(19,388)	(5,127)
Other investing activities, net	1,291	4,741	(3,361)
Cash flows from investing activities	\$ 159,793	\$ 893,447	\$ 1,267,047
Cash flows from financing activities:			
Borrowings from debt obligations	1,349,822	1,444,565	3,498,794
Repayments of debt obligations	(1,471,174)	(1,984,102)	(4,608,133)
Preferred dividends paid	(51,320)	(49,020)	(42,320)
Proceeds from issuance of preferred stock	-	193,510	-
Payments for deferred financing costs	(19,595)	(17,539)	(21,662)
Other financing activities, net	1,309	(43,172)	(2,276)
Cash flows from financing activities	\$ (190,958)	\$ (455,758)	\$ (1,175,597)
Changes in cash and cash equivalents	\$ (41,507)	\$ 257,224	\$ (100,482)
Cash and cash equivalents at beginning of period	513,568	256,344	356,826
Cash and cash equivalents at end of period	\$ 472,061	\$ 513,568	\$ 256,344
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest, net of amount capitalized	\$ 194,605	\$ 237,457	\$ 329,546

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 (see Note 15).

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 investments, 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 Company’s Consolidated Financial Statements and the related notes to conform to the current period presentation.

During the year ended December 31, 2014, the Company determined that its classification of proceeds received from land sales for the quarterly periods ended March 31, June 30 and September 30, 2014 was incorrectly classified as a component of cash flows from operating activities rather than cash flows from investing activities. The Company evaluated the impact on the previously issued statements of cash flows for the aforementioned periods and concluded that it was not material. However, in order to correctly present such cash flows, the Company will revise the amounts as those financial statements are presented in future filings. The impact of the correction is as follows:

	As Previously Reported	Change	As Revised
Cash flows from operating activities:			
Three months ended March 31, 2014	\$ (60,678)	\$ (4,143)	\$ (64,821)
Six months ended June 30, 2014	(83,477)	(8,630)	(92,107)
Nine months ended September 30, 2014	1,570	(11,920)	(10,350)
Cash flows from investing activities:			
Three months ended March 31, 2014	\$ 31,318	\$ 4,143	\$ 35,461
Six months ended June 30, 2014	58,691	8,630	67,321
Nine months ended September 30, 2014	295,785	11,920	307,705

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,” “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 those VIEs that it was not previously contractually required to provide.

Consolidated VIEs – As of December 31, 2014, the Company consolidated 4 VIEs for which it is considered the primary beneficiary. At December 31, 2014, the total assets of these consolidated VIEs were \$156.3 million and total liabilities were \$10.3 million. The classifications of these assets are primarily within “Real estate, net” and “Other investments” on the Company’s Consolidated Balance Sheets. The classifications of liabilities are primarily within “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, 2014.

Unconsolidated VIEs – As of December 31, 2014, 26 of the Company’s 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, 2014, the Company’s maximum exposure to loss from these investments does not exceed the sum of the \$177.3 million carrying value of the investments, which are classified in “Other investments” on the Company’s Consolidated Balance Sheets, and \$20.5 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. For real estate projects, the Company begins to capitalize qualified development and construction costs, including interest, real estate taxes, compensation and certain other carrying costs incurred which are specifically identifiable to a development project once activities necessary to get the asset ready for its intended use have commenced. If specific allocation of costs is not practicable, the Company will allocate costs based on relative fair value prior to construction or relative sales value, relative size or other value methods as appropriate during construction. The Company ceases capitalization on the portions substantially completed and ready for their intended use. Repairs and maintenance costs 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 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. Impairments of real estate assets that are disposed of or classified as held for sale after December 31, 2013 and which do not represent a strategic shift that has (or will have) a major effect on the Company’s operations and financial results are also recorded in “Impairments 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 sold 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. Impairment for real estate assets sold or classified as held for sale on or before December 31, 2013 are included in “Income (loss) from discontinued operations” on the Company’s Consolidated Statements of Operations. Impairment for real estate assets disposed of or classified as held for sale after December 31, 2013 are included in “Impairment of assets” on the Company’s Consolidated Statements of Operations. Once a real estate asset is classified as held for sale and represents a strategic shift, 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 – Revenue from sales of land and gains or losses on the sale of other real estate assets, including residential property, are recognized in accordance with Accounting Standards Codification (“ASC”) 360-20, *Real Estate Sales*. Sales of land and the associated gains on sales 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 primarily uses specific identification and the relative sales value method to allocate costs. Revenues from sales of land are included in “Land sales revenue” and costs of land sales are included in “Land cost of sales” on the Company’s Consolidated Statements of Operations. Gains on sales of net lease assets or commercial operating properties disposed of or classified as held for sale on or before December 31, 2013 are recorded in “Gains from discontinued operations” on the Company’s Consolidated Statements of Operations. Gain on sales of net lease

assets or commercial operating properties disposed of or classified as held for sale after December 31, 2013 and profits on sales of residential property within the operating property segment are included in "Income from sales of real estate" 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, preferred equity investments and debt securities. 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, when required, the basis difference is amortized over the life of the related assets and included in the Company's share of equity in net income (loss) of the unconsolidated subsidiary, as appropriate. 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. 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 and determines whether such intangible assets or liabilities have finite or indefinite lives. As of December 31, 2014, 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. As of December 31, 2014 and 2013, the allowance for doubtful accounts related to real estate tenant receivables was \$1.3 million and \$3.4 million, respectively, and the allowance for doubtful accounts related to deferred operating lease income was \$2.4 million and \$2.4 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" or "Other expense" 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.

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. Other income also includes gains from sales of loans, lease termination fees and other ancillary income.

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. If the Company determines that the collateral value is less than the carrying value of a collateral-dependent loan, the Company will record a reserve. The reserve is increased (decreased) through "Provision for (recovery of) loan losses" on the Company's Consolidated Statements of Operations and is decreased by charge-offs. During delinquency and the foreclosure process, there are typically numerous points of negotiation with the borrower as the Company works toward a settlement or other alternative resolution, which can impact the potential for loan repayment or receipt of collateral. The Company's policy is to charge off a loan when it determines, based on a variety of factors, that all commercially reasonable means of recovering the loan balance have been exhausted. This may occur at different times, including when the Company receives cash or other assets in a pre-foreclosure sale or takes control of the underlying collateral in full satisfaction of the loan upon foreclosure or deed-in-lieu, or when the Company has otherwise ceased significant collection efforts. The Company considers circumstances such as the foregoing to be indicators that the final steps in the loan collection process have occurred and that a loan is uncollectible. At this point, a loss is confirmed and the loan and related reserve will be charged off. 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.

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 "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, 2014 is \$909.3 million. 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, 2013, the Company had \$759.8 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 2033 if unused. The amount of net operating loss carryforwards as of December 31, 2014 will be subject to finalization of the Company's 2014 tax return. During the year ended December 31, 2014, the Company did not have REIT taxable income. 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, 2014, \$541.7 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,	2014	2013	2012
Current tax (expense) benefit	\$(3,912)	\$659	\$(8,445)
Deferred tax (expense) benefit	-	-	-
Total income tax (expense) benefit	\$(3,912)	\$659	\$(8,445)

During the year ended December 31, 2014, the Company's TRS entities generated taxable income of \$19.3 million, which was partially offset by the utilization of net operating loss carryforwards, resulting in a current tax expense of \$3.9 million. During the year ended December 31, 2013, the Company's TRS entities generated taxable loss of \$1.8 million, which was partially offset by the utilization of net operating loss carryforwards, 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 a current tax expense of \$8.4 million.

Total cash paid for taxes for the years ended December 31, 2014, 2013 and 2012 was \$1.3 million, \$9.2 million and \$5.5 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, 2014 and 2013, respectively. Changes in estimates 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,	2014	2013
Deferred tax assets ⁽¹⁾	\$ 54,318	\$ 55,962
Valuation allowance	(54,318)	(55,962)
Net deferred tax assets (liabilities)	\$ -	\$ -

Explanatory Note:

(1) Deferred tax assets as of December 31, 2014 include timing differences related primarily to real estate basis of \$39.3 million, investment basis of \$5.9 million and net operating loss carryforwards of \$4.1 million. Deferred tax assets as of December 31, 2013, include timing differences related to real estate basis of \$33.0 million, investment basis of \$8.1 million, and net operating loss carryforwards of \$14.9 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 non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are deemed a "Participating Security" and are included in the computation of earnings per share pursuant to the two-class method. The Company's common stock equivalents granted under its Long-Term Incentive Plans that are eligible to participate in dividends are considered Participating Securities and have been included in the two-class method when calculating EPS.

New accounting pronouncements – In April 2014, the FASB issued ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* ("ASU 2014-08"). This guidance requires disposals of a component of an entity or group of components of an entity that represent a strategic shift that has (or will have) a major

effect on an entity's operations and financial results to be reported as discontinued operations. Assets and liabilities of a disposal group that includes a discontinued operation must be presented separately in asset and liability sections, respectively, of the Company's Consolidated Balance Sheets for each comparative period. Expanded disclosures about the assets, liabilities, revenues and expenses of discontinued operations are also required. For individually significant disposals that do not qualify as discontinued operations, disclosure of pre-tax income is required. ASU 2014-08 is effective for interim and annual periods beginning on or after December 15, 2014. Early adoption is permitted for disposals (or classifications as held for sale) that have not been reported in previously-issued financial statements. The Company has elected to early adopt ASU 2014-08 beginning with disposals and classifications of assets as held for sale that occurred after December 31, 2013.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09") which supersedes existing industry-specific guidance, including ASC 360-20, *Real Estate Sales*. The new standard is principles-based and requires more estimates and judgment than current guidance. Certain contracts with customers, including lease contracts and financial instruments and other contractual rights, are not within the scope of the new guidance. ASU 2014-09 is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. Management is evaluating the impact of the guidance on the Company's Consolidated Financial Statements.

In June 2014, the FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* ("ASU 2014-12") which requires a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition in accordance with Topic 718, *Compensation – Stock Compensation*. ASU 2014-12 is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. Management does not believe the guidance will have a significant impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15") which requires management to evaluate whether there is substantial doubt that the Company is able to continue operating as a going concern within one year after the date the financial statements are issued or available to be issued. If there is substantial doubt, additional disclosure is required, including the principal condition or event that raised the substantial doubt, the Company's evaluation of the condition or event in relation to its ability to meet its obligations and the Company's plan to alleviate (or, which is intended to alleviate) the substantial doubt. ASU 2014-15 is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted. Management does not believe the guidance will have a significant impact on the Company's Consolidated Financial Statements.

In November 2014, the FASB issued ASU 2014-16, *Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity* ("ASU 2014-16") which eliminates the diversity in practice for the accounting for hybrid financial

instruments issued in the form of a share. ASU 2014-16 requires management to consider all terms and features, whether stated or implied, of a hybrid instrument when determining whether the nature of the instrument is more akin to a debt instrument or an equity instrument. Embedded derivative features, which are accounted for separately from host contracts, should also be considered in the analysis of the hybrid instrument. ASU 2014-16 is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. Management does not believe the guidance will have a significant impact on the Company's Consolidated Financial Statements.

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis* ("ASU 2015-02") which updates the consolidation model for limited partnerships and similar legal entities. ASU 2015-02 includes the evaluation of fees paid to a decision maker as a variable interest and amends the effect of fee arrangements and related parties on the primary beneficiary determination. The guidance is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. Management is evaluating the impact of the guidance on the Company's Consolidated Financial Statements.

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, 2014				
Land and land improvements	\$ 311,890	\$146,417	\$868,650	\$ 1,326,957
Buildings and improvements	1,240,593	578,013	–	1,818,606
Less: accumulated depreciation and amortization	(364,323)	(96,159)	(8,367)	(468,849)
Real estate, net	1,188,160	628,271	860,283	2,676,714
Real estate available and held for sale	4,521	162,782	118,679	285,982
Total real estate	\$ 1,192,681	\$791,053	\$978,962	\$ 2,962,696
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

Real Estate Available and Held for Sale – As of December 31, 2014 and 2013 the Company had \$155.8 million and \$221.0 million, respectively, of residential properties available for sale in its operating properties portfolio.

During the year ended December 31, 2014, the Company reclassified land with a carrying value of \$6.5 million from held for sale to held for investment due to a change in the Company's strategy and its plan to re-entitle the property. The asset is included in "Real estate, net" on the Company's Consolidated Balance Sheets. There were no operations to reclassify on the Company's Consolidated Statements of Operations as a result of this change. During the same period, the Company reclassified units with a carrying value of \$56.7 million to held for sale due to the conversion of hotel rooms to residential units to be sold. The Company also reclassified net lease assets with a carrying value of \$4.0 million to held for sale due to executed contracts with third parties.

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 in "Discontinued Operations" 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 sales of real estate" on the Company's Consolidated Statements of Operations.

Acquisitions – The following acquisitions of real estate were reflected in the Company’s Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012 (\$ in thousands):

For the Years Ended December 31,	2014 ⁽¹⁾	2013 ⁽²⁾⁽³⁾	2012 ⁽⁴⁾
Acquisitions of real estate assets	\$4,666	\$102,364	\$9,750

Explanatory Notes:

- (1) During the year ended December 31, 2014, the Company purchased two condominium units for \$3.0 million and one land parcel for \$1.7 million.
- (2) During the year ended December 31, 2013, the Company acquired a net lease asset 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, which was leased back to the seller. The Company concluded that the transaction was a real estate asset acquisition and capitalized the acquisition-related costs. The intangible assets were included in “Deferred expenses and other assets, net” and the intangible liabilities were included in “Accounts payable, accrued expenses and other liabilities” on the Company’s Consolidated Balance Sheets. The lease was classified as an operating lease. During the year ended December 31, 2014, the net lease asset was sold to its Net Lease Venture for net proceeds of \$93.7 million, which approximated carrying value.
- (3) During the year ended December 31, 2013, the Company paid \$8.8 million to redeem a noncontrolling member’s interest.
- (4) During the year ended December 31, 2012, the Company acquired approximately 900 parking spaces adjacent to an owned property for \$9.8 million.

During the year ended December 31, 2014, the Company acquired, via deed-in-lieu, title to three commercial operating properties and a land asset, which had a total fair value of \$77.9 million and previously served as collateral for loans receivable held by the Company. No gain or loss was recorded in connection with these transactions. The following unaudited table summarizes the Company’s pro forma revenues and net income for the years ended December 31, 2014 and 2013, as if the acquisition of these properties acquired during the year ended December 31, 2014 was completed on January 1, 2013 (\$ in thousands):

For the Years Ended December 31,	2014	2013
Pro forma total revenues	\$466,327	\$399,885
Pro forma net income (loss)	(245)	(112,355)

From the date of acquisition in May 2014 through December 31, 2014, \$8.3 million in total revenues and \$2.9 million in net loss associated with the properties were included in the Company’s Consolidated Statements of Operations. The pro forma revenues and net income are presented for informational purposes only and may not be indicative of what the actual results of operations of the Company would have been assuming the transaction occurred on January 1, 2013, nor do they purport to represent the Company’s results of operations for future periods.

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 for 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 connection with this transaction.

Dispositions – During the years ended December 31, 2014, 2013 and 2012, the Company sold residential condominiums for total net proceeds of \$236.2 million, \$269.7 million and \$319.3 million, respectively, and recorded income from sales of real estate totaling \$79.1 million, \$82.6 million and \$63.5 million, respectively. During the year ended December 31, 2014, the Company sold residential lots from three of our master planned community properties for proceeds of \$15.2 million which had associated cost of sales of \$12.8 million. During the same period, the Company also sold properties with a carrying value of \$6.8 million for proceeds that approximated carrying value.

During the year ended December 31, 2014, the Company sold net lease assets with a carrying value of \$8.0 million resulting in a net gain of \$5.7 million. The Company also sold a commercial operating property with a carrying value of \$29.4 million resulting in a gain of \$4.6 million. These gains were recorded as “Income from sales of real estate” in the Company’s Consolidated Statements of Operations. Additionally, during the same period, the Company sold a net lease asset for net proceeds of \$7.8 million. The Company recorded an impairment loss of \$3.0 million in connection with the sale.

During the year ended December 31, 2014, the Company sold its 72% interest in a previously consolidated entity, which owned a net lease asset subject to a non-recourse mortgage of \$26.0 million at the time of sale, to its Net Lease Venture for net proceeds of \$10.1 million that approximated carrying value. During the same period, the Company contributed land with a carrying value of \$9.5 million to a newly formed unconsolidated entity. See Note 6.

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 the sold interest, which was recorded as “Income from sales of real estate” in 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” in the Company’s Consolidated Statements of Operations. The Company also sold other land assets with a carrying value of \$14.8 million resulting in a gain of

\$0.6 million. 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.

Discontinued Operations – The Company has elected to early adopt ASU 2014-08 beginning with disposals and classifications of assets as held for sale that occurred after December 31, 2013. During the year ended December 31, 2014, there were no disposals or assets classified as held for sale which were individually significant or represented a strategic shift that has (or will have) a major effect on the Company’s operations and financial results.

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

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

Impairments – During the year ended December 31, 2014, the Company recorded impairments on real estate assets totaling \$34.6 million, of which \$15.6 million resulted from changes in business strategies for a residential property and a land asset, \$15.4 million resulted from continued unfavorable local market conditions for two real estate properties and \$3.6 million resulted from the sale of net lease assets. During the years ended December 31, 2013 and 2012, the Company recorded impairments on real estate assets totaling \$14.4 million and \$35.4 million, respectively, resulting from changes in local market conditions and business strategy for certain assets. Of these amounts, \$1.8 million and \$22.6 million for the years ended December 31, 2013 and 2012, 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 were \$30.0 million, \$31.8 million and \$30.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. These amounts 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, 2014, are as follows (\$ in thousands):

Year	Net Lease Assets	Operating Properties
2015	\$126,316	\$52,823
2016	125,653	51,437
2017	120,918	49,592
2018	118,384	44,288
2019	116,348	38,707

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,	2014	2013
Type of Investment		
Senior mortgages	\$ 737,535	\$1,071,662
Subordinate mortgages	53,331	60,679
Corporate/Partnership loans	497,796	473,045
Total gross carrying value of loans	1,288,662	1,605,386
Reserves for loan losses	(98,490)	(377,204)
Total loans receivable, net	1,190,172	1,228,182
Other lending investments – securities	187,671	141,927
Total loans receivable and other lending investments, net ⁽¹⁾	\$ 1,377,843	\$1,370,109

Explanatory Note:

(1) The Company’s recorded investment in loans as of December 31, 2014 and 2013 also includes accrued interest of \$7.0 million and \$6.5 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, 2014, 2013 and 2012, the Company sold loans with total carrying values of \$30.8 million, \$95.1 million and \$53.9 million, respectively, which resulted in a realized gain of \$19.1 million, a net realized loss of \$0.6 million and a net gain of \$6.4 million, 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,	2014	2013	2012
Reserve for loan losses at beginning of period	\$ 377,204	\$ 524,499	\$ 646,624
Provision for (recovery of) loan losses ⁽¹⁾	(1,714)	5,489	81,740
Charge-offs	(277,000)	(152,784)	(203,865)
Reserve for loan losses at end of period	\$ 98,490	\$ 377,204	\$ 524,499

Explanatory Note:

(1) For the years ended December 31, 2014, 2013 and 2012, the provision for loan losses includes recoveries of previously recorded loan loss reserves of \$10.1 million, \$63.1 million and \$4.6 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, 2014				
Loans	\$ 139,672	\$ 1,156,031	\$ -	\$ 1,295,703
Less: Reserve for loan losses	(64,990)	(33,500)	-	(98,490)
Total	\$ 74,682	\$ 1,122,531	\$ -	\$ 1,197,213
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

Explanatory Notes:

- (1) The carrying value of these loans include unamortized discounts, premiums, deferred fees and costs aggregating to a net discount of \$0.2 million and a net premium of \$0.5 million as of December 31, 2014 and 2013, 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 \$10.6 million and \$4.6 million as of December 31, 2014 and 2013, respectively.
- (3) The carrying value of the loan includes unamortized discounts, premiums, deferred fees and costs aggregating to a net premium of \$0.4 million as of December 31, 2013. The loan had a cumulative principal balance of \$10.2 million as of December 31, 2013. The loan was repaid during the year ended December 31, 2014.

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 be similar to 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,			
	2014		2013	
	Performing Loans	Weighted Average Risk Ratings	Performing Loans	Weighted Average Risk Ratings
Senior mortgages	\$ 611,009	2.73	\$ 591,145	2.50
Subordinate mortgages	53,836	2.87	61,364	3.37
Corporate/Partnership loans	501,620	3.88	438,831	3.88
Total	\$ 1,166,465	3.23	\$ 1,091,340	3.11

As of December 31, 2014, 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 ⁽¹⁾	Total Past Due	Total
	Senior mortgages	\$ 644,190	\$ -	\$ 96,057	\$ 96,057
Subordinate mortgages	53,836	-	-	-	53,836
Corporate/Partnership loans	501,620	-	-	-	501,620
Total	\$ 1,199,646	\$ -	\$ 96,057	\$ 96,057	\$ 1,295,703

Explanatory Note:

- (1) As of December 31, 2014, the Company had three loans which were greater than 90 days delinquent and were in various stages of resolution, including legal proceedings, environmental concerns and foreclosure-related proceedings, and ranged from 5.0 to 6.0 years outstanding.

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

	As of December 31, 2014			As of December 31, 2013		
	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	\$ -
With an allowance recorded:						
Senior mortgages	130,645	129,744	(64,440)	650,337	645,463	(304,544)
Corporate/Partnership loans	9,027	9,057	(550)	99,076	99,067	(43,460)
Subtotal	139,672	138,801	(64,990)	749,413	744,530	(348,004)
Total:						
Senior mortgages	130,645	129,744	(64,440)	653,349	648,455	(304,544)
Corporate/Partnership loans	9,027	9,057	(550)	99,076	99,067	(43,460)
Total	\$139,672	\$138,801	\$(64,990)	\$752,425	\$747,522	\$(348,004)

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, 2014 and 2013, certain loans modified through troubled debt restructurings with a recorded investment of \$10.4 million and \$231.8 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,					
	2014		2013		2012	
	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	\$ 35,659	\$ 1,922	\$ 31,409	\$ 9,269	\$ 162,093	\$ 2,765
Corporate/Partnership loans	-	-	8,062	6,050	10,110	160
Subtotal	35,659	1,922	39,471	15,319	172,203	2,925
With an allowance recorded:						
Senior mortgages	334,351	158	794,247	1,976	1,064,045	3,865
Subordinate mortgages	-	-	32,382	-	52,208	-
Corporate/Partnership loans	52,963	181	77,661	323	62,248	312
Subtotal	387,314	339	904,290	2,299	1,178,501	4,177
Total:						
Senior mortgages	370,010	2,080	825,656	11,245	1,226,138	6,630
Subordinate mortgages	-	-	32,382	-	52,208	-
Corporate/Partnership loans	52,963	181	85,723	6,373	72,358	472
Total	\$422,973	\$2,261	\$943,761	\$17,618	\$1,350,704	\$7,102

There was no interest income related to the resolution of non-performing loans recorded during the years ended December 31, 2014 and 2012. During the year ended December 31, 2013, the Company recorded interest income of \$13.3 million related to the resolution of 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, 2014 and 2013, 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,					
	2014			2013		
	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	1	\$7,040	\$7,040	6	\$179,030	\$154,278

During the year ended December 31, 2014, the Company restructured one non-performing loan with a recorded investment of \$7.0 million to grant a maturity extension of one year and included conditional extension options.

During the year ended December 31, 2013, the Company restructured six loans that were considered troubled debt restructurings. The Company restructured two performing loans with a combined recorded investment of \$4.6 million to grant maturity extensions of one year each. 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. At the time of the restructuring, the Company reclassified the loans from non-performing to performing status as the Company believed the borrowers would perform under the modified

terms of the agreements. The loans were repaid in January 2014 and July 2014 at the discounted payoff amount.

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, 2014, there were no unfunded commitments associated with modified loans considered troubled debt restructurings.

Securities – Other lending investments – securities includes the following (\$ in thousands):

	Face Value	Amortized Cost Basis	Net Unrealized Gain (Loss)	Estimated Fair Value	Net Carrying Value
As of December 31, 2014					
Available-for-Sale Securities					
Municipal debt securities	\$ 1,020	\$ 1,020	\$ 147	\$ 1,167	\$ 1,167
Held-to-Maturity Securities					
Corporate debt securities	176,254	186,504	–	190,199	186,504
Total	\$177,274	\$187,524	\$ 147	\$191,366	\$187,671
As of December 31, 2013					
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

As of December 31, 2014, 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	186,504	190,199	-	-
After 5 years through 10 years	-	-	-	-
After 10 years	-	-	1,020	1,167
Total	<u>\$186,504</u>	<u>\$190,199</u>	<u>\$1,020</u>	<u>\$1,167</u>

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,		
	2014	2013	2014	2013	2012
Real estate equity investments	\$244,886	\$ 62,205	\$53,428	\$ 2,753	\$ 21,636
Madison Funds	45,971	67,782	3,092	14,796	10,246
Other equity method investments ⁽¹⁾⁽²⁾	30,415	45,954	35,172	3,332	4,614
Oak Hill Funds	17,658	21,366	3,213	4,174	5,844
LNR	-	-	-	16,465	60,669
Total equity method investments	<u>338,930</u>	<u>197,307</u>	<u>\$94,905</u>	<u>\$41,520</u>	<u>\$103,009</u>
Other	15,189	9,902			
Total other investments	<u>\$354,119</u>	<u>\$207,209</u>			

Explanatory Notes:

- (1) During the year ended December 31, 2014, the Company recognized \$23.4 million of earnings from equity method investments resulting from asset sales and a legal settlement by one of its equity method investees.
- (2) In conjunction with the sale of the Company's interests in Oak Hill Advisors, L.P. in 2011, the Company retained interests in its share of carried interest related to various funds. During the year ended December 31, 2014, the Company recognized \$9.0 million of carried interest income.

Real Estate Equity Investments – During the year ended December 31, 2014, the Company partnered with a sovereign wealth fund to form a new unconsolidated entity in which the Company has a noncontrolling equity interest of approximately 51.9%. This entity is not a VIE and the Company does not have controlling interest due to substantive participating rights of its partner. The partners plan to contribute up to an aggregate \$500 million of equity to acquire and develop net lease assets over time. The Company is responsible for sourcing new opportunities and managing the venture and its assets in exchange for a promote and management fee. Several of the Company's senior executives whose time is substantially devoted to the net lease venture own a total of 0.6% equity ownership in the venture via co-investment. These executives are also entitled to an amount equal to 50% of any promote payment received based on the 47.5% partner's interest. During the year ended December 31, 2014, the Company sold a net lease asset for net proceeds of \$93.7 million, which approximated carrying value, to the venture. The Company also sold its 72% interest in a previously consolidated entity, which owned a net lease asset subject to a non-recourse mortgage of \$26.0 million at the time of sale, to the venture for net proceeds of \$10.1 million, which approximated carrying value. During the same period, the venture purchased a portfolio of 58 net

lease assets for a purchase price of \$200.0 million from a third party. As of December 31, 2014, the venture's carrying value of total assets was \$348.1 million and the Company had a recorded equity interest in the venture of \$125.4 million.

During the year ended December 31, 2014, an unconsolidated entity for which the Company held a 50.0% noncontrolling equity interest sold all of its properties. As a result of the transaction, the Company received net proceeds of \$48.1 million and recognized a gain of \$33.3 million, which is included in "Earnings from equity method investments" in its Consolidated Statements of Operations. As of December 31, 2014 and 2013, the Company had an equity interest in the entity of \$0.2 million and \$16.4 million, respectively.

During the year ended December 31, 2014, the Company contributed land to a newly formed unconsolidated entity in which the Company received an initial equity interest of 85.7%. This entity is a VIE and the Company does not have controlling interest due to shared power of the entity with its partner. As of December 31, 2014, the Company had a recorded equity interest of \$9.4 million. Additionally, the Company committed to provide \$45.7 million of mezzanine financing to the entity. As of December 31, 2014, the loan balance was \$14.6 million

and is included in "Loans receivable and other lending investments, net" on the Company's Consolidated Balance Sheets.

During the year ended December 31, 2014, the Company and a consortium of co-lenders formed a new unconsolidated entity, in which the Company received an initial 15.7% equity interest, which acquired, via foreclosure sale, title to a land asset which previously served as collateral for a loan receivable held by the consortium. This entity is not a VIE and the Company does not have controlling interest in the entity as the Company's voting rights is based on its ownership percentage in the entity. As a result of the transaction, the Company recorded an additional provision of \$2.8 million in "Provision for (recovery of) loan losses" in its Consolidated Statements of Operations. As of December 31, 2014, the Company had a recorded equity interest of \$23.5 million.

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. This entity is a VIE and the Company does not have controlling interest due to shared power of the entity with its partner. 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. During 2014, the Company acquired an additional preferred partnership interest in the entity of \$10.0 million and recognized \$14.7 million of income related to sales activity, which is included in "Earnings from equity method investments" in its Consolidated Statements of Operations. As of December 31, 2014 and 2013, the Company had a recorded equity interest of \$30.7 million and \$5.5 million, respectively.

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, 2014 and 2013, the Company had a recorded equity interest of \$21.1 million and \$18.0 million, respectively. 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, 2014 and 2013, the Company had a recorded equity interest of \$7.8 million and \$3.5 million, respectively. These entities are VIEs and the Company does not have controlling interests due to shared power of the entities with its partners.

As of December 31, 2014, the Company's other real estate equity investments included equity interests in real estate ventures ranging from 31% to 70%, comprised of investments of \$13.2 million in operating properties and \$13.8 million in land assets. As of December 31, 2013, the Company's real estate equity investments included \$16.0 million in operating properties and \$2.7 million in land assets.

Madison Funds – As of December 31, 2014, the Company owned a 29.5% interest in Madison International Real Estate Fund II, LP, a 32.9% interest in Madison International Real Estate Liquidity Fund III, LP ("MIRELF III"), a 32.9% interest in Madison International Real Estate Liquidity Fund III AIV, LP ("MIRELF III AIV") and a 29.5% 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 VIEs and that the Company is not the primary beneficiary.

Oak Hill Funds – As of December 31, 2014, the Company owned a 5.9% 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 VIE and that the Company is not the primary beneficiary.

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, which were placed in escrow for potential indemnification obligations, were released to the Company in April 2014.

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

	For the Period from October 1, 2012 to April 19, 2013	For the Year Ended September 30, 2012
Income Statements		
Total revenue ⁽²⁾	\$ 179,373	\$332,902
Income tax (expense) benefit	(2,137)	(6,731)
Net income attributable to LNR ⁽³⁾	113,478	253,039
iStar's ownership percentage	24%	24%
iStar's equity in earnings from LNR	\$ 45,375	\$ 60,669
Cash Flows		
Operating cash flows	\$(127,075)	\$(85,909)
Cash flows from investing activities	(36,543)	(55,686)
Cash flows from financing activities	217,241	229,634
Net cash flows	53,623	88,039
Cash distributions	-	61,179
iStar's ownership percentage	24%	24%
Cash distributions received by iStar	\$ -	\$ 14,690

Explanatory Notes:

- (1) The Company recorded its investment in LNR, which was sold in April 2013, on a one quarter lag. Therefore, the amounts in the Company's financial statements for the year ended December 31, 2013 was 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 are based on the balances and results from LNR for the year ended September 30, 2012.
- (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. Total revenue presented above includes \$55.5 million and \$95.4 million for the period from October 1, 2012 to April 19, 2013 and for the year ended September 30, 2012, 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) 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 pursuant to the definitive sale agreement as described above.

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 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) During the year ended December 31, 2013, the Company recorded an other than temporary impairment of \$30.9 million. 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 pursuant to the definitive sale agreement 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) and (b), and \$1.7 million of income recognized for the release of other comprehensive income related to LNR upon sale, or \$16.5 million.

Other Investments – As of December 31, 2014, 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 investee financial information – The following tables present the investee level summarized financial information of the Company's equity method investments, excluding LNR which is presented above (\$ in thousands):

	Revenues	Expenses	Net Income Attributable to Parent Entities
For the Year Ended December 31, 2014			
Alinda Infrastructure Fund I, L.P. ("Alinda") ⁽¹⁾	\$233,130	\$ (15,433)	\$217,697
Marina Palms, LLC ("Marina Palms")	114,125	(77,120)	37,005
OHASCF	78,262	(951)	77,311
Moor Park Real Estate Partners II L.P., Incorporated ("Moor Park")	25,760	(224)	25,536
MIRELF III	20,293	(1,401)	18,846
iStar Net Lease I LLC ("Net Lease Venture") ⁽²⁾	13,826	(9,917)	3,691
Outlets at Westgate, LLC ("Westgate")	13,118	(9,618)	3,500
MIRELF III AIV	(1,194)	(384)	(1,578)
Other	128,719	(70,555)	58,202
Total	\$626,039	\$(185,603)	\$440,210
For the Year Ended December 31, 2013			
Alinda ⁽¹⁾	\$ 123,447	\$ (17,927)	\$ 105,520
OHASCF	72,313	(1,642)	70,671
MIRELF III AIV	26,348	(1,167)	25,181
MIRELF III	19,460	(1,675)	17,739
Westgate	12,447	(8,889)	3,558
Moor Park	1,373	(304)	1,069
Marina Palms ⁽³⁾	73	(3,525)	(3,452)
Other	29,052	(42,504)	(14,088)
Total	\$ 284,513	\$(77,633)	\$ 206,198
For the Year Ended December 31, 2012			
OHASCF	\$ 109,234	\$ (2,700)	\$ 106,534
Alinda ⁽¹⁾	104,364	(16,934)	87,430
MIRELF III	13,490	(3,894)	9,550
Westgate	1,935	(2,202)	(267)
Moor Park	1,225	(435)	790
MIRELF III AIV	(12,762)	(1,731)	(14,493)
Other	184,384	(67,495)	115,416
Total	\$ 401,870	\$(95,391)	\$ 304,960

Explanatory Notes:

- (1) The Company recorded its 1% investment in Alinda on a quarter lag. Therefore, the amounts in the Company's financial statements for the years ended December 31, 2014, 2013 and 2012 were based on balances and results from Alinda for the years ended September 30, 2014, 2013 and 2012, respectively.
- (2) The Company began accounting for its investment in Net Lease Venture under the equity method of accounting on February 13, 2014. The amounts in the Company's financial statements for the year ended December 31, 2014 are based on the balances and results from Net Lease Venture for the period from February 13, 2014 to December 31, 2014.
- (3) The Company began accounting for its investment in Marina Palms under the equity method of accounting on April 17, 2013. The amounts in the Company's financial statements for the year ended December 31, 2013 are based on the balances and results from Marina Palms for the period from April 17, 2013 to December 31, 2013.

As of December 31,	2014	2013
Balance Sheets		
Total assets	\$3,464,984	\$2,980,737
Total liabilities	479,298	303,100
Noncontrolling interests	3,297	333
Total equity	2,982,389	2,677,304

Note 7 – Other Assets and Other Liabilities

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

As of December 31,	2014	2013
Intangible assets, net ⁽¹⁾	\$ 50,088	\$100,652
Other assets	37,085	40,726
Deferred financing fees, net ⁽²⁾	36,774	33,591
Leasing costs, net ⁽³⁾	20,031	21,799
Other receivables	13,115	34,655
Corporate furniture, fixtures and equipment, net ⁽⁴⁾	5,409	6,557
Deferred expenses and other assets, net	\$162,502	\$237,980

Explanatory Notes:

- (1) Intangible assets, net are primarily related to the acquisition of real estate assets. Accumulated amortization on intangible assets was \$45.1 million and \$38.1 million as of December 31, 2014 and 2013, respectively. The amortization of above market leases decreased operating lease income on the Company's Consolidated Statements of Operations by \$7.7 million, \$7.0 million and \$5.8 million for the years ended December 31, 2014, 2013, and 2012, respectively. The amortization expense for other intangible assets was \$6.7 million, \$8.2 million and \$7.0 million for the years ended December 31, 2014, 2013, and 2012, 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 \$15.4 million and \$9.9 million as of December 31, 2014 and 2013, respectively.
- (3) Accumulated amortization on leasing costs was \$9.0 million and \$7.1 million as of December 31, 2014 and 2013, respectively.
- (4) Accumulated depreciation on corporate furniture, fixtures and equipment was \$7.1 million and \$6.2 million as of December 31, 2014 and 2013, respectively.

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

As of December 31,	2014	2013
Accrued expenses	\$ 62,866	\$ 58,840
Accrued interest payable	57,895	40,015
Other liabilities ⁽¹⁾	48,256	45,753
Intangible liabilities, net ⁽²⁾	11,885	26,223
Accounts payable, accrued expenses and other liabilities	\$180,902	\$170,831

Explanatory Notes:

- (1) As of December 31, 2014, "Other liabilities" includes \$6.8 million related to a profit sharing payable to a developer for residential units sold. "Other liabilities" also includes \$7.7 million related to tax increment financing ("TIF") bonds which were issued by a governmental entity to fund the installation of infrastructure within one of the Company's master planned community developments. The balance represents a special assessment associated with each individual land parcel, which will decrease as the Company sells parcels.
- (2) Intangible liabilities, net are primarily related to the acquisition of real estate assets. Accumulated amortization on intangible liabilities was \$6.2 million and \$4.6 million as of December 31, 2014 and 2013, respectively. The amortization of intangible liabilities increased operating lease income on the Company's Consolidated Statements of Operations by \$2.5 million, \$2.8 million and \$1.4 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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

2015	\$5,929
2016	5,677
2017	5,308
2018	4,987
2019	4,830

Note 8 – Debt Obligations, net

As of December 31, 2014 and 2013, the Company's debt obligations were as follows (\$ in thousands):

	Carrying Value as of December 31,		Stated Interest Rates	Scheduled Maturity Date
	2014	2013		
Secured credit facilities and term loans:				
2012 Tranche A-2 Facility	\$ 358,504	\$ 431,475	LIBOR + 5.75% ⁽¹⁾	March 2017
February 2013 Secured Credit Facility	–	1,379,407	LIBOR + 3.50% ⁽²⁾	–
Term loans collateralized by net lease assets	248,955	278,817	4.851% – 7.26% ⁽³⁾	Various through 2026
Total secured credit facilities and term loans	607,459	2,089,699		
Unsecured notes:				
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	265,000	3.875%	July 2016
3.0% senior convertible notes ⁽⁴⁾	200,000	200,000	3.0%	November 2016
1.50% senior convertible notes ⁽⁵⁾	200,000	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
4.00% senior notes	550,000	–	4.00%	November 2017
7.125% senior notes	300,000	300,000	7.125%	February 2018
4.875% senior notes	300,000	300,000	4.875%	July 2018
5.00% senior notes	770,000	–	5.00%	July 2019
Total unsecured notes	3,326,890	2,006,890		
Other debt obligations:				
Other debt obligations	100,000	100,000	LIBOR + 1.50%	October 2035
Total debt obligations	4,034,349	4,196,589		
Debt discounts, net	(11,665)	(38,464)		
Total debt obligations, net	\$4,022,684	\$4,158,125		

Explanatory Notes:

- (1) The loan has a LIBOR floor of 1.25%. As of December 31, 2014, inclusive of the floor, the 2012 Tranche A-2 Facility loan incurred interest at a rate of 7.00%.
- (2) This loan had a LIBOR floor of 1.00%.
- (3) As of December 31, 2014 and 2013, includes a loan with a floating rate of LIBOR plus 2.00%. As of December 31, 2013, includes a loan with a floating rate of LIBOR plus 2.75%. As of December 31, 2014, the weighted average interest rate of these loans is 5.3%.
- (4) 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.
- (5) 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, 2014, future scheduled maturities of outstanding long-term debt obligations are as follows (\$ in thousands):

	Unsecured Debt	Secured Debt	Total
2015	\$ 105,765	\$ –	\$ 105,765
2016	926,403	–	926,403
2017	924,722	358,504	1,283,226
2018	600,000	15,239	615,239
2019	770,000	32,312	802,312
Thereafter	100,000	201,404	301,404
Total principal maturities	3,426,890	607,459	4,034,349
Unamortized debt discounts, net	(8,371)	(3,294)	(11,665)
Total long-term debt obligations, net	\$3,418,519	\$604,165	\$4,022,684

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.

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 “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.

During the year ended December 31, 2014, net proceeds from the issuances of the Company’s \$550.0 million aggregate principal amount of 4.00% senior unsecured notes and \$770.0 million aggregate principal amount of 5.00% senior unsecured notes, together with cash on hand, were used to fully repay and terminate the February 2013 Secured Credit Facility. From February 2013 through full payoff in June 2014, the Company made cumulative amortization repayments of \$388.5 million. During the year ended December 31, 2014 and 2013, amortization repayments made by the Company resulted in losses on early extinguishment of debt of \$1.1 million and \$7.0 million, respectively, related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid. In connection with the repayment and termination of the facility in 2014, the Company recorded a loss on early extinguishment of debt of \$22.8 million related to unamortized discounts and financing fees at

the time of refinancing. These amounts were included in “Loss on early extinguishment of debt, net” on the Company’s Consolidated Statements of Operations.

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 Company may also make optional prepayments, subject to prepayment fees. The 2012 Tranche A-1 Facility was fully repaid in August 2013. Additionally, through December 31, 2014, the Company made cumulative amortization repayments of \$111.5 million on the 2012 Tranche A-2 Facility. For the years ended December 31, 2014 and 2013, repayments of the 2012 Tranche A-2 Facility prior to maturity resulted in losses on early extinguishment of debt of \$1.5 million and \$1.0 million, respectively, related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid. These amounts were included in “Loss on early extinguishment of debt, net” on the Company’s Consolidated Statements of Operations.

Repayments of the 2012 Tranche A-1 Facility prior to scheduled amortization dates 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. These amounts were included in “Loss on early extinguishment of debt, net” on the Company’s Consolidated Statements of Operations.

Unsecured Notes – In June 2014, the Company issued \$550.0 million aggregate principal amount of 4.00% senior unsecured notes due November 2017 and \$770.0 million aggregate principal amount of 5.00% senior unsecured notes due July 2019. Net proceeds from these transactions, together with cash on hand, were used to fully repay and terminate the February 2013 Secured Credit Facility which had an outstanding balance of \$1.32 billion.

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, 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, the Company incurred \$2.8 million of losses related to a prepayment penalty and the accelerated amortization of discounts, which was recorded in "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 "Loss on early extinguishment of debt, net" on the Company's Consolidated Statements of Operations for the year ended December 31, 2013.

Encumbered/Unencumbered Assets – As of December 31, 2014 and 2013, the carrying value of the Company's encumbered and unencumbered assets by asset type are as follows (\$ in thousands):

	As of December 31,			
	2014		2013	
	Encumbered Assets	Unencumbered Assets	Encumbered Assets	Unencumbered Assets
Real estate, net	\$620,378	\$2,056,336	\$1,644,463	\$1,151,718
Real estate available and held for sale	10,496	275,486	152,604	207,913
Loans receivable and other lending investments, net ⁽¹⁾	46,515	1,364,828	860,557	538,752
Other investments	17,708	336,411	24,093	183,116
Cash and other assets	–	768,475	–	907,995
Total	\$695,097	\$4,801,536	\$2,681,717	\$2,989,494

Explanatory Note:

(1) As of December 31, 2014 and 2013, the amounts presented exclude general reserves for loan losses of \$33.5 million and \$29.2 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's ability to incur new indebtedness under the fixed charge coverage ratio is currently limited, which may put limitations on its ability to make new investments, it is 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 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 March 2012 Secured Credit Facilities permit the Company to distribute 100% of its REIT taxable income on an annual basis. The Company may not pay common dividends if it ceases to qualify as a REIT.

The Company's March 2012 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, 2014, 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	Other Investments	Total
Performance-Based Commitments	\$537,924	\$14,667	\$27,004	\$579,595
Strategic Investments	–	–	45,714	45,714
Discretionary Fundings	5,000	–	–	5,000
Total	<u>\$542,924</u>	<u>\$14,667</u>	<u>\$72,718</u>	<u>\$630,309</u>

Other Commitments – Total operating lease expense for the years ended December 31, 2014, 2013 and 2012 were \$5.8 million, \$6.1 million and \$6.5 million, respectively. Future minimum lease obligations under non-cancelable operating leases are as follows (\$ in thousands):

2015	\$5,598
2016	5,598
2017	4,982
2018	4,179
2019	3,442
Thereafter	8,266

The Company has also 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. In addition to such matters, the Company is a party to the following legal proceedings:

On March 7, 2014, a shareholder action purporting to assert derivative, class and individual claims was filed in the Circuit Court for Baltimore City, Maryland naming the Company, a number of its current and former senior executives (including its chief executive officer) and current and former directors as defendants. The complaint sought unspecified damages and other relief and alleged breach of fiduciary duty, breach of contract and other causes of action arising out of shares of common stock issued by the Company to its senior executives pursuant to restricted stock unit awards granted in December 2008 and modified in July 2011. On October 30, 2014, the Court granted the defendants' Motions to Dismiss and plaintiffs' claims against all of the defendants in this action were dismissed. Plaintiffs have filed a notice of appeal.

On January 22, 2015, the United States District Court for the District of Maryland (the "Court") entered a judgment in favor of the Company in the matter of U.S. Home Corporation ("Lennar") v. Settlers Crossing, LLC, et al. (Civil Action No. DKC 08-1863). The litigation involved a dispute over the purchase and sale of approximately 1,250 acres of land in Prince George's County, Maryland. The Court found that the Company was entitled to specific performance and awarded damages to it in the aggregate amount of: (i) the remaining purchase price to be paid by Lennar of \$114.0 million; plus (ii) interest on the unpaid amount at a rate of 12% per annum, calculated on a per diem basis, from May 27, 2008, until Lennar proceeds to settlement on the land; plus (iii) real estate taxes paid by the Company in the amount of approximately \$1.6 million; plus (iv) actual and reasonable attorneys' fees and costs incurred by the Company in connection with the litigation. The Court ordered Lennar to proceed to settlement on the land and to pay the total amounts awarded to the Company within 30 days of the judgment. A third party is entitled to a 15% participation interest in all proceeds. Lennar has filed a notice of appeal of the Court's judgment, orders and rulings in the action. There can be no assurance as to the timing or actual receipt by the Company of amounts awarded by the Court or to the outcome of any appeal.

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 Statements.

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, 2014, the only states with a concentration greater than 10.0% were California with 14.6% and New York with 13.9%. As of

December 31, 2014, the Company's portfolio contains concentrations in the following asset types: office/industrial 26.7%, land 21.7%, mixed use/mixed collateral 13.0% and entertainment/leisure 11.0%.

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, 2014, the Company's five largest borrowers or tenants collectively accounted for approximately \$115 million of the Company's 2014 revenues, of which no single customer accounts for more than 6%.

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, 2014 and 2013 (\$ in thousands):

	Derivative Assets as of December 31,				Derivative Liabilities as of December 31,			
	2014		2013		2014		2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Designated in Hedging Relationships								
Foreign exchange contracts	Other Assets	\$ -	Other Assets	\$ 393	Other Liabilities	\$ 478	N/A	\$ -
Interest rate swaps	Other Assets	52	Other Assets	650	N/A	-	N/A	-
Interest rate cap	Other Assets	-	Other Assets	9,107	N/A	-	N/A	-
Total		<u>\$ 52</u>		<u>\$ 10,150</u>		<u>\$ 478</u>		<u>\$ -</u>
Derivatives not Designated in Hedging Relationships								
Foreign exchange contracts	Other Assets	\$ 1,534	Other Assets	\$ 1,025	N/A	\$ -	Other Liabilities	\$ 1,653
Interest rate cap	Other Assets	4,775	N/A	-	N/A	-	N/A	-
Total		<u>\$ 6,309</u>		<u>\$ 1,025</u>		<u>\$ -</u>		<u>\$ 1,653</u>

The tables below present the effect of the Company's derivative financial instruments on the Consolidated Statements of Operations and the Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2014, 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) Reclassified from Accumulated Other Comprehensive Income into Earnings (Ineffective Portion)
For the Year Ended December 31, 2014				
Interest rate cap	Interest Expense	\$ -	\$ (56)	N/A
Interest rate cap	Other Expense	(2,984)	-	(3,634)
Interest rate cap	Earnings from equity method investments	(9)	-	N/A
Interest rate swaps	Interest Expense	(970)	(6)	N/A
Interest rate swap	Earnings from equity method investments	(753)	(420)	N/A
Foreign exchange contracts	Earnings from equity method investments	(471)	-	N/A
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	Earnings from equity method investments	393	-	N/A
For the Year Ended December 31, 2012				
Interest rate swap	Interest Expense	(968)	44	N/A

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,		
		2014	2013	2012
Interest rate cap	Other Expense	\$(1,347)	\$ -	\$ -
Foreign exchange contracts	Other Expense	7,257	880	(8,920)

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 U.S. dollar ("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 USD 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 foreign entity is either sold or substantially liquidated. In January 2014, the Company entered into a foreign exchange contract to hedge its exposure in a subsidiary whose functional currency is Indian rupee ("INR"). The foreign exchange contract replaced an existing contract which matured in January 2014. As of December 31, 2014, 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	\$6,534	June 2015

For derivatives not designated as net investment hedges, the changes in the fair value of the derivatives are reported in the Company's Consolidated Statements of Operations within "Other Expense." As of December 31, 2014, 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 euro ("EUR")/Buys USD Forward	€18,800	\$23,807	January 2015
Sells pound sterling ("GBP")/Buys USD Forward	£3,000	\$ 4,830	January 2015
Sells Canadian dollar ("CAD")/Buys USD Forward	C\$10,000	\$ 8,933	January 2015

The Company marks its foreign investments 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. The Company recorded net gains (losses) related to foreign investments of \$0.1 million, \$(2.0) million and \$(0.7) million during the years ended December 31, 2014, 2013 and 2012, respectively, in its Consolidated Statements of Operations.

Interest Rate Hedges – For derivatives designated as interest rate hedges, the effective portion of changes in the fair value of the derivatives are reported in Accumulated Other Comprehensive Income (Loss). The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. 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. As of December 31, 2014, the Company had the following outstanding interest rate swap that was used to hedge its variable rate debt that was designated (\$ in thousands):

Derivative Type	Notional Amount	Variable Rate	Fixed Rate	Effective Date	Maturity
Interest rate swap	\$27,456	LIBOR + 2.00%	3.47%	October 2012	November 2019

For derivatives not designated as interest rate hedges, the changes in the fair value of the derivatives are reported in the Company's Consolidated Statements of Operations within "Other Expense." 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 June 2014, in connection with the full repayment and termination of the Company's February 2013 Secured Credit Facility referenced in Note 8, the Company realized amounts in earnings from other comprehensive income (loss) as a portion of a hedge related to the Company's variable rate debt was no longer expected to be highly effective. The amount realized was a loss of \$3.6 million recorded as a component of "Other expense" in the Company's Consolidated Statements of Operations. As of December 31, 2014, the Company had the following outstanding interest rate cap that was used to hedge its variable rate debt that was not designated (\$ 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

Over the next 12 months, the Company expects that \$0.1 million related to terminated cash flow hedges will be reclassified from "Accumulated other comprehensive income (loss)" into interest expense and \$0.7 million relating to other cash flow hedges will be reclassified from "Accumulated other comprehensive income (loss)" into earnings.

In connection with its foreign currency derivatives, as of December 31, 2014 and 2013, the Company has posted collateral of \$3.0 million and \$7.2 million, respectively, which is included in "Restricted cash" on the Company's Consolidated Balance Sheets.

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.

Note 11 – Equity

Preferred Stock – The Company had the following series of Cumulative Redeemable and Convertible Perpetual Preferred Stock outstanding as of December 31, 2014 and 2013:

Series	Shares Issued and Outstanding (in thousands)	Par Value	Cumulative Preferential Cash Dividends ⁽¹⁾⁽²⁾			
			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	
	<u>25,800</u>					

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 Cumulative Redeemable Preferred Stock during the years ended December 31, 2014 and 2013. The Company declared and paid dividends of \$9.0 million and \$6.7 million on its Series J Convertible Perpetual Preferred Stock during the years ended December 31, 2014 and 2013, respectively. 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.

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, 2013, the Company had \$759.8 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 2033 if unused. The amount of net operating loss carryforwards as of December 31, 2014 will be determined upon finalization of the Company's 2014 tax return. 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 2012 Tranche A-2 Facility permits the Company to distribute 100% of its REIT taxable income on an annual basis, for so long as the Company maintains its qualification as a REIT. The 2012 Tranche A-2 Facility restricts 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, 2014 and 2013.

Stock Repurchase Programs – In September 2013, the Company’s Board of Directors approved an increase in the repurchase limit under the Company’s previously approved stock repurchase program to \$50.0 million. The program authorizes the repurchase of Common Stock from time to time in open market and privately negotiated purchases, including pursuant to one or more trading plans. During the year ended December 31, 2013, the Company repurchased 1.7 million shares of its outstanding Common Stock for \$21.0 million, at an average cost of \$12.35 per share. There were no stock repurchases during the year ended December 31, 2014. As of December 31, 2014, the Company had up to \$29.0 million of Common Stock available to repurchase under its Board authorized stock repurchase program.

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,	2014	2013
Unrealized gains (losses) on available-for-sale securities	\$ 2,983	\$ (294)
Unrealized gains (losses) on cash flow hedges	(409)	662
Unrealized losses on cumulative translation adjustment	(3,545)	(4,644)
Accumulated other comprehensive income (loss)	\$ (971)	\$ (4,276)

Note 12 – Stock-Based Compensation Plans and Employee Benefits

On May 22, 2014, the Company’s shareholders approved the 2013 Performance Incentive Plan (“iPIP”) which is designed to provide, primarily to senior executives and select professionals engaged in the Company’s investment activities, long-term compensation which has a direct relationship to the realized returns on investments included in the plan. In 2014, the Company granted 83 iPIP points for the initial 2013-2014 investment pool. All decisions regarding the granting of points under iPIP are made at the discretion of the Board of Directors or a committee of the Board of Directors. The fair value of points are determined using a model that forecasts the Company’s projected investment performance. The payout of iPIP is based on the amount of invested capital, investment performance and the Company’s total shareholder return, or TSR, as compared to the average TSR of the NAREIT All REIT Index and the Russell 2000 Index during the relevant performance period for the investments in each pool. The Company, as well as any companies not included in each index at the beginning and end of the performance period, are excluded from calculation of the performance of such index. Point holders will not receive a distribution until the Company has received a full return of its capital plus a preferred return distribution, which is based on a preferred return hurdle rate of 9% per annum. Subject to certain vesting and employment requirements, point holders will be paid a combination of cash and stock. iPIP is a liability-classified award which will be remeasured each reporting period at fair value until the awards are settled. Compensation costs relating to iPIP are included in “General and administrative” on the Company’s Consolidated Statements of Operations.

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.

As of December 31, 2014, 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.

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.

Stock-Based Compensation – The Company recorded stock-based compensation expense of \$13.3 million, \$19.3 million and \$15.3 million for the years ended December 31, 2014, 2013 and 2012 in “General and administrative” on the Company’s Consolidated Statements of Operations. As of December 31, 2014, there was \$2.2 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 1.42 years. As of December 31, 2014, approximately \$8.7 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, or Units, during the year ended December 31, 2014 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, 2013	2,779	\$ 5.85	\$39,659
Granted	306	\$ 15.31	
Vested	(2,757)	\$ 6.09	
Forfeited	(8)	\$ 15.69	
Non-vested at December 31, 2014	320	\$12.57	\$ 4,367

The total fair value of Units vested during the years ended December 31, 2014, 2013 and 2012 was \$39.2 million, \$31.6 million and \$29.1 million, respectively.

2014 Activity – During the year ended December 31, 2014, the Company issued a total of 1,369,809 shares of our Common Stock to employees, net of statutory minimum required tax withholdings, upon the vesting of 2,757,427 Units that were previously granted. These vested Units were primarily comprised of the following:

- 1,696,053 service-based Units granted to certain employees in 2008 that vested in January 2014;
- 80,000 service-based Units granted to certain employees in 2011 and 2013 that vested in 2014; and
- 600,000 service-based Units granted to the Company's Chairman and Chief Executive Officer in October 2011 that vested in June 2014.
- 381,374 of performance-based Units, granted on February 1, 2013. The Units vested based on the Company's total shareholder return, or TSR, measured over a performance period ending on the vesting date of December 31, 2014. Under the terms of these Units, vesting ranged 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) during the performance period. The Company and any companies not included in the index at the beginning and end of the performance period were excluded from calculation of the performance of such index. Based on the Company's TSR performance, the Units vested in an amount equal to 195.5% of the target amount of the original awards of 195,076 Units resulting in an additional 186,298 shares granted.

During the year ended December 31, 2014, the Company granted new stock-based compensation awards to certain employees in the form of long-term incentive awards, comprised of the following:

- Effective January 10, 2014, the Company granted 67,637 service-based 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 on December 31, 2016, if the employee remains employed by the Company on the vesting date, subject to certain accelerated vesting rights. Dividends will accrue as and when dividends are declared by the Company on shares of its Common Stock, but will not be paid unless and until the Units vest and are settled. As of December 31, 2014, 64,552 of such service-based Units were outstanding.
- Effective January 10, 2014, the Company granted 51,726 target amount of performance-based Units based on the Company's TSR measured over a performance period ending on December 31, 2016, which is the date the awards cliff vest. Vesting will range from 0% to 200% of the target amount of the award, 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) during the performance period. The Company, as well as any companies not included in each 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 as and when dividends are declared by the Company on shares of its Common Stock, 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 0.76% for risk-free interest rate and 44.84% for expected stock price volatility. As of December 31, 2014, 50,116 of such performance-based Units were outstanding.

As of December 31, 2014, the Company had the following additional stock-based compensation awards outstanding:

- 194,582 service-based Units, granted on February 1, 2013, representing the right to receive an equivalent number of shares of the Company's Common Stock (after deducting shares for minimum required statutory withholdings) if and when the Units vest. The Units will cliff vest in one installment on February 1, 2016, 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 as and when dividends are declared by the Company on shares of its Common Stock, but will not be paid unless and until the Units vest and are settled.
- 10,666 service-based Units granted on various dates 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. Dividends will accrue as and when dividends are declared by the Company on shares of its Common Stock, but will not be paid unless and until the Units vest and are settled.

Restricted Shares

- During the year ended December 31, 2014, the Company granted 235,414 shares of our Common Stock to certain employees as part of annual incentive awards that included a mix of cash and equity awards. The weighted average grant date fair value per share of these awards was \$14.89 and the total fair value was \$3.5 million. The shares are fully-vested and 132,653 shares were issued 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.

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. 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,	2014	2013	2012
Income (loss) from continuing operations	\$(74,178)	\$(220,768)	\$(314,678)
Net (income) loss attributable to noncontrolling interests	704	(718)	1,500
Income from sales of real estate	89,943	86,658	63,472
Preferred dividends	(51,320)	(49,020)	(42,320)
Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to common shareholders, HPU holders and Participating Security Holders	\$(34,851)	\$(183,848)	\$(292,026)

Directors' Awards – Non-employee directors are awarded common stock equivalents, or 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, 2014, the Company awarded a total of 8,602 CSEs and 39,570 restricted shares to non-employee Directors pursuant to the Company's Non-Employee Directors Deferral Plan, at a fair value per share of \$14.46 at the time of grant. In addition, during the year ended December 31, 2014, the Company issued 55,076 shares of our Common Stock to a former director in settlement of previously vested CSE awards granted under the Non-Employee Directors Deferral Plan. As of December 31, 2014, a total of 278,471 CSEs and restricted shares of our Common Stock granted to members of the Company's Board of Directors remained outstanding under such Plan, with an aggregate intrinsic value of \$3.8 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 \$0.9 million each year for the years ended December 31, 2014, 2013 and 2012.

For the Years Ended December 31,	2014	2013	2012
Earnings allocable to common shares:			
<i>Numerator for basic and diluted earnings per share:</i>			
Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to common shareholders	\$(33,722)	\$(177,907)	\$(282,452)
Income (loss) from discontinued operations	–	623	(16,908)
Gain from discontinued operations	–	21,515	26,363
Net income (loss) attributable to iStar Financial Inc. and allocable to common shareholders	\$(33,722)	\$(155,769)	\$(272,997)
<i>Denominator for basic and diluted earnings per share:</i>			
Weighted average common shares outstanding for basic and diluted earnings per common share	85,031	84,990	83,742
Basic and diluted earnings per common share:			
Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to common shareholders	\$ (0.40)	\$ (2.09)	\$ (3.37)
Income (loss) from discontinued operations	–	0.01	(0.20)
Gain from discontinued operations	–	0.25	0.31
Net income (loss) attributable to iStar Financial Inc. and allocable to common shareholders	\$ (0.40)	\$ (1.83)	\$ (3.26)

For the Years Ended December 31,	2014	2013	2012
Earnings allocable to High Performance Units:			
<i>Numerator for basic and diluted earnings per HPU share:</i>			
Income (loss) from continuing operations attributable to iStar Financial Inc. and allocable to HPU holders	\$(1,129)	\$(5,941)	\$(9,574)
Income (loss) from discontinued operations	–	21	(573)
Gain from discontinued operations	–	718	894
Net income (loss) attributable to iStar Financial Inc. and allocable to HPU holders	\$(1,129)	\$(5,202)	\$(9,253)
<i>Denominator for basic and diluted earnings per HPU share:</i>			
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	\$(75.27)	\$(396.07)	\$(638.27)
Income (loss) from discontinued operations	–	1.40	(38.20)
Gain from discontinued operations	–	47.87	59.60
Net income (loss) attributable to iStar Financial Inc. and allocable to HPU holders	\$(75.27)	\$(346.80)	\$(616.87)

For the years ended December 31, 2014, 2013 and 2012, the following shares were not included in the diluted EPS calculation because they were anti-dilutive (in thousands):

For the Years Ended December 31,	2014 ⁽¹⁾	2013 ⁽¹⁾	2012 ⁽¹⁾
Joint venture shares	298	298	298
3.00% convertible senior unsecured notes	16,992	16,992	–
Series J convertible perpetual preferred stock	15,635	15,635	–
1.50% convertible senior unsecured notes	11,567	11,567	–

Explanatory Note:

(1) For the years ended December 31, 2014, 2013 and 2012, the effect of the Company's unvested Units, performance-based Units and CSEs were anti-dilutive.

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):

	Total	Fair Value Using		
		Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As of December 31, 2014				
Recurring basis:				
Derivative assets	\$ 6,361	\$ -	\$ 6,361	\$ -
Derivative liabilities	478	-	478	-
Available-for-sale securities	7,906	7,906	-	-
Non-recurring basis:				
Impaired loans ⁽¹⁾	37,169	-	-	37,169
Impaired real estate ⁽²⁾	7,102	-	-	7,102
As of December 31, 2013				
Recurring basis:				
Derivative assets	\$ 11,175	\$ -	\$ 11,175	\$ -
Derivative liabilities	1,653	-	1,653	-
Available-for-sale securities	505	505	-	-
Non-recurring basis:				
Impaired loans	115,423	-	-	115,423
Impaired real estate	35,680	-	5,744	29,936

Explanatory Notes:

(1) The Company recorded a recovery of loan losses on one loan with a fair value of \$8.5 million based on the loan's remaining term of 1.50 years and interest rate of 4.7% using discounted cash flow analysis. The Company also recorded a provision for loan losses on one loan with a fair value of \$5.2 million based on an appraisal. In addition, the Company recorded a provision for loan losses on one loan, collateralized by a land asset, with a fair value of \$23.5 million based upon a foreclosure sale agreement. The land asset was acquired by an unconsolidated entity in which the Company is a partner.

(2) The Company recorded impairment on one real estate asset with a fair value of \$7.1 million based on a discount rate of 15.0% using discounted cash flows over a 10 year lease term.

66 **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 \$4.1 billion, respectively, as of December 31, 2014 and \$1.4 billion and \$4.5 billion, respectively, as of December 31, 2013. 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. Derivative financial instruments subject to master netting agreements are measured 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, that fall within Level 2 of the fair value hierarchy or broker quotes that fall within Level 3 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 and are considered Level 2 on the fair value hierarchy. 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):

	Real Estate Finance	Net Lease	Operating Properties	Land	Corporate/ Other ⁽¹⁾	Company Total
Year Ended December 31, 2014:						
Operating lease income	\$ -	\$151,934	\$ 90,331	\$ 835	\$ -	\$ 243,100
Interest income	122,704	-	-	-	-	122,704
Other income	21,217	4,437	42,000	3,327	10,052	81,033
Land sales revenue	-	-	-	15,191	-	15,191
Total revenue	143,921	156,371	132,331	19,353	10,052	462,028
Earnings (loss) from equity method investments	-	3,260	1,669	14,966	75,010	94,905
Income from sales of real estate	-	6,206	83,737	-	-	89,943
Revenue and other earnings	143,921	165,837	217,737	34,319	85,062	646,876
Real estate expense	-	(22,967)	(113,504)	(26,918)	-	(163,389)
Land cost of sales	-	-	-	(12,840)	-	(12,840)
Other expense	(243)	-	-	-	(5,578)	(5,821)
Allocated interest expense	(58,043)	(72,089)	(39,535)	(29,432)	(25,384)	(224,483)
Allocated general and administrative ⁽²⁾	(13,314)	(16,736)	(9,684)	(13,170)	(22,588)	(75,492)
Segment profit (loss)⁽³⁾	\$ 72,321	\$ 54,045	\$ 55,014	\$(48,041)	\$ 31,512	\$ 164,851
Other significant non-cash items:						
Provision for (recovery of) loan losses	\$ (1,714)	\$ -	\$ -	\$ -	\$ -	\$ (1,714)
Impairment of assets	-	3,689	8,131	22,814	-	34,634
Depreciation and amortization	-	38,841	32,142	1,440	1,148	73,571
Capitalized expenditures	-	3,933	61,186	80,119	-	145,238
Year Ended December 31, 2013						
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 real estate	-	-	82,603	4,055	-	86,658
Income (loss) from discontinued operations ⁽⁴⁾	-	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 ⁽⁵⁾	(74,377)	(80,034)	(49,114)	(30,368)	(32,332)	(266,225)
Allocated general and administrative ⁽²⁾	(13,186)	(14,330)	(9,189)	(12,365)	(23,783)	(72,853)
Segment profit (loss)⁽³⁾	\$ 23,575	\$ 38,212	\$ 73,407	\$(75,465)	\$ (20,362)	\$ 39,367
Other significant non-cash items:						
Provision for (recovery of) loan losses	\$ 5,489	\$ -	\$ -	\$ -	\$ -	\$ 5,489
Impairment of assets ⁽⁵⁾	-	1,176	12,449	728	-	14,353
Loss on transfer of interest to unconsolidated subsidiary	-	-	-	7,373	-	7,373
Depreciation and amortization ⁽⁵⁾	-	38,582	30,599	1,105	1,244	71,530
Capitalized expenditures	-	34,076	41,131	36,346	-	111,553

	Real Estate Finance	Net Lease	Operating Properties	Land	Corporate/ Other ⁽¹⁾	Company Total
Year Ended December 31, 2012						
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 real estate	-	-	63,472	-	-	63,472
Income (loss) from discontinued operations ⁽⁴⁾	-	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 ⁽⁵⁾	(111,898)	(92,579)	(69,259)	(44,125)	(38,300)	(356,161)
Allocated general and administrative ⁽²⁾	(14,263)	(10,618)	(7,572)	(7,405)	(25,705)	(65,563)
Segment profit (loss)⁽³⁾	\$ 11,087	\$ 59,153	\$ 10,732	\$ (80,820)	\$ 8,852	\$ 9,004
Other significant non-cash items:						
Provision for (recovery of) loan losses	\$ 81,740	\$ -	\$ -	\$ -	\$ -	\$ 81,740
Impairment of assets ⁽⁵⁾	-	6,670	28,501	205	978	36,354
Depreciation and amortization ⁽⁵⁾	-	39,250	28,450	1,276	1,810	70,786
Capitalized expenditures	-	10,994	51,579	20,497	-	83,070
As of December 31, 2014						
Real estate						
Real estate, net	-	1,188,160	628,271	860,283	-	2,676,714
Real estate available and held for sale	-	4,521	162,782	118,679	-	285,982
Total real estate	-	1,192,681	791,053	978,962	-	2,962,696
Loans receivable and other lending investments, net	1,377,843	-	-	-	-	1,377,843
Other investments	-	125,360	13,220	106,155	109,384	354,119
Total portfolio assets	\$ 1,377,843	\$ 1,318,041	\$ 804,273	\$ 1,085,117	\$ 109,384	4,694,658
Cash and other assets						768,475
Total assets						\$5,463,133
As of December 31, 2013						
Real estate						
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

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 included in the other reportable segments above.
- (2) General and administrative excludes stock-based compensation expense of \$13.3 million, \$19.3 million and \$15.3 million for the years ended December 31, 2014, 2013 and 2012, respectively.
- (3) The following is a reconciliation of segment profit (loss) to net income (loss) (\$ in thousands):

For the Years Ended December 31,	2014	2013	2012
Segment profit (loss)	\$ 164,851	\$ 39,367	\$ 9,004
Less: (Provision for) recovery of loan losses	1,714	(5,489)	(81,740)
Less: Impairment of assets ⁽⁴⁾	(34,634)	(14,353)	(36,354)
Less: Loss on transfer of interest to unconsolidated subsidiary	-	(7,373)	-
Less: Stock-based compensation expense	(13,314)	(19,261)	(15,293)
Less: Depreciation and amortization ⁽⁴⁾	(73,571)	(71,530)	(70,786)
Less: Income tax (expense) benefit ⁽⁴⁾	(3,912)	596	(8,445)
Less: Loss on early extinguishment of debt, net	(25,369)	(33,190)	(37,816)
Net income (loss)	\$ 15,765	\$ (111,233)	\$ (241,430)

- (4) For the years ended December 31, 2013 and 2012, excludes certain amounts reclassified to discontinued operations on the Company's Consolidated Statements of Operations.
- (5) For the years ended December 31, 2013 and 2012, includes related amounts reclassified to discontinued operations on the Company's Consolidated Statements of Operations.

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).

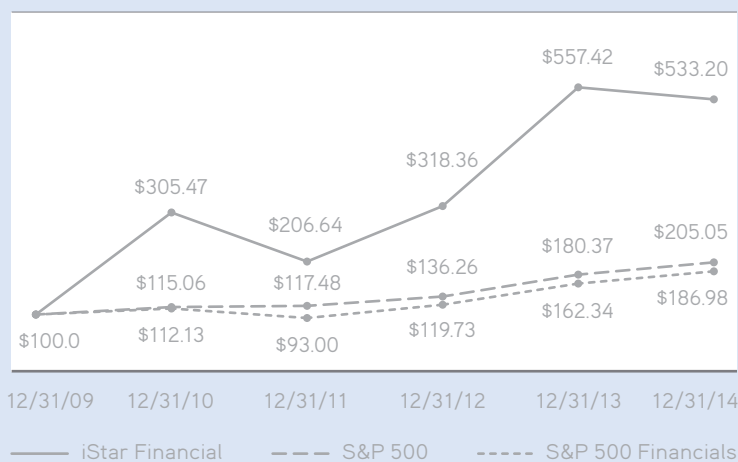
For the Quarters Ended	December 31,	September 30,	June 30,	March 31,
2014:				
Revenue	\$109,950	\$113,486	\$129,843	\$108,749
Net income (loss)	\$ (1,955)	\$ 35,491	\$ (3,594)	\$ (14,177)
Earnings per common share data:				
Net income (loss) attributable to iStar Financial Inc.				
Basic ⁽¹⁾	\$ (13,270)	\$ 22,327	\$ (16,207)	\$ (26,572)
Diluted ⁽¹⁾	\$ (13,270)	\$ 27,608	\$ (16,207)	\$ (26,572)
Earnings per share				
Basic	\$ (0.16)	\$ 0.26	\$ (0.19)	\$ (0.31)
Diluted	\$ (0.16)	\$ 0.21	\$ (0.19)	\$ (0.31)
Weighted average number of common shares				
Basic	85,188	85,163	84,916	84,819
Diluted	85,188	130,160	84,916	84,819
Earnings per HPU share data:				
Net income (loss) attributable to iStar Financial Inc.				
Basic	\$ (442)	\$ 744	\$ (542)	\$ (889)
Diluted	\$ (442)	\$ 602	\$ (542)	\$ (889)
Earnings per share				
Basic	\$ (29.47)	\$ 49.60	\$ (36.13)	\$ (59.27)
Diluted	\$ (29.47)	\$ 40.13	\$ (36.13)	\$ (59.27)
Weighted average number of HPU shares – basic and diluted	15	15	15	15
2013:				
Revenue	\$ 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.	\$ (57,934)	\$ (30,571)	\$ (26,001)	\$ (41,263)
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

Explanatory Note:

(1) For the quarter ended September 30, 2014, includes net income attributable to iStar Financial Inc. and allocable to Participating Security Holders of \$2 and \$2 on a basic and dilutive basis, respectively.

Performance Graph

The following graph compares the total cumulative shareholder returns on our Common Stock from December 31, 2009 to December 31, 2014 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").



Source: Bloomberg

COMMON STOCK PRICE AND DIVIDENDS (UNAUDITED)

The Company's Common Stock trades on the New York Stock Exchange ("NYSE") under the symbol "STAR." The high and low sales prices per share of Common Stock are set forth below for the periods indicated.

Quarter Ended	2014		2013	
	High	Low	High	Low
December 31	\$14.60	\$12.30	\$14.65	\$11.57
September 30	\$15.27	\$13.26	\$12.25	\$10.20
June 30	\$15.19	\$13.94	\$12.55	\$ 9.99
March 31	\$15.91	\$13.79	\$11.00	\$ 8.26

On February 20, 2015, the closing sale price of the Common Stock as reported by the NYSE was \$13.50. The Company had 2,094 holders of record of Common Stock as of February 20, 2015.

At December 31, 2014, 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 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, 2014 and 2013. 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, 2014 and 2013. During the year ended December 31, 2014 and 2013, the Company also declared and paid dividends of \$9.0 million and \$6.7 million, respectively, 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 & Development

Barclay G. Jones III

Investments

Michelle M. MacKay

Investments / Head of
Capital Markets

Steven Magee

Land & Development

Barbara Rubin

iStar Asset Services, Inc.

Vernon B. Schwartz

Investments

Corporate Information

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Fax: 972.646.6398

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Fax: 949.567.2411

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San Francisco, CA 94104
Tel: 415.391.4300
Fax: 415.391.6259

Employees

As of January 31, 2015,
the Company had 182 employees.

Independent Auditors

PricewaterhouseCoopers LLP
New York, NY

Registrar & Transfer Agent

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

www.computershare.com

Annual Meeting of Shareholders

May 20, 2015, 9:00 a.m. ET
Sofitel Hotel of New York City
45 West 44th Street
New York, NY 10036

Investor Information Services

iStar Financial is a listed company on the New York Stock Exchange and is traded under the ticker "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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Vice President
Investor Relations & Marketing
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