

ISTAR FINANCIAL INC  
Form S-4/A  
January 19, 2005

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As filed with the Securities and Exchange Commission on January 19, 2005

Registration No. 333-121174

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**AMENDMENT NO. 2  
TO  
FORM S-4  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**iSTAR FINANCIAL INC.**

(Exact name of Registrant as specified in its charter)

**MARYLAND**  
(State or other jurisdiction of  
incorporation or organization)

**6798**  
(Primary Standard Industrial  
Classification Code Number)

**95-6881527**  
(I.R.S. Employer  
Identification Number)

**1114 Avenue of the Americas, 27<sup>th</sup> Floor  
New York, New York 10036  
(212) 930-9400**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Jay Sugarman  
Chief Executive Officer  
1114 Avenue of the Americas, 27<sup>th</sup> Floor  
New York, New York 10036  
(212) 930-9400**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

*Copies to:*

**Kathleen L. Werner, Esq.  
Clifford Chance US LLP  
31 West 52nd Street  
New York, New York 10019  
(212) 878-8000**

**David J. Goldschmidt, Esq.  
Skadden, Arps, Slate, Meagher & Flom LLP  
4 Times Square  
New York, New York 10036  
(212) 735-3000**

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this registration statement becomes effective and all other conditions to the exchange offer pursuant to the registration rights agreement described in the enclosed prospectus have been satisfied or waived.

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If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the SEC, acting pursuant to said Section 8(a), may determine.

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*The information in this prospectus may be changed. We may not complete the offer and issue these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.*

**SUBJECT TO COMPLETION, DATED JANUARY 19, 2005**

**PROSPECTUS**

## **iStar Financial Inc.**

**Offer to Exchange iStar Financial Inc. 5.70% Series B Senior Notes due 2014  
for Any and All Outstanding TriNet Corporate Realty Trust, Inc. 7.70% Notes due 2017  
and Solicitation of Consents  
Cusip No. 896287 AC3**

**This Exchange Offer and Consent Solicitation Will Expire at 12:00 Midnight, New York City Time,  
On February 24, 2005, Unless Extended.**

### **Terms of The Exchange Offer and Consent Solicitation:**

We are offering to exchange iStar Financial Inc. 5.70% Series B Senior Notes due 2014, to which we refer in this prospectus as the iStar Notes, for any and all of the outstanding 7.70% Notes due 2017 of our wholly-owned subsidiary, TriNet Corporate Realty Trust, Inc., to which notes we refer in this prospectus as the TriNet Notes, that are validly tendered, not withdrawn and accepted by us. The amount of iStar Notes that you will receive is based on a fixed-spread pricing formula described in this prospectus.

We are concurrently soliciting consents from the holders of the TriNet Notes to amend the indenture governing the TriNet Notes in order to eliminate or waive most of the restrictive covenants and to amend some of the events of default, as described in this prospectus. In order to tender TriNet Notes in the exchange offer, you must also provide your consent to the proposed amendments.

We want to encourage eligible holders to tender early. Accordingly, the exchange price described in this prospectus includes a consent amount of \$20.00 per \$1,000 principal amount. The consent amount is only offered to eligible holders who validly tender their TriNet Notes on or prior to 5:00 pm New York City time on the consent date of February 8, 2005 and do not validly withdraw their tenders on or before that date. If you tender your TriNet Notes after the consent date, the consent amount will be deducted from the exchange price. Holders will not receive any iStar Notes, unless and until we consummate the exchange offer.

To the extent we receive the requisite consents, we expect to enter into a supplemental indenture giving effect to the proposed amendments on the consent date, and thereafter you will not be permitted to withdraw the TriNet Notes you tender. If we make a material change in the terms of the exchange offer, we will disseminate additional offering materials and extend the exchange offer to the extent required by law, and you will have the right to withdraw your tendered TriNet Notes. We will make a public announcement, by press release, on the business day following the execution of the supplemental indenture. Upon such execution, the terms of the supplemental indenture will become effective. The proposed amendments will not become operative until we accept and consummate the exchange of all notes that are validly tendered. Accordingly, to the extent we terminate the offer without acceptance of tendered notes, all tendered notes will be returned to the tendering holders, the supplemental indenture, although previously executed, will be terminated, and the proposed amendments will not become operative.

If you tender TriNet Notes after the consent date, you may withdraw them at any time prior to the expiration of the exchange offer and consent solicitation. If you revoke your consent, you will be deemed to have also withdrawn all notes you have tendered.

If you do not exchange your TriNet Notes and the proposed amendments and waivers are adopted, you will continue to hold those notes, but most of the restrictive covenants will be eliminated or waived and some of the events of default in the indenture governing the TriNet Notes will be modified.

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Our obligation to exchange iStar Notes for TriNet Notes is subject to the satisfaction of several conditions, including, but not limited to, receipt of tenders from holders of at least a majority of the aggregate principal amount of the TriNet Notes.

### **The iStar Notes:**

Obligor: iStar Financial Inc., the parent company of TriNet Corporate Realty Trust, Inc.

Maturity Date: March 1, 2014.

Interest Rate: 5.70% per year, payable semi-annually on March 1 and September 1 of each year, beginning March 1, 2005. Interest on the iStar Notes issued in the exchange offer will accrue from and including September 1, 2004.

Outstanding Amount: The iStar Notes to be issued under this prospectus will form part of an existing series of our outstanding debt securities and are expected to be fungible and trade interchangeably with those previously issued securities. Immediately prior to the consummation of the exchange offer, there will be \$250,000,000 aggregate principal amount of iStar Notes outstanding.

Ratings: The iStar Notes have investment grade ratings of Baa3, BBB- and BBB- by Moody's Investors Service, Standard & Poors and Fitch Ratings, respectively. The TriNet Notes have below-investment grade ratings of Ba1 and BB+ by Moody's Investors Service and Standard & Poors, respectively, and are rated BBB- by Fitch Ratings.

Ranking: The iStar Notes will be our unsecured senior obligations, ranked *pari passu* in right of payment to all of our existing and future senior indebtedness and will rank senior in right of payment to all of our existing and future subordinated indebtedness, if any.

**We encourage you to consider carefully the "Risk Factors" beginning on page 13 of this prospectus in evaluating the exchange offer and consent solicitation.**

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**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or the accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

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*The Dealer Manager for the Exchange Offer and Solicitation Agent for the Consent Solicitation is:*

**Bear, Stearns & Co. Inc.**

January , 2005

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TABLE OF CONTENTS

	<b>Page</b>
Questions and Answers About the Exchange Offer and Consent Solicitation	1
Prospectus Summary	6
Risk Factors	13
Ratio of Earnings to Fixed Charges	19
Description of Other Indebtedness	20
Exchange Offer and Consent Solicitation	23
Description of the iStar Notes	36
Proposed Amendments to TriNet Notes	61
Comparison of TriNet Notes to iStar Notes	65
TriNet Corporate Realty Trust, Inc.	65
Book Entry, Delivery and Form	66
Material Federal Income Tax Consequences	69
Legal Matters	76
Experts	76
Incorporation of Certain Documents By Reference	76

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registered trade marks of iStar Financial Inc.**

**QUESTIONS AND ANSWERS  
ABOUT THE EXCHANGE OFFER AND CONSENT SOLICITATION**

**Q: What is the proposed transaction?**

**A:** We are offering to exchange our iStar Financial Inc. 5.70% Series B Senior Notes due 2014, or the iStar Notes, for all of the outstanding TriNet Corporate Realty Trust, Inc. 7.70% Notes due 2017, or the TriNet Notes. We are also soliciting consents to amend the indenture governing the TriNet Notes in order to eliminate or waive most of the restrictive covenants and to amend some of the events of default governing the TriNet Notes. Holders that participate in this exchange offer will be bound by the covenants of the iStar Notes. (See "Proposed Amendments to the TriNet Notes" and "Description of the iStar Notes.")

**Q: What will I receive in this exchange offer and consent solicitation if I tender my TriNet Notes?**

**A:** For each \$1,000 principal amount of TriNet Notes tendered, holders will receive iStar Notes in an amount equal to \$1,000 multiplied by the exchange ratio and rounded down to the nearest \$1,000 principal amount. The amount rounded down which is less than \$1,000 will be paid to holders as residual cash. The exchange ratio will be calculated by determining the exchange price for the TriNet Notes on February 22, 2005 and dividing it by the new issue price for the iStar Notes as of that same date. In calculating these values, we will be determining the discounted value of the remaining payments of principal and interest on the TriNet Notes and iStar Notes using discount rates determined by reference to a benchmark U.S. Treasury Security, and adding pre-determined fixed spreads for the TriNet Notes and the iStar Notes. The values for each set of notes will also include accrued and unpaid interest up to, but not including, the settlement date. If you tender your TriNet Notes on or before the consent date of February 8, 2005 and do not validly withdraw your TriNet Notes prior to the consent date, the exchange price will also include the consent amount. If you tender your TriNet Notes after the consent date and do not withdraw them prior to the expiration date of the exchange offer the exchange price will be reduced by \$20.00 per \$1,000 principal amount which represents the consent amount.

For a complete description of the calculation of the exchange ratio, see "Prospectus Summary The Exchange Offer and Consent Solicitation."

**Q: Will I receive a payment for accrued and unpaid interest on the TriNet Notes? Will I have to make a payment in respect of accrued and unpaid interest on the iStar Notes?**

**A:** No. Since the exchange ratio calculation takes into account accrued interest on both the TriNet Notes and the iStar Notes, we will not make any cash payment to you in respect of accrued interest on the TriNet Notes surrendered for exchange, nor will any holder of TriNet Notes be required to make any cash payment to us in respect of accrued interest on the iStar Notes issued in the exchange offer. Interest on the iStar Notes will accrue from, and including, September 1, 2004, the most recent interest payment date on the iStar Notes.

**Q: Why are we proposing this transaction?**

**A:** TriNet is only required to file reports due to the filing requirement in the indenture. These reporting obligations are becoming increasingly burdensome and costly. We are seeking to consolidate all of our securities laws reporting obligations at iStar Financial. We are also considering simplifying our corporate structure by consolidating TriNet into iStar through a merger, liquidation or other appropriate method. The exchange offer and proposed indenture amendments will facilitate these objectives. TriNet also intends to solicit consents from holders of its 7.95% Notes due 2006, which is TriNet's only other outstanding series of debt securities, to amend the restrictive covenants and events of default in those securities, which are substantially similar to those in the TriNet Notes, to allow us to consolidate our reporting obligations and to facilitate a consolidation of TriNet with iStar. The

successful completion of that consent solicitation is not a condition to the consummation of this exchange offer and consent solicitation. See "Prospectus Summary Recent Developments."

**Q: What are the benefits to me of this exchange offer and consent solicitation?**

**A:** We believe that holders of the TriNet Notes may prefer to exchange their notes for debt securities of an entity with higher credit ratings, a more attractive capitalization, significantly greater assets and access to external sources of capital. In the exchange offer, we expect that you will receive a principal amount of iStar Notes greater than the principal amount of TriNet Notes you surrender. The iStar Notes currently have investment grade ratings from Moody's Investors Service and Standard & Poors, while the TriNet Notes are non-recourse to iStar Financial Inc., are rated below investment grade by these agencies and are rated investment grade only by Fitch Ratings. In addition, there will be \$250 million of iStar Notes outstanding prior to the consummation of the exchange offer, which should provide holders of TriNet Notes with greater liquidity subsequent to the consummation of the exchange offer and consent solicitation.

**Q: What are the risks to me if I tender my TriNet Notes in this exchange offer and consent solicitation?**

**A:** There are a number of risks if you tender TriNet Notes in the exchange offer and consent solicitation, including, among others:

you may not receive payment on the iStar Notes because we will continue to have substantial indebtedness, and we may not be able to generate sufficient cash flows;

the iStar Notes are, similarly to the TriNet Notes, structurally subordinated to the debt of the issuer's subsidiaries; at September 30, 2004, iStar's subsidiary debt was \$2.1 billion (including \$0.2 billion of debt of TriNet and its subsidiaries), whereas TriNet's subsidiary debt was \$104.1 million; and

we may be unable to purchase the iStar Notes upon a change of control because we may have insufficient funds.

For a discussion of these and other risks, see "Risk Factors Risks Related to the iStar Notes."

**Q: What are the risks to me if a majority of the TriNet Notes are tendered but I do not tender my TriNet Notes?**

**A:** If you do not tender your TriNet Notes in this exchange offer and consent solicitation and the proposed amendments are adopted, you will continue to hold those notes, but most of the restrictive covenants will be eliminated or waived and some of the events of default in the indenture governing the TriNet Notes will be modified. The modification of the restrictive covenants and other provisions could permit us to cause TriNet to take actions that could be adverse to the holders. Moreover, if we receive tenders from holders of at least a majority of the aggregate principal amount of the TriNet Notes, less than \$50.0 million in aggregate principal amount of the TriNet Notes will remain outstanding after the completion of this exchange offer and consent solicitation. The ability to sell any of the TriNet Notes that remain outstanding after the exchange offer and consent solicitation could, therefore, be limited.

**Q: What are the consequences if the exchange offer and consent solicitation are not consummated?**

**A:** If we are unable to consummate the exchange offer and consent solicitation, then the TriNet Notes will remain outstanding as obligations of TriNet and TriNet will continue to be subject to the covenants and other terms governing the TriNet Notes.

**Q: When does the exchange offer and consent solicitation expire?**

**A:** Unless we extend this exchange offer and consent solicitation, it will expire at 12:00 midnight, New York City time, on February 24, 2005. We do not currently intend to extend the expiration date of the exchange offer and consent solicitation, though we may do so at any time in our sole discretion.

**Q: Under what circumstances can this exchange offer and consent solicitation be extended?**

**A:** We expressly reserve the right, at any time or from time to time, to extend the period of time during which this exchange offer and consent solicitation is open.

**Q: How will I be notified if this exchange offer and consent solicitation is extended?**

**A:** If we decide to extend the exchange offer and consent solicitation, we will notify the exchange agent of any extension. We also will issue a press release or make another form of public announcement of the extension no later than 9:00 a.m., New York City time, on the first business day after the previously scheduled expiration date.

**Q: What are the conditions to this exchange offer and consent solicitation?**

**A:** This exchange offer and consent solicitation is conditioned on, among other things, our receiving tenders from holders of a majority of the principal amount outstanding of the TriNet Notes. For more information regarding the conditions to this exchange offer and consent solicitation, please see the section of this prospectus entitled "The Exchange Offer and Consent Solicitation Conditions to this Exchange Offer and Consent Solicitation."

**Q: May I tender a portion of the TriNet Notes that I hold?**

**A:** Yes. You do not have to tender all of the TriNet Notes that you hold in order to participate in this exchange offer and consent solicitation. However, the consummation of this exchange offer and consent solicitation is conditioned upon our receiving tenders of a majority of the principal amount of the TriNet Notes, unless we waive that condition.

**Q: May I tender the TriNet Notes that I hold without consenting to the proposed amendments?**

**A:** No. If you tender your TriNet Notes in the exchange offer and consent solicitation, you will automatically consent to the proposed amendments to the indenture governing those TriNet Notes. The provisions of the indenture that we are proposing to amend may be amended with the consent of holders of at least a majority of the principal amount of notes outstanding under the indenture.

**Q: Will my rights as a holder of TriNet Notes change if I tender my TriNet Notes in this exchange offer and consent solicitation?**

**A:** Yes. Currently, your rights as a holder of TriNet Notes are governed by the indenture under which those notes were issued. If you exchange your TriNet Notes for iStar Notes, your rights as a holder of iStar Notes will be governed by a new indenture under which the iStar Notes will be issued, the terms of which are described in this prospectus under "Description of the iStar Notes."

**Q: What are the tax consequences of my participation in this exchange offer and consent solicitation?**

**A:** If you tender your TriNet Notes on or before the consent date of February 8, 2005, and do not validly withdraw your TriNet Notes prior to the consent date (an "early consenting holder"), we believe that your exchange of TriNet Notes for iStar Notes should not result in a deemed exchange under Section 1001 of the Internal Revenue Code of 1986, as amended, or Code, because based on all the facts and circumstances, the terms of the iStar Notes will not result in an alteration of the legal rights and obligations of the early consenting holders in a manner or to a degree that is economically significant or would be treated as a "significant" modification for the U.S. federal income tax purposes. As a result, an early consenting holder should not recognize any gain or loss for U.S. federal income



tax purposes, and such holder should continue to have the same adjusted tax basis and holding period in the New Notes after such modifications as it had in the TriNet Notes prior to such modifications.

If you tender your TriNet Notes, but are not an early consenting holder (a "late consenting holder"), we believe that your exchange should be treated as a deemed exchange under Section 1001 that will qualify as a recapitalization under Section 368(a)(1)(E) of the Code, and, as a result, you may recognize gain (but not loss) in the exchange, which gain will be limited to the lesser of: (i) the fair market value of the excess of the principal amount of the iStar Notes over the TriNet Notes (the "excess principal amount"); and (ii) the late consenting holder's gain realized on the exchange determined by comparing the value of all property (including the excess principal amount) received by the late consenting holder with the late consenting holder's adjusted tax basis in the TriNet Notes. However, you are urged to consult your own tax advisor as to the consequences to you of participating in the exchange offer and consent solicitation. For more information, see "Material Federal Income Tax Consequences."

**Q: What are the tax consequences to me if I do not tender my TriNet Notes in this exchange and consent solicitation?**

**A:** We believe that you should recognize no gain or loss for U.S. federal income tax purposes if you do not tender your TriNet Notes in this exchange offer and consent solicitation. However, you are urged to consult your own tax advisor. For more information, see "Material Federal Income Tax Consequences."

**Q: Has the board of directors of iStar Financial Inc. or any other party recommended that I tender the TriNet Notes that I hold under this exchange offer and consent solicitation?**

**A:** No. None of our boards of directors, the dealer manager, the information agent or the exchange agent expresses any opinion, and each is remaining neutral, regarding any recommendation to you whether or not to tender the TriNet Notes that you hold under this exchange offer and consent solicitation because the risks and benefits of the exchange offer and consent solicitation to you will depend on your particular situation or status. In addition, we have not authorized anyone to make a recommendation regarding this exchange offer and consent solicitation.

**Q: If I tender the TriNet Notes that I hold and consent to the proposed amendments, will I be able to revoke this decision if I later change my mind?**

**A:** To the extent we receive the requisite consents, we expect to enter into a supplemental indenture giving effect to the proposed amendments on the consent date, and thereafter you will not be permitted to withdraw the TriNet Notes you tender. If we make a material change in the terms of the exchange offer, we will disseminate additional offering materials and extend the exchange offer to the extent required by law, and you will have the right to withdraw your tendered TriNet Notes. We will issue a press release on the business day following the execution of the supplemental indenture. Upon such execution, the terms of the supplemental indenture will become effective. The proposed amendments will not become operative until we accept and consummate the exchange of all notes that are validly tendered. Accordingly, to the extent we terminate the offer without acceptance of tendered notes, all tendered notes will be returned to the tendering holders, the supplemental indenture, although previously executed, will be terminated, and the proposed amendments will not become operative.

If you tender TriNet Notes after the consent date, you may validly withdraw them prior to 12:00 midnight New York City time on the expiration date. You may not revoke your consent unless you also withdraw your tender, and if you revoke your consent, you will be deemed to have also withdrawn the notes you have tendered.

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For a withdrawal to be effective:

if you hold your TriNet Notes through DTC, you must comply with the appropriate procedures of DTC's automated program; or

if you do not hold your TriNet Notes through DTC, you must send written notice of withdrawal to the exchange agent at its address on the back cover of this prospectus.

For additional information regarding a withdrawal of notes that you have already tendered in this exchange offer and consent solicitation, please see the section of this prospectus entitled "The Exchange Offer and Consent Solicitation Withdrawals of Tenders and Revocation of Consents."

**Q: How do I exchange the TriNet Notes that I hold?**

**A:** If you wish to exchange your TriNet Notes in this exchange offer and consent solicitation, you must comply with one of the following procedures:

if you hold your position through DTC, provide a timely confirmation of a book-entry transfer of your notes into the account of the exchange agent;

if you hold your position through a broker dealer, commercial bank, trust company or other nominee, you must contact the holder of record promptly and instruct the holder of record to tender your notes on your behalf of DTC, plus either (1) a properly completed and executed consent and letter of transmittal, or (2) an agent's message in the case of a book-entry transfer; or

if you do not hold your position through DTC, certificates for your notes must be received by the exchange agent along with a properly completed and duly executed consent and letter of transmittal (or a manually signed facsimile of the consent and letter of transmittal), including any required signature guarantees.

For additional information regarding the tender of your notes, please see the section of this prospectus entitled "The Exchange Offer and Consent Solicitation Procedures for Tendering Notes."

**Q: Who can help answer my questions?**

**A:** If you have any questions about the exchange offer and consent solicitation, you should contact:

*The Dealer Manager for the Exchange Offer and Solicitation Agent for the Consent Solicitation is:*

**Bear, Stearns & Co. Inc.**  
Global Liability Management Group  
383 Madison Avenue, 8th Floor  
New York, New York 10179  
(877) 696-BEAR (toll free)  
(877) 696-2327

If you need additional copies of this prospectus, you should contact:

*The Information Agent for the Exchange Offer and Consent Solicitation is:*

**Georgeson Shareholder**  
17 State Street-10<sup>th</sup> Floor

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New York, NY 10004  
Banks and Brokers Call 212.440.9800  
All others call Toll-Free 1.866.873.6993

**PROSPECTUS SUMMARY**

*This summary may not contain all the information that may be important to you. You should read the entire prospectus, as well as the documents incorporated by reference in it, before making a decision to participate in the exchange offer and consent solicitation. All references to "we" or "us" in this prospectus refer to iStar Financial Inc. and its consolidated subsidiaries, unless the context indicates otherwise.*

**iStar Financial Inc.**

We are the leading publicly-traded finance company focused exclusively on the commercial real estate industry. We provide custom-tailored financing to high-end private and corporate owners of real estate nationwide, including senior and junior mortgage debt, senior and mezzanine corporate capital, and corporate net lease financing. Our objective is to generate consistent and attractive returns on our invested capital by providing innovative and value-added financing solutions to our customers. We deliver customized financial products and "one-call" responsiveness post-closing to sophisticated real estate borrowers and corporate customers who require a high level of creativity and service. Our ability to provide value-added financial solutions has consistently enabled us to realize margins and returns on capital that are more attractive than those earned by many other commercial finance companies.

We began our business in 1993 through private investment funds formed to take advantage of the lack of well-capitalized lenders capable of servicing the needs of high-end customers in our markets. During our eleven-year history, we have structured or originated \$11.6 billion of financing commitments.

By capitalizing on our competitive strengths, we have delivered consistent financial performance, developed a high-quality, diversified asset base and established ourselves as a reliable provider of financial solutions for our customers.

Our principal executive offices are located at 1114 Avenue of the Americas, New York, New York 10036, and our telephone number is (212) 930-9400. Our website is [www.istarfinancial.com](http://www.istarfinancial.com). The information on our website is not considered part of this prospectus. Our five primary regional offices are located in Atlanta, Boston, Dallas, Hartford and San Francisco. iStar Asset Services, our loan servicing subsidiary, is located in Hartford, and iStar Real Estate Services, our corporate facilities management division, is headquartered in Atlanta.

## Recent Developments

### Consent Solicitation for TriNet's 2006 Notes

TriNet also intends to solicit consents of holders of its \$50.0 million aggregate principal amount of 7.95% Notes due 2006 to amend the restrictive covenants in those notes and events of default in order to facilitate a merger or consolidation of TriNet into iStar. The 7.95% Notes due 2006 are TriNet's only series of outstanding debt securities, in addition to the TriNet Notes. The 7.95% Notes due 2006 contain restrictive covenants and events of default that are similar to those in the TriNet Notes (subject to the consent solicitation). TriNet will be soliciting consents to conform the covenants and some of the events of default in the 7.95% Notes due 2006 to those in the iStar Notes. The proposed amendments to the 7.95% Notes due 2006 will require the consent of holders of at least a majority of the outstanding aggregate principal amount of those Notes. If TriNet does not receive the requisite consents to amend the 7.95% Notes due 2006 and does not pursue other methods to redeem or retire those Notes, we and TriNet may elect not to proceed with a merger or consolidation. The exchange offer and consent solicitation which are the subject of this prospectus are not conditioned upon either: (1) the success of the consent solicitation with regard to TriNet's 2006 notes; or (2) a merger, consolidation or liquidation involving iStar and TriNet.

### Recent Financial Information

iStar has an equity market capitalization, as of December 3, 2004, of \$5.5 billion. iStar's book equity totaled \$2.5 billion at September 30, 2004, compared to TriNet's \$0.7 billion of book equity at September 30, 2004. iStar and TriNet had total assets of \$7.3 billion and \$0.9 billion, respectively, and total debt of \$4.7 billion and \$0.2 billion, respectively, as of September 30, 2004. The weighted average remaining lease terms of iStar's and TriNet's sale/leaseback assets were 10.5 years and 3.7 years, respectively, at September 30, 2004.

**The Exchange Offer and Consent Solicitation**

Securities Offered iStar Financial Inc. 5.70% Senior Notes due 2014.

Exchange Offer We are offering to eligible holders of the TriNet Notes the opportunity to exchange, for each \$1,000 aggregate principal amount of the TriNet Notes, iStar Notes in a principal amount calculated as described below.

Consent Solicitation We are soliciting consents from the holders of TriNet Notes to eliminate or waive most of the restrictive covenants and amend certain events of default in the indenture governing the TriNet Notes. If you tender TriNet Notes, you will automatically be deemed to have consented to the proposed amendments. See "Proposed Amendments to TriNet Notes."

Determination of the Exchange Price of the TriNet Notes The exchange price of the TriNet Notes will equal (rounded to the nearest cent): (1) the discounted value (calculated by the dealer manager in accordance with market practice by the formula set forth in Annex A to this prospectus) of the remaining payments of principal and interest on \$1,000 principal amount of TriNet Notes through their maturity date at a discount rate equal to: (a) the bid-side yield on the reference U.S. Treasury Security listed below based on the bid-side price for the reference U.S. Treasury Security, at 2:00 PM, New York City time, on February 22, 2005 (the "pricing time," unless we extend the expiration date, in which case the pricing time will be 2:00 PM, New York City time, on the second business day prior to the expiration date as so extended) as displayed on the Bloomberg Government Pricing Monitor Page PX7 (the "quotation report"); plus (b) the fixed spread listed below. If you tender your TriNet Notes after the consent date, and do not withdraw them prior to the expiration of the exchange offer and consent solicitation, the exchange price for your TriNet Notes will be reduced by \$20.00 per \$1,000 principal amount, which represents the consent amount.

CUSIP No.	Note Description	Outstanding Principal Amount	Maturity Date	Reference U.S. Treasury Security	Fixed Spread (in basis points)
896287AC3	TriNet Corporate Realty Trust, Inc. 7.70% Senior Notes due 2017	\$ 100,000,000	July 15, 2017	4 <sup>1</sup> / <sub>4</sub> % Notes due November 15, 2014	[ ]

See "Description of the Exchange Offer Determination of the Exchange Price."

Determination of the New Issue Price of the iStar Notes The new issue price of the iStar Notes will equal (rounded to the nearest cent): (1) the discounted value (calculated by the dealer manager in accordance with market practice by the formula set forth in Annex B to this prospectus) of the remaining payments of principal and interest on \$1,000 principal amount of iStar Notes through their maturity date at a discount rate equal to: (a) the bid-side yield on the reference U.S. Treasury Security listed

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below, based on the bid-side price for the reference U.S. Treasury Security at the pricing time (unless we extend the expiration date, in which case the pricing time will be 2:00 p.m., New York City time, on the second business day prior to the expiration date as so extended) as displayed on the Bloomberg Government Pricing Monitor Page PX7; plus (b) the fixed spread listed below.

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CUSIP No.	Note Description	Outstanding Principal Amount	Maturity Date	Reference U.S. Treasury Security	Fixed Spread (in basis points)
45031UAH4	iStar 5.70% Series B Senior Notes due 2014	\$ 250,000,000	March 1, 2014	4 <sup>1</sup> / <sub>4</sub> % Notes due November 15, 2014	[ ]
	See "Description of the Exchange Offer Determination of New Issue Price."				
Exchange Ratio	<p>The exchange ratio is equal to the exchange price, which includes accrued and unpaid interest, divided by the new issue price, which includes accrued and unpaid interest. For each \$1,000 principal amount of TriNet Notes tendered, holders will receive iStar Notes in an amount equal to \$1,000 multiplied by the exchange ratio. Since the iStar Notes will be issued in denominations of \$1,000, we will round the exchange ratio calculation down to the nearest \$1,000 principal amount.</p> <p>The difference between the result of the exchange ratio calculation before giving effect to rounding and the rounded principal amount of iStar Notes is referred to as residual cash. The residual cash amount will be adjusted by multiplying the residual cash amount by the new issue price divided by 1,000. The residual cash amount will be paid in cash to holders upon consummation of the exchange offer.</p>				
Consent Amount	<p>The exchange price includes a consent amount of \$20.00 per \$1,000 principal amount. The consent amount is only offered to eligible holders who validly tender the TriNet Notes on or prior to the consent date of February 8, 2005 and do not validly withdraw their tenders on or before the consent date. Holders will not receive any iStar Notes, including the consent amount, unless and until the exchange offer is consummated. Eligible holders who validly tender their TriNet Notes after the consent date will receive, if the exchange offer is consummated, an amount of iStar Notes determined based on the exchange ratio which will be equal to the exchange price minus \$20.00 per \$1,000 principal amount, which represents the consent amount, divided by the new issue price. See "Description of the Exchange Offer Terms of the Exchange Offer."</p>				
Accrued Interest on the iStar and TriNet Notes	<p>Since the exchange ratio gives effect to accrued interest on the TriNet Notes and the iStar Notes, we will not make any cash payment in respect of accrued interest on the TriNet Notes exchanged, nor will any holder of TriNet Notes be required to make any cash payment in respect of accrued interest received in the exchange offer on the iStar Notes issued in the exchange offer. Interest on the iStar Notes will accrue from, and including, September 1, 2004, the most recent interest payment date on the iStar Notes.</p>				
Pricing Time	<p>The pricing time will be 2:00 pm, New York City time on February 22, 2005, unless the expiration date is extended, in which case the pricing time will be 2:00 pm, New York City time on the second business day prior to the expiration date as so extended.</p>				
Information	<p>Any questions concerning the terms of the exchange offer should be directed to the Global Liability Management Group at Bear Stearns at (877) 696-BEAR or (877) 696-2327. We will publicly announce, by press release, the exchange price for the TriNet Notes and the new issue price for the iStar Notes promptly after they are determined by the dealer manager.</p>				





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You can obtain recently calculated hypothetical quotes of the yield of the reference U.S. Treasury Security, the exchange offer yield and the exchange price for the TriNet Notes prior to the pricing time, and can obtain the yield on the reference U.S. Treasury Security, the exchange offer yield and the new issue price for the iStar Notes prior to the pricing time, by contacting the Global Liability Management Group at Bear Stearns (877) 696-BEAR or (877) 696-2327.

Questions concerning tender procedures and requests for additional copies of this prospectus should be directed to the information agent at its address or telephone numbers listed on the back cover page of this prospectus.

Consent Date	The consent date will be 5:00 P.M., New York City time, on February 8, 2005, unless extended or earlier terminated by us.
Expiration Date	The expiration date of the exchange offer and consent solicitation will be 12:00 midnight, New York City time, on February 24, 2005, unless we extend it.
Settlement Date	Expected to be three business days subsequent to the expiration date.
Conditions to the Exchange Offer and Consent Solicitation	Our obligation to exchange TriNet Notes for iStar Notes pursuant to the exchange offer and consent solicitation is subject to the satisfaction of several conditions including, but not limited to receipt of tenders from holders of at least a majority of the aggregate principal amount of the iStar Notes.  See "The Exchange Offer and Consent Solicitation Conditions to the Exchange Offer and Consent Solicitation" for a more complete description of the conditions to the exchange offer and consent solicitation.
Withdrawal Rights and Revocation of Consents	To the extent we receive the requisite consents, we expect to enter into a supplemental indenture giving effect to the proposed amendments on the consent date, and thereafter you will not be permitted to withdraw the TriNet Notes you tender. If we make a material change in the terms of the exchange offer, we will disseminate additional offering materials and extend the exchange offer to the extent required by law, and you will have the right to withdraw your tendered TriNet Notes. We will issue a press release on the business day following the execution of the supplemental indenture. Upon such execution, the terms of the supplemental indenture will become effective. The proposed amendments will not become operative until we accept and consummate the exchange of all notes that are validly tendered. Accordingly, to the extent we terminate the offer without acceptance of tendered notes, all tendered notes will be returned to the tendering holders, the supplemental indenture, although previously executed, will be terminated, and the proposed amendments will not become operative.  If you tender your TriNet Notes after the consent date, you may validly withdraw them at any time prior to the expiration of the tender offer and consent solicitation. Once you revoke your consents, you automatically will be deemed to have withdrawn your tender of TriNet Notes. If we decide for any reason not to accept any notes you have tendered for exchange, those notes will be returned to you without cost promptly after the expiration or termination of the exchange offer and consent solicitation. See "The Exchange Offer and Consent Solicitation Withdrawal Rights and Revocation of Consents" for a more complete description of the tender and withdrawal provisions.

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Certain U.S. Federal Income Tax Consequences      For a discussion of anticipated significant U.S. federal income tax consequences associated with the exchange of (and the failure to exchange) TriNet Notes for iStar Notes issued in the exchange offer and consent solicitation and the ownership and disposition of those iStar Notes see "Material Federal Income Tax Consequences." You should consult your own tax advisor as to the consequences to you of the exchange or failure to participate in the exchange offer and consent solicitation.

Use of Proceeds      We will not receive any cash proceeds from the exchange offer and consent solicitation.

Exchange Agent      Computershare Trust Company of New York.

Dealer Manager      Bear, Stearns & Co. Inc.

Information Agent      Georgeson Shareholder Communications Inc.

## Summary Description of the iStar Notes

Issuer	iStar Financial Inc.
Securities Offered	Series B Senior Notes due 2014.
Existing Outstanding Principal Amount	The iStar Notes being offered in the exchange offer will form part of an existing series of outstanding debt securities and are expected to be fungible and trade interchangeably with those previously issued securities under the same CUSIP number. Immediately prior to the consummation of the exchange offer, there will be \$250,000,000 aggregate principal amount of iStar Notes outstanding.
Maturity	March 1, 2014.
Interest Rate	5.70% per year (calculated using a 360-day year).
Interest Payment Dates	Each March 1 and September 1 beginning on March 1, 2005. Interest will accrue from September 1, 2004.
Ranking	The iStar Notes are our unsecured senior obligations and rank <i>pari passu</i> to our existing and future unsecured senior indebtedness and, to the extent we incur subordinated indebtedness in the future, senior to such indebtedness. The iStar Notes will be effectively subordinated to all of our secured indebtedness and all indebtedness of our subsidiaries. As of September 30, 2004, the aggregate amount of our outstanding consolidated indebtedness was \$4.7 billion, of which approximately \$2.1 billion was debt of our subsidiaries (including \$0.2 billion of debt of TriNet and its subsidiaries).
Optional Redemption	The iStar Notes are redeemable prior to their maturity at a make-whole premium.
Change of Control Offer	If a change in control of our Company occurs, we must give holders of the iStar Notes the opportunity to sell us their iStar Notes at 101% of their face amount, plus accrued interest.
Certain Indenture Provisions	<p>The indenture governing the iStar Notes contains covenants limiting our and our subsidiaries' ability to:</p> <ul style="list-style-type: none"> <li>incur indebtedness;</li> <li>repurchase equity interests or subordinated indebtedness;</li> <li>merge or consolidate with another person; or</li> <li>sell, lease or otherwise dispose of all or substantially all of our assets.</li> </ul> <p>These covenants are subject to a number of important limitations and exceptions. In addition, certain of the covenants are not in effect at this time because the iStar Notes are rated investment grade. See "Description of iStar Notes - Certain Covenants."</p>
Risk Factors	Investing in the Notes involves substantial risks. See "Risk Factors" in this prospectus for a description of certain of the risks you should consider before accepting iStar Notes in the exchange offer.

## RISK FACTORS

This section describes some, but not all, of the risks of tendering your notes for exchange in the exchange offer and consent solicitation. You should carefully consider these risks, in addition to the other information contained or incorporated by reference in this document, before tendering your notes for exchange in the exchange offer and consent solicitation. The risk factors set forth below, other than those that discuss the consequences of failing to exchange your outstanding notes in the exchange offer and consent solicitation, are generally applicable to both the TriNet Notes and the iStar Notes issued in the exchange offer and consent solicitation. In connection with the forward-looking statements that appear in this document, you should carefully review the factors discussed below and the cautionary statements referred to in "Forward-Looking Statements."

### **Risks Relating to the Exchange Offer**

#### *Consequences of Failure to Exchange*

If you fail to tender any of your TriNet Notes, we may not be able to complete the exchange offer and consent solicitation. If we are unable to complete the exchange offer and consent solicitation, the TriNet Notes will remain outstanding as obligations of TriNet and TriNet will continue to comply with the indenture governing the TriNet Notes.

If we do complete the exchange offer and consent solicitation, most of the restrictive covenants under the indenture for the TriNet Notes will be eliminated or waived. Therefore, if you fail to tender any of your TriNet Notes, your TriNet Notes will lose the protection of these restrictive covenants. The modification of the restrictive covenants and other provisions could permit us to cause TriNet to take actions that could be adverse to the holders. Moreover, if we receive tenders from holders of at least a majority of the aggregate principal amount of the TriNet Notes, less than \$50.0 million in aggregate principal amount of the TriNet Notes will remain outstanding after the completion of this exchange offer and consent solicitation. The ability to sell any of the TriNet Notes that remain outstanding after the exchange offer and consent solicitation could, therefore, be limited.

In addition, the removal of most of the restrictive covenants under the indenture for the TriNet Notes, whether by elimination or waiver, may have a material impact on the trading value of any TriNet Notes that remain outstanding after the exchange offer and consent solicitation.

#### *The consummation of the exchange offer may not occur.*

We are not obligated to complete the exchange offer unless the conditions described herein are met or waived. Even if the exchange offer is completed, it may not be completed on the schedule described in this prospectus. Accordingly, holders participating in the exchange offer may have to wait longer than expected to receive their iStar Notes, during which time those holders of TriNet Notes will not be able to effect transfers of their TriNet Notes tendered in the exchange offer.

#### *The consideration to be received in the exchange offer does not reflect any valuation of the TriNet Notes or the iStar Notes and is subject to market volatility.*

Our board of directors has made no determination that the consideration to be received in the exchange offer represents a fair valuation of either the TriNet Notes or the iStar Notes. We have not obtained a fairness opinion from any financial advisor about the fairness to us or to you of the consideration to be received by holders of TriNet Notes. In addition, the exchange ratio for the TriNet Notes is based on a fixed spread and is dependent upon the yield of the reference U.S. Treasury Security listed on page 25 of this prospectus at the pricing time. This yield, and therefore the exchange ratio, may fluctuate significantly from the date of this prospectus to the pricing time.

***Federal Income Tax Consequences***

If you do not participate in the exchange offer, or if you are an early consenting holder, we believe that you should not recognize gain or loss for U.S. federal income tax purposes. However, if you are a late consenting holder, you may recognize gain (but not loss) in the exchange, which gain will be limited to the lesser of: (i) the fair market value of the excess of the principal amount of the iStar Notes over the TriNet Notes (the "excess principal amount"); and (ii) the late consenting holder's gain realized on the exchange determined by comparing the value of all property (including the excess principal amount) received by the late consenting holder with the late consenting holder's adjusted tax basis in the TriNet Notes. In addition, if you are an early consenting holder and the IRS successfully asserts that the consent payment should not be treated as part of the principal amount of the iStar Notes received in the exchange, you may be required to recognize gain as a result of the exchange in the same manner as a late consenting holder. You are urged to consult your own tax advisor as to the consequences to you of participating in the exchange offer and consent solicitation. For more information, see "Material Federal Income Tax Consequences."

**Risks Related to the iStar Notes**

***We Have Other Indebtedness***

As of September 30, 2004, our outstanding debt was approximately \$4.7 billion. Our ability to make scheduled payments of principal or interest on, or to refinance, our indebtedness depends on our future performance, which, to a certain extent, is subject to general economic, financial, competitive and other factors beyond our control.

***The Notes Will Be Structurally Subordinated to Subsidiary Debt***

The Notes are not guaranteed by any of our subsidiaries. Our subsidiaries hold a substantial portion of our assets. Our subsidiaries had approximately \$2.1 billion of indebtedness outstanding at September 30, 2004. Creditors of a subsidiary are entitled to be paid what is due to them before assets of the subsidiary become available for creditors of its parent.

***Our Ability to Repurchase Notes Upon Change of Control May Be Limited***

Upon a change of control, each holder of Notes will have the right to require us to repurchase the holder's Notes. If there were a change of control, but we did not have sufficient funds to pay the repurchase price for all of the iStar Notes which were tendered, that failure would constitute an event of default under the indenture. Therefore, a change of control at a time when we could not pay for iStar Notes which were tendered as a result of the change of control could result in holders of Notes receiving substantially less than the principal amount of the iStar Notes.

***As a REIT, We Must Distribute a Portion of Our Income to Our Stockholders and We Have Substantial Additional Capacity to Make Restricted Payments***

We generally must distribute annually at least 90% of our taxable income to our stockholders to maintain our REIT status. As a result, those earnings will not be available to pay principal on the iStar Notes. Our taxable income has historically been lower than the cash flow generated by our business activities, primarily because our taxable income is reduced by non-cash expenses, such as depreciation and amortization. As a result, our dividend payout ratio as a percentage of free cash flow has generally been lower than our payout ratio as a percentage of taxable income. However, certain of our credit facilities permit us to distribute up to 95% of our adjusted earnings.

**We Are Subject to Risks Relating to Our Lending Business.**

***We may suffer a loss if a borrower defaults on a non-recourse loan or on a loan that is not secured by underlying real estate.*** In the event of a default by a borrower on a non-recourse loan, we will only have recourse to the real estate assets securing the loan. For this purpose, we consider loans made to

special purpose entities formed solely for the purpose of holding and financing particular assets to be non-recourse loans. If the underlying asset value is below the loan amount, we will suffer a loss. Conversely, we sometimes make loan investments that are unsecured or are secured by equity interests in the borrowing entities. These loans are subject to the risk that other lenders may be directly secured by the real estate assets of the borrower. In the event of a default, those secured lenders would have priority over us with respect to the proceeds of a sale of the underlying real estate.

In the cases described above, we may lack control over the underlying asset securing our loan or the underlying assets of the borrower prior to a default, and, as a result, their value may be reduced by acts or omissions by owners or managers of the assets. As of September 30, 2004, 79.1% of our loans are non-recourse, based upon the gross carrying value of our loan assets, and 12.6% of our total investments, based on gross carrying value, consist of loans that are unsecured or secured by equity interests in the borrowing entity.

***We may suffer a loss in the event of a default or bankruptcy of a borrower, particularly in cases where the borrower has incurred debt that is senior to our loan.*** If a borrower defaults on our loan but does not have sufficient assets to satisfy our loan, we may suffer a loss of principal or interest. In the event of a borrower bankruptcy, we may not have full recourse to the assets of the borrower, or the assets of the borrower may not be sufficient to satisfy our loan. In addition, certain of our loans are subordinate to other debt of the borrower. If a borrower defaults on our loan or on debt senior to our loan, or in the event of a borrower bankruptcy, our loan will be satisfied only after the senior debt. Where debt senior to our loans exists, the presence of intercreditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies (through "standstill" periods) and control decisions made in bankruptcy proceedings relating to borrowers. Bankruptcy and borrower litigation can significantly increase the time needed for us to acquire underlying collateral in the event of a default, during which time the collateral may decline in value. In addition, there are significant costs and delays associated with the foreclosure process.

***We are subject to the risk that provisions of our loan agreements may be unenforceable.*** Our rights and obligations with respect to our loans are governed by written loan agreements and related documentation. It is possible that a court could determine that one or more provisions of a loan agreement are unenforceable, such as a loan prepayment provision or the provisions governing our security interest in the underlying collateral. If this were to happen with respect to a material asset or group of assets, we could be adversely affected.

***We are subject to the risks associated with loan participations, such as less than full control rights.*** Some of our assets are participating interests in loans in which we share the rights, obligations and benefits of the loan with other participating lenders. We may need the consent of these parties to exercise our rights under such loans, including rights with respect to amendment of loan documentation, enforcement proceedings in the event of a default and the institution of, and control over, foreclosure proceedings. Similarly, a majority of the participants may be able to take actions to which we object but to which we will be bound if our participation interest represents a minority interest. We may be adversely affected by this lack of full control.

#### **We Are Subject to Risks Relating to Our Corporate Tenant Lease Business.**

***Lease expirations, lease defaults and lease terminations may adversely affect our revenue.*** Lease expirations, lease defaults and lease terminations may result in reduced revenues if the lease payments received from replacement corporate tenants are less than the lease payments received from the expiring, defaulting or terminating corporate tenants. In addition, lease defaults by one or more significant corporate tenants, lease terminations by corporate tenants following events of casualty or takings by eminent domain, or the failure of corporate tenants under expiring leases to elect to renew their leases, could cause us to experience long periods with no revenue from a facility and to incur substantial capital expenditures in order to obtain replacement corporate tenants.

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For the quarter ended September 30, 2004, 13.9% of our annualized total revenues were derived from our five largest corporate tenant customers. As of September 30, 2004, the percentage of our revenues (based on total revenues for the quarter ended September 30, 2004, annualized) that are subject to expiring leases during each year from 2004 through 2008 is as follows:

2004	1.7%
2005	0.7%
2006	4.4%
2007	2.2%
2008	1.7%

***We may need to make significant capital improvements to our corporate facilities in order to remain competitive.*** Our corporate facilities may face competition from newer, more updated facilities. In order to remain competitive, we may need to make significant capital improvements to our existing corporate facilities. In addition, in the event we need to re-lease a corporate facility, we may need to make significant tenant improvements, including conversions of single tenant buildings to multi-tenant buildings. The costs of these improvements could adversely affect our financial performance.

***Our ownership interests in corporate facilities are illiquid, hindering our ability to mitigate a loss.*** Since our ownership interests in corporate facilities are illiquid, we may lack the necessary flexibility to vary our investment strategy promptly to respond to changes in market conditions. In addition, if we have to foreclose on an asset or if we desire to sell it in an effort to recover or mitigate a loss, we may be unable to do so at all, or only at a discount.

### **We Are Subject to Risks Relating to Our Asset Concentration.**

As of September 30, 2004, the average size of our lending investments was \$33.1 million and the average size of our leasing investments was \$27.7 million. No single investment represented more than 4.0% of our total revenues for the quarter ended September 30, 2004. While our asset base is diversified by product line, asset type, obligor, property type and geographic location, it is possible that if we suffer losses on a portion of our larger assets, our financial performance could be adversely impacted.

### **We Are Subject to Risks in Our Business**

#### ***Because We Must Distribute a Portion of Our Income, We Will Continue to Need Additional Debt and/or Equity Capital to Grow.***

We must distribute at least 90% of our taxable income to our stockholders to maintain our REIT status. As a result, those earnings will not be available to fund investment activities. We have historically funded our investments by borrowing from financial institutions and raising capital in the public and private capital markets. We expect to continue to fund our investments this way. If we fail to obtain funds from these sources, it could limit our ability to grow, which could have a material adverse effect on the value of our common stock and/or our ability to pay interest and principal on the iStar Notes.

#### ***Our Growth Is Dependent on Leverage, Which May Create Other Risks.***

Our success is dependent, in part, upon our ability to grow our assets through the use of leverage. Our ability to obtain the leverage necessary for execution of our business plan will ultimately depend upon our ability to maintain interest coverage ratios meeting market underwriting standards that will vary according to lenders' assessments of our creditworthiness and the terms of the borrowings. As of September 30, 2004, our debt to book equity plus accumulated depreciation and loan loss reserves ratio was 1.7x and our total debt obligations outstanding were approximately \$4.7 billion. Our charter does not limit the amount of indebtedness which we may incur. Our Board of Directors has overall responsibility for our financing strategy. Stockholder approval is not required for changes to our



financing strategy. If our Board of Directors decided to increase our leverage, it could lead to reduced or negative cash flow and reduced liquidity.

The percentage of leverage used will vary depending on our estimate of the stability of iStar Financial's cash flow. To the extent that changes in market conditions cause the cost of such financing to increase relative to the income that can be derived from the assets originated, we may reduce the amount of our leverage.

Leverage creates an opportunity for increased net income, but at the same time creates risks. For example, leveraging magnifies changes in our net worth. We will incur leverage only when there is an expectation that it will enhance returns, although there can be no assurance that our use of leverage will prove to be beneficial. Moreover, there can be no assurance that we will be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our assets or a financial loss if we are required to liquidate assets at a commercially inopportune time.

We and our subsidiaries are parties to agreements and debt instruments that restrict future indebtedness and the payment of dividends, including indirect restrictions (through, for example, covenants requiring the maintenance of specified levels of net worth and earnings to debt service ratios) and direct restrictions. As a result, in the event of a deterioration in our financial condition, these agreements or debt instruments could restrict our ability to pay dividends. Moreover, if we fail to pay dividends as required by the Internal Revenue Code, whether as a result of restrictive covenants in our debt instruments or otherwise, we may lose our status as a REIT. For more information regarding the consequences of loss of REIT status, please read the risk factor entitled "We May Be Subject to Adverse Consequences if We Fail to Qualify as a Real Estate Investment Trust."

***We Utilize Interest Rate Hedging Arrangements Which May Adversely Affect Our Borrowing Cost and Expose Us to Other Risks.***

We have variable rate lending assets and variable rate debt obligations. These assets and liabilities create a natural hedge against changes in variable interest rates. This means that as interest rates increase, we earn more on our variable rate lending assets and pay more on our variable rate debt obligations and, conversely, as interest rates decrease, we earn less on our variable rate lending assets and pay less on our variable rate debt obligations. When our variable rate debt obligations exceed our variable rate lending assets, we utilize derivative instruments to limit the impact of changing interest rates on our net income. We do not use derivative instruments to hedge assets or for speculative purposes. The derivatives instruments we use are typically in the form of interest rate swaps and interest rate caps. Interest rate swaps effectively change variable rate debt obligations to fixed rate debt obligations, or vice versa. Interest rate caps effectively limit the maximum interest rate on variable rate debt obligations.

The primary risks from our use of derivative instruments is the risk that a counterparty to a hedging arrangement could default on its obligation and the risk that we may have to pay certain costs, such as transaction fees or breakage costs, if a hedging arrangement is terminated by us. As a matter of policy, we enter into hedging arrangements with counterparties that are large, creditworthy financial institutions typically rated at least "AA/Aa2" by Standard & Poor's and Moody's Investors Service, respectively. Our hedging strategy is monitored by our Audit Committee on behalf of our Board of Directors and may be changed by the Board of Directors without stockholder approval.

Developing an effective strategy for dealing with movements in interest rates is complex and no strategy can completely insulate us from risks associated with such fluctuations. There can be no assurance that our hedging activities will have the desired beneficial impact on our results of operations or financial condition.

***We Face a Risk of Liability Under Environmental Laws.***

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner of real estate (including, in certain circumstances, a secured lender that succeeds to

ownership or control of a property) may become liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. Those laws typically impose cleanup responsibility and liability without regard to whether the owner or control party knew of or was responsible for the release or presence of such hazardous or toxic substances. The costs of investigation, remediation or removal of those substances may be substantial. The owner or control party of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. Certain environmental laws also impose liability in connection with the handling of or exposure to asbestos-containing materials, pursuant to which third parties may seek recovery from owners of real properties for personal injuries associated with asbestos-containing materials. Absent succeeding to ownership or control of real property, a secured lender is not likely to be subject to any of these forms of environmental liability.

***Adverse Changes in General Economic Conditions Can Adversely Affect Our Business.***

Our success is dependent upon the general economic conditions in the geographic areas in which a substantial number of our investments are located. Adverse changes in national economic conditions or in the economic conditions of the regions in which we conduct substantial business likely would have an adverse effect on real estate values and, accordingly, our business.

***We May Be Subject to Adverse Consequences If We Fail to Qualify as a Real Estate Investment Trust.***

We intend to operate so as to qualify as a REIT for federal income tax purposes. We have received an opinion of our legal counsel, Clifford Chance US LLP, that, based on certain assumptions and factual representations, our existing legal organization and our actual and proposed method of operation, enable us to satisfy the requirements for qualification as a REIT under the Internal Revenue Code. Investors should be aware, however, that opinions of counsel are not binding on the Internal Revenue Service or any court. The opinion only represents the view of our counsel based on their review and analysis of existing law, that includes no controlling precedents. Furthermore, both the validity of the opinion and our qualification as a REIT will depend on our continuing ability to meet various requirements concerning, among other things, the ownership of our outstanding stock, the nature of our assets, the sources of our income and the amount of our distributions to our stockholders.

If we were to fail to qualify as a REIT for any taxable year, we would not be allowed a deduction for distributions to our stockholders in computing our taxable income and would be subject to federal income tax, including any applicable minimum tax, on our taxable income with respect to any such taxable year for which the statute of limitations remains open at regular corporate rates. Unless entitled to relief under certain Internal Revenue Code provisions, we also would be disqualified from treatment as a real estate investment trust for the four subsequent taxable years following the year during which qualification was lost. As a result, cash available for payment of interest and principal on the iStar Notes would be reduced for each of the years involved. Furthermore, it is possible that future economic, market, legal, tax or other considerations may cause the Board of Directors to revoke the REIT election.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to certain state and local taxes on our income and property, and may be subject to certain federal taxes.

***Quarterly Results May Fluctuate and May Not Be Indicative of Future Quarterly Performance.***

Our quarterly operating results could fluctuate; therefore, you should not rely on past quarterly results to be indicative of our performance in future quarters. Factors that could cause quarterly operating results to fluctuate include, among others, variations in our investment origination volume, variations in the timing of prepayments, the degree to which we encounter competition in our markets and general economic conditions.

## RATIO OF EARNINGS TO FIXED CHARGES

	Nine Months Ended September 30, 2004	Years Ended December 31,				
		2003	2002	2001	2000	1999
Ratio of earnings to fixed charges and preferred stock dividends(1)	1.4x(2)	2.0x	1.7x	1.8x	1.8x	1.1x(3)
Ratio of earnings to fixed charges(1)	1.7x(2)	2.4x	2.1x	2.2x	2.2x	1.4x(3)

- (1) For the purposes of calculating the ratio of earnings to fixed charges, "earnings" consist of income from continuing operations before adjustment for minority interest in consolidated subsidiaries, or income or loss from equity investees, income taxes and cumulative effect of change in accounting principle plus "fixed charges" and certain other adjustments. "Fixed charges" consist of interest incurred on all indebtedness (including amortization of original issue discount) and the implied interest component of our rent obligations in the years presented.
- (2) Includes the effect of CEO, CFO and ACRE Partners compensation charges of \$106.9 million, 8.75% Senior Notes due 2008 redemption charge of \$11.5 million (and the preferred stock redemption charge of \$9.0 million for the ratio of earnings to fixed charges and preferred dividends). Excluding these charges, the ratio of earnings to fixed charges and preferred stock dividends and the ratio of earnings to fixed charges would have been 2.0x and 2.4x, respectively.
- (3) Includes the effect of a non-recurring, non-cash charge in the amount of approximately \$94.5 million relating to our November 1999 acquisition of the former external advisor to our company. Excluding these charges, the ratio of earnings to fixed charges and preferred stock dividends and the ratio of earnings to fixed charges would have been 1.9x and 2.4x, respectively.

**DESCRIPTION OF OTHER INDEBTEDNESS**

The table below reflects our debt obligations under various arrangements with financial institutions as of September 30, 2004. All of the indebtedness shown below which has not subsequently been repaid is non-recourse to iStar Financial, the parent company; except that, iStar Financial is the borrower under the unsecured revolving credit facility shown below; iStar Financial is the issuer of the 8.75%, 7.0%, 6.50%, 6.0%, 5.70%, 5.125%, 4.875% and senior floating rate unsecured notes shown below; and iStar Financial has provided limited guarantees of certain subsidiary borrowings. Specifically, iStar Financial is a guarantor of a \$148.0 million subsidiary financing due 2006 and a guarantor of borrowings under secured revolving credit facilities as follows: (1) up to \$30 million under the \$700 million secured facility due January 2007; (2) up to 10% of outstanding borrowings under the \$350 million and \$500 million secured facilities due August and September, 2005, respectively; and (3) up to a 15% of outstanding borrowings under the \$250 million secured credit facility due March 2005. In addition, iStar Financial provides guarantees under non-recourse subsidiary borrowings for customary carve-out matters such as fraud, misappropriation and voluntary bankruptcy proceedings.

We are subject to a number of covenants in our borrowing arrangements. These covenants are both financial and non-financial in nature. Significant financial covenants include limitations on our ability to incur indebtedness beyond specified levels. Significant non-financial covenants include a requirement in our publicly-held debt securities that we offer to repurchase those securities at a premium if we undergo a change of control.

The iStar Notes that will be issued in the exchange offer will form part of our Series B 5.70% Senior Notes due 2014.

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Carrying Value as of

Maximum Amount Available	September 30, 2004	December 31, 2003	Stated Interest Rates(1)	Scheduled Maturity Date
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(dollars in thousands)

**Secured  
revolving  
credit  
facilities:**

Line of credit	\$ 250,000	\$ 42,000	\$ 88,640	LIBOR + 1.50% 2.05%	March 2005
Line of credit	700,000	69,900			