ISTAR FINANCIAL INC
Form 10-K
March 01, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

OR

o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to ________

Commission File No. 1-15371

iSTAR FINANCIAL INC.

(Exact name of registrant as specified in its charter)

Maryland	**95-6881527**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1114 Avenue of the Americas New York, NY	**10036**
(Address of principal executive offices)	(Zip code)

Registrant s telephone number, including area code: **(212) 930-9400**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class: Name of Exchange on which registered:	Name of Exchange on which registered:
Common Stock, $0.001 par value	**New York Stock Exchange**
8.000% Series D Cumulative Redeemable Preferred Stock, $0.001 par value	**New York Stock Exchange**
7.875% Series E Cumulative Redeemable Preferred Stock, $0.001 par value	**New York Stock Exchange**
7.800% Series F Cumulative Redeemable Preferred Stock, $0.001 par value	**New York Stock Exchange**
7.650% Series G Cumulative Redeemable Preferred Stock, $0.001 par value	**New York Stock Exchange**
7.500% Series I Cumulative Redeemable Preferred Stock, $0.001 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark whether the registrant: (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports); and (ii) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Exchange Act Rule 12-b-2).
Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

As of June 30, 2006 the aggregate market value of the common stock, $0.001 par value per share of iStar Financial Inc. (Common Stock), held by non-affiliates (1) of the registrant was approximately $4.08 billion, based upon the closing price of $37.75 on the New York Stock Exchange composite tape on such date.

As of January 31, 2007, there were 126,701,213 shares of Common Stock outstanding.

(1) For purposes of this Annual Report only, includes all outstanding Common Stock other than Common Stock held directly by the registrant s directors and executive officers.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the registrant s definitive proxy statement for the registrant s 2007 Annual Meeting, to be filed within 120 days after the close of the registrant s fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

Item 1. Business

Explanatory Note for Purposes of the Safe Harbor Provisions of Section 21E of the Securities Exchange Act of 1934, as amended

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which involve certain risks and uncertainties. Forward-looking statements are included with respect to, among other things, iStar Financial Inc. s (the Company s) current business plan, business strategy and portfolio management. The Company s actual results or outcomes may differ materially from those anticipated. Important factors that the Company believes might cause such differences are discussed in the cautionary statements presented under the caption Risk Factors in Item 1a of this Form 10-K or otherwise accompany the forward-looking statements contained in this Form 10-K. In assessing all forward-looking statements, readers are urged to read carefully all cautionary statements contained in this Form 10-K.

Overview

iStar Financial Inc. (the Company) is a leading publicly-traded finance company focused on the commercial real estate industry. The Company provides custom-tailored financing to high-end private and corporate owners of real estate, including senior and mezzanine real estate debt, senior and mezzanine corporate capital, corporate net lease financing and equity. The Company, which is taxed as a real estate investment trust (REIT), seeks to deliver strong dividends and superior risk-adjusted returns on equity to shareholders by providing innovative and value added financing solutions to its customers. The Company s two primary lines of business are lending and corporate tenant leasing.

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

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

The Company began its business in 1993 through private investment funds formed to capitalize on inefficiencies in the real estate finance market. In March 1998, these funds contributed their assets to the Company s predecessor in exchange for a controlling interest in that company. The Company later acquired its former external advisor in exchange for shares of the Company s common stock (Common Stock) and converted its organizational form to a Maryland corporation. As part of the conversion to a Maryland corporation, the Company replaced its former dual class common share structure with a single class of Common Stock. The Company s Common Stock began trading on the New York Stock Exchange on November 4, 1999. Prior to this date, the Company s Common Stock was traded on the American Stock Exchange. Since that time, the Company has grown through the origination of new lending and leasing transactions, as well as through corporate acquisitions, including the acquisition in 1999 of TriNet Corporate Realty Trust, Inc. (TriNet), the acquisition in 2005 of Falcon Financial Investment Trust and the acquisition in 2005 of a significant non-controlling interest in Oak Hill Advisors LP and affiliates.

Investment Strategy

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

The Company has implemented its investment strategy by:

- Focusing on the origination of large, structured mortgage, corporate and lease financings where customers require flexible financial solutions and one-call responsiveness post-closing.

- Avoiding commodity businesses in which there is significant direct competition from other providers of capital such as conduit lending and investments in commercial or residential mortgage-backed securities.

- Developing direct relationships with borrowers and corporate customers as opposed to sourcing transactions solely through intermediaries.

- Adding value beyond simply providing capital by offering borrowers and corporate customers specific lending expertise, flexibility, certainty of closing and continuing relationships beyond the closing of a particular financing transaction.

- Taking advantage of market anomalies in the real estate financing markets when the Company believes credit is mispriced by other providers of capital, such as the spread between lease yields and the yields on corporate customers underlying credit obligations.

The Company seeks to invest in a mix of portfolio financing transactions to create asset diversification and single-asset financings of properties with strong, long-term competitive market positions. The Company s credit process focuses on:

- Building diversification by asset type, property type, obligor, loan/lease maturity and geography.

- Financing commercial real estate assets in major metropolitan markets.

- Underwriting assets using conservative assumptions regarding collateral value and future property performance.

- Evaluating relative risk adjusted returns across multiple investment markets.

- Focusing on replacement costs as the long-term determinant of real estate values.

- Stress testing potential investments for adverse economic and real estate market conditions.

The Company seeks to maintain an investment portfolio which is diversified by asset type, underlying property type and geography. As of December 31, 2006, based on current gross carrying values, the Company s total investment portfolio has the following characteristics:

Since the Company s inception, substantially all of its investments have been in assets and with customers based in the United States and the Company has conducted its operations exclusively from the United States. In the first quarter of 2006, the Company opened a subsidiary in London, England. As of December 31, 2006 the Company had four employees working in London. The Company will use its London office to source investment opportunities abroad, primarily in Europe; however, the Company does not expect that non-U.S. investments will represent a material portion of its assets over the next twelve months.

The Company s Underwriting Process

The Company discusses and analyzes investment opportunities during regular weekly meetings which are attended by all of its investment professionals, as well as representatives from its legal, risk management and capital markets areas. The Company has developed a process for screening potential investments called the Six Point Methodologysm. Through this process the Company evaluates an investment opportunity prior to beginning its formal due diligence process by: (1) evaluating the source of the opportunity; (2) evaluating the quality of the collateral or corporate credit, as well as its market or industry dynamics; (3) evaluating the equity or corporate sponsor; (4) determining whether it can implement an appropriate legal and financial structure for the transaction given its risk profile; (5) performing an alternative investment test; and (6) evaluating the liquidity of the investment and its ability to match fund the asset.

The Company has an intensive underwriting process in place for all potential investments. This process provides for comprehensive feedback and review by all disciplines within the Company, including investments, credit, risk management, legal/structuring and capital markets. Participation is encouraged from all professionals throughout the entire origination process, from the initial consideration of the opportunity, through the Six Point Methodologysm and into the preparation and distribution of a comprehensive memorandum for the Company s internal and/or Board of Directors investment committees.

Any commitment to make an investment of $25 million or less in any transaction or series of related transactions requires the approval of the Chief Executive Officer and General Counsel. Any commitment in an amount in excess of $25 million but not more than $75 million requires the further approval of the Company s internal investment committee, consisting of senior management representatives from all of the Company s key disciplines. Any commitment in an amount in excess of $75 million but not more than $150 million requires the further approval of the Investment Committee of the Board of Directors. Any commitment in an amount in excess of $150 million, and any strategic investment such as a corporate merger or acquisition or material transaction involving the Company s entry into a new line of business, requires the approval of the full Board of Directors.

Financing Strategy

The Company has access to a wide range of debt and equity capital resources to finance its investment and growth strategies. At December 31, 2006, the Company had over $2.97 billion of tangible book equity capital and a total capitalization of approximately $14.4 billion, consisting of market equity, book debt and preferred equity. The Company believes that its size and track record are competitive advantages in obtaining attractive financing for its businesses.

The Company seeks to maximize risk-adjusted returns on equity and financial flexibility by accessing a variety of public and private debt and equity capital sources. While the Company believes that it is important to maintain diverse sources of funding, in 2003, it began to emphasize unsecured funding sources of debt, such as long-term unsecured corporate debt. The Company believes that unsecured debt is more cost-effective, flexible and efficient than secured debt. The Company s current sources of debt capital include:

- Long-term, unsecured corporate debt.
- A combined $2.70 billion of maximum committed capacity under its unsecured and secured revolving credit facilities at year end.
- Individual mortgages secured by certain of the Company s assets.

The Company s business model is premised on significantly lower leverage than many other commercial finance companies. In this regard, the Company seeks to:

- Maintain a prudent corporate leverage level based upon the Company s mix of business and appropriate leverage levels for each of its primary business lines.

- Maintain a large tangible equity base and conservative credit statistics.

- Match fund assets and liabilities.

A more detailed discussion of the Company s current capital resources is provided in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Hedging Strategy

The Company has variable-rate lending assets and variable-rate debt obligations. These assets and liabilities create a natural hedge against changes in variable interest rates. This means that, as interest rates increase, the Company earns more on its variable-rate lending assets and pays more on its variable-rate debt obligations and, conversely, as interest rates decrease, the Company earns less on its variable-rate lending assets and pays less on its variable-rate debt obligations. When the Company s variable-rate debt obligations exceed its variable-rate lending assets, the Company utilizes derivative instruments to limit the impact of changing interest rates on its net income. The Company s policy requires that we manage our fixed/floating rate exposure such that a 100 basis point move in short term interest rates would have no more than a 2.5% impact on its quarterly adjusted earnings. The Company does not use derivative instruments for speculative purposes. The derivative instruments the Company uses are typically in the form of interest rate swaps and interest rate caps. Interest rate swaps effectively change variable-rate debt obligations to fixed-rate debt obligations. In addition, when appropriate the Company enters into interest rate swaps that convert fixed-rate debt to variable rate in order to mitigate the risk of changes in fair value of the fixed-rate debt obligations. Interest rate caps effectively limit the maximum interest rate on variable-rate debt obligations.

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

We also seek to match-fund our foreign denominated assets so that changes in foreign exchange rates or forward curves will have a minimal impact on earnings. Foreign denominated assets and liabilities are presented in our financial statements in US dollars at current exchange rates each reporting period with changes flowing through earnings. Matched assets and liabilities in the same currency are a natural hedge against currency fluctuations. For investments denominated in currencies other than British pounds, Canadian dollars and euros, we primarily use forward contracts to hedge our exposure to foreign exchange risk.

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

A more detailed discussion of the Company s hedging policy is provided in Item 7 Managements Discussion and Analysis of Financial Conditions and Results of Operations Liquidity and Capital Resources.

Business

Real Estate Lending

The Company primarily provides structured financing to high-end private and corporate owners of real estate, including senior and mezzanine real estate debt and senior and mezzanine corporate capital.

As of December 31, 2006, the Company s loan portfolio is comprised of:

	Carrying Value (In thousands)	% of Total
First mortgages / Senior loans	$ 5,405,830	79 %
Mezzanine / Subordinated debt	1,446,221	21 %
Gross carrying value	$ 6,852,051	100 %
Reserve for loan losses	(52,201)	
Total carrying value, net	$ 6,799,850	

As more fully discussed in Note 3 to the Company s Consolidated Financial Statements, the Company continually monitors borrower performance and completes a detailed, loan-by-loan formal credit review on a quarterly basis. After having originated or acquired approximately $23.0 billion of investment transactions over its 13 year history through December 31, 2006, the Company and its private investment fund predecessors have experienced minimal actual losses on their lending investments.

Despite the Company s historical track record of having minimal credit losses and loans on non-accrual status, the Company considers it prudent to reflect reserves for loan losses on a portfolio basis based upon the Company s assessment of general market conditions, the Company s internal risk management policies and credit risk rating system, industry loss experience, the Company s assessment of the likelihood of delinquencies or defaults and the value of the collateral underlying its investments. Accordingly, since its first full quarter operating its current business as a public company (the quarter ended June 30, 1998), management has reflected quarterly provisions for loan losses in its operating results.

As of December 31, 2006, the Company s loan portfolio has the following characteristics:

Investment Class	Collateral Types (In thousands)	# of Loans In Class	Carrying Value(1)	Principal Balance Outstanding	Weighted Average Accrual Rate(2)	Weighted Average First Dollar Current Loan-to-Value(3)	Weighted Average Last Dollar Current Loan-to-Value(3)
First mortgages / Senior loans	Office / Residential/Retail / Industrial, R&D / Mixed Use / Hotel / Entertainment, Leisure / Other	196	$ 5,405,830	$ 5,464,526	9.27 %	7 %	65 %
Mezzanine / Subordinated debt	Office / Residential / Retail / Industrial, R&D / Mixed Use / Hotel / Other	55	1,446,221	1,479,934	10.09 %	44 %	63 %
Total / Weighted average		251	$ 6,852,051	$ 6,944,460	9.44 %	15 %	64 %

Explanatory Notes:

(1) Where Current Carrying Value differs from Current Principal Balance Outstanding, the difference represents unamortized amount of acquired premiums, discounts or deferred loan fees.

(2) All variable-rate loans assume a 30-day LIBOR rate of 5.32% (the 30-day LIBOR rate at December 31, 2006). As of December 31, 2006, nine loans with a combined carrying value of $229.9 million have a stated accrual rate that exceeds the stated pay rate. The weighted average stated pay rate for First mortgages / Senior loans, Mezzanine / Subordinated debt, and the total loan portfolio is 9.23%, 8.30% and 9.03%, respectively.

(3) Weighted average ratios of first and last dollar current loan carrying value to underlying collateral value using third-party appraisal or the Company s internal valuation.

Summary of Interest Characteristics

As more fully discussed in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources as well as in Item 7a Quantitative and Qualitative Disclosures about Market Risk, the Company utilizes certain interest rate risk management techniques, including both asset/liability matching and certain other hedging techniques, in order to mitigate the Company s exposure to interest rate risks.

As of December 31, 2006, the Company s loan portfolio has the following interest rate characteristics:

	Carrying Value (In thousands)	**% of Total**
Fixed-rate loans	$ 2,597,854	38 %
Variable-rate loans	4,254,197	62 %
Gross carrying value	$ 6,852,051	100 %

Summary of Prepayment Terms

The Company is exposed to risks of prepayment on its loan assets, and generally seeks to protect itself from such risks by structuring its loans with prepayment restrictions and/or penalties.

As of December 31, 2006, the Company s loan portfolio has the following call protection characteristics:

	Carrying Value (In thousands)	**% of Total**
Fixed prepayment penalties or minimum whole-dollar profit	$1,120,077	17 %
Substantial lock-out for original term(1)	1,655,503	24 %
Yield maintenance	358,745	5 %
Total loans with call protection	3,134,325	46 %
Currently open to prepayment with no penalty	3,717,726	54 %
Gross carrying value	$6,852,051	100 %

Explanatory Note:

(1) For the purpose of this table, the Company has assumed a substantial lock-out to mean at least three years.

Summary of Lending Business Maturities

As of December 31, 2006, the Company s loan portfolio has the following maturity characteristics:

Year of Maturity	Number of Transactions Maturing	Carrying Value	% of Total
		(In thousands)	
2007	26	$ 1,211,127	18 %
2008	46	1,093,398	16 %
2009	40	1,323,441	19 %
2010	18	492,692	7 %
2011	29	716,051	10 %
2012	12	418,810	6 %
2013	25	601,354	9 %
2014	9	311,275	5 %
2015	3	191,580	3 %
2016	10	110,665	2 %
2017 and thereafter	33	381,658	6 %
Total	251	$ 6,852,051	100 %
Weighted average maturity		4.3 years	

Corporate Tenant Leasing

The Company pursues the origination of CTL transactions by structuring purchase/leasebacks and by acquiring facilities subject to existing long-term net leases. In a typical purchase/leaseback transaction, the Company purchases a corporation s facility and leases it back to that corporation subject to a long-term net lease. This structure allows the corporate customer to reinvest the proceeds from the sale of its facilities into its core business, while the Company capitalizes on its structured financing expertise.

The Company s net leased assets are generally mission-critical headquarters or distribution facilities that are subject to long-term leases with public companies, many of which are rated corporate credits and many of which provide for most expenses at the facility to be paid by the corporate customer on a triple net lease basis. CTL transactions have initial terms generally ranging from 15 to 20 years and typically range in size from $20 million to $150 million.

The Company generally intends to hold its CTL assets for long-term investment. However, subject to certain tax restrictions, the Company may dispose of an asset if it deems the disposition to be in the Company s best interests and may either reinvest the disposition proceeds, use the proceeds to reduce debt, or distribute the proceeds to shareholders.

The Company typically seeks general-purpose real estate with residual values that represent a discount to current market values and replacement costs. Under a typical net lease agreement, the corporate customer agrees to pay a base monthly operating lease payment and all facility operating expenses (including taxes, maintenance and insurance).

The Company generally seeks corporate customers with the following characteristics:

- Established companies with stable core businesses or market leaders in growing industries.
- Investment-grade credit strength or appropriate credit enhancements if corporate credit strength is not sufficient on a stand-alone basis.

- Commitments to the facilities as mission-critical assets to their on-going businesses.

As of December 31, 2006, the Company had 126 customers operating in more than 22 major industry sectors, including automotive, finance, healthcare, recreation, technology and communications. The majority of these customers are well-recognized national and international organizations, such as Federal Express, IBM, Nike, Nokia, Verizon and the U.S. Government.

As of December 31, 2006, the Company s CTL portfolio has the following tenant credit characteristics:

	Annualized In-Place Operating Lease Income(3) (In thousands)	% of In-Place Operating Lease Income
Investment grade(1)	$ 93,756	28 %
Implied investment grade(2)	20,271	6 %
Non-investment grade	117,791	35 %
Unrated	105,062	31 %
Total	$ 336,880	100 %

Explanatory Notes:

(1) A customer s credit rating is considered Investment Grade if the tenant or its guarantor has a published senior unsecured credit rating of Baa3/BBB- or above by one or more of the three national rating agencies.

(2) A customer s credit rating is considered Implied Investment Grade if it is 100% owned by an investment-grade parent or it has no published ratings, but has credit characteristics that the Company believes warrant an investment grade senior unsecured credit rating. Examples at December 31, 2006 include Volkswagen of America, Inc. and Google, Inc.

(3) Reflects annualized GAAP operating lease income for leases in-place at December 31, 2006.

Risk Management Strategies. The Company believes that diligent risk management of its CTL assets is an essential component of its long-term strategy. There are several ways to optimize the performance and maximize the value of CTL assets. The Company monitors its portfolio for changes that could affect the performance of the markets, credits and industries in which it has invested. As part of this monitoring, the Company s risk management group reviews market, customer and industry data and frequently inspects its facilities. In addition, the Company attempts to develop strong relationships with its large corporate customers, which provide a source of information concerning the customers facilities needs. These relationships allow the Company to be proactive in obtaining early lease renewals and in conducting early marketing of assets where the customer has decided not to renew.

As of December 31, 2006, the Company owned 380 office and industrial, entertainment, medical and retail facilities principally subject to net leases to 125 customers, comprising 34.4 million square feet in 38 states. The Company also has a portfolio of 17 hotels under a long-term master lease with a single customer. Information regarding the Company s CTL assets as of December 31, 2006 is set forth below:

SIC Code		# of Leases	% of In-Place Operating Lease Income(1)	% of Total Revenue(2)
48	Communications	6	9.9 %	3.1 %
79	Amusement & Recreation Services	3	9.5 %	3.0 %
73	Business Services	13	9.1 %	2.9 %
55	Automotive Dealers & Gasoline Service Stations	31	8.6 %	2.7 %
70	Hotels, Rooming, Housing & Lodging	4	6.7 %	2.1 %
62	Security & Commodity Brokers	3	6.5 %	2.1 %
36	Electronic & Other Elec. Equipment	14	5.8 %	1.8 %
37	Transportation Equipment	6	5.8 %	1.8 %
35	Indus./Commercial Machinery, incl. Computers	12	5.2 %	1.7 %
30	Rubber & Misc. Plastics Products	2	5.1 %	1.6 %
78	Motion Pictures	4	4.3 %	1.4 %
50	Wholesale Trade-Durable Goods	9	2.4 %	0.7 %
42	Motor Freight Transp. & Warehousing	3	2.1 %	0.7 %
64	Insurance Agents, Brokers & Service	4	2.0 %	0.6 %
63	Insurance Carriers	4	1.8 %	0.6 %
91	Executive, Legislative, & General Gov t.	3	1.6 %	0.5 %
80	Healthcare Services	17	1.4 %	0.5 %
87	Engineering, Accounting & Research Services	7	1.3 %	0.4 %
45	Airports, Flying Fields & Terminal Services	1	1.1 %	0.4 %
58	Eating & Drinking Places	9	1.1 %	0.3 %
75	Automotive Repair, Services, & Parking	1	1.0 %	0.3 %
54	Food Stores	2	1.0 %	0.3 %
	Various	18	6.7 %	2.2 %
	Total	176	100 %	

Explanatory Notes:

(1) Reflects annualized GAAP operating lease income for leases in-place at December 31, 2006.

(2) Reflects annualized GAAP operating lease income for leases in-place at December 31, 2006 as a percentage of annualized total revenue for the quarter ended December 31, 2006.

As of December 31, 2006, lease expirations on the Company s CTL assets, including facilities owned by the Company s joint ventures, are as follows:

Year of Lease Expiration	Number of Leases Expiring	Annualized In-Place Operating Lease Income(1) (In thousands)	% of In-Place Operating Lease Income	% of Total Revenue(2)
2007	14	$ 32,379	9.6 %	3.1 %
2008	7	10,003	3.0 %	0.9 %
2009	7	9,077	2.7 %	0.9 %
2010	11	12,805	3.8 %	1.2 %
2011	10	7,565	2.2 %	0.7 %
2012	14	17,478	5.2 %	1.6 %
2013	8	11,035	3.3 %	1.0 %
2014	32	22,294	6.6 %	2.1 %
2015	8	10,671	3.2 %	1.0 %
2016	6	22,606	6.7 %	2.1 %
2017 and thereafter	59	180,967	53.7 %	17.1 %
Total	176	$ 336,880	100 %	
Weighted average remaining lease term		10.9 years		

Explanatory Notes:

(1) Reflects annualized GAAP operating lease income for leases in-place at December 31, 2006.

(2) Reflects annualized GAAP operating lease income for leases in-place at December 31, 2006 as a percentage of annualized total revenue for the quarter ended December 31, 2006.

Policies with Respect to Other Activities

The Company s investment, financing and conflicts of interests policies are managed under the ultimate supervision of the Company s Board of Directors. The Board of Directors can amend, revise or eliminate these policies at any time without a vote of shareholders. At all times, the Company intends to make investments in a manner consistent with the requirements of the Internal Revenue Code of 1986, as amended (the Code) for the Company to qualify as a REIT.

Investment Restrictions or Limitations

The Company does not have any prescribed allocation among investments or product lines. Instead, the Company focuses on corporate and real estate credit underwriting to develop an in-depth analysis of the risk/reward ratios in determining the pricing and advisability of each particular transaction.

The Company believes that it is not, and intends to conduct its operations so as not to become, regulated as an investment company under the Investment Company Act. The Investment Company Act generally exempts entities that are primarily engaged in purchasing or otherwise acquiring mortgages and other liens on and interests in real estate (collectively, Qualifying Interests). The Company intends to rely on current interpretations of the Securities and Exchange Commission in an effort to qualify for this exemption. Based on these interpretations, the Company, among other things, must maintain at least 55% of its assets in Qualifying Interests and at least 25% of its assets in real estate-related assets (subject to reduction to the extent the Company invests more than 55% of its assets in Qualifying Interests). Generally, the Company s senior mortgages, CTL assets and certain of its subordinated mortgages constitute Qualifying Interests. Subject to the limitations on ownership of certain types of assets and the gross income tests imposed by the Code, the Company also may invest in the securities of other REITs, other entities engaged in real estate activities or other issuers, including for the purpose of exercising control over such entities.

Competition

The Company operates in a highly competitive market. See Item 1a Risk Factors: We compete with a variety of financing sources for our customers, for a discussion of how we may be affected by competition.

Regulation

The operations of the Company are subject, in certain instances, to supervision and regulation by state and federal governmental authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, which, among other things: (1) regulate credit granting activities; (2) establish maximum interest rates, finance charges and other charges; (3) require disclosures to customers; (4) govern secured transactions; and (5) set collection, foreclosure, repossession and claims-handling procedures and other trade practices. Although most states do not regulate commercial finance, certain states impose limitations on interest rates and other charges and on certain collection practices and creditor remedies and require licensing of lenders and financiers and adequate disclosure of certain contract terms. The Company is also required to comply with certain provisions of the Equal Credit Opportunity Act that are applicable to commercial loans.

In the judgment of management, existing statutes and regulations have not had a material adverse effect on the business conducted by the Company. However, it is not possible to forecast the nature of future legislation, regulations, judicial decisions, orders or interpretations, nor their impact upon the future business, financial condition or results of operations or prospects of the Company.

The Company has elected and expects to continue to make an election to be taxed as a REIT under Section 856 through 860 of the Code. As a REIT, the Company must currently distribute, at a minimum, an amount equal to 90% of its taxable income. In addition, the Company must distribute 100% of its taxable income to avoid paying corporate federal income taxes. REITs are also subject to a number of organizational and operational requirements in order to elect and maintain REIT status. These requirements include specific share ownership tests and assets and gross income composition tests. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates. Even if the Company qualifies for taxation as a REIT, the Company may be subject to state and local income taxes and to federal income tax and excise tax on its undistributed income.

The American Jobs Creation Act

The American Jobs Creation Act of 2004 (the Act) was enacted on October 22, 2004. The Act modifies the manner in which the Company applies the gross income and asset test requirements under the Code. With respect to the asset tests, the Act expands the types of securities that qualify as straight debt for purposes of the 10% value limitation. The Act also clarifies that certain types of debt instruments, including loans to individuals or estates and securities of a REIT, are not securities for purposes of the 10% value limitation. With respect to the gross income tests, the Act provides that for the Company s taxable years beginning on or after January 1, 2005, except to the extent provided by Treasury regulations, its income from certain hedging transactions that are clearly identified as hedges under Section 1221 of the Code, including gain from the sale or disposition of such a transaction, will be excluded from gross income for purposes of the 95% gross income test, to the extent the transaction hedges any indebtedness incurred or to be incurred by the trust to acquire or carry real estate.

The Act also sets forth rules that permit a REIT to avoid disqualification for *de minimis* failures (as defined in the Act) to satisfy the 5% and 10% value limitations under the asset tests if the REIT either disposes of the assets within six months after the last day of the quarter in which the REIT identifies the failure (or such other time period prescribed by the Treasury), or otherwise meets the requirements of such asset tests by the end of such time period. In addition, if a REIT fails to meet any of the asset test requirements for a particular quarter, and the *de minimis* exception described above does not apply, the REIT may cure such failure if the failure was due to reasonable cause and not to willful neglect, the REIT identifies such failure to the IRS and disposes of the assets that caused the failure within six months after the last day of the quarter in which the identification occurred, and the REIT pays a tax with respect to the failure equal to the greater of: (i) $50,000; or (ii) an amount determined (pursuant to Treasury regulations) by multiplying the highest rate of tax for corporations under Section 11 of the Code, by the net income generated by the assets for the period beginning on the first date of the failure and ending on the date the REIT has disposed of the assets (or otherwise satisfies the requirements). In addition to the foregoing, the Act also provides that if a REIT fails to satisfy one or more requirements for REIT qualification, other than by reason of a failure to comply with the provisions of the reasonable cause exception to the gross income tests and the provisions described above with respect to failure to comply with the asset tests, the REIT may retain its REIT qualification if the failures are due to reasonable cause and not willful neglect, and if the REIT pays a penalty of $50,000 for each such failure. The provisions described in this paragraph will only apply to the Company s taxable years beginning on or after January 1, 2005.

Code of Conduct

The Company has adopted a code of business conduct for all of its employees and directors, including the Company s chief executive officer, chief financial officer, other executive officers and personnel. A copy of the Company s code of conduct has been previously filed with the SEC and is incorporated by reference in this Annual Report on Form 10-K as Exhibit 14.0. The code of conduct is also available on the Company s website at *www.istarfinancial.com*. The Company intends to post on its website material changes to, or waivers from, its code of conduct, if any, within two days of any such event. The Company s code of conduct was originally adopted in February 2000 and was amended in October 2002 to reflect changes in the NYSE s corporate governance guidelines. As of December 31, 2006, there were no waivers or further changes since adoption of the current code of conduct in October 2002.

Employees

As of January 31, 2007, the Company had 214 employees and believes its relationships with its employees to be good. The Company s employees are not represented by a collective bargaining agreement.

Other

In addition to this Annual Report, the Company files quarterly and special reports, proxy statements and other information with the SEC. All documents are filed with the SEC and are available free of charge on the Company s corporate website, which is *www.istarfinancial.com*. Through the Company s website, the Company makes available free of charge its annual proxy statement, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those Reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. You may also read and copy any document filed at the public reference facilities at 100 F Street, N.E., Washington, D.C. 25049. Please call the SEC at (800) SEC-0330 for further information about the public reference facilities. These documents also may be accessed through the SEC s electronic data gathering, analysis and retrieval system (EDGAR) via electronic means, including the SEC s homepage on the internet at *www.sec.gov*.

Item 1a. Risk Factors

In addition to the other information in this document, you should consider carefully the following risk factors in evaluating an investment in our securities. Any of these risks or the occurrence of any one or more of the uncertainties described below could have a material adverse effect on our financial condition and the performance of our business. For purposes of these risk factors, the terms we, our and us refer to the Company and its consolidated subsidiaries, unless the context indicates otherwise.

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-related assets collateralizing 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 collateralized lenders would have priority over us with respect to the proceeds of a sale of the underlying real estate.

In cases described above, we may lack control over the underlying asset collateralizing 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 December 31, 2006, 84% of our loans were non-recourse based upon the gross carrying value of our loan assets, and 11% of our total investments, based on gross carrying values of our total investments, consisted of loans that are unsecured or secured by equity interests in the borrowing entity.

We may suffer a loss if a borrower or guarantor defaults on recourse obligations under our loans.

We sometimes obtain individual or corporate guarantees from borrowers or their affiliates, which guarantees are not secured. In cases where guarantees are not fully or partially secured, we typically rely on financial covenants from borrowers and guarantors which are designed to require the borrower or guarantor to maintain certain levels of creditworthiness. Where we do not have recourse to specific collateral pledged to satisfy such guarantees or recourse loans, we will only have recourse as an unsecured creditor to the general assets of the borrower or guarantor, some or all of which may be pledged to satisfy other lenders. There can be no assurance that a borrower or guarantor will comply with its financial covenants, or that sufficient assets will be available to pay amounts owed to us under our loans and guarantees. As a result of these factors, we may suffer losses which could have a material adverse affect on our financial performance, the market prices of our securities and our ability to pay dividends.

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 loan 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.

Our reserves for losses may prove inadequate, which could have a material adverse effect on us.

We maintain and regularly evaluate financial reserves to protect against potential future losses. While we have asset-specific credit protection in many of our loans, including cash reserve accounts, cash deposits and letters of credit, such protections may not be sufficient to protect against all losses and such protections relate only to specific assets and may not be used to satisfy losses on other assets. As of December 31, 2006, accumulated loan loss reserves and other asset-specific credit protection represented an aggregate of 7% of the gross book value of our qualifying loans. We cannot be certain that our reserves will be adequate over time to protect against potential future losses because of unanticipated adverse changes in the economy or events adversely affecting specific assets, borrowers, industries in which our borrowers operate or markets in which our borrowers or their properties are located. If our reserves for credit losses prove inadequate we could suffer losses which could have a material adverse affect on our financial performance, the market prices of our securities and our ability to pay dividends.

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 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 associated with construction lending, such as cost over-runs and delays in completion.

Our loan assets include loans made to developers to construct prospective projects. The primary risks to us of construction loans are the potential for cost over-runs, the developer s failing to meet a project delivery schedule and the inability of a borrower to sell or refinance the project at completion and repay our loan. These risks could cause us to have to fund more money than we originally anticipated in order to complete the project. We may also suffer losses on our loans if the borrower is unable to sell the project or refinance our loan.

Prepayments of our loans, particularly during periods of low interest rates, may reduce our recurring income and we also may not receive prepayment penalties.

Borrowers may seek to prepay our loans, particularly during periods when interest rates are low. If loans repay before their maturity, we may not be able to reinvest the proceeds quickly or we may be forced to reinvest the proceeds in lower-yielding assets. Accordingly, prepayments of our assets may reduce the amount of our recurring income and could adversely affect our financial performance. Many, but not all, of our loans provide that the borrower must pay us a prepayment penalty if the loan is repaid before a specified date. This is often referred to as a lock-out period. While prepayment penalties provide us with financial compensation, they represent one-time payments as opposed to recurring income. After the end of the lock-out period, the borrower may prepay the loan without penalty prior to its maturity. As of December 31, 2006, 54% of our lending portfolio consisted of loans open to prepayment without penalty.

Increases in interest rates during the term of a loan may adversely impact a borrower s ability to repay a loan at maturity or to prepay a loan.

If interest rates increase during the term of our loan, a borrower may not be able to obtain the necessary funds to repay our loan at maturity through refinancing. Borrowers may also not be able to obtain refinancing proceeds that would enable them to prepay our loans. Increasing interest rates may hinder a borrower s ability to refinance our loan because the borrower or the underlying property cannot satisfy the debt service coverage requirements necessary to obtain new financing or because the value of the property has decreased. If a borrower is unable to repay our loan at maturity, we could suffer a loss. If borrowers prepay fewer loans during periods of rising interest rates, we will not be able to reinvest prepayment proceeds in assets with higher interest rates. As a result, our financial performance, the market prices of our securities and our ability to pay dividends could be materially adversely affected.

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

We may experience losses if the creditworthiness of our tenants deteriorates and they are unable to meet their obligations under our leases.

We own the properties leased to the tenants of our CTL assets and we receive rents from the tenants during the terms of our leases. A tenant s ability to pay rent is determined by the creditworthiness of the tenant. If a tenant s credit deteriorates, the tenant may default on its obligations under our lease and the tenant may also become bankrupt. The bankruptcy or insolvency of our tenants or other failure to pay is likely to adversely affect the income produced by our CTL assets. If a tenant defaults, we may experience delays and incur substantial costs in enforcing our rights as landlord. If a tenant files for bankruptcy, we may not be able to evict the tenant solely because of such bankruptcy or failure to pay. A court, however, may authorize a tenant to reject and terminate its lease with us. In such a case, our claim against the tenant for unpaid, future rent would be subject to a statutory cap that might be substantially less than the remaining rent owed under the lease. In addition, certain amounts paid to us within 90 days prior to the tenant s bankruptcy filing could be required to be returned to the tenant s bankruptcy estate. In any event, it is highly unlikely that a bankrupt or insolvent tenant would pay in full amounts it owes us under a lease. In other circumstances, where a tenant s financial condition has become impaired, we may agree to partially or wholly terminate the lease in advance of the termination date in consideration for a lease termination fee that is likely less than the agreed rental amount. Without regard to the manner in which the lease termination occurs, we are likely to incur additional costs in the form of tenant improvements and leasing commissions in our efforts to lease the space to a new tenant. In any of the foregoing circumstances, our financial performance, the market prices of our securities and our ability to pay dividends could be materially adversely affected.

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 of vacancy with no revenue from a facility and to incur substantial capital expenditures in order to obtain replacement corporate tenants.

As of December 31, 2006, the percentage of our revenues (based on annualized GAAP operating lease income for leases in place at December 31, 2006, as a percentage of annualized total revenue for the quarter ended December 31, 2006) that are subject to expiring leases during each year from 2007 through 2011 is as follows:

2007	3.1 %
2008	0.9 %
2009	0.9 %
2010	1.2 %
2011	0.7 %

Our properties face significant competition which may impede our ability to retain tenants or re-let space when existing tenants vacate.

We face significant competition from other owners, operators and developers of properties, many of which own properties similar to ours in the markets in which we operate. Such competition may affect our ability to attract and retain tenants and reduce the rents we are able to charge. These competing properties may have vacancy rates higher than our properties, which may result in their owners being willing to rent space at lower rental rates than we or in their owners providing greater tenant improvement allowances or other leasing concessions. This combination of circumstances could adversely affect our financial performance, the market prices of our securities and our ability to pay dividends.

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 Compete With a Variety of Financing Sources For Our Customers.

Our markets are highly competitive. Our competitors include finance companies, other REITs, commercial banks and thrift institutions, investment banks and hedge funds. Competition from traditional competitors and new market entrants has intensified in recent years due to a strong economy, substantial marketplace liquidity and increasing recognition of the attractiveness of the commercial real estate finance markets. In addition, the rapid expansion of the securitization markets, particularly through collateralized debt obligations or CDOs, has dramatically reduced the difficulty of obtaining access to capital, which is the principal barrier to entry into our markets. This trend has further intensified competition from specialized securitization lenders which offer aggressive pricing terms. Our competitors seek to compete aggressively on the basis of transaction pricing, terms and structure and we may lose market share to the extent we are unwilling to match our competitors pricing, terms and structure in order to maintain our interest margins and/or credit standards. To the extent that we match competitors pricing, terms or structure, we may experience decreased interest margins and/or increased risk of credit losses, which could have a material adverse effect on our financial performance, the market prices of our securities and our ability to pay dividends.

Our Ability to Attract and Retain Key Personnel is Critical to Our Success and Our Future Growth.

Our success depends on our ability to retain our senior management and the other members of our management team and recruit additional qualified personnel. We have added significant personnel in the most recent fiscal year and we anticipate that it will be necessary for us to add additional professionals as we pursue our growth strategy. However, we may not succeed in recruiting additional personnel or retaining current personnel, as the market for qualified professionals in our industry is extremely competitive and costly. Members of our senior management possess substantial experience and expertise in investing and have significant relationships with our customers and other institutions which are the source of many of our investment opportunities. Therefore, if members of our management join competitors or form competing companies it could result in the loss of investment opportunities, which could have a material adverse effect on our results of operations. Efforts to retain or attract professionals may result in significant additional expenses, which could adversely affect our profitability.

We Are Subject to Risks Relating to Our Asset Concentration.

As of December 31, 2006, the average size of our lending investments was $33.1 million and the average size of our CTL investments was $29.6 million. Of our annualized revenues for the quarter ended December 31, 2006, 12% were derived from our five largest loan and CTL customers. No single loan or CTL investment represents more than 3% of our annualized revenues for the fiscal quarter ended December 31, 2006. 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, the market prices of our securities and our ability to pay dividends could be materially adversely affected.

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 financial performance, the market prices of our securities and our ability to pay dividends business.

In a recession or under other adverse economic conditions, non-earning assets and write-downs are likely to increase as debtors fail to meet their payment obligations. Although we maintain reserves for credit losses and an allowance for doubtful accounts in amounts that we believe are sufficient to provide adequate protection against potential write-downs in our portfolio, these amounts could prove to be insufficient.

A recession or downturn could contribute to a downgrading of our credit ratings. A ratings downgrade likely would increase our funding costs, and could decrease our net investment income, limit our access to the capital markets or result in a decision by the lenders under our existing bank credit facilities not to extend such credit facilities after their expiration. Such results could have a material adverse effect on our financial performance, the market prices of our securities and our ability to pay dividends.

An Earthquake or Terrorist Act Could Adversely Affect Our Business.

Approximately 23% of the gross carrying value of our assets as of December 31, 2006, were located in the West and Northwest United States, which are high risk geographical areas for earthquakes. In addition, a significant number of our properties are located in New York City and other major urban areas which have, in recent years, been high risk geographical areas for terrorism and threats of terrorism. Future earthquakes or acts of terrorism could adversely impact the demand for, and value of, our assets and could also directly impact the value of our assets through damage, destruction or loss, and could thereafter materially impact the availability or cost of insurance to protect against these events. Any earthquake or terrorist attack, whether or not insured, could have a material adverse effect on our financial performance, the market prices of our securities and our ability to pay dividends.

Uninsured Losses or Losses in Excess of Our Insurance Coverage Could Adversely Affect Our Financial Condition and Our Cash Flows.

Although we believe our CTL assets and the properties collateralizing our loan assets are adequately covered by insurance, we cannot predict at this time if we or our borrowers will be able to obtain appropriate coverage at a reasonable cost in the future, or if we will be able to continue to pass along all of the costs of insurance to our tenants. In response to the uncertainty in the insurance market following the terrorist attacks of September 11, 2001, the Terrorism Risk Insurance Act of 2002 (TRIA) was enacted in November 2002, which established the Terrorism Risk Insurance Program to mandate that insurance carriers offer insurance covering physical damage from terrorist incidents certified by the U.S. government as foreign terrorist acts. Under the Terrorism Risk Insurance Program, the federal government shares in the risk of loss associated with certain future terrorist acts. The Terrorism Risk Insurance Program was scheduled to expire on December 31, 2005. However, on December 22, 2005, the Terrorism Risk Insurance Extension Act of 2005 (the Extension Act) was enacted, which extended the duration of the Terrorism Risk Insurance Program until December 31, 2007, while expanding the private sector role and reducing the amount of coverage that the U.S. government is required to provide for insured losses under the program. While the underlying structure of TRIA was left intact, the Extension Act makes some adjustments, including increasing the current insurer deductible from 15% of direct earned premiums to 17.5% for 2006, and to 20% of such premiums in 2007. For losses in excess of the deductible, the federal government still reimburses 90% of the insurer s loss in 2007. The federal share in the aggregate in any program year may not exceed $100 billion (the insurers will not be liable for any amount that exceeds this cap). Under the Extension Act, losses incurred as a result of an act of terrorism are required to exceed $5.0 million before the program is triggered and compensation is paid under the program, but that amount increases to $50.0 million on April 1, 2006, and to $100.0 million in 2007. As a result, unless we and our borrowers obtain separate coverage for events that do not meet that threshold (which coverage may not be required by the respective loan documents and may not otherwise be obtainable), such events would not be covered. In addition, the recently enacted legislation may subsequently result in increased premiums charged by insurance carriers for terrorism insurance.

We Are Highly Dependent on Information Systems, and Systems Failures Could Significantly Disrupt Our Business.

As a financial services firm, our business is highly dependent on communications and information systems. Any failure or interruption of our systems could cause delays or other problems in our activities, which could have a material adverse effect on our financial performance, the market prices of our securities and our ability to pay dividends.

We Face a Risk of Liability Under Environmental Laws.

Under various U.S. 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. Additionally, under our CTL assets we require our tenants to undertake the obligation for environmental compliance and indemnify us from liability with respect thereto. There can be no assurance that our tenants will have sufficient resources to satisfy their obligations to us.

Recent Strategic Investments Involve Risks.

In recent years we have made strategic investments in complementary businesses, such as financing for the timber and automotive industries, and expect that we may pursue additional strategic investments from time to time in the future. Strategic investments may involve the incurrence of additional debt and contingent liabilities. In addition, we may incur expenses from these investments, or they may require substantial investments of additional capital, before they begin generating anticipated returns. Strategic transactions involve risks, including:

- Difficulties in assimilating the operations, products, technology, information systems and personnel of the acquired business;
- Potentially dilutive issuances of equity securities and the incurrence of additional debt in connection with future acquisitions;
- Diverting management s attention from other business concerns;
- Difficulties in maintaining uniform standards, controls, procedures and policies;
- Entering markets in which we have limited prior experience; and
- Losing key employees or customers of the acquired business.

These factors could adversely affect our results of operations, liquidity or stock price.

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

We generally must distribute at least 90% of our net 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. 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, depletion and amortization. As a result, our dividend payout ratio as a percentage of our adjusted earnings (see Item 7: Adjusted Earnings) has generally been lower than our payout ratio as a percentage of net taxable income.

Our Growth is Dependent on Leverage, Which May Create Other Risks.

Our success is dependent, in part, upon our ability to grow assets through 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 December 31, 2006, our debt-to-book equity plus accumulated depreciation/depletion and loan loss reserves ratio was 2.3x and our total carrying value of debt obligations outstanding was approximately $7.83 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 our 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 Code whether as a result of restrictive covenants in our debt instruments or otherwise, we may lose our qualification as a REIT. For more information regarding the consequences of loss of REIT qualification, please read the risk factor entitled We May Be Subject to Adverse Consequences if We Fail to Qualify as a REIT.

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 derivative 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 fixed rate debt obligations to variable rate debt obligations. 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 A/A2 by S&P and Moody s, 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.

Some of Our Investments Are Subject to Risks Associated With the Timber Industry.

We have investments in the timber industry through our interest in TimberStar Operating Partnership LP. Our total investment in TimberStar represented approximately 3% of our total assets as of December 31, 2006. TimberStar is subject to risks associated with the timber industry, including that:

- The timber industry is cyclical. Demand for wood products is affected primarily by the level of residential construction and industrial uses. Changes in economic conditions, interest rates, demographics and weather can influence the demand for wood products.

- Imports of lumber from abroad, particularly from Canada, compete with U.S. lumber products. Anti-dumping and countervailing duties imposed on imports of Canadian lumber have not decreased Canadian lumber imports share of the U.S. market. In addition, wood products are subject to increasing competition from a variety of substitute products, including products from non-U.S. markets. These competitive products could adversely affect the pricing of TimberStar s products.

- TimberStar s ability to harvest timber is subject to a variety of factors, many of which are outside of its control, including weather conditions, growth cycles, environmental regulatory requirements, the availability of loggers and damage caused by fire, insect infestation, drought and natural disasters. As is common in the forest products industry, TimberStar does not maintain insurance coverage with respect to damage to its timberlands.

If TimberStar s business is materially adversely affected, we could suffer a loss on our investment.

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.

Certain Provisions in Our Charter May Inhibit a Change in Control.

Generally, to maintain our qualification as a REIT under the Code, not more than 50% in value of our outstanding shares of stock may be owned, directly or indirectly, by five or fewer individuals at any time during the last half of our taxable year. The Code defines individuals for purposes of the requirement described in the preceding sentence to include some types of entities. Under our charter, no person may own more than 9.8% of our outstanding shares of stock, with some exceptions. The restrictions on transferability and ownership may delay, deter or prevent a change in control or other transaction that might involve a premium price or otherwise be in the best interest of the security holders.

Our charter authorizes our Board of Directors:

1. To cause us to issue additional authorized but unissued shares of common or preferred stock.

2. To classify or reclassify, in one or more series, any of our unissued preferred shares.

3. To set the preferences, rights and other terms of any classified or reclassified securities that we issue.

Our Board of Directors May Change Certain of Our Policies Without Stockholder Approval.

Our charter provides that our primary purpose is to invest in a diversified portfolio of debt and debt like interests in real estate and real estate related assets, although it does not set forth specific percentages

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of the types of investments we may make. Our Board of Directors determines our investment policies, as well as our financing and conflicts of interest policies. Although the Board of Directors has no present intention to do so, it can amend, revise or eliminate these policies at any time and from time to time at its discretion without a vote of the stockholders. A change in these policies could adversely affect our financial condition or results of operations or the market price of our common stock.

Our Investment Company Act Exemption Limits Our Investment Discretion and Loss of the Exemption Would Adversely Affect Us.

We believe that we currently are not, and we intend to operate our company so that we will not be regulated as, an investment company under the Investment Company Act because we are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interest in real estate. Specifically, we are required to invest at least 55% of our assets in qualifying real estate assets ; (that is, real estate, mortgage loans and other qualifying interests in real estate), and at least an additional 25% of our assets in other real estate-related assets, such as mezzanine loans and unsecured investments in real estate entities, or additional qualifying real estate assets.

We will need to monitor our assets to ensure that we continue to satisfy the percentage tests. Maintaining our exemption from regulation as an investment company under the Investment Company Act limits our ability to invest in assets that otherwise would meet our investment strategies.

If we fail to qualify for this exemption, we could not operate our business efficiently under the regulatory scheme imposed on investment companies under the Investment Company Act and we could be required to restructure our activities. This would have a material adverse effect on our financial performance, the market price of our securities and our ability to pay dividends.

We Would Be Subject to Adverse Consequences Should We Fail to Qualify as a REIT.

We intend to operate so as to qualify as a REIT for U.S. federal income tax purposes. 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 we would be subject to U.S. federal income tax, including any applicable minimum tax, on our taxable income with respect to any such taxable year at regular corporate rates. Unless entitled to relief under certain Code provisions, we also would be disqualified from treatment as a REIT for the four subsequent taxable years following the year during which qualification was lost. As a result, cash available for distribution 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 our REIT election. Because we intend to make investments in foreign real property, we are subject to foreign currency gains and losses. Foreign currency gains are not qualifying income for purposes of the REIT income requirements. To reduce the risk of foreign currency gains adversely affecting our REIT qualification, we may be required to defer the repatriation of cash from foreign jurisdictions or to employ other structures that could affect the timing, character or amount of income we receive from our foreign investments.

To Qualify as a REIT, We May Be Forced to Borrow Funds During Unfavorable Market Conditions.

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net income each year, excluding net capital gains, and we will be subject to regular U.S. federal corporate income taxes to the extent that we distribute less than 100% of our net taxable income each year. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. In order to qualify as a REIT and avoid the payment of income and excise taxes, we may need to borrow funds on a short-term, or possibly long-term, basis to meet the REIT distribution requirements even if the prevailing market conditions are not favorable for these borrowings. These borrowing needs could result from, among other things, a difference in timing between the actual receipt of cash and inclusion of income for U.S. federal income tax purposes, the effect of non-deductible capital expenditures, the creation of reserves or required debt or amortization payments.

Dividends Payable by REITs Do Not Qualify for Reduced Tax Rates.

The maximum U.S. federal income tax rate for dividends payable by domestic corporations to individual U.S. stockholders is 15% through 2010. Dividends payable by REITs, however, are generally not eligible for the reduced rates. As a result, the more favorable rates applicable to regular corporate dividends could cause stockholders who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock.

Possible Legislative or Other Actions Affecting REITs Could Adversely Affect Our Stockholders.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the U.S. Treasury Department. Changes to tax laws (which changes may have retroactive application) could adversely affect our stockholders or us. It cannot be predicted whether, when, in what forms, or with what effective dates, the tax laws applicable to our stockholders or us, will be changed.

We Will Pay Some Taxes.

Even if we qualify as a REIT for U.S. federal income tax purposes, we will be required to pay some U.S. federal, state, local, and foreign taxes on our income and property. In addition, our taxable REIT subsidiaries are fully taxable corporations, and there are limitations on the ability of taxable REIT subsidiaries to make interest payments to affiliated REITs. In addition, we will be subject to a 100% penalty tax to the extent economic arrangements among our tenants, our taxable REIT subsidiaries and us are not comparable to similar arrangements among unrelated parties. We will also be subject to a 100% tax to the extent we derive income from the sale of assets to customers in the ordinary course of business. To the extent that we or our taxable REIT subsidiaries are required to pay U.S. federal, state, local or foreign taxes, we will have less cash available for distribution to stockholders.

Certain of Our Activities May Subject Us to U.S. Federal Income Tax and Increase the Tax Liability of Our Shareholders.

Although we do not intend to invest a material portion of our assets in real estate mortgage investment conduits, or REMICs, or taxable mortgage pools, in each case, of which we own or are treated as owning residual interests, we have owned such assets in the past. In the event we were to own REMIC or taxable mortgage pool residual interests, a portion of our income from these assets could be treated as excess inclusion income.

Recently issued IRS guidance indicates that our excess inclusion income will be allocated among our shareholders in proportion to our dividends paid. A shareholder s share of our excess inclusion income (i) would not be allowed to be offset by any net operating losses otherwise available to the shareholder, (ii) would be subject to tax as unrelated business taxable income in the hands of most tax-exempt shareholders, and (iii) and would result in the application of U.S. federal income tax withholding at a rate of 30%, without reduction for any otherwise applicable income tax treaty, in the hands of a non-U.S. shareholder.

In addition, the IRS has taken the position that we are subject to tax at the highest U.S. federal corporate income tax rate on our excess inclusion income allocated to disqualified organizations (generally, tax-exempt investors that are not subject to U.S. federal income tax on unrelated business taxable income, including governmental organizations and charitable remainder trusts) that hold our stock in record name. Further, the IRS has taken the position that broker/dealers and nominees holding our stock in street name on behalf of disqualified organizations are subject to U.S. federal income tax at the highest U.S. federal corporate income tax rate on our excess inclusion income allocated to such disqualified organizations. Similarly, a regulated investment company or other pass-through entity may be subject to U.S. federal income tax at the highest U.S. federal corporate income tax rate on our excess inclusion income to the extent such entities are owned by disqualified organizations.

A Portion of The Dividends We Distribute May Be Deemed a Return of Capital For U.S. Federal Income Tax Purposes.

The amount of dividends we distribute to our common stockholders in a given quarter may not correspond to our taxable income for such quarter. Consequently, a portion of the dividends we distribute may be deemed a return of capital for U.S. federal income tax purposes, and will not be taxable but will reduce stockholders basis in its common stock. For the year ended December 31, 2006, the percentage of our dividend payments made to common stockholders that was treated as a return of capital was 14.5%.

Item 1b. Unresolved Staff Comments

None.

Item 2. Properties

The Company s principal executive and administrative offices are located at 1114 Avenue of the Americas, New York, NY 10036. Its telephone number, general facsimile number and web address are (212) 930-9400, (212) 930-9494 and *www.istarfinancial.com*, respectively. The lease for the Company s primary corporate office space expires in February 2021. The Company also maintains super-regional offices in Atlanta, Georgia; Hartford, Connecticut; and San Francisco, California, as well as regional offices in Boston, Massachusetts; Dallas, Texas; and Chicago, Illinois; and a subsidiary in London, England.

See Item 1 Corporate Tenant Leasing for a discussion of CTL facilities held by the Company for investment purposes and Item 8 Schedule III Corporate Tenant Lease Assets and Accumulated Depreciation for a detailed listing of such facilities.

Item 3. Legal Proceedings

The Company is not a party to any material litigation or legal proceedings, or to the best of its knowledge, any threatened litigation or legal proceedings which, in the opinion of management, individually or in the aggregate, would have a material adverse effect on its results of operations or financial condition.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of 2006.

PART II

Item 5. Market for Registrant s Equity and Related Share Matters

The Company s Common Stock trades on the New York Stock Exchange (NYSE) under the symbol SFI.

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

Quarter Ended	High	Low
2005		
March 31, 2005	$ 44.90	$ 40.23
June 30, 2005	$ 42.84	$ 39.33
September 30, 2005	$ 43.98	$ 39.73
December 31, 2005	$ 41.07	$ 35.36
2006		
March 31, 2006	$ 39.64	$ 35.55
June 30, 2006	$ 39.17	$ 36.24
September 30, 2006	$ 42.35	$ 38.10
December 31, 2006	$ 48.59	$ 42.49

On January 31, 2007, the closing sale price of the Common Stock as reported by the NYSE was $50.15. The Company had 3,330 holders of record of Common Stock as of January 31, 2007.

At December 31, 2006, the Company had five series of preferred stock outstanding: 8.000% Series D Preferred Stock, 7.875% Series E Preferred Stock, 7.800% Series F Preferred Stock, 7.650% Series G Preferred Stock and 7.500% Series I Preferred Stock. Each of the Series D, E, F, G and I preferred stock is publicly traded.

Dividends

The Company s management expects that any taxable income remaining after the distribution of preferred dividends and the regular quarterly or other dividends on its Common Stock will be distributed annually to the holders of the Common Stock on or prior to the date of the first regular quarterly dividend payment date of the following taxable year. The dividend policy with respect to the Common Stock is subject to revision by the Board of Directors. All distributions in excess of dividends on preferred stock or those required for the Company to maintain its REIT status will be made by the Company at the sole discretion of the Board of Directors and will depend on the taxable earnings of the Company, the financial condition of the Company, and such other factors as the Board of Directors deems relevant. The Board of Directors has not established any minimum distribution level. In order to maintain its qualifications as a REIT, the Company intends to pay regular quarterly 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.

Holders of Common Stock, vested High Performance Units and certain unvested RSUs 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 unsecured credit facility contains a covenant that limits the Company s ability to pay distributions on its capital stock based upon the Company s adjusted earnings provided however, that it generally permits the Company to pay the minimum amount of distributions necessary to maintain the Company s REIT status. In any liquidation, dissolution or winding up of the Company, each outstanding share of Common Stock and HPU share equivalents will entitle its holder to a proportionate share of the assets that remain after the Company pays its liabilities and any preferential distributions owed to preferred shareholders.

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

Quarter Ended	Shareholder Record Date	Dividend/ Share
2005(1)		
March 31, 2005	April 15, 2005	$ 0.7325
June 30, 2005	July 15, 2005	$ 0.7325
September 30, 2005	October 17, 2005	$ 0.7325
December 31, 2005	December 15, 2005	$ 0.7325
2006(2)		
March 31, 2006	April 14, 2006	$ 0.7700
June 30, 2006	July 17, 2006	$ 0.7700
September 30, 2006	October 16, 2006	$ 0.7700
December 31, 2006	December 15, 2006	$ 0.7700

Explanatory Notes:

(1) For tax reporting purposes, the 2005 dividends were classified as 65.03% ($1.905) ordinary income, 12.72% ($0.3727) 15% capital gain, 1.17% ($0.0342) 25% Section 1250 capital gain and 21.08% ($0.6176) return of capital for those shareholders who held shares of the Company for the entire year.

(2) For tax reporting purposes, the 2006 dividends were classified as 81.03% ($2.4957) ordinary income, 2.77% ($0.0853) 15% capital gain, 1.75% ($0.0538) 25% Section 1250 capital gain and 14.45% ($0.4452) return of capital for those shareholders who held shares of the Company for the entire year.

The Company declared and paid dividends aggregating $8.0 million, $11.0 million, $7.8 million, $6.1 million, and $9.4 million respectively, on its Series D, E, F, G, and I preferred stock, respectively, for the year ended December 31, 2006. There are no dividend arrearages on any of the preferred shares currently outstanding.

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

The Company intends to continue to declare quarterly distributions on its Common Stock. No assurance, however, can be given as to the amounts or timing of future distributions, as such distributions are subject to the Company s earnings, financial condition, capital requirements, debt covenants and such other factors as the Company s Board of Directors deems relevant. On February 22, 2007, the Company announced that, effective April 1, 2007, its Board of Directors approved an increase in the regular quarterly dividend on its Common Stock for 2007 to $0.825 per share, representing $3.30 per share on an annualized basis.

Disclosure of Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (In thousands)	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (In thousands)
Equity compensation plans approved by security holders-stock options(1)	1,102	$ 17.62	4,527
Equity compensation plans approved by security holders-restricted stock awards(2)	536	N/A	N/A
Equity compensation plans approved by security holders-high performance units(3)		N/A	N/A
Equity compensation plans not approved by security holders			
Total	1,638	$ 17.62	4,527

Explanatory Notes:

(1) Stock Options As more fully discussed in Note 12 to the Company s Consolidated Financial Statements, there were approximately 1.1 million stock options outstanding as of December 31, 2006. These 1.1 million options, together with their weighted-average exercise price, have been included in columns (a) and (b), above. The 4.5 million figure in column (c) represents the aggregate amount of stock options, shares of restricted stock awards or other performance awards that could be granted under compensation plans approved by the Company s security holders after giving effect to previously issued awards of stock options, shares of restricted stock and other performance awards (see Note 12 to the Company s Consolidated Financial Statements for a more detailed description of the Company s Long-Term Incentive Plan).

(2) Restricted Stock As of December 31, 2006, the Company has issued 1.4 million shares of restricted stock. The restrictions on 471,172 of such shares relate to the passage of time for vesting periods which have not lapsed, and are thus not included in the Company s outstanding share balance. These shares have been included in column (a), above. The amounts shown in column (a) also include 65,000 common stock equivalents awarded to our non-employee directors in consideration of their service to us as directors. The Company awards 2,500 common stock equivalents to each non-employee director on the date of each annual meeting of shareholders pursuant to the Company s Non-Employee Directors Deferral Plan, which was approved by the Company s shareholders in May 2004. Common stock equivalents represent rights to receive shares of Common Stock, or cash in amount equal to the fair market value of the Common Stock, at the date the Common Stock Equivalents are settled based upon individual elections made by each director. Common stock equivalents have dividend equivalent rights beginning on the date of grant.

(3) High Performance Unit Program In May 2002, the Company s shareholders approved the iStar Financial High Performance Unit Program. The Program is more fully described in the Company s proxy statement dated April 8, 2002 and in Note 12 to the Company s Consolidated Financial Statements. The program entitles the employee participants to receive distributions in the nature of common stock dividends if the total rate of return on the Company s Common Stock exceeds certain performance levels. The first, second and third tranches of the program were completed on December 31, 2002, 2003 and 2004, respectively. As a result of the Company s superior performance during the valuation period for all three tranches, the program participants are entitled to share in distributions equivalent to dividends payable on 819,254 shares, 987,149 shares and 1,031,875 shares of the Company s Common Stock, in the aggregate, as and when such dividends are paid by the Company for the 2002, 2003 and 2004 plans, respectively. Such dividend payments for the first tranche began with the first quarter 2003 dividend, for the second tranche began with the first quarter 2004 dividend and those for the third tranche began with the first quarter 2005 dividend and reduced net income allocable to common stockholders when paid. The valuation period for the fourth and fifth tranches of the plan were completed on December 31, 2005 and 2006, respectively, and they did not meet the performance thresholds. As a result, the participants in the 2005 and 2006 plans are not entitled to any future dividend payments and no shares of the Company s Common Stock will be issued in connection with these programs (see Note 12 to the Company s Consolidated Financial Statements for a more detailed description of the Company s High Performance Unit Program).

Item 6. Selected Financial Data

The following table sets forth selected financial data on a consolidated historical basis for the Company. This information should be read in conjunction with the discussions set forth in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations. Certain prior year amounts have been reclassified to conform to the 2006 presentation.

	For the Years Ended December 31, 2006	2005	2004	2003	2002
	(In thousands, except per share data and ratios)				
OPERATING DATA:					
Interest income	$ 575,598	$ 406,668	$ 351,972	$ 302,915	$ 254,746
Operating lease income	328,868	301,623	272,867	218,046	194,750
Other income	75,727	81,440	56,063	38,153	28,878
Total revenue	980,193	789,731	680,902	559,114	478,374
Interest expense	429,807	313,053	232,728	194,662	185,013
Operating costs-corporate tenant lease assets	24,891	21,809	21,492	10,895	6,217
Depreciation and amortization	76,967	70,442	61,825	48,077	40,113
General and administrative(1)	96,432	63,987	157,588	41,786	48,447
Provision for loan losses	14,000	2,250	9,000	7,500	8,250
Loss on early extinguishment of debt		46,004	13,091		12,166
Total costs and expenses	642,097	517,545	495,724	302,920	300,206
Income before equity in earnings (loss) from joint ventures, minority interest and other items	338,096	272,186	185,178	256,194	178,168
Equity in earnings (loss) from joint ventures	12,391	3,016	2,909	(4,284)	1,222
Minority interest in consolidated entities	(1,207)	(980)	(716)	(249)	(162)
Income from continuing operations	349,280	274,222	187,371	251,661	179,228
Income from discontinued operations	1,320	7,337	29,701	35,329	35,325
Gain from discontinued operations, net	24,227	6,354	43,375	5,167	717
Net income	$ 374,827	$ 287,913	$ 260,447	$ 292,157	$ 215,270
Preferred dividend requirements	(42,320)	(42,320)	(51,340)	(36,908)	(36,908)
Net income allocable to common shareholders and HPU holders(2)	$ 332,507	$ 245,593	$ 209,107	$ 255,249	$ 178,362

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	For the Years Ended December 31, 2006	2005	2004	2003	2002
	(In thousands, except per share data and ratios)				
Per common share data(3):					
Income from continuing operations per common share:					
Basic	$ 2.60	$ 2.01	$ 1.21	$ 2.12	$ 1.58
Diluted(4)	$ 2.58	$ 1.99	$ 1.19	$ 2.05	$ 1.54
Net income per common share:					
Basic	$ 2.82	$ 2.13	$ 1.87	$ 2.52	$ 1.98
Diluted(4)	$ 2.79	$ 2.11	$ 1.83	$ 2.43	$ 1.93
Per HPU share data(3):					
Income from continuing operations per HPU share:					
Basic	$ 492.80	$ 380.40	$ 219.40	$ 347.60	$
Diluted(4)	$ 488.07	$ 376.60	$ 215.00	$ 335.80	$
Net income per HPU share:					
Basic	$ 533.80	$ 402.87	$ 337.30	$ 413.20	$
Diluted(4)	$ 528.67	$ 398.87	$ 330.60	$ 399.00	$
Dividends declared per common share(5)	$ 3.08	$ 2.93	$ 2.79	$ 2.65	$ 2.52
SUPPLEMENTAL DATA:					
Adjusted diluted earnings allocable to common shareholders and HPU holders(6)(8)	$ 429,922	$ 391,884	$ 270,946	$ 341,177	$ 262,786
EBITDA(7)(8)	$ 902,633	$ 684,824	$ 564,762	$ 550,478	$ 453,106
Ratio of EBITDA to interest expense	2.1x	2.2x	2.4x	2.8x	2.4x
Ratio of EBITDA to combined fixed charges(9)	1.9x	1.9x	2.0x	2.4x	2.0x
Ratio of earnings to fixed charges(10)	1.8x	1.9x	1.8x	2.3x	2.0x
Ratio of earnings to fixed charges and preferred stock dividends(10)	1.6x	1.7x	1.5x	2.0x	1.7x
Weighted average common shares outstanding-basic	115,023	112,513	110,205	100,314	89,886
Weighted average common shares outstanding-diluted	116,219	113,703	112,464	104,101	92,649
Weighted average HPU shares outstanding-basic	15	15	10	5	
Weighted average HPU shares outstanding-diluted	15	15	10	5	
Cash flows from:					
Operating activities	$ 434,439	$ 515,919	$ 353,566	$ 334,673	$ 344,979
Investing activities	(2,532,475)	(1,406,121)	(465,636)	(970,765)	(1,149,206)
Financing activities	2,088,617	917,150	120,402	700,248	804,491

	For the Years Ended December 31,				
	2006	2005	2004	2003	2002
	(In thousands, except per share data and ratios)				
BALANCE SHEET DATA:					
Loans and other lending investments, net	$6,799,850	$ 4,661,915	$ 3,938,427	$ 3,694,709	$ 3,045,966
Corporate tenant lease assets, net	3,084,794	3,115,361	2,877,042	2,535,885	2,291,805
Total assets	11,059,995	8,532,296	7,220,237	6,660,590	5,611,697
Debt obligations	7,833,437	5,859,592	4,605,674	4,113,732	3,461,590
Minority interest in consolidated entities	38,738	33,511	19,246	5,106	2,581
Total shareholders equity	2,986,863	2,446,671	2,455,242	2,415,228	2,025,300
SUPPLEMENTAL DATA:					
Total debt to shareholders equity	2.6x	2.4x	1.9x	1.7x	1.7x

Explanatory Notes:

(1) General and administrative costs include $11,435, $2,758, $109,676, $3,633 and $17,998 of stock-based compensation expense for the years ended December 31, 2006, 2005, 2004, 2003 and 2002, respectively.

(2) HPU holders are Company employees who purchased high performance common stock units under the Company s High Performance Unit Program.

(3) See Note 13 Earnings Per Share on the Company s Consolidated Financial Statements.

(4) For the years ended December 31, 2006, 2005, 2004, 2003 and 2002 net income used to calculate earnings per diluted common share includes joint venture income of $115, $28, $3, $167 and $0, respectively.

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

(6) Adjusted earnings represents net income allocable to common shareholders and HPU holders computed in accordance with GAAP, before depreciation, depletion, amortization, gain from discontinued operations, extraordinary items and cumulative effect of change in accounting principle. (See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations for a reconciliation of adjusted earnings to net income).

(7) EBITDA is calculated as net income plus the sum of interest expense, depreciation, depletion and amortization (which includes the interest expense, depreciation, depletion and amortization reclassified to income from discontinued operations).

	For the Years Ended December 31,				
	2006	2005	2004	2003	2002
Net income	$ 374,827	$ 287,913	$ 260,447	$ 292,157	$ 215,270
Add: Interest expense(1)	429,807	313,053	232,918	194,999	185,362
Add: Depreciation, depletion and amortization(2)	83,058	75,574	67,853	55,905	48,041
Add: Joint venture depreciation, depletion and amortization	14,941	8,284	3,544	7,417	4,433
EBITDA	$902,633	$ 684,824	$ 564,762	$ 550,478	$ 453,106

Explanatory Notes:

(1) For the years ended December 31, 2006, 2005, 2004, 2003 and 2002, interest expense includes $0, $0, $190, $337 and $348, respectively, of interest expense reclassified to discontinued operations.

(2) For the years ended December 31, 2006, 2005, 2004, 2003 and 2002, depreciation, depletion and amortization includes $1,858, $2,628, $6,658, $8,002 and $7,927, respectively, of depreciation and amortization reclassified to discontinued operations.

(8) Both adjusted earnings and EBITDA should be examined in conjunction with net income as shown in the Company s Consolidated Statements of Operations. Neither adjusted earnings nor EBITDA should be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of the Company s performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of the Company s liquidity, nor is either measure indicative of

funds available to fund the Company s cash needs or available for distribution to shareholders. Rather, adjusted earnings and EBITDA are additional measures the Company uses to analyze how its business is performing. As a commercial finance company that focuses on real estate lending and corporate tenant leasing, the Company records significant depreciation on its real estate assets and amortization of deferred financing costs associated with its borrowings. The Company also records depletion on its timber assets, although depletion amounts are currently not material. It should be noted that the Company s manner of calculating adjusted earnings and EBITDA may differ from the calculations of similarly-titled measures by other companies.

(9) Combined fixed charges are comprised of interest expense from both continuing and discontinued operations and preferred stock dividend requirements.

(10) 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, and cumulative effect of change in accounting principle plus fixed charges and certain other adjustments. Fixed charges consist of interest incurred on all indebtedness related to continuing and discontinued operations (including amortization of original issue discount) and the implied interest component of the Company s rent obligations in the years presented.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

This discussion summarizes the significant factors affecting our consolidated operating results, financial condition and liquidity during the three-year period ended December 31, 2006. This discussion should be read in conjunction with our consolidated financial statements and related notes for the three-year period ended December 31, 2006 included elsewhere in this annual report on Form 10-K. These historical financial statements may not be indicative of our future performance. We reclassified certain items in our consolidated financial statements of prior years to conform to our current year s presentation. This Management s Discussion and Analysis of Financial Condition and Results of Operations contains a number of forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risks described throughout this filing, particularly in *Item 1a. Risk Factors.*

Introduction

iStar Financial Inc. is a leading publicly traded finance company focused on the commercial real estate industry. We primarily provide custom tailored financing to high-end private and corporate owners of real estate, including senior and mezzanine real estate debt, senior and mezzanine corporate capital, corporate net lease financing and equity. Our company, which is taxed as a real estate investment trust (REIT), seeks to deliver strong dividends and superior risk-adjusted returns on equity to shareholders by providing innovative and value added financing solutions to our customers. Our two primary lines of business are lending and corporate tenant leasing.

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

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

Our primary sources of revenues are interest income, which is the interest that our borrowers pay on our loans, and operating lease income, which is the rent that our corporate customers pay us to lease our CTL properties. A smaller and more variable source of revenue is other income, which consists primarily of prepayment penalties and realized gains that occur when our borrowers repay their loans before the maturity date. We primarily generate income through the spread or margin, which is the difference between the revenues generated from our loans and leases and our interest expense and the cost of our CTL operations. We generally seek to match-fund our revenue generating assets with either fixed or floating rate debt of a similar maturity so that changes in interest rates or the shape of the yield curve will have a minimal impact on our earnings.

Executive Overview

The year ended December 31, 2006 marked significant growth in our asset base, our revenues and our organization. We grew total assets by more than $2.53 billion and generated $374.8 million of net income and $2.79 of diluted earnings per share (EPS) during 2006, compared to $287.9 million of net income and

$2.11 of diluted EPS during 2005. While we experienced increased competition and liquidity in the real estate finance markets, we continued to make progress in expanding our franchise across markets where we believe that we have competitive advantages.

During 2006, in addition to the growth in our core business, we experienced growth in our AutoStar, TimberStar and European operations. AutoStar is a one-stop provider of financing for the automobile dealership industry, which we believe is a natural extension of our core lending and corporate tenant lease businesses. AutoStar surpassed the $1 billion threshold for commitments in 2006. TimberStar purchases timberlands and enters into long-term lumber supply agreements with mills in close proximity to our land. TimberStar had a successful year as our team led and closed the $1.13 billion acquisition of 900,000 acres of timberland from International Paper in conjunction with several third party equity investors. Finally, we started our geographic expansion into Europe where our strategy is to provide custom tailored financing solutions with the same high level of service for overseas borrowers that we provide in the US markets.

To support our growth, in 2006 we increased the total number of employees by 12% across all levels of the organization and in multiple disciplines including investments, risk management, asset management, financing and accounting. Increased compensation costs and other employee related expenses are the primary reasons that our general and administrative costs increased in 2006, as discussed in greater detail below.

We experienced some credit losses on our lending portfolio in 2006; however, these losses continued to be minimal relative to our overall portfolio. Despite our strong track record, we expect that we will experience losses within the portfolio from time to time.

Economic Trends

After experiencing difficult economic and market conditions in 2002 and 2003, the commercial real estate industry experienced increasing property-level operating returns through 2006. During this period, the industry attracted large amounts of investment capital which led to increased property valuations across most sectors. Investors such as pension funds and foreign buyers have increased their allocations to real estate and private real estate funds and individual investors have raised record amounts of capital to invest in the sector. At the same time, interest rates have remained at historically low levels. More recently, the yield curve, or the difference between short-term and long-term interest rates, has flattened or inverted. Lower interest rates have enabled many property owners to finance their assets at attractive rates and proceeds levels. Default rates on commercial mortgages have steadily declined over the past ten years and are now at or near historic lows. As a result, many banks and insurance companies are increasing their real estate lending activities. The securitization markets for commercial real estate, including both the Commercial Mortgage-Backed Securities (CMBS) and the Collateralized Debt Obligation (CDO) markets, have experienced record issuance volumes and liquidity. Investors in this arena have been willing to buy increasingly complex and aggressively underwritten transactions. While the fundamentals in most real estate markets are firming, valuations have increased at a faster pace than underlying cash flows due to the large supply of investor capital.

The commercial real estate industry has undergone a transformation over the past ten years. During this time many large real estate-owning companies went public and thousands of commercial real estate loans were rated and securitized. This resulted in the public disclosure of significantly more property-level and market data than had been available in the past. In addition, numerous on-line real estate data sources have been successful in filling the information void and have created publicly available data on almost all real estate asset types across the country. Access to this data has dramatically increased the visibility in the industry. Better disclosure and data has enabled broader and more informed investor participation in the sector and should be an important component in moderating the impact of the broader economic cycles on the real estate industry over longer periods of time.

Key Performance Measures

The following discussion of our results describes the impact that the key trends have had, and are expected to continue to have for the foreseeable future, on our business.

Profitability Indicators *We* use the following metrics to measure our profitability:

- Adjusted Diluted EPS, calculated as adjusted diluted earnings allocable to common shareholders and HPU holders divided by diluted weighted average common shares outstanding. (See section captioned Adjusted Earnings for more information on this metric).

- Net Finance Margin, calculated as the rate of return on assets less the cost of debt. The rate of return on assets is the sum of interest income and operating lease income, divided by the sum of the average book value of gross corporate tenant lease assets, loans and other lending investments, purchased intangibles and assets held for sale over the period. The cost of debt is the sum of interest expense and operating costs for corporate tenant lease assets, divided by the average book value of gross debt obligations during the period.

- Adjusted Return on Average Common Book Equity, calculated as adjusted basic earnings allocable to common shareholders and HPU holders divided by average common book equity.

The following table summarizes these key metrics:

	For the Years Ended December 31,		
	2006	**2005**	**2004**
Adjusted Diluted EPS	$ 3.61	$ 3.36	$ 2.37
Net Finance Margin(1)(2)	3.2 %	3.2 %	3.8 %
Adjusted Return on Average Common Book Equity	20.4 %	19.6 %	13.7 %

Explanatory Note:

(1) For the years ended December 31, 2006, 2005 and 2004, operating lease income used to calculate the net finance margin includes amounts from discontinued operations of $7,393, $11,252 and $44,445. For the years ended December 31, 2006, 2005 and 2004, interest expense used to calculate the net finance margin includes amounts from discontinued operations of $0, $0 and $190. For the years ended December 31, 2006, 2005 and 2004, operating costs corporate tenant lease assets used to calculate the net finance margin includes amounts from discontinued operations of $10,457, $1,438 and $7,844.

(2) Net finance margin for 2006 includes non-cash impairment charges of $9.0 million. Excluding these charges, the net finance margin would have been 3.4%.

The following is an overview of how we performed in respect to each key performance measure and how those items affected profitability and were impacted by key trends.

Asset Growth Reflects our ability to originate new loans and leases and grow our asset base in a prudent manner.

During the year ended December 31, 2006, we had $6.08 billion of transaction volume representing 121 financing commitments. Repeat customer business has become a key source of transaction volume, accounting for approximately 52.2% of our cumulative volume from inception through December 31, 2006. Transaction volume for the years ended December 31, 2005 and 2004 were $4.91 billion and $2.78 billion, respectively. We completed 95 and 53 financing commitments in 2005 and 2004, respectively. We have also experienced significant growth during the last several years through a number of strategic acquisitions which complemented our organic growth and extended our business franchise. Based upon feedback from our customers, we believe that greater name recognition, our reputation for completing highly structured transactions in an efficient manner, the service level we provide to our customers and our reduced cost of capital have contributed to increases in transaction volume.

The benefits of higher investment volumes have been mitigated to an extent by the low interest rate environment that has persisted in recent years. Low interest rates benefit us in that our borrowing costs decrease, but similarly, earnings on our variable-rate lending investments also decrease. The increased investment and lending activity in both the public and private commercial real estate markets, as described under Key Trends, has resulted in a highly competitive real estate financing environment with reduced returns on assets. The reduction in our return on assets has been partially offset by our lower cost of funds.

Over the past several years, while property-level fundamentals have stabilized and are generally beginning to improve, investment activity in direct real estate ownership has increased dramatically. In many cases, this has caused property valuations to increase disproportionately to any corresponding increase in fundamentals. Corporate tenant leases, or net leased properties, are one of the most stable real estate asset classes and have garnered significant interest from both institutional and retail investors who seek long-term, stable income streams. In many cases, we believe that the valuations of CTL assets in today s market do not represent solid risk-adjusted returns. As a result, we have not invested as heavily in this asset class, acquiring only $62.2 million in 2006 and $282.4 million in 2005, compared to $513.0 million in 2004. While we continue to monitor the CTL market and review certain transactions, we have shifted most of our origination resources to our lending business until we see compelling opportunities for CTL acquisitions in the market again.

Despite the competitive environment, we intend to maintain our disciplined approach to underwriting our investments and will adjust our focus away from markets and products where we believe that the available pricing terms do not fairly reflect the risks of the investments. We will also continue to maintain our disciplined investment strategy and deploy capital to those opportunities that demonstrate the most attractive returns.

Risk Management Reflects our ability to underwrite and manage our loans and leases to balance income production potential with the potential for credit losses.

We continued to manage our business to ensure that the overall credit quality of the portfolio remained strong. There were no major changes to the portfolio credit statistics in 2006 versus 2005. The remaining weighted average duration of the loan portfolio is 4.3 years.

We have historically experienced minimal credit losses on our lending investments. During 2006, we charged-off $8.7 million against the reserve for loan losses. During 2005 and 2004, we recognized no credit losses. At December 31, 2006, our non-performing loan assets represented 0.6% of total assets versus 0.4% at year-end 2005. We believe that we have established adequate loan loss reserves.

At December 31, 2006, the weighted-average risk rating on the CTL portfolio was essentially unchanged from year-end 2005. We continue to focus on re-leasing space at our CTL facilities under longer-term leases in an effort to reduce the impact of lease expirations on our earnings. As of December 31, 2006, the weighted average lease term on our CTL portfolio was 10.9 years and the portfolio was 95% leased. We expect the average lease term of our portfolio to decline somewhat until such time that we begin to find new acquisition opportunities that meet our investment criteria.

Cost and Availability of Funds Reflects our ability to access funding sources at competitive rates and terms and insulate our margin from changes in interest rates.

In 2003, we began migrating our debt obligations from secured debt to unsecured debt. We believed that funding ourselves on an unsecured basis would enable us to better serve our customers, more effectively match-fund our assets and provide us with a competitive advantage in the marketplace. Early in 2004, we made significant progress to that end by completing a new unsecured bank facility that initially had $850.0 million of capacity and was subsequently increased to $1.25 billion of capacity in December 2004. We also took advantage of the very low interest rate environment and issued longer term unsecured debt, using the proceeds to repay existing secured credit facilities and mortgage debt. We continued to emphasize our use of unsecured debt to fund new net asset growth and to repay existing secured debt in 2004. In October of 2004, in part as a result of our shift to unsecured debt, our senior unsecured debt ratings were upgraded to investment grade (BBB-/Baa3) by S&P and Moody s. This resulted in a broader market for our bonds and a lower cost of debt.

In 2005, we continued to broaden our sources of capital, particularly in the unsecured bank and bond markets. We completed $2.08 billion in bond offerings, upsized our unsecured credit facility to $1.50 billion and eliminated three secured lines of credit. We also repaid our $620.7 million of STARs asset-backed notes, which resulted in the recognition of a $44.3 million early extinguishment charge. We lowered our percentage of secured debt to total debt to 7% at the end of 2005 from 82% at the end of 2002. As a result, we have completed our goals of substantially unencumbering our asset base, decreasing secured debt and increasing our unsecured credit capacity to replace our secured facilities.

In the first quarter of 2006, S&P, Moody s and Fitch upgraded our senior unsecured debt rating to BBB, Baa2, and BBB from BBB-, Baa3 and BBB-, respectively. During 2006, we completed $2.20 billion of bond offerings and completed an exchange offer on our highest rate corporate bonds. In addition, we upsized our unsecured credit facility to $2.20 billion and amended the facility to allow us to borrow British pounds, euros and Canadian dollars to better enable us to invest outside the United States. This capability will enable us to more effectively match fund our foreign investments. During 2006, our percentage of secured debt to total debt remained at 7%.

We seek to match-fund our assets with either fixed or floating rate debt of a similar maturity so that rising interest rates or changes in the shape of the yield curve will have a minimal impact on our earnings. Our policy requires that we manage our fixed/floating rate exposure such that a 100 basis point move in short term interest rates would have no more than a 2.5% impact on our quarterly adjusted earnings. At December 31, 2006, a 100 basis point increase in LIBOR would result in a 1.47% increase in our fourth quarter 2006 adjusted earnings. We have used fixed rate or floating rate hedges to manage our fixed and floating rate exposure; however, because we now have investment grade credit ratings, we are able to better access the floating rate debt markets and in the future we expect to decrease the need for derivatives to match-fund our debt.

We also seek to match-fund our foreign denominated assets with foreign denominated debt so that changes in foreign exchange rates or forward curves will have a minimal impact on earnings. Foreign denominated assets and liabilities are presented in our financial statements in US dollars at current exchange rates each reporting period with changes flowing through earnings. Matched assets and liabilities in the same currency are a natural hedge against currency fluctuations. For investments denominated in currencies other than British pounds, Canadian dollars and euros, we primarily use forward contracts to hedge our exposure to foreign exchange risk.

While we consider it prudent to have a broad array of sources of capital, including some secured financing arrangements, we expect to continue to emphasize our use of unsecured debt in funding our net asset growth going forward. We believe that we have ample short-term capital available to provide liquidity and to fund our business.

Expense Management Reflects our ability to maintain a customer-oriented and cost effective operation.

We measure the efficiency of our operations by tracking our efficiency ratio, which is the ratio of general and administrative expenses to total revenue. Our efficiency ratio was 9.8% and 8.0% for 2006 and 2005, respectively. The increase in 2006 reflects increases in payroll costs, expenses associated with employee growth including additional office space costs, expenses associated with the ramp-up of several new business initiatives including our AutoStar, TimberStar and European ventures. Management talent is one of our most significant assets and our payroll costs are correspondingly our largest non-interest cash expense. The market for management talent is highly competitive and we do not expect to materially decrease this expense in the coming years. However, we believe that our efficiency ratio remains low by industry standards and expect it to normalize somewhat as acquisitions and new businesses stabilize.

Capital Management Reflects our ability to maintain a strong capital base through the use of prudent financial leverage.

We use a dynamic capital allocation model to derive our maximum targeted corporate leverage. We calculate our leverage as the ratio of book debt to the sum of book equity, accumulated depreciation, accumulated depletion and loan loss reserves. Our leverage was 2.3x, 2.1x and 1.7x in 2006, 2005 and 2004, respectively. In 1998, when we went public, our leverage levels were very low, around 1.1x. Since that time we have been slowly increasing our leverage to our targeted levels. We evaluate our capital model target leverage levels based upon leverage levels achieved for similar assets in other markets, market liquidity levels for underlying assets and default and severity experience. Our data currently suggest that capital levels in our capital allocation model are conservative.

We measure our capital management by the strength of our tangible capital base and the ratio of our tangible book equity to total book assets. Our tangible book equity was $2.97 billion, $2.44 billion and $2.46 billion as of December 31, 2006, 2005 and 2004, respectively. Our ratio of tangible book equity to total book assets was 26.8%, 28.6% and 34.0% as of December 31, 2006, 2005 and 2004, respectively. The decline in this ratio is attributable to a modest increase in financial leverage as we have moved towards our target capital level. We believe that relative to other finance companies, we are very well capitalized for a company of our size and asset base.

Results of Operations

Revenue

	For the Years Ended December 31, 2006	2005	2004	2006 v. 2005 % Change	2005 v. 2004 % Change
Interest income	$ 575,598	$ 406,668	$ 351,972	42 %	16 %
Operating lease income	328,868	301,623	272,867	9 %	11 %
Other income	75,727	81,440	56,063	(7)%	45 %
Total Revenue	$ 980,193	$ 789,731	$ 680,902	24 %	16 %

The increase in revenue during 2006 was primarily due to increased interest income. Higher interest income during 2006 resulted primarily from a $1.26 billion increase in the average outstanding balance of loans and other lending investments. Interest income was also higher due to a higher average rate of return on our loans and lending investments, which increased to 10.2% in 2006, from 9.3% in 2005. The increased rate of return was primarily attributable to our variable-rate lending investments which reset at higher rates during 2006 when the average one-month LIBOR rate was 5.09% compared to 3.39% in 2005.

During 2006, our operating lease income grew by $27.2 million reflecting new CTL investments and a favorable lease restructuring, partially offset by a lease termination and some additional vacancy on certain CTL assets.

Other income was $5.7 million lower in 2006 than in 2005. This decline resulted from a decrease in prepayment penalties and gains on marketable securities, partially offset by increases in lease termination fees, income from timber operations, and income from other investments.

The increase in revenue during 2005 was due to increases in all three revenue line items. Higher interest income during 2005 resulted primarily from a $378.6 million increase in the average outstanding balance of loans and other lending investments. Interest income was also higher due to a higher average rate of return on our loans and lending investments, which increased to 9.3% in 2005, from 8.9% in 2004. The increased rate of return was primarily attributable to the our variable-rate lending investments which reset at higher rates due to higher average one-month LIBOR rates of 3.39% in 2005, compared to 1.50% in 2004.

During 2005, our operating lease income grew by $28.8 million, primarily due to new CTL investments. The increase was partially offset by lower operating lease income due to vacancies and lower rental rates on certain CTL assets.

During 2005, other income was $25.4 million higher than in 2004, primarily resulting from an increase in prepayment penalties and gains on marketable securities.

Interest Expense

	For the Years Ended December 31, 2006	2005	2004	2006 v. 2005 % Change	2005 v. 2004 % Change
Interest expense	$ 429,807	$ 313,053	$ 232,728	37 %	35 %

During 2006, our average outstanding debt balance was $1.46 billion higher than during 2005, resulting in the majority of the increase in interest expense. Interest expense was also higher due to slightly higher average rates, which increased from 5.7% in 2005 to 5.9% in 2006. During 2005, the increase in interest expense was due to both an increase in our average outstanding debt balance and higher rates. The average outstanding debt balance during 2005 was $768.3 million higher than during 2004 and average rates increased from 5.0% in 2004 to 5.7% in 2005. Higher average one-month and three-month LIBOR rates during 2006 and 2005 increased our interest expense on any unhedged portions of our variable rate debt.

Other Costs and Expenses

	For the Years Ended December 31, 2006	2005	2004	2006 v. 2005 % Change	2005 v. 2004 % Change
Operating costs corporate tenant lease assets	$ 24,891	$ 21,809	$ 21,492	14 %	1 %
Depreciation and amortization	76,967	70,442	61,825	9 %	14 %
General and administrative	96,432	63,987	157,588	51 %	(59)%
Provision for loan losses	14,000	2,250	9,000	>100 %	(75)%
Loss on early extinguishment of debt		46,004	13,091	(100)%	>100 %
Total other costs and expenses	$ 212,290	$ 204,492	$ 262,996	4 %	(22)%

From 2005 to 2006, total other costs and expenses were relatively flat, however, there were some significant changes in the line item components. During 2006, general and administrative expenses increased by $32.4 million, primarily due to an increase in employee growth and ramp-up of new business initiatives. During the year ended December 31, 2006 we recorded a non-cash charge of approximately $4.5 million in connection with the Company s High Performance Unit equity compensation program for senior management. The non-cash compensation charge is the result of a correction due to a change in assumptions for the liquidity, non-voting and forfeiture discounts used in valuing the HPU securities issued in the seven plans offered since the commencement of the program in 2002 (see Note 12 Stock-Based Compensation Plans and Employee Benefits on the Company s Consolidated Financial Statements for further discussion). The cumulative charge was recorded during 2006, rather than restating prior periods, because we concluded that the expense was not material to any of our previously issued financial statements for any period. During 2006, additional provisions for loan losses of $14.0 million increased the reserve for the loan losses and charge-offs reduced the reserve by $8.7 million. This net increase in the reserve was based on our risk rating process and the increase in the size of our loan portfolio.

From 2004 to 2005, total other costs and expenses decreased by $58.5 million, primarily due to a decrease in general and administrative expenses offset by an increase in the losses from early extinguishment of debt. During 2004, we recognized stock-based compensation charges of approximately $106.9 million primarily related to the vesting of grants received by our Chief Executive Officer and others.

During 2005, we incurred losses related to the early repayment of our STARs, Series 2002-1 Notes and Series 2003-1 Notes and a $135.0 million term loan. During 2004, we incurred losses related to the early repayment of a portion of our 8.75% Senior Notes due 2008, several term loans and an unsecured credit facility.

Other Components of Net Income

Equity in Earnings of Joint Ventures Equity in earnings of joint ventures was $12.4 million, $3.0 million and $2.9 million for the years ended December 31, 2006, 2005 and 2004, respectively. The increase in earnings of joint ventures during 2006 was primarily due to increases in performance fees from our investments in Oak Hill.

Discontinued Operations We sold 10, 5 and 22 CTL assets (to six different buyers) and realized gains of approximately $24.2 million, $6.4 million and $43.4 million during the years ended December 31, 2006, 2005 and 2004, respectively.

Adjusted Earnings

We measure our performance using adjusted earnings in addition to net income. Adjusted earnings represent net income allocable to common shareholders and HPU holders computed in accordance with GAAP, before depreciation, depletion, amortization, gain from discontinued operations, extraordinary items and cumulative effect of change in accounting principle. Adjustments for joint ventures reflect our share of adjusted earnings calculated on the same basis.

We believe that adjusted earnings is a helpful measure to consider, in addition to net income, because this measure helps us to evaluate how our commercial real estate finance business is performing compared to other commercial finance companies, without the effects of certain GAAP adjustments that are not necessarily indicative of current operating performance. The most significant GAAP adjustments that we exclude in determining adjusted earnings are depreciation, depletion and amortization, which are typically non-cash charges. As a commercial finance company that focuses on real estate lending and corporate tenant leasing, we record significant depreciation on our real estate assets and amortization of deferred financing costs associated with our borrowings. We also record depletion on our timber assets. Depreciation, depletion and amortization do not affect our daily operations, but they do impact financial results under GAAP. By measuring our performance using adjusted earnings and net income, we are able to evaluate how our business is performing both before and after giving effect to recurring GAAP adjustments such as depreciation, depletion and amortization (including earnings from joint venture interests on the same basis) and excluding gains or losses from the sale of assets that will no longer be part of continuing operations.

Adjusted earnings is not an alternative or substitute for net income in accordance with GAAP as a measure of our performance. Rather, we believe that adjusted earnings is an additional measure that helps us analyze how our business is performing. This measure is also used to track compliance with covenants in certain of our material borrowing arrangements that have covenants based upon this measure. Adjusted earnings should not be viewed as an alternative measure of either our liquidity or funds available for our cash needs or for distribution to our shareholders. In addition, we may not calculate adjusted earnings in the same manner as other companies that use a similarly titled measure.

	For the Years Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
	(In thousands)				
	(Unaudited)				
Adjusted earnings:					
Net income allocable to common shareholders and HPU holders	$ 332,507	$ 245,593	$ 209,107	$ 255,249	$ 178,362
Add: Joint venture income	123	136	166	593	991
Add: Depreciation, depletion and amortization	83,058	75,574	67,853	55,905	48,041
Add: Joint venture depreciation, depletion and amortization	14,941	8,284	3,544	7,417	4,433
Add: Amortization of deferred financing costs	23,520	68,651	33,651	27,180	31,676
Less: Gains from discontinued operations	(24,227)	(6,354)	(43,375)	(5,167)	(717)
Adjusted diluted earnings allocable to common shareholders and HPU holders(1)(2)(3)(4)	$ 429,922	$ 391,884	$ 270,946	$ 341,177	$ 262,786
Weighted average diluted common shares outstanding(5)	116,219	113,747	112,537	104,248	93,020

Explanatory Notes:

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(1) HPU holders are Company employees who purchased high performance common stock units under the Company s High Performance Unit Program. For the years ended December 31, 2006, 2005, 2004, 2003 and 2002 adjusted diluted earnings allocable to common shareholders and HPU holders includes $10,250, $9,538, $4,261, $2,659 and $0 of adjusted earnings allocable to HPU holders, respectively.

(2) For the years ended December 31, 2006, 2005, 2004, 2003 and 2002, adjusted diluted earnings allocable to common shareholders and HPU holders includes approximately $0, $7.5 million, $9.8 million, $0 and $4.0 million, respectively, of cash paid for prepayment penalties associated with early extinguishment of debt.

(3) For the year ended December 31, 2004, adjusted diluted earnings allocable to common shareholders and HPU holders includes a $106.9 million charge related to performance-based vesting of 100,000 restricted shares granted under the Company s long-term incentive plan to the Chief Financial Officer, the vesting of 2.0 million phantom shares on March 30, 2004 granted to the Chief Executive Officer, the one-time award of Common Stock with a value of $10.0 million to the Chief Executive Officer, the vesting of 155,000 restricted shares granted to several employees and the Company s share of taxes associated with all transactions.

(4) For the year ended December 31, 2002, adjusted diluted earnings allocable to common shareholders and HPU holders includes a $15.0 million charge related to performance-based vesting of restricted shares granted under the Company s long-term incentive plan.

(5) In addition to the GAAP defined weighted average diluted shares outstanding these balances include an additional 44,000 shares, 73,000 shares, 147,000 shares and 371,000 shares for the years ended December 31, 2005, 2004, 2003 and 2002, respectively, relating to the additional dilution of joint venture shares. There were no additional shares included for the year ended December 31, 2006, relating to the dilution of joint venture shares.

Risk Management

Loan Credit Statistics *The* table below summarizes our non-performing loans and details the reserve for loan losses and charge-offs associated with our loans for the years ended December 31, 2006 and 2005 (in thousands):

	As of December 31, 2006 $	%	2005 $	%
Carrying value of non-performing loans				
As a percentage of total assets	$ 61,480	0.6 %	$ 35,291	0.4 %
As a percentage of total loans		1.0 %		0.8 %
Reserve for loan losses				
As a percentage of total assets	$ 52,201	0.5 %	$ 46,876	0.6 %
As a percentage of total loans		0.9 %		1.1 %
Net charge-offs				
As a percentage of total assets	$ 8,675	0.1 %	$	0.0 %
As a percentage of total loans		0.2 %		0.0 %

Non-Performing Loans *All non-performing* loans are placed on non-accrual status where income is recognized only upon actual cash receipt. We designate loans as non-performing at such time as: (1) management determines the borrower is incapable of, or has ceased efforts towards, curing the cause of an impairment; (2) the loan becomes 90 days delinquent; (3) the loan has a maturity default; or (4) the net realizable value of the loan s underlying collateral approximates our carrying value of such loan. As of December 31, 2006, we had two non-performing loans with an aggregate carrying value of $61.5 million, or 0.6% of total assets, compared to 0.4% at December 31, 2005. Management believes there is adequate collateral to support the book values of the loans.

Watch List Assets *We* conduct a quarterly comprehensive credit review, resulting in an individual risk rating being assigned to each asset. This review is designed to enable management to evaluate and proactively manage asset-specific credit issues and identify credit trends on a portfolio-wide basis as an early warning system. As of December 31, 2006, we had five assets on the credit watch list, excluding those assets included in non-performing loans above, with an aggregate carrying value of $147.8 million, or 1.3% of total assets.

Net Charge-Offs *During* 2006, we recorded total charge-offs of $8.7 million, primarily related to two separate loan transactions. Of the total, $5.5 million was from a direct charge-off on a mezzanine loan on a class A office building in the midwest. Several tenants who occupied approximately 270,000 square feet vacated the building when their leases expired in December 2006 which reduced occupancy from 91% to 59%. As of December 31, 2006, we also hold all three tranches of a first mortgage loan for which this same building serves as sole collateral. The first mortgage has a cumulative carrying value of $159.4 million. We have assessed the remaining positions as of December 31, 2006 and do not believe they are impaired. In addition, $3.0 million was from a direct charge-off on a first mortgage on an auto dealership in the southeast. The dealership was experiencing continued deterioration in its financial performance resulting in insufficient fixed charge coverage on the loan. After taking the impairment charges, management believes there is adequate collateral to support the carrying value of both loans as of December 31, 2006.

Liquidity and Capital Resources

We require significant capital to fund our investment activities and operating expenses. While the distribution requirements under the REIT provisions of the Code limit our ability to retain earnings and thereby replenish or increase capital committed to our operations, we believe we have sufficient access to capital

resources to fund our existing business plan, which includes the expansion of our real estate lending and corporate tenant leasing businesses. Our capital sources include cash flow from operations, borrowings under lines of credit, additional term borrowings, unsecured corporate debt financing, financings secured by our assets, trust preferred debt, and the issuance of common, convertible and/or preferred equity securities. Further, we may acquire other businesses or assets using our capital stock, cash or a combination thereof.

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

The following table outlines the contractual obligations related to our long-term debt agreements and operating lease obligations as of December 31, 2006. We have no other long-term liabilities that would constitute a contractual obligation.

	Principal And Interest Payments Due By Period					
	Total	**Less Than 1 Year**	**2 3 Years**	**4 5 Years**	**6 10 Years**	**After 10 Years**
	(In thousands)					
Long-Term Debt Obligations(1):						
Unsecured notes	$ 6,367,022	$ 200,000	$ 1,710,331	$ 1,600,000	$ 2,856,691	$
Unsecured revolving credit facilities	923,068			923,068		
Secured term loans	556,028	230,180	144,316	37,048	58,634	85,850
Trust preferred	100,000					100,000
Total	7,946,118	430,180	1,854,647	2,560,116	2,915,325	185,850
Interest Payable(2)	2,367,333	443,628	770,430	569,621	440,764	142,890
Operating Lease Obligations(3)	46,424	5,652	9,839	6,679	12,946	11,308
Total(4)	$ 10,359,875	$ 879,460	$ 2,634,916	$ 3,136,416	$ 3,369,035	$ 340,048

Explanatory Notes:

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

(2) All variable rate debt assumes a 30-day LIBOR rate of 5.32% (the 30-day LIBOR rate at December 31, 2006).

(3) We also have a $1.0 million letter of credit outstanding as security for our primary corporate office lease.

(4) We also have letters of credit outstanding totaling $61.6 million as additional collateral for five of our investments. See Off-Balance Sheet Transactions below, for a discussion of certain unfunded commitments related to our lending and CTL business.

Our primary credit facility is an unsecured credit facility totaling $2.20 billion which bears interest at LIBOR + 0.525% per annum, has an annual facility fee of 12.5 basis points and matures in June 2011. At December 31, 2006, we had $923.1 million drawn under this facility (see Note 9 to the Company s Consolidated Financial Statements). We also have one LIBOR-based secured revolving credit facility with an aggregate maximum capacity of $500.0 million, of which there was no amount drawn as of December 31, 2006. Availability under the secured credit facility is based on collateral provided under a borrowing base calculation.

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Our debt obligations contain covenants that are both financial and non-financial in nature. Significant financial covenants include limitations on our ability to incur indebtedness beyond specified levels and a requirement to maintain specified ratios of unsecured indebtedness compared to unencumbered assets. As a result of the upgrades of our senior unsecured debt ratings by S&P, Moody s and Fitch, in January and February 2006, the financial covenants in some series of our publicly held debt securities are not operative (see Rating Triggers below).

Significant non-financial covenants include a requirement in some series of our publicly-held debt securities that we offer to repurchase those securities at a premium if we undergo a change of control. As of December 31, 2006, we believe we are in compliance with all financial and non-financial covenants on our debt obligations.

Unencumbered Assets/Unsecured Debt *We* have completed the migration of our balance sheet towards unsecured debt, which generally results in a corresponding reduction of secured debt and an increase in unencumbered assets. The exact timing in which we will issue or borrow unsecured debt will be subject to market conditions. The following table shows the ratio of unencumbered assets to unsecured debt at December 31, 2006 and 2005(in thousands):

	As of December 31, 2006	2005
Total Unencumbered Assets	$ 10,392,861	$ 8,129,358
Total Unsecured Debt(1)	$ 7,390,089	$ 5,559,022
Unencumbered Assets/Unsecured Debt	141%	146%

Explanatory Note:

(1) See Note 9 to the Company s Consolidated Financial Statements for a more detailed description of our unsecured debt.

Capital Markets Activity *During* the year ended December 31, 2006, we issued $1.70 billion aggregate principal amount of fixed-rate Senior Notes bearing interest at annual rates ranging from 5.65% to 5.95% and maturing between 2011 and 2016 and $500.0 million of variable-rate Senior Notes bearing interest at three-month LIBOR + 0.34% maturing in 2009. In connection with the issuance of these notes, we settled four forward-starting swaps that were entered into in May and June of 2006. We primarily used the proceeds from the issuance of these securities to repay outstanding indebtedness under our unsecured revolving credit facility. In addition, our $50.0 million of 7.95% Senior Notes matured in May 2006.

In addition, on October 18, 2006, we exchanged our 8.75% Senior Notes due 2008 for 5.95% Senior Notes due 2013 in accordance with the exchange offer and consent solicitation issued on October 4, 2006. For each $1,000 principal amount of 8.75% Senior Notes tendered, holders received approximately $1,000 principal amount of 5.95% Senior Notes and $56.75 of cash. A total of $189.7 million aggregate principal amount of 5.95% Senior Notes were issued as part of the exchange. We also amended certain covenants in the indenture relating to the remaining 8.75% Senior Notes due 2008 as a result of a consent solicitation of the holders of these notes.

In addition, in November 2006, we completed an underwritten public offering of 12.7 million primary shares of our Common Stock. We received net proceeds of approximately $541.4 million from the offering and used these proceeds to repay outstanding balances under our revolving credit facility.

During the year ended December 31, 2005, we issued $1.45 billion aggregate principal amount of fixed-rate Senior Notes bearing interest at annual rates ranging from 5.15% to 6.05% and maturing between 2010 and 2015, and $625.0 million of variable-rate Senior Notes bearing interest at annual rates ranging from three-month LIBOR + 0.39% to 0.55% and maturing between 2008 and 2009. The proceeds from these transactions were used to repay outstanding balances on our revolving credit facilities.

In addition, on September 14, 2005, we completed the issuance of $100.0 million in unsecured floating rate trust preferred securities through a newly formed statutory trust, iStar Financial Statutory Trust I, which is our wholly owned subsidiary. The securities are subordinate to our senior unsecured debt and bear interest at a rate of LIBOR + 1.50%. The trust preferred securities are redeemable, at our option, in whole or in part, with no prepayment premium any time after October 2010.

In addition, on March 1, 2005, we exchanged our TriNet 7.70% Senior Notes due 2017 for iStar 5.70% Series B Senior Notes due 2014 in accordance with the exchange offer and consent solicitation issued on January 25, 2005. For each $1,000 principal amount of TriNet Notes tendered, holders received approximately $1,171 principal amount of iStar Notes. A total of $117.0 million aggregate principal amount of iStar Notes were issued. The iStar Notes issued in the exchange offer form part of the series of iStar 5.70% Series B Notes due 2014 issued on March 9, 2004. Also, on March 30, 2005, we amended certain covenants in the indenture relating to the 7.95% Notes due 2006 as a result of a consent solicitation of the holders of those notes. Following the successful completion of the consent solicitation, we merged TriNet into iStar, we became the obligor on the Notes and TriNet no longer existed (see Note 1 to the Company s Consolidated Financial Statements).

Unsecured/Secured Credit Facilities Activity On June 28, 2006, the unsecured facility was amended and restated. The commitment increased to $2.20 billion, of which up to $750.0 million can be borrowed in multiple foreign currencies. The maturity date was extended to June 2011, the rate on the facility decreased to LIBOR + 0.525% and the annual facility fee decreased to 12.5 basis points. The original facility completed on April 19, 2004 had a maximum capacity of $850.0 million, was increased to $1.25 billion on December 17, 2004 and was further increased to $1.50 billion on September 16, 2005. The original rate on the facility was LIBOR +1.00% per annum with a 25 basis point annual facility fee. In 2004, this was decreased to LIBOR + 0.875% with a 17.5 basis point annual facility fee due to an upgrade in our senior unsecured debt rating. The rate was further decreased to LIBOR + 0.70% with a 15 basis point annual facility fee as a result of further upgrades to our unsecured debt ratings in 2006.

On January 9, 2006, we extended the maturity on our remaining secured facility to January 2009 (including the one-year term-out extension), reduced our capacity from $700.0 million to $500.0 million and lowered our interest rates to LIBOR + 1.00% to 2.00% from LIBOR + 1.40% to 2.15%.

On March 12, 2005, August 12, 2005, and September 30, 2005, respectively, three of our secured revolving credit facilities, with a maximum amount available to draw of $250.0 million, $350.0 million and $500.0 million, matured.

Other Financing Activity During the year ended December 31, 2006, the portion of the $200.0 million term financing that was secured by certain commercial mortgage-backed securities was extended for one month and then matured on February 13, 2006. The remaining portion of this financing that was secured by corporate bonds was extended for one year to August 2007 and the rate on the loan was reduced to LIBOR + 0.22% to 0.65% from LIBOR + 0.25% to 0.70%. The carrying value of corporate bonds securing the borrowing totaled $358.3 million at December 31, 2006.

In addition, on May 31, 2006, we began a loan participation program which serves as an alternative to borrowing funds from our revolving credit facilities. The loan participations are short-term bank loans funded in the secondary market with fixed maturity dates typically ranging from overnight to 90 days. There was no outstanding balance under this program at December 31, 2006.

During the year ended December 31, 2005, we repaid a $76.0 million mortgage on 11 CTL investments which was open to prepayment without penalty. We also prepaid a $135.0 million mortgage on a CTL asset with a 0.5% prepayment penalty. In addition, we fully repaid all of our outstanding STARs Series 2002-1 and STARs Series 2003-1 Notes which had an aggregate outstanding principal balance of approximately $620.7 million on the date of repayment. The STARs Notes were originally issued in 2002 and 2003 by special purpose subsidiaries for the purpose of match funding our assets that collateralized the

STARs Notes. For accounting purposes, the issuance of the STARs Notes was treated as a secured on-balance sheet financing and no gain on sale was recognized in connection with the redemption of the STARs Notes, we incurred one-time cash costs, including prepayment and other fees, of approximately $6.8 million and a non-cash charge of approximately $37.5 million to write-off deferred financing fees and expenses.

Hedging Activities 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 the amount of our variable-rate debt obligations exceeds the amount of our variable-rate lending assets, we use derivative instruments to limit the impact of changing interest rates on our net income. We have a policy in place, that is administered by the Audit Committee, which requires us to enter into hedging transactions to mitigate the impact of rising interest rates on our earnings. The policy states that a 100 basis point increase in short-term rates cannot have a greater than 2.5% impact on quarterly earnings. We do not use derivative instruments for speculative purposes. The derivative instruments we use are typically in the form of interest rate swaps and interest rate caps. Interest rate swaps effectively can either convert variable-rate debt obligations to fixed-rate debt obligations or convert fixed-rate debt obligations into variable-rate debt obligations. Interest rate caps effectively limit the maximum interest rate payable on variable-rate debt obligations. In addition, we also use derivative instruments to manage our exposure to foreign exchange rate movements.

The primary risks related to our use of derivative instruments are the risks 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 we terminate a hedging arrangement. As a matter of policy, we enter into hedging arrangements with counterparties that are large, creditworthy financial institutions typically rated at least A/A2 by S&P and Moody s, respectively. Our hedging strategy is approved and monitored by our Audit Committee on behalf of the Board of Directors and may be changed by the Board of Directors without shareholder approval.

The following table represents the notional principal amounts and fair values of interest rate swaps by class (in thousands):

	Notional Amount as of December 31, 2006	**Notional Amount as of December 31, 2005**	**Fair Value as of December 31, 2006**	**Fair Value as of December 31, 2005**
Cash flow hedges				
Interest rate swaps	$	$ 250,000	$	$ 2,150
Forward-starting interest rate swaps.	450,000	650,000	9,180	8,771
Fair value hedges.	950,000	1,100,000	(23,137)	(30,112)
Total interest rate swaps	$ 1,400,000	$ 2,000,000	$ (13,957)	$ (19,191)

The following table presents the maturity, notional amount, and weighted average interest rates expected to be received or paid on USD interest rate swaps at December 31, 2006 ($ in thousands)(1):

	Fixed to Floating-Rate		
Maturity for Years Ending December 31,	**Notional Amount**	**Receive Rate**	**Pay Rate**
2007	$	%	%
2008			
2009	350,000	3.69 %	5.15 %
2010	600,000	4.39 %	5.10 %
2011			
2012 Thereafter			
Total	$ 950,000	4.14 %	5.11 %

Explanatory Note:

(1) Excludes forward-starting swaps expected to be cash settled on their effective dates and amortized to interest expense through their maturity dates.

The following table presents our foreign currency derivatives outstanding as of December 31, 2006 (these derivatives outstanding as of December 31, 2006 do not use hedge accounting, but are marked to market under SFAS No. 133 through the Company s Consolidated Statements of Operations) (in thousands):

Derivative Type	Notional Amount	Notional Currency	Notional (USD Equivalent)	Maturity
Sell CAD forward	CAD 1,250	Canadian dollar	$ 1,072	January 2007

At December 31, 2006, derivatives with a fair value of $9.3 million were included in other assets and derivatives with a fair value of $23.3 million were included in other liabilities. During 2006, we recorded $0.6 million of hedge ineffectiveness in Other income on the Company s Consolidated Statements of Operations, primarily related to the timing of an anticipated hedged transaction. During 2005, hedge ineffectiveness was immaterial.

Off-Balance Sheet Transactions We are not dependent on the use of any off-balance sheet financing arrangements for liquidity. As of December 31, 2006, we did not have any CTL joint ventures accounted for under the equity method, which had third-party debt.

As part of the 2005 acquisition of Falcon Financial, we obtained Falcon Financial s residual interests and servicing obligations related to four off-balance sheet loan securitizations. Our ongoing relationship with these special purpose entities is not material to our operations.

Our STARs Notes were all on-balance sheet financings. These securitizations were prepaid on September 28, 2005.

We have certain discretionary and non-discretionary unfunded commitments related to our loans and other lending investments that we may be required to, or choose to, fund in the future. Discretionary commitments are those under which we have sole discretion with respect to future funding. Non-discretionary commitments are those that we are generally obligated to fund at the request of the borrower or upon the occurrence of events outside of our direct control. As of December 31, 2006, we had 68 loans with unfunded commitments totaling $2.77 billion, of which $26.1 million was discretionary and $2.74 billion was non-discretionary. In addition, we have $1.4 million of discretionary unfunded commitments and $71.8 million of non-discretionary unfunded commitments related to ten CTL investments. These commitments generally fall into two categories: (1) pre-approved capital improvement projects; and (2) new or additional construction costs. Upon completion of the improvements or construction, we would receive additional operating lease income from the customers. In addition, we have

$17.9 million of non-discretionary unfunded commitments related to 19 existing customers in the form of tenant improvements which were negotiated between the Company and the customers at the commencement of the leases. Further, we had 11 equity investments with unfunded non-discretionary commitments of $80.6 million.

Ratings Triggers *The* $2.20 billion unsecured revolving credit facility that we had in place at December 31, 2006, bears interest at LIBOR + 0.525% per annum based on our senior unsecured credit ratings of BBB from S&P, Baa2 from Moody s and BBB from Fitch Ratings. Originally, this rate was reduced from LIBOR + 1.00% to LIBOR + 0.875% due to the investment grade upgrade of our senior unsecured debt rating by S&P in October 2004. It was further reduced from LIBOR + 0.875% to LIBOR + 0.70% after our senior unsecured debt rating was further upgraded by S&P, Moody s and Fitch in the first quarter of 2006 (see below).

On February 9, 2006, S&P upgraded our senior unsecured debt rating to BBB from BBB- and raised the ratings on our preferred stock to BB+ from BB. On February 7, 2006, Moody s upgraded our senior unsecured debt rating to Baa2 from Baa3 and raised the ratings on our preferred stock to Ba1 from Ba2. On January 19, 2006, Fitch Ratings upgraded our senior unsecured debt rating to BBB from BBB- and raised our preferred stock rating to BB+ from BB, with a stable outlook. The upgrades were primarily a result of our further migration to an unsecured capital structure, including the repayment of the STARs Notes.

As a result of the upgrades in 2006 of our senior unsecured debt ratings by S&P, Moody s and Fitch, the financial covenants in some series of our publicly held debt securities, including limitations on incurrence of indebtedness and maintenance of unencumbered assets compared to unsecured indebtedness, are not operative. If we were to be downgraded from our current ratings by two of these three rating agencies, these financial covenants would become operative again.

On October 6, 2004, Moody s upgraded our senior unsecured debt ratings to Baa3 from Ba1. The upgraded rating reflected the shift towards unsecured debt and the resulting increase in unencumbered assets, the continued profitable growth in our business franchise, the strong quality of both the structured finance and CTL business and the active management of those businesses.

On October 5, 2004, our senior unsecured credit rating was upgraded to an investment grade rating of BBB- from BB+ by S&P as a result of our positive track record of improving performance through a slightly difficult real estate cycle, our strong underwriting and servicing capabilities, the increase in capital base, the shift towards unsecured debt to free up assets and the staggering of maturities on secured debt.

Except as described above, there are no other ratings triggers in any of our debt instruments or other operating or financial agreements at December 31, 2006.

Transactions with Related Parties *During* 2005, we invested in a substantial minority interest of Oak Hill Advisors, L.P., Oak Hill Credit Alpha MGP, OHSF GP Partners II, LLC, Oak Hill Credit Opportunities MGP, LLC, and in 2006, OHSF GP Partners, LLC (see Note 6 to the Consolidated Financial Statements for more detail). In relation to our investment in these entities, we appointed to our Board of Directors a member that holds a substantial investment in these same five entities. As of December 31, 2006, the carrying value in these ventures was $201.7 million. During 2005, we had an investment in iStar Operating Inc. (iStar Operating), a taxable subsidiary that, through a wholly-owned subsidiary, services our loans and certain loan portfolios owned by third parties. We owned all of the non-voting preferred stock and a 95% economic interest in iStar Operating. An entity controlled by a former director of iStar, owned all of the voting common stock and a 5% economic interest in iStar Operating. On December 31, 2005, we acquired all the voting common stock and the remaining 5% economic interest in iStar Operating for a nominal amount and simultaneously merged it into an existing taxable REIT subsidiary of ours.

As more fully described in Note 12 to the Consolidated Financial Statements, during 2004, certain affiliates of Starwood Opportunity Fund IV, L.P. and our Chief Executive Officer have reimbursed us for the value of restricted shares awarded to our former President in excess of 350,000 shares.

DRIP/Stock Purchase Plans *We* maintain a dividend reinvestment and direct stock purchase plan. Under the dividend reinvestment component of the plan, our shareholders may purchase additional shares of Common Stock without payment of brokerage commissions or service charges by automatically reinvesting all or a portion of their Common Stock cash dividends. Under the direct stock purchase component of the plan, our shareholders and new investors may purchase shares of Common Stock directly from us without payment of brokerage commissions or service charges. All purchases of shares in excess of $10,000 per month pursuant to the direct purchase component are at our sole discretion. Shares issued under the plan may reflect a discount of up to 3% from the prevailing market price of our Common Stock. We are authorized to issue up to 8.0 million shares of Common Stock pursuant to the dividend reinvestment and direct stock purchase plans. During the years ended December 31, 2006 and 2005, we issued a total of approximately 549,000 and 433,000 shares of Common Stock, respectively, through the plans. Net proceeds for the years ended December 31, 2006 and 2005 were approximately $22.6 million and $17.4 million, respectively. There are approximately 2.2 million shares available for issuance under the plan as of December 31, 2006.

Stock Repurchase Program *In* November 1999, the Board of Directors approved, and we implemented, a stock repurchase program under which we are authorized to repurchase up to 5.0 million shares of Common Stock from time to time, primarily using proceeds from the disposition of assets or loan repayments and excess cash flow from operations, but also using borrowings under our credit facilities if we determine that it is advantageous to do so. There is no fixed expiration date to this plan. As of December 31, 2006, we had repurchased a total of approximately 2.3 million shares at an aggregate cost of approximately $40.7 million. We have not repurchased any shares under the stock repurchase program since November 2000, however, we issued approximately 1.2 million shares of treasury stock during 2005 (See Note 10 to the Company s Consolidated Financial Statements).

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 2006, management reviewed and evaluated these critical accounting estimates and believes they are appropriate. Our significant accounting policies are described in Note 3 to the Company s Consolidated Financial Statements. The following is a summary of accounting policies that require more significant management estimates and judgments:

Allowance for Loan Losses *Our* allowance for estimated loan losses represents our estimate of probable credit losses inherent in the loan portfolio as of the balance sheet date. While we have experienced minimal actual losses on our loans, we believe that it is prudent to reflect an allowance for loan losses based upon our assessment of general market conditions, our internal risk management policies and credit risk rating system, historical industry loss experience, our assessment of the likelihood of delinquencies or defaults and the value of the collateral underlying our loans. Determining the adequacy of the allowance for loan losses is complex and requires significant judgment by management about the effect of matters that are inherently uncertain. The allowance for loan losses was $52.2 million and $46.9 million on December 31, 2006 and 2005, respectively.

We assess our non-performing loans and watch list assets for individual impairment each reporting period. Impairment is indicated when it is deemed probable that we will be unable to collect all amounts due according to the contractual terms of the loan. Our loans are primarily evaluated based on the estimated fair value of the underlying collateral. We determine the fair value of the collateral using one or more valuation techniques, such as property appraisals, comparable sales, discounted cash flow analyses or replacement cost comparisons. Determination of the fair value of collateral, by any of these techniques, requires significant judgment and discretion by management. If we determine that a loan is impaired, either a specific reserve is created or the loan, or a portion thereof, is charged-off through the allowance for loan losses. During 2006, our loan impairment testing resulted in charge-offs of $8.7 million through the allowance for loan losses. There were no loan impairments recognized during 2005 or 2004.

Long-Lived Assets Impairment Test *We* test our long-lived assets for impairment, which are primarily our CTL assets to be held and used , whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment exists when the carrying amount of the long-lived asset exceeds its fair value. For this test, recoverability is determined by the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. The determination of projected cash flows and eventual sales prices of our long-lived assets requires significant judgment by management about matters that are inherently uncertain.

Goodwill Impairment Test *Goodwill* is not amortized, instead it is tested for impairment at least annually or more frequently if events or circumstances indicate that there may be justification for conducting an interim test. There are two parts to the goodwill impairment analysis. The first part of the test is a comparison of the fair value of the reporting unit containing goodwill to its carrying amount including goodwill. If the fair value is less than the carrying value, then the second part of the test is needed to measure the amount of potential goodwill impairment. The second test requires the fair value of the reporting unit to be allocated to all the assets and liabilities of the reporting unit as if the reporting unit had been acquired in a business combination at the date of the impairment test. The excess of the fair value of the reporting unit over the fair value of assets less liabilities is the implied value of goodwill and is used to determine the amount of impairment. There were no impairment charges recognized during 2006, 2005 or 2004 related to goodwill.

Fair Value of Derivatives *We* have historically used derivatives to help manage our interest rate and foreign exchange risks. Derivatives are recorded on the balance sheet at fair value as assets or liabilities. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing unrelated parties, other than in a forced or liquidation sale. The degree of management judgment involved in determining the fair value of a financial instrument depends on the availability and reliability of relevant market data, such as quoted market prices. Financial instruments that are actively traded and have quoted market prices or readily available market data require minimal judgment in determining fair value. When observable market prices and data are not readily available or do not exist, we estimate the fair value using market data and model-based interpolations using standard models that are widely accepted within the industry. Market data includes prices of instruments with similar maturities and characteristics, duration, interest rate yield curves and measures of volatility. Derivative assets were $9.3 million and derivatives liabilities were $23.3 million on December 31, 2006, compared with derivative assets of $13.2 million and derivatives liabilities of $32.1 million on December 31, 2005.

Consolidation *Variable Interest Entities* We are a party to a number of off balance sheet joint ventures and other unconsolidated arrangements with varying structures. We consolidate certain entities in which we own less than a 100% equity interest if we determine that we have a controlling interest or are the primary beneficiary of a variable interest entity (VIE) as defined in FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities (an interpretation of ARB No. 51) (FIN 46R). There is a significant amount of judgment required in interpreting the provisions of FIN 46R and applying them to specific transactions. In order to determine if an entity is considered a VIE, we first

perform a qualitative analysis, which requires certain subjective decisions regarding our assessment, including, but not limited to, the nature and structure of the entity, the variability of the economic interests that the entity passes along to its interest holders, the rights of the parties and the purpose of the arrangement. An iterative quantitative analysis is required if our qualitative analysis proves inconclusive as to whether the entity is a VIE or we are the primary beneficiary and consolidation is required.

New Accounting Standards

In December 2006, the FASB released FSP EITF 00-19-2 (EITF 00-19-2), Accounting for Registration Payment Arrangements. EITF 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment agreement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement 5, Accounting for Contingencies. An entity may issue financial instruments that are subject to a registration payment arrangement. Under such arrangement, the issuer agrees to endeavor: (i) to file a registration statement for the resale of specified financial instruments and/or for the resale of equity shares that are issuable upon exercise or conversion of those financial instruments and, (ii) for the registration statement to be declared effective by the SEC within a specified grace period. In some registration payment arrangements, the issuer may be required to endeavor to maintain the effectiveness of the registration statement for a specified period of time. The Company will adopt EITF 00-19-2 on January 1, 2007, as required and is still evaluating the impact on the Company s Consolidated Financial Statements.

In September 2006, the SEC released SAB 108 (SAB 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. Through SAB 108, the SEC has established an approach that requires quantification of financial statement errors based on the effects of the error on each of the company s financial statements and the related financial statement disclosures. This model is known as the dual approach because it requires quantification of errors under both the iron-curtain and the roll-over methods. The roll-over method focuses primarily on the impact of a misstatement on the income statement but can lead to the accumulation of misstatements in the balance sheet. The iron-curtain method focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior years on the income statement in the period of correction. Companies can either restate prior periods or use the cumulative effect adjustment method when adopting SAB 108. SAB 108 is not an official rule and therefore there is no explicit effective date, however, for companies not electing to restate prior periods, it must be adopted for annual financial statements covering fiscal years ending after November 15, 2006. We adopted SAB 108 for the fiscal year ended December 31, 2006, as required, and it did not have a significant impact on the Company s Consolidated Financial Statements.

In September 2006, the FASB released Statement of Financial Accounting Standards No. 157 (SFAS No. 157), Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 clarifies the exchange price notion in the fair value definition to mean the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). This statement also clarifies that market participant assumptions should include assumptions about risk, should include assumptions about the effect of a restriction on the sale or use of an asset and should reflect its nonperformance risk (the risk that the obligation will not be fulfilled). Nonperformance risk should include the reporting entity s credit risk. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We will adopt SFAS No. 157 on January 1, 2008, as required, and management is still evaluating the impact on the Company s Consolidated Financial Statements.

In July 2006, the FASB released Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. A tax benefit from an uncertain position may be recognized only if it is more likely than not that the position is sustainable, based on its technical merits. The tax benefit is the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. FIN 48 is effective for fiscal years beginning after December 15, 2006. We will adopt FIN 48 on January 1, 2007, as required, and do not believe it will have a significant impact on the Company s Consolidated Financial Statements.

In March 2006, the FASB released Statement of Financial Accounting Standards No. 156 (SFAS No. 156), Accounting for Servicing of Financial Assets. SFAS No. 156 was issued to simplify the accounting for servicing rights and to reduce the volatility that results from the use of different measurement attributes for servicing rights and the related financial instruments used to economically hedge risks associated with those servicing rights. SFAS No. 156 modifies the accounting for servicing rights by: (1) clarifying when a separate asset or servicing liability should be recognized; (2) requiring a separately recognized servicing asset or servicing liability to be measured at fair value; (3) allowing entities to subsequently measure servicing rights either at fair value or under the amortization method for each class of a separately recognized servicing asset or servicing liability; (4) permitting a one-time reclassification of available-for-sale securities to trading securities; and (5) requiring separate presentation of servicing assets and servicing liabilities subsequently measured at fair value. SFAS No. 156 is effective in annual periods beginning after September 15, 2006. We will adopt SFAS No. 156 on January 1, 2007, as required, and management is still evaluating the impact on the Company s Consolidated Financial Statements.

In February 2006, the FASB released Statement of Financial Accounting Standards No. 155 (SFAS No. 155), Accounting for Certain Hybrid Financial Instruments. The key provisions of SFAS No. 155 include: (1) a broad fair value measurement option for certain hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation; (2) clarification that only the simplest separations of interest payments and principal payments qualify for the exception afforded to interest-only strips (IOs) and principal-only strips (POs) from derivative accounting under paragraph 14 of SFAS No. 133 (thereby narrowing such exception); (3) a requirement that beneficial interests in securitized financial assets be analyzed to determine whether they are freestanding derivatives or whether they are hybrid instruments that contain embedded derivatives requiring bifurcation; (4) clarification that concentrations of credit risk in the form of subordination are not embedded derivatives; and (5) elimination of the prohibition on a qualifying special-purpose entity (QSPE) holding passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. SFAS No. 155 is effective for annual periods beginning after September 15, 2006. We will adopt SFAS No. 155 on January 1, 2007, as required, and are still evaluating the impact on the Company s Consolidated Financial Statements.

In June 2005, the Emerging Issues Task Force reached a consensus on EITF 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. EITF 04-5 states that a sole general partner is presumed to control a limited partnership (or similar entity) and should consolidate the limited partnership unless one of the following two conditions exist: (1) the limited partners possess substantive kick-out rights, or (2) the limited partners possess substantive participating rights. A kick-out right is defined as the substantive ability to remove the sole general partner without cause or otherwise dissolve (liquidate) the limited partnership. Substantive participating rights are when the limited partners have the substantive right to participate in certain financial and operating decisions of the limited partnership that are made in the ordinary course of business. The consensus guidance in EITF 04-5 is effective for all agreements entered into or modified after June 29, 2005. For all pre-existing agreements that are not modified, the consensus is effective as of the beginning of the first fiscal reporting period beginning after December 15, 2005. We adopted the provisions of this statement as required and it did not have a significant impact on the Company s Consolidated Financial Statements.

In May 2005, the FASB released Statement of Financial Accounting Standards No. 154 (SFAS No. 154), Accounting Changes and Error Corrections. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to newly adopted accounting principles. The correction of an error in previously issued financial statements is not an accounting change. However, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively, unless deemed immaterial. SFAS No. 154 is effective for fiscal years beginning after December 31, 2005. We adopted the provisions of this statement, as required, on January 1, 2006, and it did not have a significant impact on the Company s Consolidated Financial Statements.

In March 2005, the FASB released FASB Interpretation No. 47 (FIN 47), Accounting for Conditional Asset Retirement Obligations. FIN 47 clarifies that the term conditional asset retirement obligation as used in Statement of Financial Accounting Standards No. 143 (SFAS No. 143), Accounting for Asset Retirement Obligations , as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Thus, the timing and/or method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred generally upon acquisition, construction, or development and/or through the normal operation of the asset. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. SFAS No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. We adopted FIN 47 during 2005 and it did not have a significant impact on the Company s Consolidated Financial Statements.

In December 2004, the FASB released Statement of Financial Accounting Standards No. 153 (SFAS No. 153), Accounting for Non-monetary Transactions. SFAS No. 153 requires non-monetary exchanges to be accounted for at fair value, recognizing any gain or loss, if the transactions meet a commercial-substance criterion and fair value is determinable. SFAS No. 153 is effective for non-monetary transactions occurring in fiscal years beginning after September 15, 2005. We adopted the provisions of this statement, as required, on January 1, 2006, and it did not have a significant impact on the Company s Consolidated Financial Statements.

In December 2004, the FASB released Statement of Financial Accounting Standards No. 123R (SFAS No. 123R), Share-Based Payment. This standard requires issuers to measure the cost of equity-based service awards based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award or the requisite service period (typically the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. The Company will initially measure the cost of liability based service awards based on their current fair value. The fair value of that award will be remeasured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation cost over that period. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments. If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. Companies can comply with SFAS No. 123R using one of three transition methods: (1) the modified prospective method; (2) a variation of the modified prospective method; or (3) the modified retrospective method. The provisions of this statement are effective for interim and annual periods beginning after June 15, 2005. We adopted SFAS No. 123R, as required, on January 1, 2006, and it did not have a significant financial impact on the Company s Consolidated Financial Statements.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

Market Risks

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. In pursuing our business plan, the primary market risk to which we are exposed is interest rate risk. Consistent with our liability management objectives, we have implemented an interest rate risk management policy based on match funding, with the objective that variable-rate assets be primarily financed by variable-rate liabilities and fixed-rate assets be primarily financed by fixed-rate liabilities. We also seek to match fund our foreign denominated assets with foreign denominated debt so that changes in foreign currency exchange rates will have a minimal impact on earnings.

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

Approximately half of our loan investments are subject to significant prepayment protection in the form of lock-outs, yield maintenance provisions or other prepayment premiums which provide substantial yield protection to us. Those assets generally not subject to prepayment penalties include: (1) variable-rate loans based on LIBOR, originated or acquired at par, which would not result in any gain or loss upon repayment; and (2) discount loans and loan participations acquired at discounts to face values, which would result in gains upon repayment. Further, while we generally seek to enter into loan investments which provide for substantial prepayment protection, in the event of declining interest rates, we could receive such prepayments and may not be able to reinvest such proceeds at favorable returns. Such prepayments could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

Interest Rate Risks

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

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond the control of the Company. As more fully discussed in Note 11 to the Company s Consolidated Financial Statements, we employ match funding-based financing and hedging strategies to limit the effects of changes in interest rates on our operations, including engaging in interest rate caps, floors, swaps and other interest rate-related derivative contracts. These strategies are specifically designed to reduce our exposure, on specific transactions or on a portfolio basis, to changes in cash flows as a result of interest rate movements in the market. We do not enter into derivative contracts for speculative purposes or as a hedge against changes in credit risk of our borrowers or of the Company itself.

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

Interest rate swaps are agreements in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which swaps are based is not exchanged. Our swaps are either pay fixed swaps involving the exchange of variable-rate interest payments from the counterparty for fixed interest payments from us or pay floating swaps involving the exchange of fixed-rate interest payments from the counterparty for variable-rate interest payments from us, which mitigates the risk of changes in fair value of our fixed-rate debt obligations.

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

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

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

The following table quantifies the potential changes in net investment income and net fair value of financial instruments should interest rates increase or decrease 100 or 200 basis points, assuming no change in the shape of the yield curve (i.e., relative interest rates). Net investment income is calculated as revenue from loans and other lending investments and operating leases and equity in earnings of joint ventures (as of December 31, 2006), less interest expense, operating costs on CTL assets and loss on early extinguishment of debt, for the year ended December 31, 2006. Net fair value of financial instruments is calculated as the sum of the value of derivative instruments and the present value of cash in-flows generated from interest-earning assets, less cash out-flows in respect to interest-bearing liabilities as of December 31, 2006. The cash flows associated with our assets are calculated based on management s best estimate of expected payments for each loan based on loan characteristics such as loan-to-value ratio, interest rate, credit history, prepayment penalty, term and collateral type. Many of our loans are protected from prepayment as a result of prepayment penalties, yield maintenance fees or contractual terms which prohibit prepayments during specified periods. However, for those loans where prepayments are not currently precluded by contract, declines in interest rates may increase prepayment speeds. The base interest rate scenario assumes the one-month LIBOR rate of 5.32% as of December 31, 2006. Actual results could differ significantly from those estimated in the table.

Net fair value of financial instruments in the table below does not include CTL assets (approximately 30% of total assets) and certain forms of corporate finance investments but includes debt associated with the financing of these assets. Therefore, the table below is not a meaningful representation of the estimated percentage change in net fair value of financial instruments with change in interest rates.

The estimated percentage change in net investment income does include operating lease income from CTL assets and therefore is a more accurate representation of the impact of changes in interest rates on net investment income.

Estimated Percentage Change In

Change in Interest Rates	**Net Investment Income**	**Net Fair Value of Financial Instruments**
-200 Basis Points	(0.3)%	(5.5)%
-100 Basis Points	(0.4)%	(2.2)%
Base Interest Rate	0.0 %	0.0 %
+100 Basis Points	1.5 %	1.3 %
+200 Basis Points	3.0 %	1.7 %

Item 8. **Financial Statements and Supplemental Data**

Index to Financial Statements

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Financial statements of 19 unconsolidated entities accounted for under the equity method have been omitted because the Company s proportionate share of the income from continuing operations before income taxes is less than 20% of the respective consolidated amount and the investments in and advances to each company are less than 20% of consolidated total assets.

Management s Report on Internal Control over Financial Reporting

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

Based on the Company s evaluation under the framework in *Internal Control Integrated Framework*, management has concluded that its internal control over financial reporting was effective as of December 31, 2006. Additionally, based upon management s assessment, the Company has determined that there were no material weaknesses in its internal control over financial reporting as of December 31, 2006.

Management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2006, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of iStar Financial Inc. s consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedules

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of iStar Financial Inc. and its subsidiaries (collectively, the Company) at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers LLP

New York, New York

February 28, 2007

iStar Financial Inc.
Consolidated Balance Sheets
(In thousands, except per share data)

	As of December 31, 2006	2005
ASSETS		
Loans and other lending investments, net	$ 6,799,850	$ 4,661,915
Corporate tenant lease assets, net	3,084,794	3,115,361
Other investments	407,617	238,294
Investments in joint ventures	382,030	202,128
Assets held for sale	9,398	
Cash and cash equivalents	105,951	115,370
Restricted cash	28,986	28,804
Accrued interest and operating lease income receivable	72,954	32,166
Deferred operating lease income receivable	79,498	76,874
Deferred expenses and other assets	71,181	52,181
Goodwill	17,736	9,203
Total assets	$ 11,059,995	$ 8,532,296
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 200,957	$ 192,522
Debt obligations	7,833,437	5,859,592
Total liabilities	8,034,394	6,052,114
Commitments and contingencies		
Minority interest in consolidated entities	38,738	33,511
Shareholders equity:		
Series D Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 4,000 shares issued and outstanding at December 31, 2006 and 2005	4	4
Series E Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 5,600 shares issued and outstanding at December 31, 2006 and 2005	6	6
Series F Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 4,000 shares issued and outstanding at December 31, 2006 and 2005	4	4
Series G Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 3,200 shares issued and outstanding at December 31, 2006 and 2005	3	3
Series I Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 5,000 shares issued and outstanding at December 31, 2006 and 2005	5	5
High Performance Units	9,800	8,797
Common Stock, $0.001 par value, 200,000 shares authorized, 126,565 and 113,209 shares issued and outstanding at December 31, 2006 and 2005, respectively	127	113
Options	1,696	6,450
Additional paid-in capital	3,464,229	2,886,434
Retained earnings (deficit)	(479,695)	(442,758)
Accumulated other comprehensive income (losses) (See Note 14)	16,956	13,885
Treasury stock (at cost)	(26,272)	(26,272)
Total shareholders equity	2,986,863	2,446,671
Total liabilities and shareholders equity	$ 11,059,995	$ 8,532,296

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

iStar Financial Inc.
Consolidated Statements of Operations
(In thousands, except per share data)

	For the Years Ended December 31, 2006	2005	2004
Revenue:			
Interest income	$ 575,598	$ 406,668	$ 351,972
Operating lease income	328,868	301,623	272,867
Other income	75,727	81,440	56,063
Total revenue	980,193	789,731	680,902
Costs and expenses:			
Interest expense	429,807	313,053	232,728
Operating costs corporate tenant lease assets	24,891	21,809	21,492
Depreciation and amortization	76,967	70,442	61,825
General and administrative(1)	96,432	63,987	157,588
Provision for loan losses	14,000	2,250	9,000
Loss on early extinguishment of debt		46,004	13,091
Total costs and expenses	642,097	517,545	495,724
Income before equity in earnings from joint ventures, minority interest and other items	338,096	272,186	185,178
Equity in earnings from joint ventures	12,391	3,016	2,909
Minority interest in consolidated entities	(1,207)	(980)	(716)
Income from continuing operations	349,280	274,222	187,371
Income from discontinued operations	1,320	7,337	29,701
Gain from discontinued operations, net	24,227	6,354	43,375
Net income	374,827	287,913	260,447
Preferred dividend requirements	(42,320)	(42,320)	(51,340)
Net income allocable to common shareholders and HPU holders(2)	$ 332,507	$ 245,593	$ 209,107
Per common share data(3):			
Income from continuing operations per common share:			
Basic	$ 2.60	$ 2.01	$ 1.21
Diluted	$ 2.58	$ 1.99	$ 1.19
Net income per common share:			
Basic	$ 2.82	$ 2.13	$ 1.87
Diluted	$ 2.79	$ 2.11	$ 1.83
Weighted average number of common shares basic	115,023	112,513	110,205
Weighted average number of common shares diluted	116,219	113,703	112,464
Per HPU share data(3):			
Income from continuing operations per HPU share:			
Basic	$ 492.80	$ 380.40	$ 219.40
Diluted	$ 488.07	$ 376.60	$ 215.00
Net income per HPU share:			
Basic	$ 533.80	$ 402.87	$ 337.30
Diluted	$ 528.67	$ 398.87	$ 330.60
Weighted average number of HPU shares basic	15	15	10
Weighted average number of HPU shares diluted	15	15	10

Explanatory Notes:

(1) General and administrative costs include $11,435, $2,758 and $109,676 of stock-based compensation expense for the years ended December 31, 2006, 2005 and 2004, respectively.

(2) HPU holders are Company employees who purchased high performance common stock units under the Company s High Performance Unit Program (see Note 12).

(3) See Note 13 Earnings Per Share for additional information.

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

iStar Financial Inc.
Consolidated Statements of Changes in Shareholders Equity
(In thousands)

	Series B Preferred Stock	Series C Preferred Stock	Series D Preferred Stock	Series E Preferred Stock	Series F Preferred Stock	Series G Preferred Stock	Series H Preferred Stock	Series I Preferred Stock	HPUs	Common Stock at Par	Warrants & Options	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Losses)	Treasury Stock
	$2	$1	$4	$6	$4	$3	$	$	$5,131	$107	$20,695	$2,678,772	$(242,449)	$1,008	$(48,056
ons										4	(14,237)	41,501			
m ge							3	5				202,743			
m	(2)	(1)					(3)					(155,959)			
ed													(51,340)		
n													(310,744)		
													(5,011)		
												53,351			
ce									2,697						
k												17,719			
m												1,935			
he													260,447		
er														(3,094)	
	$	$	$4	$6	$4	$3	$	$5	$7,828	$111	$6,458	$2,840,062	$(349,097)	$(2,086)	$(48,056

iStar Financial Inc.

Consolidated Statements of Changes in Shareholders Equity (Continued)

(In thousands)

	Series B Preferred Stock	Series C Preferred Stock	Series D Preferred Stock	Series E Preferred Stock	Series F Preferred Stock	Series G Preferred Stock	Series H Preferred Stock	Series I Preferred Stock	HPUs	Common Stock at Par	Warrants & Options	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Losses)	Treasury Stock
	$	$	$4	$6	$4	$3	$	$5	$7,828	$111	$6,458	$2,840,062	$(349,097)	$(2,086)	$(48,056
ons										1	(8)	1,762			
ed													(42,320)		
on													(330,998)		
													(8,256)		
												1,022			
										1		26,169			21,784
ce									969						
ck												17,419			
he													287,913		
er														15,971	
	$	$	$4	$6	$4	$3	$	$5	$8,797	$113	$6,450	$2,886,434	$(442,758)	$13,885	$(26,272
ons											(4,754)	7,332			
m										13		541,419			
ed													(42,320)		
on													(359,643)		
ed													(1,122)		
													(8,679)		
												4,150			
									(3,569)			2,339			
ion									4,572						
ck										1		22,555			
he													374,827		

er

												3,071		
$	$	$4	$6	$4	$3	$	$5	$9,800	$127	$1,696	$3,464,229	$(479,695)	$16,956	$(26,27

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

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iStar Financial Inc.
Consolidated Statements of Cash Flows
(In thousands)

	For the Years Ended December 31, 2006	2005	2004
Cash flows from operating activities:			
Net income	$ 374,827	$ 287,913	$ 260,447
Adjustments to reconcile net income to cash flows from operating activities:			
Minority interest in consolidated entities	545	980	716
Non-cash expense for stock-based compensation	11,598	3,028	54,403
Depreciation, depletion and amortization	83,967	76,275	68,483
Amortization of deferred financing costs	22,444	30,148	30,189
Amortization of discounts/premiums, deferred interest and costs on lending investments	(72,635)	(67,343)	(59,466)
Discounts, loan fees and deferred interest received	65,861	119,477	40,373
Equity in earnings from joint ventures	(12,391)	(3,016)	(2,909)
Distributions from operations of unconsolidated entities	16,048	6,672	5,840
Loss on early extinguishment of debt, net of cash paid		38,503	3,375
Deferred operating lease income receivable	(10,413)	(14,855)	(18,075)
Gain from discontinued operations, net and impairments	(14,565)	(6,354)	(43,375)
Provision for loan losses	14,000	2,250	9,000
Provision for deferred tax assets/liabilities, net	(1,777)		
Changes in assets and liabilities:			
Changes in accrued interest and operating lease income receivable	(41,226)	(4,651)	(1,018)
Changes in deferred expenses and other assets	(37,808)	7,046	21,802
Changes in accounts payable, accrued expenses and other liabilities	35,964	39,846	(16,219)
Cash flows from operating activities	434,439	515,919	353,566
Cash flows from investing activities:			
New investment originations	(3,534,155)	(3,140,051)	(2,058,732)
Cash paid for acquisitions of Falcon Financial and AutoStar minority interests	(31,720)	(113,696)	
Add-on fundings under existing loan commitments	(770,542)	(349,200)	(255,321)
Net proceeds from sales of corporate tenant lease assets	109,394	36,915	279,575
Repayments of and principal collections on loans and other lending investments	1,964,599	2,364,293	1,590,812
Net investments in and advances to unconsolidated joint ventures	(166,634)	(152,088)	
Contributions to unconsolidated entities	(23,847)	(1,685)	
Distributions from unconsolidated entities	2,743	5,309	
Capital improvements for build-to-suit facilities	(60,757)	(34,441)	
Capital improvement projects on corporate tenant lease assets	(9,440)	(8,982)	(7,124)
Other capital expenditures on corporate tenant lease assets	(12,116)	(12,495)	(14,846)
Cash flows from investing activities	(2,532,475)	(1,406,121)	(465,636)
Cash flows from financing activities:			
Borrowings under secured revolving credit facilities	556,073	1,176,000	2,680,416
Repayments under secured revolving credit facilities	(556,073)	(1,254,586)	(3,298,421)
Borrowings under unsecured revolving credit facilities	6,950,567	5,182,000	3,945,500
Repayments under unsecured revolving credit facilities	(7,283,051)	(4,780,000)	(3,235,500)
Borrowings under term loans	182,255	60,705	160,181
Repayments under term loans	(30,713)	(342,627)	(403,231)
Borrowings under unsecured bond offerings	2,172,640	2,056,777	1,032,442
Repayments under unsecured notes	(50,000)	(47)	(110,000)
Repayments under secured notes		(932,914)	(378,400)
Borrowings under foreign lines of credit	146,950		
Repayments under foreign lines of credit	(155,181)		
Borrowings under other debt obligations		97,963	
Repayments under other debt obligations			(10,148)
Contributions from minority interest partners	21,846	11,684	3,340
Changes in restricted cash held in connection with debt obligations	(182)	10,764	18,757
Payments for deferred financing costs	(18,973)	(4,530)	(13,131)
Distributions to minority interest partners	(2,851)	(2,599)	(1,054)
Net proceeds from preferred offering/exchange			203,048
Redemption of preferred stock			(165,000)
Common dividends paid	(360,765)	(330,998)	(310,744)
Preferred dividends paid	(42,320)	(42,320)	(41,908)
HPU dividends paid	(8,679)	(8,256)	(5,011)
HPUs issued	1,033	969	2,697
Net proceeds from equity offering	541,432		
Contribution from significant shareholder			1,935
Proceeds from exercise of options and issuance of DRIP/Stock purchase shares	24,609	19,165	44,634

Cash flows from financing activities	2,088,617	917,150	120,402
Changes in cash and cash equivalents	(9,419)	26,948	8,332
Cash and cash equivalents at beginning of period	115,370	88,422	80,090
Cash and cash equivalents at end of period	$ 105,951	$ 115,370	$ 88,422
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest, net of amount capitalized	$ 376,977	$ 262,283	$ 191,205

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

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 1 Business and Organization

Business iStar Financial Inc. (the Company) is a leading publicly-traded finance company focused on the commercial real estate industry. The Company provides custom-tailored financing to high-end private and corporate owners of real estate, including senior and mezzanine real estate debt, senior and mezzanine corporate capital, corporate net lease financing and equity. The Company, which is taxed as a real estate investment trust (REIT), seeks to deliver strong dividends and superior risk-adjusted returns on equity to shareholders by providing innovative and value added financing solutions to its customers. The Company s two primary lines of business are lending and corporate tenant leasing.

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

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

Organization The Company began its business in 1993 through private investment funds formed to capitalize on inefficiencies in the real estate finance market. In March 1998, these funds contributed their assets to the Company s predecessor in exchange for a controlling interest in that company. The Company later acquired its former external advisor in exchange for shares of the Company s common stock (Common Stock) and converted its organizational form to a Maryland corporation. As part of the conversion to a Maryland corporation, the Company replaced its former dual class common share structure with a single class of Common Stock. The Company s Common Stock began trading on the New York Stock Exchange on November 4, 1999. Prior to this date, the Company s Common Stock was traded on the American Stock Exchange. Since that time, the Company has grown through the origination of new lending and leasing transactions, as well as through corporate acquisitions, including the acquisition in 1999 of TriNet Corporate Realty Trust, Inc. (TriNet), the acquisition in 2005 of Falcon Financial Investment Trust and the acquisition in 2005 of a significant non-controlling interest in Oak Hill Advisors LP and affiliates.

Note 2 Basis of Presentation

The accompanying audited Consolidated Financial Statements have been prepared in conformity with generally accepted accounting principles in the United States of America (GAAP) for complete financial statements. The Consolidated Financial Statements include the accounts of the Company, its qualified REIT subsidiaries, its majority-owned and controlled partnerships and other entities that are consolidated under the provisions of FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB 51 (FIN 46R) (see Note 6).

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 2 Basis of Presentation (Continued)

Certain investments in joint ventures or other entities which the Company does not control are accounted for under the equity method (see Note 6). The Company also uses the cost method when its interest is such that it has no significant influence over operating and financial policies. Under the cost method, the Company records the initial investment at cost. Thereafter, income is recognized only when the Company receives distributions from earnings subsequent to the acquisition or when the Company sells its interest in the venture (See Note 7). All significant intercompany balances and transactions have been eliminated in consolidation.

Note 3 Summary of Significant Accounting Policies

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

Corporate tenant lease assets and depreciation CTL assets are generally recorded at cost less accumulated depreciation. Certain improvements and replacements are capitalized when they extend the useful life, increase capacity or improve the efficiency of the asset. Repairs and maintenance items are expensed as incurred. Depreciation is computed using the straight-line method of cost recovery over the shorter of estimated useful lives or 40 years for facilities, five years for furniture and equipment, the shorter of the remaining lease term or expected life for tenant improvements and the remaining useful life of the facility for facility improvements.

CTL assets to be disposed of are reported at the lower of their carrying amount or estimated fair value less costs to sell and are included in Assets held for sale on the Company s Consolidated Balance Sheets. The Company also periodically reviews long-lived assets to be held and used for an impairment in value whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

Regarding the Company s acquisition of facilities, purchase costs are allocated to the tangible and intangible assets and liabilities acquired based on their estimated fair values. The value of the tangible assets, consisting of land, buildings, building improvements and tenant improvements, is determined as if these assets are vacant, that is, at replacement cost. Intangible assets including the above-market or below-market value of leases, the value of in-place leases and the value of customer relationships are recorded at their relative fair values.

The capitalized above-market (or below-market) lease value is amortized as a reduction of (or, increase to) operating lease income over the remaining non-cancelable term of each lease plus any renewal periods with fixed rental terms that are considered to be below-market. The Company generally engages in sale/leaseback transactions and typically executes leases simultaneously with the purchase of the CTL asset at market-rate rents. Because of this, no above-market or below-market lease value is ascribed to these transactions. The value of customer relationship intangibles are amortized to expense over the initial and renewal terms of the leases, but no amortization period for intangible assets will exceed the remaining depreciable life of the building. In the event that a customer terminates its lease, the unamortized portion

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 3 Summary of Significant Accounting Policies (Continued)

of each intangible, including market rate adjustments, lease origination costs, in-place lease values and customer relationship values, would be charged to expense.

Timber and timberlands Timber and timberlands, including logging roads, are stated at cost less accumulated depletion for timber previously harvested and accumulated road amortization. The Company capitalizes timber and timberland purchases and reforestation costs and other costs associated with the planting and growing of timber, such as site preparation, growing or purchases of seedlings, planting, silviculture, herbicide application and the thinning of tree stands to improve growth. The cost of timber and timberlands typically is allocated between the timber and the land acquired, based on estimated relative fair values.

Timber carrying costs, such as real estate taxes, insect and wildlife control and timberland management fees, are expensed as incurred. Net carrying value of the timber and timberlands is used to compute the gain or loss in connection with timberland sales. Timber and timberlands are included in Other investments on the Company s Consolidated Balance Sheets (see Note 7).

Capitalized interest and project costs The Company capitalizes pre-construction costs essential to the development of property, development costs, construction costs, real estate taxes, insurance and interest costs incurred during the construction periods for qualified build-to-suit projects for corporate tenants. The Company ceases cost capitalization when the property is held available for occupancy upon substantial completion of tenant improvements, but no later than one year from the completion of major construction activity. Capitalized interest was approximately $1.9 million, $0.8 million and $0 for the years ended December 31, 2006, 2005 and 2004.

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

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

Non-cash activity During 2005, in relation to the acquisition of a significant minority interest in Oak Hill (as defined and discussed in further detail in Note 6), the Company issued 1,164,310 shares of Common Stock.

Variable interest entities In accordance with FIN 46R, the Company identifies entities for which control is achieved through means other than through voting rights (a variable interest entity or VIE), and determines when and which business enterprise, if any, should consolidate the VIE. In addition, the Company discloses information pertaining to such entities wherein the Company is the primary beneficiary or other entities wherein the Company has a significant variable interest.

Identified intangible assets and goodwill Upon the acquisition of a business, the Company records intangible assets acquired at their estimated fair values separate and apart from goodwill. The Company determines whether such intangible assets have finite or indefinite lives. As of December 31, 2006, all such intangible assets acquired by the Company have finite lives. The Company amortizes finite lived intangible assets based on the period over which the assets are expected to contribute directly or indirectly to the future cash flows of the business acquired. The Company reviews finite lived intangible assets for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The Company recognizes impairment loss on finite lived intangible assets if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its estimated fair value.

The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. Goodwill is not

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 3 Summary of Significant Accounting Policies (Continued)

amortized but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is done at a level of reporting referred to as a reporting unit. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value.

Fair values for goodwill and other finite lived intangible assets are determined using the market approach, income approach or cost approach, as appropriate.

As of December 31, 2006 and 2005, the Company had $52.0 million and $46.6 million of unamortized finite lived intangible assets primarily related to the acquisition of new CTL facilities, the acquisition of certain partnership interests in AutoStar Realty Operating Partnership, L.P. (AutoStar) and the acquisition of Falcon Financial Investment Trust (Falcon Financial). The total amortization expense for these intangible assets was $3.8 million and $3.1 million for December 31, 2006 and 2005, respectively. The estimated aggregate amortization costs for the years ending December 31, 2007, 2008, 2009, 2010 and 2011 are $5.0 million, $4.8 million, $4.8 million, $4.8 million and $4.4 million, respectively.

As of December 31, 2006 and 2005, the Company had purchase related unamortized intangible assets related to the acquisition of new CTL facilities of $41.4 million and $42.5 million, respectively, which are included in Other investments in the Company s Consolidated Balance Sheets (see Note 5 for further discussion). As of December 31, 2006 and 2005, the Company had purchase related unamortized intangible assets related to the acquisition of the partnership interests in AutoStar and the acquisition of Falcon Financial of $9.4 million and $1.8 million, respectively, which are included in Deferred expenses and other assets on the Company s Consolidated Balance Sheets (see Note 4 and Note 6 for further discussion).

The acquisition of Falcon Financial in 2005 resulted in goodwill of $9.2 million. The acquisition of certain partnership interests in AutoStar during the fourth quarter 2006 resulted in additional goodwill of $8.5 million. As of December 31, 2006, the Company has $17.7 million of goodwill.

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

Loans and other lending investments: Management considers nearly all of its loans and other lending investments to be held-for-investments or held-to-maturity, although a small number of investments may be classified as available-for-sale. The Company reflects held-for-investments or held-to-maturity investments at historical cost adjusted for allowance for loan losses, unamortized acquisition premiums or discounts and unamortized deferred loan fees.

Unrealized gains and losses on available-for-sale investments are included in Accumulated other comprehensive income (losses) on the Company s Consolidated Balance Sheets and are not included in the Company s net income. On occasion, the Company may acquire loans at generally small premiums or discounts based on the credit characteristics of such loans. These premiums or discounts are recognized as yield adjustments over the lives of the related loans. Loan origination or exit fees, as well as direct loan origination costs, are also deferred and recognized over the lives of the related loans as a yield adjustment, if management believes it is probable that such amounts will be received. If loans with premiums, discounts, loan origination or exit fees are prepaid, the Company immediately recognizes the unamortized portion as a decrease or increase in the prepayment gain or loss which is included in Other income on the Company s Consolidated Statements of Operations. Interest income is recognized using the effective interest method applied on a loan-by-loan basis.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

The Company s loans are generally collateralized by real estate assets or are corporate lending arrangements to entities with significant real estate holdings and other corporate assets. While the underlying real estate assets for the corporate lending instruments may not serve as collateral for the Company s investments in all cases, the Company evaluates the underlying real estate assets when estimating loan loss exposure because the Company s loans generally have restrictions as to how much senior and/or secured debt the customer may borrow ahead of the Company s position.

Allowance for doubtful accounts The Company has established policies that require a reserve on the Company s accrued operating lease income receivable balances and on the deferred operating lease

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 3 Summary of Significant Accounting Policies (Continued)

income receivable balances. The reserve covers asset specific problems (e.g., bankruptcy) as they arise, as well as a portfolio reserve based on management s evaluation of the credit risks associated with these receivables.

Derivative instruments and hedging activity The Company recognizes all derivatives as either assets or liabilities in the 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 or 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 fair value hedges, both the effective and ineffective portions of the change in the fair value of the derivative, along with the change in fair value on the hedged item that is attributable to the hedged risk, are reported in earnings in Other income on the Company s Consolidated Statements of Operations. If a fair value hedge designation is removed prior to maturity, previous adjustments to the carrying value of the hedged item are recognized in earnings to match the earnings recognition pattern of the hedged item.

The effective portion of the change in fair value of a derivative that is designated as a cash flow hedge is reported in Accumulated other comprehensive income on the Company s Consolidated Balance Sheets and is recognized on the same line in the Company s Consolidated Statements of Operations as the hedged item. The ineffective portion of a change in fair value of a cash flow hedge is reported in Other income on the Company s Consolidated Statements of Operations.

For certain types of hedge relationships meeting specific criteria, the shortcut method provides for an assumption of zero ineffectiveness. Under the shortcut method, the periodic assessment of effectiveness is not required, and the entire change in the fair value of the hedging derivative is considered to be effective at achieving offsetting changes in fair values or cash flows of the hedged item. The Company s use of this method is limited to interest rate swaps that hedge certain borrowings.

Derivatives that are not designated as fair value or cash flow hedges are considered economic hedges, with changes in fair value reported in current earnings in Other income on the Company s Consolidated Statements of Operations. The Company does not enter into derivatives for trading purposes.

The Company formally documents all hedging relationships at inception, including its risk management objective and strategy for undertaking the hedge transaction. The hedge instrument and the hedged item are designated at the execution of the hedge instrument or upon re-designation during the life of the hedge. At inception and at least quarterly, the Company also formally assesses whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the hedged items to which they are designated and whether those derivatives may be expected to remain highly effective in future periods through the use of regression testing or dollar offset tests. Hedge effectiveness is assessed and measured under identical time periods. To the extent that hedges qualify, the Company uses the short-cut method to assess effectiveness. Otherwise, the Company utilizes the cumulative hypothetical derivative method to assess and measure effectiveness. In addition, the Company does not exclude any component of the derivative s gain or loss in the assessment of effectiveness.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 3 Summary of Significant Accounting Policies (Continued)

Stock-based compensation During the third quarter of 2002, with retroactive application to the beginning of that year, the Company adopted the fair-value method of accounting for options issued to employees or directors. Accordingly, the Company recognizes a charge equal to the fair value of these options at the date of grant multiplied by the number of options issued. This charge is amortized over the related remaining vesting terms to individuals as additional compensation.

For restricted stock awards, the Company measures compensation costs as of the date of grant and expenses such amounts against earnings, either at the grant date (if no vesting period exists) or ratably over the respective vesting/service period.

Disposal of long-lived assets The Company presents current operations prior to the disposition of CTL assets and prior period results of such operations in discontinued operations on the Company s Consolidated Statements of Operations.

Depletion Depletion relates to the Company s investment in timberland assets. Assumptions and estimates are used in the recording of depletion. An annual depletion rate for each timberland investment is established by dividing book cost of timber by estimated standing merchantable inventory. Changes in the assumptions and/or estimations used in these calculations may affect the Company s results, in particular depletion costs. Factors that can impact timber volume include weather changes, losses due to natural causes, differences in actual versus estimated growth rates and changes in the age when timber is considered merchantable.

Income taxes The Company is subject to federal income taxation at corporate rates on its REIT taxable income; however, the Company is allowed a deduction for the amount of dividends paid to its shareholders, thereby subjecting the distributed net income of the Company to taxation at the shareholder level only. In addition, the Company is allowed several other deductions in computing its REIT taxable income, including non-cash items such as depreciation expense. These deductions allow the Company to shelter a portion of its operating cash flow from its dividend payout requirement under federal tax laws. The Company intends to operate in a manner consistent with and to elect to be treated as a REIT for tax purposes.

The Company can participate in certain activities from which it was previously precluded in order to maintain its qualification as a REIT, as long as these activities are conducted in entities which elect to be treated as taxable subsidiaries under the Code, subject to certain limitations. As such, the Company, through its taxable REIT subsidiaries (TRSs), is engaged in various real estate related opportunities, including but not limited to: (1) managing corporate credit-oriented investment strategies; (2) certain activities related to the purchase and sale of timber and timberlands; and (3) servicing certain loan portfolios. The Company will consider other investments through TRS entities if suitable opportunities arise. The Company s TRS entities are not consolidated for federal income tax purposes and are taxed as corporations. For financial reporting purposes, current and deferred taxes are provided for in the portion of earnings recognized by the Company with respect to its interest in TRS entities and are included in General and administrative on the Company s Consolidated Statements of Operations. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as operating loss and tax credit carryforwards. The tax effects of our temporary differences and carryforwards are recorded as deferred tax assets and deferred tax liabilities, included in Deferred expenses and other assets and Accounts payable, accrued expenses and other liabilities , respectively, on the Company s Consolidated Balance Sheets. Such amounts are not material to the Company s Consolidated Financial

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 3 Summary of Significant Accounting Policies (Continued)

Statements. Accordingly, except for the Company s taxable REIT subsidiaries, no current or deferred federal taxes are provided for in the Consolidated Financial Statements.

Earnings per common share In accordance with Emerging Issues Task Force 03-6, (EITF 03-6), Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share, the Company presents both basic and diluted earnings per share (EPS) for common shareholders and HPU holders. EITF 03-6 must be utilized in calculating earnings per share by a company that has issued securities other than common stock that contractually entitles 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) would be computed 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.

Reclassifications Certain prior year amounts have been reclassified in the Consolidated Financial Statements and the related notes to conform to the 2006 presentation.

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

New accounting standards

In December 2006, the FASB released FSP EITF 00-19-2 (EITF 00-19-2), Accounting for Registration Payment Arrangements. EITF 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment agreement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement 5, Accounting for Contingencies. An entity may issue financial instruments that are subject to a registration payment arrangement. Under such arrangement, the issuer agrees to endeavor: (i) to file a registration statement for the resale of specified financial instruments and/or for the resale of equity shares that are issuable upon exercise or conversion of those financial instruments and, (ii) for the registration statement to be declared effective by the SEC within a specified grace period. In some registration payment arrangements, the issuer may be required to endeavor to maintain the effectiveness of the registration statement for a specified period of time. The Company will adopt EITF 00-19-2 on January 1, 2007, as required and is still evaluating the impact on the Company s Consolidated Financial Statements.

In September 2006, the SEC released SAB 108 (SAB 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. Through SAB 108, the SEC has established an approach that requires quantification of financial statement errors based on the effects of the error on each of the company s financial statements and the related financial statement disclosures. This model is known as the dual approach because it requires quantification of errors under both the iron-curtain and the roll-over methods. The roll-over method focuses primarily on

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 3 Summary of Significant Accounting Policies (Continued)

the impact of a misstatement on the income statement but can lead to the accumulation of misstatements in the balance sheet. The iron-curtain method focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior years on the income statement in the period of correction. Companies can either restate prior periods or use the cumulative effect adjustment method when adopting SAB 108. SAB 108 is not an official rule and therefore there is no explicit effective date, however, for companies not electing to restate prior periods, it must be adopted for annual financial statements covering fiscal years ending after November 15, 2006. The Company adopted SAB 108 for the fiscal year ended December 31, 2006, as required, and it did not have a significant impact on the Company s Consolidated Financial Statements.

In September 2006, the FASB released Statement of Financial Accounting Standards No. 157 (SFAS No. 157), Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 clarifies the exchange price notion in the fair value definition to mean the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). This statement also clarifies that market participant assumptions should include assumptions about risk, should include assumptions about the effect of a restriction on the sale or use of an asset and should reflect its nonperformance risk (the risk that the obligation will not be fulfilled). Nonperformance risk should include the reporting entity s credit risk. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company will adopt SFAS No. 157 on January 1, 2008, as required, and management is still evaluating the impact on the Company s Consolidated Financial Statements.

In July 2006, the FASB released Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. A tax benefit from an uncertain position may be recognized only if it is more likely than not that the position is sustainable, based on its technical merits. The tax benefit is the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 on January 1, 2007, as required, and does not believe it will have a significant impact on the Company s Consolidated Financial Statements.

In March 2006, the FASB released Statement of Financial Accounting Standards No. 156 (SFAS No. 156), Accounting for Servicing of Financial Assets. SFAS No. 156 was issued to simplify the accounting for servicing rights and to reduce the volatility that results from the use of different measurement attributes for servicing rights and the related financial instruments used to economically hedge risks associated with those servicing rights. SFAS No. 156 modifies the accounting for servicing rights by: (1) clarifying when a separate asset or servicing liability should be recognized; (2) requiring a separately recognized servicing asset or servicing liability to be measured at fair value; (3) allowing entities to subsequently measure servicing rights either at fair value or under the amortization method for each class of a separately recognized servicing asset or servicing liability; (4) permitting a one-time reclassification of available-for-sale securities to trading securities; and (5) requiring separate presentation of servicing assets and servicing liabilities subsequently measured at fair value. SFAS No. 156 is effective in annual periods beginning after September 15, 2006. The Company will adopt SFAS No. 156 on

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 3 Summary of Significant Accounting Policies (Continued)

January 1, 2007, as required, and management is still evaluating the impact on the Company s Consolidated Financial Statements.

In February 2006, the FASB released Statement of Financial Accounting Standards No. 155 (SFAS No. 155), Accounting for Certain Hybrid Financial Instruments. The key provisions of SFAS No. 155 include: (1) a broad fair value measurement option for certain hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation; (2) clarification that only the simplest separations of interest payments and principal payments qualify for the exception afforded to interest-only strips (IOs) and principal-only strips (POs) from derivative accounting under paragraph 14 of SFAS No. 133 (thereby narrowing such exception); (3) a requirement that beneficial interests in securitized financial assets be analyzed to determine whether they are freestanding derivatives or whether they are hybrid instruments that contain embedded derivatives requiring bifurcation; (4) clarification that concentrations of credit risk in the form of subordination are not embedded derivatives; and (5) elimination of the prohibition on a qualifying special-purpose entity (QSPE) holding passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. SFAS No. 155 is effective for annual periods beginning after September 15, 2006. The Company will adopt SFAS No. 155 on January 1, 2007, as required, and is still evaluating the impact on the Company s Consolidated Financial Statements.

In June 2005, the Emerging Issues Task Force reached a consensus on EITF 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. EITF 04-5 states that a sole general partner is presumed to control a limited partnership (or similar entity) and should consolidate the limited partnership unless one of the following two conditions exist: (1) the limited partners possess substantive kick-out rights, or (2) the limited partners possess substantive participating rights. A kick-out right is defined as the substantive ability to remove the sole general partner without cause or otherwise dissolve (liquidate) the limited partnership. Substantive participating rights are when the limited partners have the substantive right to participate in certain financial and operating decisions of the limited partnership that are made in the ordinary course of business. The consensus guidance in EITF 04-5 is effective for all agreements entered into or modified after June 29, 2005. For all pre-existing agreements that are not modified, the consensus is effective as of the beginning of the first fiscal reporting period beginning after December 15, 2005. The Company adopted the provisions of this standard, as required, on January 1, 2006, and it did not have a significant impact on the Company s Consolidated Financial Statements.

In May 2005, the FASB released Statement of Financial Accounting Standards No. 154 (SFAS No. 154), Accounting Changes and Error Corrections. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to newly adopted accounting principles. The correction of an error in previously issued financial statements is not an accounting change. However, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively, unless deemed immaterial. SFAS No. 154 is effective for fiscal years beginning after December 31, 2005. The Company adopted the provisions of this statement, as required, on January 1, 2006, and it did not have a significant impact on the Company s Consolidated Financial Statements.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 3 Summary of Significant Accounting Policies (Continued)

In March 2005, the FASB released FASB Interpretation No. 47 (FIN 47), Accounting for Conditional Asset Retirement Obligations. FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143), as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Thus, the timing and/or method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred generally upon acquisition, construction, or development and/or through the normal operation of the asset. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. SFAS No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The Company adopted FIN 47 during 2005 and it did not have a significant impact on the Company s Consolidated Financial Statements.

In December 2004, the FASB released Statement of Financial Accounting Standards No. 153 (SFAS No. 153), Accounting for Non-monetary Transactions. SFAS No. 153 requires non-monetary exchanges to be accounted for at fair value, recognizing any gain or loss, if the transactions meet a commercial-substance criterion and fair value is determinable. SFAS No. 153 is effective for non-monetary transactions occurring in fiscal years beginning after September 15, 2005. The Company adopted the provisions of this statement, as required, on January 1, 2006, and it did not have a significant impact on the Company s Consolidated Financial Statements.

In December 2004, the FASB released Statement of Financial Accounting Standards No. 123R (SFAS No. 123R), Share-Based Payment. This standard requires issuers to measure the cost of equity-based service awards based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award or the requisite service period (typically the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. The Company will initially measure the cost of liability based service awards based on their current fair value. The fair value of that award will be remeasured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation cost over that period. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments. If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. Companies can comply with FASB No. 123R using one of three transition methods: (1) the modified prospective method; (2) a variation of the modified prospective method; or (3) the modified retrospective method. The provisions of this statement are effective for interim and annual periods beginning after June 15, 2005. The Company adopted SFAS No. 123R, as required, on January 1, 2006, and it did not have a significant financial impact on the Company s Consolidated Financial Statements.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 4 Loans and Other Lending Investments

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

Type of Investment	Underlying Property Type	# of Borrowers In Class	Principal Balances Outstanding	Carrying Value as of December 31, 2006	Carrying Value as of December 31, 2005	Effective Maturity Dates	Contractual Interest Payment Rates(2)	Contractual Interest Accrual Rates(2)	Principal Amortization(3)	Participation Features(4)
Senior Mortgages(5)(7)	Office/ Residential/ Retail/ Industrial, R&D/ Mixed Use/ Hotel/Entertainment, Leisure/ Other	121	$4,045,531	$3,999,093	$3,149,767	2007 to 2026	Fixed: 6.50% to 30.00% Variable: LIBOR + 1.60% to LIBOR + 7.00%	Fixed: 6.50% to 30.00% Variable: LIBOR + 1.60% to LIBOR + 7.00%	Yes	No
Subordinate Mortgages(6)(7)	Office/ Residential/ Retail/ Mixed Use/ Hotel/Entertainment, Leisure/Other	23	620,964	615,031	413,853	2007 to 2015	Fixed: 5.00% to 10.50% Variable: LIBOR + 2.63% to LIBOR + 7.75%	Fixed: 7.32% to 25.00% Variable: LIBOR + 2.63% to LIBOR + 10.00%	Yes	No
Corporate/ Partnership Loans(6)(7)	Office/Residential/ Retail/Industrial, R&D/ Mixed Use/ Hotel/Entertainment, Leisure/Other	36	1,360,033	1,347,249	797,456	2007 to 2021	Fixed: 7.62% to 15.00% Variable: LIBOR + 2.15% to LIBOR + 7.50%	Fixed: 7.62% to 15.00% Variable: LIBOR + 2.15% to LIBOR + 14.00%	Yes	No
Total Loans				5,961,373	4,361,076					
Reserve for Loan Losses				(52,201)	(46,876)					
Total Loans, net				5,909,172	4,314,200					
Other Lending Investments Securities(6)(7)(8)	Residential/ Retail/ Industrial, R&D/ Entertainment, Leisure/Other	10	917,932	890,678	347,715	2007 to 2023	Fixed: 6.00% to 9.25% Variable: LIBOR + 0.85% to LIBOR + 5.63%	Fixed: 6.00% to 17.00% Variable: LIBOR + 0.85% to LIBOR + 5.63%	Yes	No
Total Loans and Other Lending Investments, Net				$6,799,850	$4,661,915					

Explanatory Notes:

(1) Details (other than carrying values) are for loans outstanding as of December 31, 2006.

(2) Substantially all variable-rate loans are based on 30-day LIBOR and reprice monthly. The 30-day LIBOR on December 31, 2006 was 5.32%. As of December 31, 2006, nine loans with a combined carrying value of $229.9 million have a stated accrual rate that exceeds the stated pay rate.

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

(4) Under some of the loans, the Company may receive additional payments representing additional interest from participation in available cash flow from operations of the underlying real estate collateral.

(5) Includes one loan with a carrying value of $51.3 million which the Company has currently ceased accruing the contractual exit fees as of January 1, 2006.

(6) As of December 31, 2006, five loans with a combined carrying value of $129.2 million have stated accrual rates of up to 25%, however, no interest is due until their scheduled maturities through 2014.

(7) As of December 31, 2006, includes foreign denominated loans with combined carrying values of approximately £149.2 million, 81.4 million and CAD 20.9 million. Amounts in table have been converted to U.S. dollars based on exchange rates in effect at December 31, 2006.

(8) Included in Other Lending Investments are $303.7 million of securities which mature in less than one year, $235.3 million that mature in one to five years and $346.0 million that mature in five to ten years.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 4 Loans and Other Lending Investments (Continued)

During the years ended December 31, 2006 and 2005, respectively, the Company and its affiliated ventures originated or acquired an aggregate of approximately $3.32 billion and $2.74 billion (excluding the acquisition of Falcon Financial) in loans and other lending investments, funded $770.5 million and $349.2 million under existing loan commitments, and received principal repayments of $1.96 billion and $2.36 billion.

During the year ended December 31, 2006, the Company sold five securities designated as available-for-sale. Gross proceeds on the sales totaled $10.2 million and the gross gain on sale was $0.4 million. The specific identification method was used to calculate the gain on sale.

As of December 31, 2006, the Company had 68 loans with unfunded commitments. The total unfunded commitment amount was approximately $2.77 billion, of which $26.1 million was discretionary and $2.74 billion was non-discretionary.

The Company has reflected provisions for loan losses of approximately $14.0 million, $2.3 million and $9.0 million in its results of operations during the years ended December 31, 2006, 2005 and 2004, respectively. These provisions represent increases in loan loss reserves based on management s evaluation of general market conditions, the Company s internal risk management policies and credit risk ratings system, industry loss experience, the likelihood of delinquencies or defaults, the credit quality of the underlying collateral and changes in the size of the loan portfolio.

During the year ended December 31, 2006, the Company recorded total charge-offs of $8.7 million, related to three separate loan transactions. Of the total, $5.5 million was from a direct charge-off on a mezzanine loan on a class A office building in the midwest. Several tenants who occupied approximately 270,000 square feet vacated the building when their leases expired in December 2006 which reduced occupancy from 91% to 59%. As of December 31, 2006, the Company also holds all three tranches of a first mortgage loan for which this same building serves as the sole collateral. The first mortgage has a cumulative carrying value of $159.4 million. The Company has assessed the remaining positions as of December 31, 2006 and does not believe they are impaired. In addition, $3.0 million was from a direct charge-off on a first mortgage on an auto dealership in the southeast. The dealership was experiencing continued deterioration in its financial performance resulting in insufficient fixed charge coverage on the loan. After taking the impairment charges management believes there is adequate collateral to support the carrying value of both loans as of December 31, 2006. The average carrying value of the impaired loans was approximately $36.2 million, $42.6 million and $33.4 million during the years ended December 31, 2006, 2005 and 2004, respectively.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 4 Loans and Other Lending Investments (Continued)

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

Reserve for loan losses, December 31, 2003	$ 33,436
Additional provision for loan losses	9,000
Reserve for loan losses, December 31, 2004	42,436
Additional provision for loan losses	2,250
Additional provision acquired in acquisition of Falcon Financial	2,190
Reserve for loan losses, December 31, 2005	46,876
Additional provision for loan losses	14,000
Charge-offs	(8,675)
Reserve for loan losses, December 31, 2006	$ 52,201

Acquisition of Falcon Financial Investment Trust On January 20, 2005, the Company signed a definitive agreement to acquire Falcon Financial Investment Trust (Falcon Financial), an independent finance company dedicated to providing long-term capital to automotive dealers throughout North America. Falcon Financial was a borrower of the Company at the time of signing the definitive agreement. Under the terms of the agreement, the Company commenced a cash tender offer to acquire all of Falcon Financial s outstanding shares at a price of $7.50 per share for an aggregate equity purchase price of approximately $120.0 million. On March 3, 2005, the Company completed the merger of Falcon Financial with an acquisition subsidiary of the Company and acquired 100% ownership of Falcon Financial.

The purchase of Falcon Financial was accounted for as a business combination. There were approximately $2.0 million of finite lived intangibles identified in the business combination that will be amortized over two to 21 years. In addition, the acquisition resulted in approximately $9.2 million of goodwill. The goodwill is tested annually for impairment. The most recent impairment test was performed by the Company during the fourth quarter of 2006 and no impairment was identified. On May 1, 2005, the assets acquired in the Falcon Financial acquisition were merged with AutoStar (see Note 6 for further description of AutoStar).

Note 5 Corporate Tenant Lease Assets

During the years ended December 31, 2006 and 2005, respectively, the Company acquired an aggregate of approximately $62.2 million and $282.4 million in CTL assets and disposed of CTL assets for net proceeds of approximately $109.4 million and $36.9 million. In relation to the CTL assets acquired during the years ended December 31, 2006 and 2005, the Company allocated approximately $1.6 million and $4.0 million of purchase costs to intangible assets based on their estimated fair values, respectively (see Note 3). As of December 31, 2006 and 2005, the Company had unamortized purchase related intangible assets of approximately $41.4 million and $42.5 million, respectively, and included these in Other investments on the Company s Consolidated Balance Sheets.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 5 Corporate Tenant Lease Assets (Continued)

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

	December 31, 2006	December 31, 2005
Facilities and improvements	$ 2,670,424	$ 2,657,306
Land and land improvements	762,530	747,724
Less: accumulated depreciation	(348,160)	(289,669)
Corporate tenant lease assets, net	$ 3,084,794	$ 3,115,361

The Company s CTL assets are leased to customers with initial term expiration dates from 2007 to 2079. Future minimum operating lease payments under non-cancelable leases, excluding customer reimbursements of expenses, in effect at December 31, 2006, are approximately as follows (in thousands):

Year	Amount
2007	$ 309,316
2008	290,496
2009	288,215
2010	283,665
2011	276,395
Thereafter	2,434,033

Under certain leases, the Company is entitled to receive additional participating lease payments to the extent gross revenues of the corporate customer exceed a base amount. The Company earned approximately $0.7 million, $0 and $0 in additional participating lease payments on such leases in the twelve months ended December 31, 2006, 2005 and 2004, respectively. In addition, the Company also receives reimbursements from customers for certain facility operating expenses including common area costs, insurance and real estate taxes. Customer expense reimbursements for the years ended December 31, 2006, 2005 and 2004 were approximately $27.7 million, $25.7 million and $28.9 million, respectively, and are included as a reduction of Operating costs corporate tenant lease assets on the Company s Consolidated Statements of Operations.

The Company is subject to expansion option agreements with three existing customers which could require the Company to fund and to construct up to 171,000 square feet of additional adjacent space on which the Company would receive additional operating lease income under the terms of the option agreements. In addition, upon exercise of such expansion option agreements, the corporate customers would be required to simultaneously extend their existing lease terms for additional periods ranging from six to ten years.

As of December 31, 2006, the Company also has $73.2 million of unfunded commitments, of which $1.4 million was discretionary and $71.8 million was non-discretionary related to ten CTL investments. These commitments generally fall into two categories: (1) pre-approved capital improvement projects; and (2) new or additional construction costs. Upon completion of the improvements or construction, the Company would receive additional operating lease income from the customers. In addition, the Company has $17.9 million of non-discretionary unfunded commitments related to 19 existing customers in the form of tenant improvements which were negotiated between the Company and the customers at the commencement of the leases.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 5 Corporate Tenant Lease Assets (Continued)

On April 13, 2006, the Company signed a lease termination agreement with a customer that occupied 12 facilities that were subject to separate cross-defaulted leases. Of these 12 leases, eight were assigned to the Company on June 30, 2006 and four were amended and will expire between 2007 and 2011. Three of the eight assigned leases have sub-leases that expire between 2008 and 2018 and four of the other five facilities remain vacant as of December 31, 2006. The Company negotiated to receive a $20.0 million letter of credit from the customer under a previous amendment to the lease. The letter of credit was cashed by the Company upon execution of the current lease amendment and termination and allocated between each of the leases as a lease termination fee. Subsequent to the termination, the Company determined it would sell six of the nine facilities with terminated leases and designated those facilities as Assets held for sale on the Company s Consolidated Balance Sheets. In addition, the Company determined that the six facilities held for sale were impaired and recorded a $7.6 million charge in Operating costs corporate tenant lease assets on the Company s Consolidated Statements of Operations.

Subsequent to the impairment, the Company reclassified two of the facilities from Assets held for sale to Corporate tenant lease assets on the Company s Consolidated Balance Sheets. The Company reclassified the facilities at their fair value at the date of the decision not to sell. During the third quarter 2006, one was reclassified due to a new lease being signed for that facility. During the fourth quarter 2006, the other facility was reclassified due to the intentions of entering into a six-year direct lease with the occupant. As of December 31, 2006, four facilities with an aggregate book value of $9.4 million remained in Assets held for sale on the Company s Consolidated Balance Sheets.

The Company sold 10, 5 and 22 CTL assets (to six different buyers) for net proceeds of $109.4 million, $36.9 million and $279.6 million and realized gains of approximately $24.2 million, $6.4 million and $43.4 million during the years ended December 31, 2006, 2005 and 2004, respectively.

One of the ten assets sold during the year ended December 31, 2006 was sold for $2.1 million less than its carrying value. Therefore, the Company recorded an impairment charge of $2.1 million in Operating costs corporate tenant lease assets on the Company s Consolidated Statements of Operations.

The results of operations from CTL assets sold or held for sale in the current and prior periods are classified as Income from discontinued operations on the Company s Consolidated Statements of Operations even though such income was actually recognized by the Company prior to the asset sale. Gains from the sale of CTL assets are classified as Gain from discontinued operations, net on the Company s Consolidated Statements of Operations.

Note 6 Joint Ventures and Minority Interest

Investments in unconsolidated joint ventures Income or loss generated from the Company s joint venture investments is included in Equity in earnings from joint ventures on the Company s Consolidated Statements of Operations.

At December 31, 2006, the Company had a 50% investment in Corporate Technology Centre Associates, LLC (CTC), whose external member is Corporate Technology Centre Partners, LLC. This venture was formed for the purpose of operating, acquiring and, in certain cases, developing CTL facilities. At December 31, 2006, the CTC venture held one facility. The Company s investment in this joint venture was $4.7 million and $5.2 million at December 31, 2006 and 2005, respectively. The joint venture s carrying value for the one facility owned at December 31, 2006 was $17.3 million. The joint venture had total assets

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 6 Joint Ventures and Minority Interest (Continued)

of $18.6 million as of December 31, 2006 and a net loss of $0.5 million for the year ended December 31, 2006. The Company accounts for this investment under the equity method because the Company s joint venture partner has certain participating rights giving them shared control over the venture.

In addition, the Company has 47.5% investments in Oak Hill Advisors, L.P. and Oak Hill Credit Alpha MGP, 48.1% investments in OHSF GP Partners II LLC and OHSF GP Partners, LLC, and a 45.5% investment in Oak Hill Credit Opportunities MGP, LLC (collectively, Oak Hill). The Company has determined that all of these entities are VIE s (see Note 3) and that an external member is the primary beneficiary. As such, the Company accounts for these investments under the equity method. The Company s carrying value in these ventures at December 31, 2006 and 2005 was $201.7 million and $197.0 million, respectively. These ventures engage in investment and asset management services. Upon acquisition of the interests in Oak Hill there was a difference between the Company s book value of the equity investments and the underlying equity in the net assets of Oak Hill of approximately $200.2 million. The Company allocated this value to identifiable intangible assets of approximately $81.8 million and goodwill of $118.4 million. These intangible assets are amortized based on their determined useful lives through quarterly adjustments to Equity in earnings from joint ventures and Investments in joint ventures on the Company s Consolidated Financial Statements. As of December 31, 2006, the unamortized balance related to intangible assets for these investments was approximately $64.5 million.

In addition, the Company, through TimberStar Operating Partnership, L.P. (TimberStar), has a 46.7% investment in TimberStar Southwest Holdco LLC (TimberStar Southwest). TimberStar Southwest was created to acquire and manage a diversified portfolio of timberlands. On October 30, 2006, TimberStar Southwest purchased approximately 900,000 acres of timberland located in Texas, Louisiana and Arkansas for approximately $1.13 billion in cash and notes. The Company s investment in this joint venture at December 31, 2006 was $175.6 million. The joint venture s carrying value for the timberlands owned at December 31, 2006 was $1.12 billion. The joint venture had total assets of $2.00 billion and total liabilities (primarily debt) of $1.62 billion as of December 31, 2006 and a net loss of $11.3 million for the period ended December 31, 2006. The Company accounts for this investment under the equity method because the Company s joint venture partners have certain participating rights giving them shared control over the venture.

On November 23, 2004, the Company acquired the remaining 80% share of its joint venture partner s interest in the ACRE Simon, LLC (ACRE) joint venture. The total net purchase price was $40.1 million of which $14.6 million was paid in cash and $25.5 million reflected the assumption of the joint venture partner s share of the debt of the partnership. The Company now owns 100% of this joint venture and therefore, as of November 23, 2004, consolidates it for financial statement purposes.

On September 27, 2004, CTC Associates I L.P., a wholly-owned subsidiary of the Company s CTC joint venture, sold its interest in five buildings to a third party investor and the mortgage lender accepted the proceeds in full satisfaction of the obligation. This transaction resulted in a net loss of approximately $1.0 million allocable to the Company.

On March 31, 2004, the Company began accounting for its 44.7% interest in TriNet Sunnyvale Partners, L.P. (Sunnyvale) as a VIE because the limited partners of Sunnyvale have the option to put their interest to the Company for cash; however, the Company may elect to deliver 297,728 shares of

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 6 Joint Ventures and Minority Interest (Continued)

Common Stock in lieu of cash. The Company consolidates this partnership for financial statement reporting purposes as it is the primary beneficiary.

On March 30, 2004, CTC Associates II L.P., a wholly-owned subsidiary of the Company s CTC joint venture, conveyed its interest in two buildings and the related property to the mortgage lender in exchange for satisfaction of the entity s obligations of the related loan. Prior to the conveyance of the buildings, early lease terminations resulted in one-time income allocable to the Company of approximately $3.5 million during the first quarter of 2004.

Minority Interest Income or loss allocable to external partners in consolidated entities is included in Minority interest in consolidated entities on the Company s Consolidated Statements of Operations.

During 2006, TN NRDC, LLC (SPV) was created to invest in a strategic real estate related opportunity. SPV was funded 90% by the Company and 10% by an unrelated third party. At December 31, 2006, the Company had contributed $92.1 million in SPV. SPV qualifies as a VIE and the Company is the primary beneficiary. Therefore, the Company consolidates SPV for financial statement purposes with the underlying investment being recorded in Other investments and records the minority interest of the external partner in Minority interest in consolidated entities on the Company s Consolidated Balance Sheets.

During 2005, the Company had an investment in iStar Operating, a taxable REIT subsidiary that, through a wholly-owned subsidiary, serviced the Company s loans and certain loan portfolios owned by third parties. The Company owned all of the non-voting preferred stock and a 95% economic interest in iStar Operating. On December 31, 2005, the Company acquired all the voting common stock in iStar Operating for a nominal amount and simultaneously merged it into an existing taxable REIT subsidiary of the Company.

On June 8, 2004, AutoStar was created to provide real estate financing solutions to automotive dealerships and related automotive businesses. AutoStar is owned 0.5% by AutoStar Realty GP LLC (the GP) and 99.5% by AutoStar Investors Partnership LLP (the LP). The GP was initially funded and owned 93.3% by iStar Automotive Investments, LLC, a wholly-owned subsidiary of the Company, and 6.7% by CP AutoStar, LP, an entity owned and controlled by two entities unrelated to the Company. The LP was initially funded and owned 93.3% by iStar Automotive Investments, LLC and 6.7% by CP AutoStar Co-Investors, LP, an entity controlled by two entities unrelated to the Company. This joint venture qualifies as a VIE and the Company is the primary beneficiary. Therefore, the Company consolidates this partnership for financial statement purposes and records the minority interest of the external partner in Minority interest in consolidated entities on the Company s Consolidated Balance Sheets. On October 3, 2006, the Company bought out the interest that was held by CP AutoStar, LP and CP AutoStar Co-Investor LP and entered into a five-year service agreement with the general partners of those entities. On December 29, 2006, the Company bought out the interest of one of two remaining AutoStar unit holders. These purchases were accounted for as a business combination. As of December 31, 2006, the Company owns 98.1% of AutoStar. There were $12.3 million of tangible and finite lived intangible assets identified in the business combination that will be amortized over five to 38 years. In addition, the acquisition resulted in approximately $8.5 million of goodwill.

On March 31, 2004, the Company began accounting for its 44.7% interest in TriNet Sunnyvale Partners, L.P. (Sunnyvale) as a VIE because the limited partners of Sunnyvale have the option to put

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 6 Joint Ventures and Minority Interest (Continued)

their interest to the Company for cash; however, the Company may elect to deliver 297,728 shares of Common Stock in lieu of cash. The Company consolidates this partnership for financial statement purposes as it is the primary beneficiary.

In addition, the Company holds a majority interest in five other limited partnerships as of December 31, 2006 that are consolidated for financial statement purposes and records the minority interest of the external partner(s) in Minority interest in consolidated entities on the Company s Consolidated Balance Sheets.

Note 7 Other Investments

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

	December 31, 2006	December 31, 2005
Strategic investments	$ 213,348	$ 39,174
Timber and timberlands, net of accumulated depletion	146,910	152,581
CTL intangibles, net of accumulated amortization (see Note 3)	41,358	42,530
Marketable securities	6,001	4,009
Other investments	$ 407,617	$ 238,294

On January 19, 2005, TimberStar was created to acquire and manage a diversified portfolio of timberlands. TimberStar is owned 0.5% by TimberStar Investor GP LLC (TimberStar GP) and 99.5% by TimberStar Investors Partnership LLP (TimberStar LP). TimberStar GP and TimberStar LP are both funded and owned 99.2% by iStar Timberland Investments LLC, a wholly-owned subsidiary of the Company, and 0.8% by T-Star Investor Partners, LLC, an entity unrelated to the Company. The Company consolidates this partnership for financial statement purposes and records the minority interest of the external partner in Minority interest in consolidated entities on the Company s Consolidated Balance Sheets. At December 31, 2006, the venture directly held approximately 337,000 acres of timberland located in the northeast, the majority of which is subject to a long-term supply agreement, and approximately 900,000 acres in Texas, Louisiana and Arkansas through its joint venture interest in TimberStar Southwest (see Note 6). The venture s net carrying value of the northeast timber and timberlands at December 31, 2006 was $146.9 million. Net income for the northeast timber and timberland is reflected in Other income on the Company s Consolidated Statements of Operations.

The Company has invested $213.3 million in 26 separate real estate related funds or other strategic investment opportunities within niche markets. Of these 26 investments, 14 or $142.6 million are accounted for under the cost method. The Company uses the cost method when its interest is so insignificant that it has virtually no influence over operating and financial policies. Under the cost method, the Company records the initial investment at cost. Thereafter, income is recognized only when the Company receives distributions from earnings subsequent to the acquisition or when the Company sells its interest in the venture. The remaining 12 investments, totaling $70.7 million are accounted for under the equity method.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 8 Other Assets and Other Liabilities

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

	December 31, 2006	December 31, 2005
Deferred financing fees, net	$ 14,217	$ 13,731
Leasing costs, net	13,294	9,960
Intangible assets, net (see Note 3)	10,673	4,031
Deferred derivative assets	9,333	13,176
Corporate furniture, fixtures and equipment, net	5,644	3,777
Deferred tax asset	5,128	
Prepaid expenses and other receivables	2,849	2,177
Other assets	10,043	5,329
Deferred expenses and other assets	$ 71,181	$ 52,181

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

	December 31, 2006	December 31, 2005
Accrued interest payable	$ 84,954	$ 57,542
Accrued expenses	39,420	27,794
Security deposits from customers	23,581	23,274
Deferred derivative liabilities	23,286	32,148
Unearned operating lease income	11,465	20,778
Property taxes payable	5,030	4,578
Deferred tax liability	3,351	
Other liabilities	9,870	26,408
Accounts payable, accrued expenses and other liabilities	$ 200,957	$ 192,522

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 9   Debt Obligations

As of December 31, 2006 and 2005, the Company has debt obligations under various arrangements with financial institutions as follows (in thousands):

	Maximum Amount Available	Carrying Value as of December 31, 2006	December 31, 2005	Stated Interest Rates(1)	Scheduled Maturity Date(1)
Secured revolving credit facility:					
Line of credit	$ 500,000	$	$	LIBOR + 1.00% 2.00%(2)	January 2009(3)
Unsecured revolving credit facilities:					
Line of credit(4)	2,200,000	923,068	1,242,000	LIBOR + 0.525%(5)	June 2011
Total revolving credit facilities	$ 2,700,000	923,068	1,242,000		
Secured term loans:					
Secured by CTL asset		127,648	132,246	7.44%	April 2009
Secured by CTL assets		141,978	145,586	6.80% 8.80%	Various through 2026
Secured by investments in corporate bonds and commercial mortgage backed securities		227,768	67,224	LIBOR + 0.22% 0.65%	August 2007
Secured by CTL asset		58,634	59,430	6.41%	January 2013
Total secured term loans		556,028	404,486		
Debt premium		6,088	6,658		
Total secured term loans		562,116	411,144		
Unsecured notes:					
LIBOR + 0.34% Senior Notes		500,000		LIBOR + 0.34%	September 2009
LIBOR + 0.39% Senior Notes		400,000	400,000	LIBOR + 0.39%	March 2008
LIBOR + 0.55% Senior Notes		225,000	225,000	LIBOR + 0.55%	March 2009
LIBOR + 1.25% Senior Notes		200,000	200,000	LIBOR + 1.25%	March 2007
4.875% Senior Notes		350,000	350,000	4.875%	January 2009
5.125% Senior Notes		250,000	250,000	5.125%	April 2011
5.15% Senior Notes		700,000	700,000	5.15%	March 2012
5.375% Senior Notes		250,000	250,000	5.375%	April 2010
5.65% Senior Notes		500,000		5.65%	September 2011
5.70% Senior Notes		367,022	367,022	5.70%	March 2014
5.80% Senior Notes		250,000	250,000	5.80%	March 2011
5.875% Senior Notes		500,000		5.875%	March 2016
5.95% Senior Notes(6)		889,669		5.95%	October 2013
6.00% Senior Notes		350,000	350,000	6.00%	December 2010
6.05% Senior Notes		250,000	250,000	6.05%	April 2015
6.50% Senior Notes		150,000	150,000	6.50%	December 2013
7.00% Senior Notes		185,000	185,000	7.00%	March 2008
7.95% Notes			50,000	7.95%	May 2006
8.75% Notes(6)		50,331	240,000	8.75%	August 2008
Total unsecured notes		6,367,022	4,217,022		
Debt discount		(93,636)	(78,151)		
Fair value adjustment to hedged items (see Note 11)		(23,137)	(30,394)		
Total unsecured notes		6,250,249	4,108,477		
Other debt obligations		100,000	100,000	LIBOR + 1.50%	October 2035
Debt discount		(1,996)	(2,029)		
Total other debt obligations		98,004	97,971		
Total debt obligations		$ 7,833,437	$ 5,859,592		

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 9 Debt Obligations (Continued)

Explanatory Notes:

(1) All interest rates and maturity dates are for debt outstanding as of December 31, 2006. Some variable-rate debt obligations are based on 30-day LIBOR and reprice monthly. Foreign variable-rate debt obligations are based on 30-day UK LIBOR for British pound borrowing, 30-day EURIBOR for euro borrowing and 30-day Canadian LIBOR for Canadian dollar borrowing. The 30-day LIBOR rate on December 31, 2006 was 5.32%. The 30-day UK LIBOR, EURIBOR and Canadian LIBOR rates on December 31, 2006 were 5.26%, 3.63% and 4.27%, respectively. Other variable-rate debt obligations are based on 90-day LIBOR and reprice every three months. The 90-day LIBOR rate on December 31, 2006 was 5.36%.

(2) This facility has an unused commitment fee of 0.25% on any undrawn amounts.

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

(4) As of December 31, 2006, the line of credit included foreign borrowings of £115.0 million, 127.0 million and CAD 20.0 million which represents $225.3 million, $167.6 million and $17.2 million, respectively, of our outstanding unsecured borrowings based on exchange rates in effect at December 31, 2006.

(5) This facility has an annual commitment fee of 0.125%.

(6) On October 18, 2006, the Company completed the exchange of its 8.75% Senior Notes due 2008 for 5.95% Senior Notes due 2013 in accordance with the exchange offer and consent solicitation launched on September 19, 2006. For each $1,000 principal amount of 8.75% Senior Notes tendered, holders received approximately $1,000 principal amount of 5.95% Senior Notes and $56.75 of cash. A total of $189.7 million aggregate principal amount of 5.95% Senior Notes were issued as part of the exchange.

The Company s primary source of short-term funds is a $2.20 billion unsecured revolving credit facility. Under the facility the Company is required to meet certain financial covenants. As of December 31, 2006, there is approximately $1.21 billion available to draw under the facility. In addition, the Company has one secured revolving credit facility for which availability is based on percentage borrowing base calculations.

The Company s debt obligations contain covenants that are both financial and non-financial in nature. Significant financial covenants include limitations on the Company s ability to incur indebtedness beyond specified levels and a requirement to maintain specified ratios of unsecured indebtedness compared to unencumbered assets. As a result of the upgrades of the Company s senior unsecured debt ratings by S&P, Moody s and Fitch in January and February 2006, the financial covenants in some series of the Company s publicly held debt securities are not operative. Significant non-financial covenants include a requirement in some series of its publicly-held debt securities that the Company offer to repurchase those securities at a premium if the Company undergoes a change of control. As of December 31, 2006, the Company believes it is in compliance with all financial and non-financial covenants on its debt obligations.

Capital Markets Activity *During* the year ended December 31, 2006, the Company issued $1.70 billion aggregate principal amount of fixed-rate Senior Notes bearing interest at annual rates ranging from 5.65% to 5.95% and maturing between 2011 and 2016 and $500.0 million of variable-rate Senior Notes bearing interest at three-month LIBOR + 0.34% maturing in 2009. The Company primarily used the proceeds from the issuance of these securities to repay outstanding indebtedness under its unsecured revolving credit facility. In addition, the Company s $50.0 million of 7.95% Senior Notes matured in May 2006.

In addition, on October 18, 2006, the Company exchanged its 8.75% Senior Notes due 2008 for 5.95% Senior Notes due 2013 in accordance with the exchange offer and consent solicitation launched on September 19, 2006. For each $1,000 principal amount of 8.75% Senior Notes tendered, holders received approximately $1,000 principal amount of 5.95% Senior Notes and $56.75 of cash. A total of $189.7 million aggregate principal amount of 5.95% Senior Notes were issued as part of the exchange. The Company also

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 9 Debt Obligations (Continued)

amended certain covenants in the indenture relating to the remaining 8.75% Senior Notes due 2008 as a result of a consent solicitation of the holders of these notes.

During the year ended December 31, 2005, the Company issued $1.45 billion aggregate principal amount of fixed-rate Senior Notes bearing interest at annual rates ranging from 5.15% to 6.05% and maturing between 2010 and 2015, and $625.0 million of variable-rate Senior Notes bearing interest at an annual rates ranging from three-month LIBOR + 0.39% to 0.55% and maturing between 2008 and 2009. The proceeds from these transactions were used to repay outstanding balances on the Company s revolving credit facilities.

In addition, on September 14, 2005, the Company completed the issuance of $100.0 million in unsecured floating rate trust preferred securities through a newly formed statutory trust, iStar Financial Statutory Trust I, that is a wholly owned subsidiary of the Company. The securities are subordinate to the Company s senior unsecured debt and bear interest at a rate of LIBOR + 1.50%. The trust preferred securities are redeemable, at the option of the Company, in whole or in part, with no prepayment premium any time after October 2010.

In addition, on March 1, 2005, the Company exchanged its TriNet 7.70% Senior Notes due 2017 for iStar 5.70% Series B Senior Notes due 2014 in accordance with the exchange offer and consent solicitation issued on January 25, 2005. For each $1,000 principal amount of TriNet Notes tendered, holders received approximately $1,171 principal amount of iStar Notes. A total of $117.0 million aggregate principal amount of iStar Notes were issued. The iStar Notes issued in the exchange offer form part of the series of iStar 5.70% Series B Notes due 2014 issued on March 9, 2004. Also, on March 30, 2005, the Company amended certain covenants in the indenture relating to the 7.95% Notes due 2006 as a result of a consent solicitation of the holders of these notes. Following the successful completion of the consent solicitation, the Company merged TriNet into the Company, the Company became the obligor on the Notes and TriNet no longer exists (see Note 1).

During the year ended December 31, 2004, the Company issued $850.0 million aggregate principal amount of fixed-rate Senior Notes bearing interest at annual rates ranging from 4.875% to 5.70% and maturing between 2009 and 2014 and $200.0 million of variable-rate Senior Notes bearing interest at an annual rate of three-month LIBOR + 1.25% and maturing in 2007. The Company primarily used the proceeds to repay secured indebtedness as it migrated its balance sheet towards more unsecured debt and to refinance higher yielding obligations.

During the year ended December 31, 2004, the Company redeemed approximately $110.0 million aggregate principal amount of its outstanding 8.75% Senior Notes due 2008 at a price of 108.75% of par. In connection with this redemption, the Company recognized a charge to income of $11.5 million included in Loss on early extinguishment of debt on the Company s Consolidated Statements of Operations.

Unsecured/Secured Credit Facilities Activity On June 28, 2006, the unsecured facility was amended and restated. The commitment increased to $2.20 billion, of which up to $750.0 million can be borrowed in multiple foreign currencies. The maturity date was extended to June 2011, the rate on the facility decreased to LIBOR + 0.525% and the annual facility fee decreased to 12.5 basis points. The original facility completed on April 19, 2004 had a maximum capacity of $850.0 million, was increased to $1.25 billion on December 17, 2004 and was further increased to $1.50 billion on September 16, 2005. The original rate on the facility was LIBOR +1.00% per annum with a 25 basis point annual facility fee. In

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 9 Debt Obligations (Continued)

2004, this was decreased to LIBOR + 0.875% with a 17.5 basis point annual facility fee due to an upgrade in the Company s senior unsecured debt rating. The rate was further decreased to LIBOR + 0.70% with a 15 basis point annual facility fee as a result of upgrades to the Company s unsecured debt ratings in 2006.

On January 9, 2006, the Company extended the maturity on its remaining secured facility to January 2009 (reflecting the one-year term-out extension), reduced its capacity from $700.0 million to $500.0 million and lowered its interest rates to LIBOR + 1.00% to 2.00% from LIBOR + 1.40% to 2.15%.

On March 12, 2005, August 12, 2005, and September 30, 2005, three of the Company s secured revolving credit facilities, with a maximum amount available to draw of $250.0 million, $350.0 million and $500.0 million, respectively, matured.

Other Financing Activity *During* the year ended December 31, 2006, the portion of the $200.0 million term financing that was secured by certain commercial mortgage-backed securities was extended for one month and then matured on February 13, 2006. The remaining portion of this financing that was secured by corporate bonds was extended for one year to August 2007 and the rate on the loan was reduced to LIBOR + 0.22% to 0.65% from LIBOR + 0.25% to 0.70%. The carrying value of corporate bonds securing the borrowing totaled $358.3 million at December 31, 2006.

In addition, on May 31, 2006, the Company began a loan participation program which serves as an alternative to borrowing funds from the Company s revolving credit facilities. The loan participations are short-term bank loans funded in the secondary market with fixed maturity dates typically ranging from overnight to 90 days. There were no amounts outstanding under this program at December 31, 2006.

During the year ended December 31, 2005, the Company repaid a $76.0 million mortgage on 11 CTL investments which was open to prepayment without penalty. The Company also prepaid a $135.0 million mortgage on a CTL asset with a 0.5% prepayment penalty. In addition, the Company fully repaid the STARs Series 2002-1 and STARs Series 2003-1 Notes which had an aggregate outstanding principal balance of approximately $620.7 million on the date of repayment. The STARs Notes were originally issued in 2002 and 2003 by special purpose subsidiaries of the Company for the purpose of match funding the Company s assets that collateralized the STARs Notes. For accounting purposes, the issuance of the STARs Notes was treated as a secured on-balance sheet financing. In connection with the redemption of the STARs Notes, no gain on sale was recognized and the Company incurred one-time cash costs, including prepayment and other fees, of approximately $6.8 million and a non-cash charge of approximately $37.5 million to write-off deferred financing fees and expenses. These losses are included in Loss on early extinguishment of debt on the Company s Consolidated Statement of Operations.

During the year ended December 31, 2004, the Company purchased the remaining interest in a joint venture and began consolidating it for accounting purposes, which resulted in approximately $31.8 million of secured term debt to be consolidated on the Company s Consolidated Balance Sheets. The term loans bear interest at rates of 7.61% to 8.43% and matures between 2005 and 2011. In addition, the Company repaid a total of $314.6 million in term loan financing, $9.8 million of which was part of the joint venture acquisition.

During the years ended December 31, 2005 and 2004, the Company incurred an aggregate net loss on early extinguishment of debt of approximately $46.0 million and $13.1 million, respectively, as a result of the early retirement of certain debt obligations. The Company did not incur any loss on early extinguishment of debt during the year ended December 31, 2006.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 9 Debt Obligations (Continued)

As of December 31, 2006, future scheduled maturities of outstanding long-term debt obligations are as follows (in thousands)(1):

2007	$ 430,180
2008	635,331
2009	1,219,316
2010	605,640
2011	1,954,476
Thereafter	3,101,175
Total principal maturities	7,946,118
Unamortized debt discounts/premiums, net	(89,544)
Fair value adjustment to hedged items (see Note 11)	(23,137)
Total debt obligations	$ 7,833,437

Explanatory Note:

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

Note 10 Shareholders Equity

The Company s charter provides for the issuance of up to 200.0 million shares of Common Stock, par value $0.001 per share, and 30.0 million shares of preferred stock. The Company has 4.0 million shares of 8.00% Series D Cumulative Redeemable Preferred Stock, 5.6 million shares of 7.875% Series E Cumulative Redeemable Preferred Stock, 4.0 million shares of 7.80% Series F Cumulative Redeemable Preferred Stock, 3.2 million shares of 7.65% Series G Cumulative Redeemable Preferred Stock and 5.0 million shares of 7.50% Series I Cumulative Redeemable Preferred Stock. The Series D, E, F, G, and I Cumulative Redeemable Preferred Stock are redeemable without premium at the option of the Company at their respective liquidation preferences beginning on October 8, 2002, July 18, 2008, September 29, 2008, December 19, 2008 and March 1, 2009, respectively.

In November 2006, the Company completed a public offering of 12.7 million shares of the Company s Common Stock. The Company received net proceeds of approximately $541.4 million from the offering and used these proceeds to repay outstanding balances on our unsecured credit facilities.

In April 2005 and May 2005, the Company issued 989,663 and 174,647 of its treasury shares, respectively, as a part of the purchase of the Company s substantial minority interest in Oak Hill. The shares were issued out of the Company s treasury stock at a weighted average cost of $18.71 and issued at a price of $41.35 and $40.25 in April 2005 and May 2005, respectively. The difference in the weighted average cost and the issuance price is included in Additional paid-in capital on the Company s Consolidated Balance Sheets.

In February 2004, the Company redeemed 2.0 million outstanding shares of its 9.375% Series B Cumulative Redeemable Preferred Stock and 1.3 million outstanding shares of its 9.20% Series C Cumulative Redeemable Preferred Stock. The redemption price was $25.00 per share, plus accrued and unpaid dividends to the redemption date of $0.46 and $0.45 for the Series B and C Preferred Stock, respectively. In connection with this redemption, the Company recognized a charge to net income

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 10 Shareholders Equity (Continued)

allocable to common shareholders and HPU holders of approximately $9.0 million included in Preferred dividend requirements on the Company s Consolidated Statements of Operations.

In February 2004, the Company completed an underwritten public offering of 5.0 million shares of its 7.50% Series I Cumulative Redeemable Preferred Stock, having a liquidation preference of $25.00 per share and a redemption date beginning March 1, 2009. The Company used the net proceeds from the offering of $121.0 million to redeem approximately $110.0 million aggregate principal amount of its outstanding 8.75% Senior Notes due 2008 at a price of 108.75% of their principal amount plus accrued interest to the redemption date.

In January 2004, the Company completed a private placement of 3.3 million shares of its Series H Variable Rate Cumulative Redeemable Preferred Stock, having a liquidation preference of $25.00 per share and redeemable at par at any time from the purchase date through the first four months. The Company specifically used the proceeds from this offering to redeem the Series B and C Cumulative Redeemable Preferred Stock on February 23, 2004. On January 27, 2004, the Company redeemed all Series H Preferred Stock using excess liquidity from its secured credit facilities.

On December 15, 1998, the Company issued warrants to acquire 6.1 million shares of Common Stock, as adjusted for dilution, at $34.35 per share. The warrants were exercisable on or after December 15, 1999 at a price of $34.35 per share and expired on December 15, 2005. On April 8, 2004, all 6.1 million warrants were exercised on a net basis and the Company subsequently issued approximately 1.1 million shares.

DRIP/Stock Purchase Plan The Company maintains a dividend reinvestment and direct stock purchase plan. Under the dividend reinvestment component of the plan, the Company s shareholders may purchase additional shares of Common Stock without payment of brokerage commissions or service charges by automatically reinvesting all or a portion of their Common Stock cash dividends. Under the direct stock purchase component of the plan, the Company s shareholders and new investors may purchase shares of Common Stock directly from the Company without payment of brokerage commissions or service charges. All purchases of shares in excess of $10,000 per month pursuant to the direct purchase component are at the Company s sole discretion. Shares issued under the plan may reflect a discount of up to 3% from the prevailing market price of the Company s Common Stock. The Company is authorized to issue up to 8.0 million shares of Common Stock pursuant to the dividend reinvestment and direct stock purchase plan. During the years ended December 31, 2006 and 2005, the Company issued a total of approximately 549,000 and 433,000 shares of its Common Stock, respectively, through both plans. Net proceeds during the years ended December 31, 2006 and 2005 were approximately $22.6 million and $17.4 million, respectively. There are approximately 2.2 million shares available for issuance under the plan as of December 31, 2006.

Stock Repurchase Program In November 1999, the Board of Directors approved, and the Company implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets or loan repayments and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. There is no fixed expiration date to this plan. As of December 31, 2006, the Company had repurchased a total of approximately 2.3 million shares at an aggregate cost of approximately $40.7 million. The Company has not repurchased any shares under the stock repurchase program since November 2000, however, the Company issued approximately 1.2 million shares of its treasury stock during 2005 (see above).

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 11 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 that results from a property s, borrower s or corporate tenant s inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of loans due to changes in interest rates or other market factors, including the rate of prepayments of principal and the value of the collateral underlying loans, the valuation of CTL facilities held by the Company and changes in foreign currency exchange rates.

Use of derivative financial instruments The Company s use of derivative financial instruments is primarily limited to the utilization of interest rate agreements or other instruments to manage interest rate risk exposure. The principal objective of such arrangements is to minimize the risks and/or costs associated with the Company s operating and financial structure as well as to hedge specific anticipated debt issuances. During 2005, the Company also began using derivative instruments to manage its exposure to foreign exchange rate movements. The counterparties to each of these contractual arrangements are major financial institutions with which the Company and its affiliates may also have other financial relationships. The Company is exposed to credit loss in the event of nonperformance by these counterparties. However, because of their high credit ratings, the Company does not anticipate that any of the counterparties will fail to meet their obligations. The Company does not use derivative instruments to hedge credit/market risk or for speculative purposes.

The Company s objective in using derivatives is to add stability to interest expense and foreign exchange gains/losses, and to manage its exposure to interest rate movements, foreign exchange rate movements, or other identified risks. To accomplish this objective, the Company primarily uses interest rate swaps as part of its cash flow hedging strategy. Interest rate swaps involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. As of December 31, 2006, such derivatives were used to hedge $450.0 million of forecasted issuances of debt. The Company is hedging its exposure to the variability in future cash flows for forecasted transactions through 2008.

Interest rate swaps used as a fair value hedge involve the receipt of fixed-rate amounts in exchange for variable rate payments over the life of the agreement without exchange of the underlying principal amount. At December 31, 2006, such derivatives were used to hedge the change in fair value associated with $950.0 million of existing fixed-rate debt. These hedges are reflected on the Company s balance sheet as a $23.1 million adjustment to the hedged items. As of December 31, 2006, no derivatives were designated as hedges of net investments in foreign operations. Additionally, 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 do not meet the strict hedge accounting requirements of SFAS No. 133.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 11 Risk Management and Derivatives (Continued)

The following table represents the notional principal amounts and fair values of interest rate swaps by class (in thousands):

	Notional Amount as of December 31, 2006	Notional Amount as of December 31, 2005	Fair Value as of December 31, 2006	Fair Value as of December 31, 2005
Cash flow hedges				
Interest rate swaps	$	$ 250,000	$	$ 2,150
Forward-starting interest rate swaps.	450,000	650,000	9,180	8,771
Fair value hedges.	950,000	1,100,000	(23,137)	(30,112)
Total interest rate swaps	$ 1,400,000	$ 2,000,000	$ (13,957)	$ (19,191)

The following table presents the maturity, notional amount, and weighted average interest rates expected to be received or paid on USD interest rate swaps at December 31, 2006 ($ in thousands)(1):

	Fixed to Floating-Rate		
Maturity for Years Ending December 31,	Notional Amount	Receive Rate	Pay Rate
2007	$	%	%
2008			
2009	350,000	3.69 %	5.15 %
2010	600,000	4.39 %	5.10 %
2011			
2012 Thereafter			
Total	$ 950,000	4.14 %	5.11 %

Explanatory Note:

(1) Excludes forward-starting swaps expected to be cash settled on their effective dates and amortized to interest expense through their maturity dates.

The following table presents the Company s foreign currency derivatives outstanding as of December 31, 2006 (these derivatives do not use hedge accounting, but are marked to market under SFAS No. 133 through the Company s Consolidated Statements of Operations) (in thousands):

Derivative Type	Notional Amount	Notional Currency	Notional (USD Equivalent)	Maturity
Sell CAD forward	CAD 1,250	Canadian dollar	$ 1,072	January 2007

At December 31, 2006, derivatives with a fair value of $9.3 million were included in other assets and derivatives with a fair value of $23.3 million were included in other liabilities. At December 31, 2006, hedge ineffectiveness on cash flow hedges due to the change in timing of an anticipated transaction was $0.6 million and is included in Other income on the Company s Consolidated Statements of Operations. At December 31, 2005, hedge ineffectiveness was immaterial.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 11 Risk Management and Derivatives (Continued)

Credit risk concentrations Concentrations of credit risks arise when a number of borrowers or customers related to the Company s investments are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. The Company regularly monitors various segments of its portfolio to assess potential concentrations of credit risks. Management believes the current portfolio is reasonably well diversified and does not contain any unusual concentration of credit risks.

Substantially all of the Company s CTL assets (including those held by joint ventures) and loans and other lending investments are collateralized by facilities located in the United States, with California (16.1%) and Florida (10.4%) representing the only significant concentration (greater than 10.0%) as of December 31, 2006. The Company s investments also contain significant concentrations in the following asset types as of December 31, 2006: apartment/residential (15.2%), office-CTL (14.8%), retail (13.1%) and industrial/R&D (12.3%).

The Company underwrites the credit of prospective borrowers and customers and often requires them to provide some form of credit support such as corporate guarantees, letters of credit and/or cash security deposits. Although the Company s loans and other lending investments and corporate customer lease assets are geographically diverse and the borrowers and customers operate in a variety of industries, to the extent the Company has a significant concentration of interest or operating lease revenues from any single borrower or customer, the inability of that borrower or customer to make its payment could have an adverse effect on the Company. As of December 31, 2006, the Company s five largest borrowers or corporate customers collectively accounted for approximately 13.2% of the Company s aggregate annualized interest and operating lease revenue of which no single customer accounts for more than 5.0%.

Note 12 Stock-Based Compensation Plans and Employee Benefits

The Company s 2006 Long-Term Incentive Plan (the Plan) is designed to provide equity-based incentive compensation for officers, key employees, directors, consultants and advisers of the Company. This Plan was effective May 31, 2006 and replaces the original 1996 Long-Term Incentive Plan. The Plan provides for awards of stock options, shares of restricted stock, phantom shares, dividend equivalent rights and other performance awards. There is a maximum of 4,550,000 shares of Common Stock available for awards under the Plan 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 antidilution provisions in the Plan. All awards under the Plan are at the discretion of the Board of Directors or a committee of the Board of Directors. At December 31, 2006, options to purchase approximately 1.1 million shares of Common Stock were outstanding and approximately 471,000 shares of restricted stock were outstanding. Most of these options and shares of restricted stock were issued under the original 1996 Long-Term Incentive Plan and, therefore, a total of approximately 4.5 million shares remain available for awards under the Plan as of December 31, 2006. The compensation cost that has been charged against income for equity-based compensation under the Plan was $7.3 million, $3.0 million and $109.9 million for the years ended December 31, 2006, 2005 and 2004, respectively.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 12 Stock-Based Compensation Plans and Employee Benefits (Continued)

Changes in options outstanding during each of the years ending December 31, 2004, 2005 and 2006, are as follows (shares and aggregate intrinsic value in thousands, except for weighted average strike price):

	Number of Shares			Weighted	Aggregate
		Non-Employee		Average	Intrinsic
	Employees	Directors	Other	Strike Price	Value
Options outstanding, December 31, 2003	2,309	155	406	$ 18.59	
Exercised in 2004	(1,316)	(37)	(99)	19.23	
Forfeited in 2004	(84)	(14)		17.14	
Options outstanding, December 31, 2004	909	104	307	17.99	
Exercised in 2005	(58)	(7)	(23)	19.89	
Forfeited in 2005				18.88	
Options Outstanding, December 31, 2005	851	97	284	17.86	
Exercised in 2006	(53)	(7)	(70)	19.89	
Forfeited in 2006				19.69	
Options Outstanding, December 31, 2006	798	90	214	$ 17.62	$ 33,321

The following table summarizes information concerning outstanding and exercisable options as of December 31, 2006 (in thousands):

Exercise Price	Options Outstanding and Exercisable	Remaining Contractual Life
$14.72	462	2.06
$16.88	391	3.01
$17.38	17	3.21
$19.69	107	4.01
$24.94	40	4.38
$26.97	2	4.45
$27.00	17	4.48
$28.54	3	1.34
$29.82	58	5.41
$55.39	5	2.42
	1,102	2.90

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 12 Stock-Based Compensation Plans and Employee Benefits (Continued)

In the third quarter 2002 (with retroactive application to the beginning of the calendar year), the Company adopted the fair value method of accounting for options issued to employees or directors, as allowed under Statement of Financial Accounting Standards No. 123 (SFAS No. 123), Accounting for Stock-Based Compensation, as amended by Statement of Financial Accounting Standards No. 148 Accounting for Stock-Based Compensation Transition and Disclosure and further amended by SFAS No. 123R. Accordingly, the Company recognizes a charge equal to the fair value of these options at the date of grant multiplied by the number of options issued. This charge is amortized over the related remaining vesting terms to individual employees as additional compensation. There were 15,500 options issued during the year ended December 31, 2003 with a strike price of $14.72. These options were fully vested as of December 31, 2005. The Company has not issued any options since 2003. Cash received from option exercises during the year ended December 31, 2006 was approximately $2.6 million. The intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 was $3.0 million, $1.8 million and $32.4 million. The Company issues new shares to satisfy these option exercises.

If the Company s compensation costs had been determined using the fair value method of accounting for stock options issued under the Plan to employees and directors prescribed by SFAS No. 123 prior to 2002, the Company s net income for the years ended December 31, 2006, 2005 and 2004 would be unchanged. The fair value of each significant grant is estimated on the date of grant using the Black-Scholes model.

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

Changes in non-vested restricted stock units during the year ended December 31, 2006, are as follows (shares and aggregate intrinsic value in thousands):

Non-Vested Shares	**Number of Shares**	**Weighted Average Grant Date Fair Value Per Share**	**Aggregate Intrinsic Value**
Non-vested at December 31, 2005	94	$ 39.06	
Granted	439	36.82	
Vested	(46)	36.57	
Forfeited	(16)	37.45	
Non-vested at December 31, 2006	471	$ 37.27	$ 22,531

During the year ended December 31, 2006, the Company granted 439,394 restricted stock units to employees that vest proportionately over three years on the anniversary date of the initial grant of which 422,151 remain outstanding. Dividends are paid on these vested and unvested restricted stock units as dividends are paid on shares of the Company s Common Stock and are accounted for in a manner consistent with the Company s Common Stock dividends, as a reduction to retained earnings.

During the year ended December 31, 2005, the Company granted 68,730 restricted stock units to employees that vest proportionately over three years on the anniversary date of the initial grant, of which 40,301 remain outstanding as of December 31, 2006.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 12 Stock-Based Compensation Plans and Employee Benefits (Continued)

During the year ended December 31, 2004, the Company granted 36,205 restricted shares to employees that vest proportionately over three years on the anniversary date of the initial grant, of which 8,720 remain outstanding as of December 31, 2006.

During the year ended December 31, 2002, the Company granted 199,350 restricted shares to employees. Of these shares, 44,350 vested proportionately over three years on the anniversary date of the initial grant and none remain outstanding as of December 31, 2006. The balance of 155,000 restricted shares granted to several employees vested on March 31, 2004 due to the satisfaction of the following circumstances: (1) the employee remained employed until that date; and (2) the 60-day average closing price of the Company s Common Stock equaled or exceeded a set floor price as of such date. The market price of the stock was $42.30 on March 31, 2004; therefore, the Company incurred a one-time charge to earnings of approximately $6.7 million (the fair market value of the 155,000 shares at $42.30 per share plus the Company s share of taxes). During the year ended December 31, 2002, the Company also granted 208,980 restricted shares to its Chief Financial Officer (see detailed information below).

For accounting purposes, the Company measures compensation costs for these shares, not including any contingently issuable shares, as of the date of the grant and expenses such amounts against earnings, either at the grant date (if no vesting period exists) or ratably over the respective vesting/service period. Such amounts appear on the Company s Consolidated Statements of Operations in General and administrative. As of December 31, 2006, there was $11.8 million of total unrecognized compensation cost related to non-vested restricted stock units. That cost is expected to be recognized over the remaining vesting/service period for the respective grants.

During the year ended December 31, 2004, the Company entered into a three-year employment agreement with its President. This initial three-year term, and any subsequent one-year renewal term, will automatically be extended for an additional year, unless earlier terminated by prior notice from the Company or the President. Under the agreement, the President receives an annual base salary of $350,000, subject to an annual review for upward (but not downward) adjustment. Beginning with the fiscal year ended December 31, 2005, he was eligible to receive a target bonus of $650,000, subject to annual review for upward adjustment. In addition, the President purchased a 20% interest in both the Company s 2005 and 2006 high performance unit program for senior executive officers, a 25% interest in the Company s 2007 high performance unit program for senior executive officers and a 30% interest in the Company s 2008 high performance unit program for senior executive officers (see High Performance Unit Program discussion below). This performance program was approved by the Company s shareholders in 2003 and is described in detail in the Company s 2003 and 2005 annual proxy statements. As of December 31, 2006, the purchase price of approximately $288,000, $101,000, $91,000 and $139,000 for the 2005, 2006, 2007 and 2008 plans, respectively, was paid by the President. The purchase price for all plans was based upon a valuation prepared by an independent investment-banking firm. The interests purchased by the President will have no value to him unless the Company achieves total shareholder returns in excess of those achieved by peer group indices, all as more fully described in the Company s 2003 and 2005 annual proxy statements. The President is also entitled to an allocation of 25% of the interests in the Company s proposed New Business Crossed Incentive Compensation Program, or an alternative plan.

During the year ended December 31, 2002, the Company granted its Chief Financial Officer 108,980 contingently vested restricted stock awards that vested on December 31, 2005. Dividends were paid on the restricted shares as dividends were paid on shares of the Company s Common Stock. These dividends were accounted for in a manner consistent with the Company s Common Stock dividends, as a reduction to

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 12 Stock-Based Compensation Plans and Employee Benefits (Continued)

retained earnings. For accounting purposes, the Company took a total charge of approximately $3.0 million related to the restricted stock awards, which was amortized over the period from November 6, 2002 through December 31, 2005. This charge is reflected on the Company s Consolidated Statements of Operations in General and administrative.

Further, the Company granted the Chief Financial Officer 100,000 restricted shares which became fully-vested on January 31, 2004 as a result of the Company achieving a 53.3% total shareholder rate of return (dividends since November 6, 2002 plus share price appreciation from January 2, 2003). The Company incurred a one-time charge to earnings during the year ended March 31, 2004 of approximately $4.1 million (the fair market value of the 100,000 shares at $40.02 per share plus the Company s share of taxes). For accounting purposes, the employment arrangement described above was treated as a contingent, variable plan until January 31, 2004.

On February 11, 2004, the Company entered into an employment agreement with its Chief Executive Officer which took effect upon the expiration of the old agreement. The agreement has an initial term of three years and provides for the following compensation:

- an annual salary of $1.0 million;
- a potential annual cash incentive award of up to $5.0 million if performance goals set by the Compensation Committee of the Board of Directors in consultation with the Chief Executive Officer are met; and
- a one-time award of Common Stock with a value of $10.0 million at March 31, 2004 (based upon the trailing 20-day average closing price of the Common Stock); the award was fully vested when granted and dividends will be paid on the shares from the date of grant, but the shares cannot be sold for five years unless the price of the Common Stock during the years ending March 31 of each year increases by at least 15%, in which case the sale restrictions on 25% of the shares awarded will lapse in respect to each twelve-month period. In connection with this award the Company recorded a $10.1 million charge in General and administrative on the Company s Consolidated Statements of Operations. The Chief Executive Officer notified the Company that subsequent to this award he contributed an equivalent number of shares to a newly established charitable foundation.

In addition, the Chief Executive Officer purchased an 80%, 75% and 70% interest in the Company s 2006, 2007 and 2008 high performance unit program for senior executive officers, respectively (see High Performance Unit Program discussion below). This performance program was approved by the Company s shareholders in 2003 and is described in detail in the Company s 2003 and 2005 annual proxy statement. As of December 31, 2006, the purchase price of approximately $286,000, $274,000 and $325,000 for the 2006, 2007 and 2008 plans, respectively, was paid by the Chief Executive Officer. The purchase price for all plans was based upon a valuation prepared by an independent investment-banking firm. The interests purchased by the Chief Executive Officer will have no value to him unless the Company achieves total shareholder returns in excess of those achieved by peer group indices, all as more fully described in the Company s 2003 and 2005 annual proxy statements.

The February 2004 employment agreement with the Company s Chief Executive Officer replaced a prior employment agreement dated March 30, 2001 that expired at the end of its term. The compensation awarded to the Company s Chief Executive Officer under this prior agreement included a grant of

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 12 Stock-Based Compensation Plans and Employee Benefits (Continued)

2.0 million unvested phantom shares. The phantom shares vested on a contingent basis in installments of 350,000 shares, 650,000 shares, 600,000 shares and 400,000 shares when the average closing price of the Company s Common Stock achieved performance targets of $25.00, $30.00, $34.00 and $37.00, respectively, which were set at the commencement of the agreement in March 2001. The phantom shares became fully vested at the expiration of the term of the agreement on March 30, 2004. The market price of the Common Stock on March 30, 2004 was $42.40 and the Company incurred a one-time charge to earnings during the year ended March 31, 2004 of approximately $86.0 million (the fair market value of the 2.0 million shares at $42.40 per share plus the Company s share of taxes).

Upon the phantom share units becoming fully vested, the Company delivered to the executive 728,552 shares of Common Stock and $53.9 million of cash, the total of which is equal to the fair market value of the 2.0 million shares of Common Stock multiplied by the closing stock price of $42.40 on March 30, 2004. Prior to March 30, 2004, the executive received dividends on shares that were contingently vested and were not forfeited under the terms of the agreement, when the Company declared and paid dividends on its Common Stock. Because no shares had been issued prior to March 30, 2004, dividends received on these phantom shares were reflected as compensation expense by the Company. For accounting purposes, this arrangement was treated as a contingent, variable plan and no additional compensation expense was recognized until the shares became irrevocably vested on March 30, 2004, at which time the Company reflected a charge equal to the fair value of the shares irrevocably vested.

High Performance Unit Program

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

Five plans within the program completed their valuation periods as of December 31, 2006: the 2002 plan, the 2003 plan, the 2004 plan, the 2005 plan and the 2006 plan. Each plan has 5,000 shares of High Performance Common Stock associated with it. Each share of High Performance Common Stock carries 0.25 votes per share.

For these plans, the Company s performance was measured over a one-year valuation period, ended on December 31, 2002, a two-year valuation period ended on December 31, 2003, and a three-year valuation period ended on December 31, 2004, December 31, 2005 and December 31, 2006, respectively. The end of the valuation period (i.e., the valuation date) will be accelerated if there is a change in control of the Company. The High Performance Common Stock has a nominal value unless the total rate of shareholder return for the relevant valuation period exceeds the greater of: (1) 10% for the 2002 plan, 20% for the 2003 plan and 30% for the 2004, 2005 and 2006 plans, respectively; and (2) a weighted industry index total rate of return consisting of equal weightings of the Russell 1000 Financial Index and the Morgan Stanley REIT Index for the relevant period.

If the total rate of return on the Company s Common Stock exceeds the threshold performance levels for a particular plan, then distributions will be paid on the shares of High Performance Common Stock related to that plan in the same amounts and at the same times as distributions are paid on a number of

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 12 Stock-Based Compensation Plans and Employee Benefits (Continued)

shares of the Company s Common Stock equal to the following: 7.5% of the Company s excess total rate of return (over the higher of the two threshold performance levels) multiplied by the weighted average market value of the Company s common equity capitalization during the measurement period, all as divided by the average closing price of a share of the Company s Common Stock for the 20 trading days immediately preceding the applicable valuation date.

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

Regardless of how much the Company s total rate of return exceeds the threshold performance levels, the dilutive impact to the Company s shareholders resulting from distributions on High Performance Common Stock in each plan is limited to the equivalent of 1% of the average monthly number of fully diluted shares of the Company s Common Stock outstanding during the valuation period.

The employee participants have purchased their interests in High Performance Common Stock through a limited liability company at purchase prices approved by the Company s Board of Directors. The Company s Board of Directors has established the prices of the High Performance Common Stock based upon, among other things, an independent valuation from a major securities firm. The aggregate initial purchase prices were approximately $2.8 million, $1.8 million, $1.4 million, $0.6 million and $0.7 million for the 2002, 2003, 2004, 2005 and 2006 plans, respectively. No HPU holder is permitted to exchange his or her interest in the LLC for shares of High Performance Common Stock prior to the applicable valuation date.

The total shareholder return for the valuation period under the 2002 plan was 21.9%, which exceeded both the fixed performance threshold of 10% and the industry index return of (5.8%). As a result of this superior performance, the participants in the 2002 plan are entitled to receive distributions equivalent to the amount of dividends payable on 819,254 shares of the Company s Common Stock, as and when such dividends are paid. Such dividend payments began with the first quarter 2003 dividend. The Company pays dividends on the 2002 plan shares in the same amount per equivalent share and on the same distribution dates that shares of the Company s Common Stock are paid.

The total shareholder return for the valuation period under the 2003 plan was 78.3%, which exceeded the fixed performance threshold of 20% and the industry index return of 24.7%. The plan was fully funded and was limited to 1% of the average monthly number of fully diluted shares of the Company s Common Stock during the valuation period. As a result of the Company s superior performance, the participants in the 2003 plan are entitled to receive distributions equivalent to the amount of dividends payable on 987,149 shares of the Company s Common Stock, as and when such dividends are paid. Such dividend payments began with the first quarter 2004 dividend. The Company pays dividends on the 2003 plan shares in the same amount per equivalent share and on the same distribution dates that shares of the Company s Common Stock are paid.

The total shareholder return for the valuation period under the 2004 plan was 115.5%, which exceeded the fixed performance threshold of 30% and the industry index return of 55.1%. The plan was fully funded and was limited to 1% of the average monthly number of fully diluted shares of the Company s Common Stock during the valuation period. As a result of the Company s superior

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 12 Stock-Based Compensation Plans and Employee Benefits (Continued)

performance, the participants in the 2004 plan are entitled to receive distributions equivalent to the amount of dividends payable on 1,031,875 shares of the Company s Common Stock, as and when such dividends are paid. Such dividend payments will begin with the first quarter 2005 dividend. The Company pays dividends on the 2004 plan shares in the same amount per equivalent share and on the same distribution dates that shares of the Company s Common Stock are paid.

The total shareholder return for the valuation period under the 2005 plan was 63.4%, which exceeded the fixed performance threshold of 30%, but did not exceed the industry index return of 80.8%. As a result, the plan was not funded and on December 31, 2005, the Company redeemed the high performance stock for its fair value and each unit holder received their proportionate share of the nominal fair value of the plan.

The total shareholder return for the valuation period under the 2006 plan was 48.2%, which exceeded the fixed performance threshold of 30%, but did not exceed the industry index return of 73.1%. As a result, the plan was not funded and on December 31, 2006, the Company redeemed the high performance stock for its fair value and each unit holder received their proportionate share of the nominal fair value of the plan.

A new 2007 plan has been established with a three-year valuation period ending December 31, 2007. Awards under the 2007 plan were approved in January 2005. The 2007 plan had 5,000 shares of High Performance Common Stock with an aggregate initial purchase price of $0.6 million. As of December 31, 2006, the Company had received a net contribution of $0.5 million under this plan. The purchase price of the High Performance Common Stock was established by the Company s Board of Directors based upon, among other things, an independent valuation from a major securities firm. The provisions of the 2007 plan are substantially the same as the prior plans.

A new 2008 plan has been established with a three-year valuation period ending December 31, 2008. Awards under the 2008 plan were approved in January 2006. The 2008 plan had 5,000 shares of High Performance Common Stock with an aggregate initial purchase price of $0.8 million. As of December 31, 2006, the Company had received a net contribution of $0.7 million under this plan. The purchase price of the High Performance Common Stock was established by the Company s Board of Directors based upon, among other things, an independent valuation from a major securities firm. The provisions of the 2008 plan are substantially the same as the prior plans.

In addition to these plans, a high performance unit program for executive officers has been established with three-year valuation periods ending December 31, 2005, 2006, 2007 and 2008, respectively. The provisions of these plans are substantially the same as the high performance unit programs for employees except that the plans are limited to 0.5% of the average monthly number of fully diluted shares of the Company s Common Stock during the valuation period.

The total shareholder return for the valuation period under the 2005 high performance unit program for executive officers was 63.4%, which exceeded the fixed performance threshold of 30%, but did not exceed the industry index return of 80.8%. As a result, the plan was not funded and on December 31, 2005, the Company redeemed the high performance stock for its fair value and each unit holder received their proportionate share of the nominal fair value of the plan.

The total shareholder return for the valuation period under the 2006 high performance unit program for executive officers was 48.2%, which exceeded the fixed performance threshold of 30%, but did not exceed the industry index return of 73.1%. As a result, the plan was not funded and on December 31, 2006,

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 12 Stock-Based Compensation Plans and Employee Benefits (Continued)

the Company redeemed the high performance stock for its fair value and each unit holder received their proportionate share of the nominal fair value of the plan.

During the year ended December 31, 2006, the Company recorded a charge to General and administrative on the Company s Consolidated Statements of Operations relating to stock-based compensation in connection with the Company s High Performance Unit equity compensation program for senior management. The non-cash compensation charge of approximately $4.5 million is the result of a correction due to a change in the assumptions for the liquidity, non-voting and forfeiture discounts used to value the 2002 through 2008 HPU plans. The employee participants in the plans purchased their interests in the plans based on the fair values originally determined at the applicable dates of grant of the original plans. The portion of the charge relating to the years ended December 31, 2002 through 2005 was determined pursuant to the requirements of SFAS No. 123 which was in effect for those years, and the portion relating to the first two quarters of the year ended December 31, 2006 was determined pursuant to SFAS No. 123R which became effective January 1, 2006. The Company has concluded that the amount of stock-based compensation charges that should have been previously recorded were not material to any of its previously issued financial statements. The Company concluded that the cumulative charge of approximately $4.5 million was not material to the quarter in which the charge was booked and was not material to the current fiscal year. As such, the cumulative charge was recorded in the Company s Consolidated Statements of Operations for the year ended December 31, 2006, rather than restating prior periods.

The additional equity from the issuance of the High Performance Common Stock is recorded as a separate class of stock and included within shareholders equity on the Company s Consolidated Balance Sheets. Net income allocable to common shareholders will be reduced by the HPU holders share of dividends paid and undistributed earnings, if any.

401(k) Plan

Effective November 4, 1999, the Company implemented a savings and retirement plan (the 401(k) Plan), which is a voluntary, defined contribution plan. All employees are eligible to participate in the 401(k) Plan following completion of three months of continuous service with the Company. Each participant may contribute on a pretax basis up to the maximum percentage of compensation and dollar amount permissible under Section 402(g) of the Internal Revenue Code not to exceed the limits of Code Sections 401(k), 404 and 415. At the discretion of the Board of Directors, the Company may make matching contributions on the participant s behalf of up to 50% of the first 10% of the participant s annual compensation. The Company made gross contributions of approximately $0.7 million, $0.7 million and $0.5 million for the years ended December 31, 2006, 2005 and 2004, respectively.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 13 Earnings Per Share

EPS is calculated using the two-class method, pursuant to EITF 03-6. The two-class method is required as the Company s HPU shares each have the right to receive dividends should dividends be declared on the Company s Common Stock. HPU holders are Company employees who purchased high performance common stock units under the Company s High Performance Unit Program.

The following table presents a reconciliation of the numerators and denominators of the basic and diluted EPS calculations for the years ended December 31, 2006, 2005 and 2004 for common shares, respectively (in thousands, except per share data):

	For the Years Ended December 31,		
	2006	**2005**	**2004**
Income from continuing operations.	$ 349,280	$ 274,222	$ 187,371
Preferred dividend requirements	(42,320)	(42,320)	(51,340)
Net income allocable to common shareholders and HPU holders before income from discontinued operations and gain from discontinued operations, net	$ 306,960	$ 231,902	$ 136,031
Earnings allocable to common shares:			
Numerator for basic earnings per share:			
Income allocable to common shareholders before income from discontinued operations and gain from discontinued operations, net	$ 299,568	$ 226,196	$ 133,837
Income from discontinued operations	1,288	7,156	29,222
Gain from discontinued operations, net	23,644	6,198	42,675
Net income allocable to common shareholders	$ 324,500	$ 239,550	$ 205,734
Numerator for diluted earnings per share:			
Income allocable to common shareholders before income from discontinued operations and gain from discontinued operations, net(1)	$ 299,754	$ 226,282	$ 133,884
Income from discontinued operations	1,289	7,158	29,231
Gain from discontinued operations, net	23,649	6,199	42,689
Net income allocable to common shareholders	$ 324,692	$ 239,639	$ 205,804
Denominator:			
Weighted average common shares outstanding for basic earnings per common share	115,023	112,513	110,205
Add: effect of assumed shares issued under treasury stock method for stock options and restricted shares.	847	764	1,322
Add: effect of contingent shares.		115	639
Add: effect of joint venture shares	349	311	298
Weighted average common shares outstanding for diluted earnings per common share	116,219	113,703	112,464
Basic earnings per common share:			
Income allocable to common shareholders before income from discontinued operations and gain from discontinued operations, net	$ 2.60	$ 2.01	$ 1.21
Income from discontinued operations	0.01	0.06	0.27
Gain from discontinued operations, net	0.21	0.06	0.39
Net income allocable to common shareholders	$ 2.82	$ 2.13	$ 1.87
Diluted earnings per common share:			
Income allocable to common shareholders before income from discontinued operations and gain from discontinued operations, net	$ 2.58	$ 1.99	$ 1.19
Income from discontinued operations	0.01	0.07	0.26
Gain from discontinued operations, net	0.20	0.05	0.38
Net income allocable to common shareholders	$ 2.79	$ 2.11	$ 1.83

Explanatory Note:

(1) For the years ended December 31, 2006, 2005 and 2004 includes the allocable portion of $115, $28 and $3 of joint venture income, respectively.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 13 Earnings Per Share (Continued)

As more fully described in Note 12, HPU shares are sold to employees as part of a performance-based employee compensation plan. As of December 31, 2006, the 2002-2006 HPU plans have vested, however, the 2005 and 2006 plan did not meet the required performance thresholds to fund. Therefore, the Company redeemed the HPU shares from its employees. The 2002-2004 plans each have 5,000 shares outstanding. The shares in each plan receive dividends based on a common stock equivalent that is separately determined for each plan depending on the Company s performance during a three-year valuation period. These HPU Shares are treated as a separate class of common stock under EITF-03-06. The following table presents a reconciliation of the numerators and denominators of the basic and diluted EPS calculations for the years ended December 31, 2006, 2005 and 2004 for HPU shares, respectively (in thousands, except per share data):

	For the Years Ended December 31,		
	2006	**2005**	**2004**
Earnings allocable to High Performance Units:			
Numerator for basic earnings per HPU share:			
Income allocable to high performance units before income from discontinued operations and gain from discontinued operations, net	$ 7,392	$ 5,706	$ 2,194
Income from discontinued operations	32	181	479
Gain from discontinued operations, net	583	156	700
Net income allocable to high performance units	$ 8,007	$ 6,043	$ 3,373
Numerator for diluted earnings per HPU share:			
Income allocable to high performance units before income from discontinued operations and gain from discontinued operations, net(1)	$ 7,321	$ 5,649	$ 2,150
Income from discontinued operations	31	179	470
Gain from discontinued operations, net	578	155	686
Net income allocable to high performance units	$ 7,930	$ 5,983	$ 3,306
Denominator:			
Weighted average High Performance Units outstanding for basic and diluted earnings per share	15	15	10
Basic earnings per HPU share:			
Income allocable to high performance units before income from discontinued operations and gain from discontinued operations, net	$ 492.80	$ 380.40	$ 219.40
Income from discontinued operations	2.13	12.07	47.90
Gain from discontinued operations, net	38.87	10.40	70.00
Net income allocable to high performance units	$ 533.80	$ 402.87	$ 337.30
Diluted earnings per HPU share:			
Income allocable to common shareholders before income from discontinued operations and gain from discontinued operations, net	$ 488.07	$ 376.60	$ 215.00
Income from discontinued operations	2.07	11.94	47.00
Gain from discontinued operations, net	38.53	10.33	68.60
Net income allocable to high performance units	$ 528.67	$ 398.87	$ 330.60

Explanatory Note:

(1) For the years ended December 31, 2006, 2005 and 2004 includes the allocable portion of $115, $28 and $3 of joint venture income, respectively.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 13 Earnings Per Share (Continued)

For the years ended December 31, 2006, 2005 and 2004 the following shares were antidilutive (in thousands):

	For the Years Ended December 31,		
	2006	2005	2004
Stock options	5	5	5
Joint venture shares		39	73

Note 14 Comprehensive Income

Statement of Financial Accounting Standards No. 130 (SFAS No. 130), Reporting Comprehensive Income requires that all components of comprehensive income shall be reported in the financial statements in the period in which they are recognized. Furthermore, a total amount for comprehensive income shall be displayed in the financial statements. Total comprehensive income was $377.9 million, $303.9 million and $257.4 million for the years ended December 31, 2006, 2005 and 2004, respectively. The primary components of comprehensive income, other than net income, consist of amounts attributable to the adoption and continued application of SFAS No. 133 to the Company s cash flow hedges and changes in the fair value of the Company s available-for-sale investments. The reconciliation to comprehensive income is as follows (in thousands):

	For the Years Ended December 31,		
	2006	2005	2004
Net Income	$ 374,827	$ 287,913	$ 260,447
Reclassification of unrealized gains on securities into earnings upon realization	(148)	(2,737)	(6,743)
Reclassification of unrealized gains on ineffective cash flow hedges into earnings upon realization	(550)		
Reclassification of (gains)/losses on qualifying cash flow hedges into earnings upon realization	(3,346)	10,624	6,212
Unrealized gains on securities	2,139	188	2,075
Unrealized gains (losses) on cash flow hedges	4,976	7,896	(4,638)
Comprehensive Income	$ 377,898	$ 303,884	$ 257,353

Unrealized gains/(losses) on available-for-sale investments and cash flow hedges are recorded as adjustments to shareholders equity through Accumulated other comprehensive income (losses) on the Company s Consolidated Balance Sheets and are not included in net income unless realized.

As of December 31, 2006 and 2005, accumulated other comprehensive income (losses) reflected in the Company s shareholders equity is comprised of the following (in thousands):

	As of December 31,	
	2006	2005
Unrealized gains on securities	$ 4,136	$ 2,145
Unrealized losses on hedges on joint venture	(4,674)	
Unrealized gains on cash flow hedges	17,494	11,740
Accumulated other comprehensive income (losses)	$ 16,956	$ 13,885

Over time, the unrealized gains and losses held in other comprehensive income will be reclassified to earnings in the same period(s) in which the hedged items are recognized in earnings. The current balance

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 14 Comprehensive Income (Continued)

held in other comprehensive income is expected to be reclassified to earnings over the lives of the current hedging instruments, or for the realized losses on forecasted debt transactions, over the related term of the debt obligation, as applicable. The Company expects that $1.2 million will be reclassified into earnings as a decrease to interest expense over the next twelve months.

Note 15 Dividends

In order to maintain its election to qualify as a REIT, the Company must currently distribute, at a minimum, an amount equal to 90% of its taxable income and must distribute 100% of its taxable income to avoid paying corporate federal income taxes. The Company anticipates it will distribute all of its taxable income to its shareholders. Because taxable income differs from cash flow from operations due to non-cash revenues and expenses (such as depreciation), in certain circumstances, the Company may generate operating cash flow in excess of its dividends or, alternatively, may be required to borrow to make sufficient dividend payments.

For the year ended December 31, 2006, total dividends declared by the Company aggregated $359.6 million, or $3.08 per share on Common Stock consisting of quarterly dividends of $0.77 which were declared on April 3, 2006, July 5, 2006, October 2, 2006 and December 1, 2006. For tax reporting purposes, the 2006 dividends were classified as 81.03% ($2.4957) ordinary income, 2.77% ($0.0853) 15% capital gain, 1.75% ($0.0538) 25% Section 1250 capital gain and 14.45% ($0.4452) return of capital for those shareholders who held shares of the Company for the entire year. The Company also declared and paid dividends aggregating $8.0 million, $11.0 million, $7.8 million, $6.1 million and $9.4 million on its Series D, E, F, G and I preferred stock, respectively, for the year ended December 31, 2006.

In connection with the redemption of the Series B preferred stock on February 23, 2004 the Company paid a final dividend of $0.9 million representing unpaid dividends of $0.46 per share for the 70 days from the prior dividend payment on December 15, 2003. Upon redemption, the Company recognized a charge to net income allocable to common shareholders and HPU holders of $5.5 million included in Preferred dividend requirements on the Company s Consolidated Statements of Operations.

In connection with the redemption of the Series C preferred stock on February 23, 2004 the Company paid a final dividend of $0.6 million representing unpaid dividends of $0.45 per share for the 70 days from the prior dividend payment on December 15, 2003. Upon redemption, the Company recognized a charge to net income allocable to common shareholders and HPU holders of $3.5 million included in Preferred dividend requirements on the Company s Consolidated Statements of Operations.

In connection with the redemption of the Series H preferred stock on January 27, 2004 the Company paid a dividend of $0.1 million representing unpaid dividends of $0.49 per share for the five days the preferred stock was outstanding.

Holders of shares of the Series D preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 8.00% per annum of the $25.00 liquidation preference, equivalent to a fixed annual rate of $2.00 per share. Dividends are cumulative from the date of original issue and are payable quarterly in arrears on or before the 15th day of each March, June, September and December or, if not a business day, the next succeeding business day. Any dividend payable on the Series D 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

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 15 Dividends (Continued)

Board of Directors of the Company for the payment of dividends that is not more than 30 nor less than ten days prior to the dividend payment date.

Holders of shares of the Series E preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 7.875% per annum of the $25.00 liquidation preference, equivalent to a fixed annual rate of $1.97 per share. The remaining terms relating to dividends of the Series E preferred stock are substantially identical to the terms of the Series D preferred stock described above.

Holders of shares of the Series F preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 7.80% per annum of the $25.00 liquidation preference, equivalent to a fixed annual rate of $1.95 per share. The remaining terms relating to dividends of the Series F preferred stock are substantially identical to the terms of the Series D preferred stock described above.

Holders of shares of the Series G preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 7.65% per annum of the $25.00 liquidation preference, equivalent to a fixed annual rate of $1.91 per share. The remaining terms relating to dividends of the Series G preferred stock are substantially identical to the terms of the Series D preferred stock described above.

Holders of the Series I preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 7.50% per annum of the $25.00 liquidation preference, equivalent to a fixed annual rate of $1.88 per share. The remaining terms relating to dividends of the Series I preferred stock are substantially identical to the terms of the Series D preferred stock described above.

The 2002, 2003 and 2004 High Performance Unit Program reached their valuation dates on December 31, 2002, 2003 and 2004, respectively. Based on the Company s 2002, 2003 and 2004 total rate of return, the participants are entitled to receive dividends on 819,254 shares, 987,149 shares and 1,031,875 shares, respectively, of the Company s Common Stock. The Company pays dividends on these units in the same amount per equivalent share and on the same distribution dates as shares of the Company s Common Stock. Such dividend payments for the 2002 plan began with the first quarter 2003 dividend, such dividends for the 2003 plan began with the first quarter 2004 dividend and such dividends for the 2004 plan will begin with the first quarter 2005 dividend. All dividends to HPU holders will reduce net income allocable to common shareholders when paid. Additionally, net income allocable to common shareholders will be reduced by the HPU holders share of undistributed earnings, if any.

The Company also pays dividends on 422,151 outstanding restricted stock units that were granted to employees during the year ended December 31, 2006. Total dividends paid by the Company for the year ended December 31, 2006 was approximately $1.3 million. Payments began with the dividend paid on April 28, 2006.

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

Note 16 Fair Values of Financial Instruments

SFAS No. 107, Disclosures About Fair Value of Financial Instruments (SFAS No. 107), requires the disclosure of the estimated fair values of financial instruments. The fair value of a financial instrument

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 16 Fair Values of Financial Instruments (Continued)

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

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

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

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

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

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

Debt obligations A portion of the Company s existing debt obligations bear interest at fixed margins over LIBOR. Such margins may be higher or lower than those at which the Company could currently replace the related financing arrangements. Other obligations of the Company bear interest at fixed rates, which may differ from prevailing market interest rates. As a result, the fair values of the Company s debt obligations were estimated by discounting current debt balances from December 31, 2006 and 2005 to maturity using estimated current market rates at which the Company could enter into similar financing arrangements.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 16 Fair Values of Financial Instruments (Continued)

Interest rate protection agreements The fair value of interest rate protection agreements such as interest rate caps, floors, collars and swaps used for hedging purposes (see Note 11) is the estimated amount the Company would receive or pay to terminate these agreements at the reporting date, taking into account current interest rates and current creditworthiness of the respective counterparties.

The book and fair values of financial instruments as of December 31, 2006 and 2005 were (in thousands):

	2006 Book Value	Fair Value	2005 Book Value	Fair Value
Financial assets:				
Loans and other lending investments	$6,852,051	$7,567,073	$ 4,708,791	$ 5,172,990
Derivative assets	9,293	9,293	12,711	12,711
Marketable securities	6,001	6,001	4,009	4,009
Reserve for loan losses	(52,201)	(52,201)	(46,876)	(46,876)
Financial liabilities:				
Debt obligations	7,833,437	7,966,197	5,859,592	6,137,281
Derivative liabilities	(22,930)	(22,930)	(29,899)	(29,899)

Note 17 Segment Reporting

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

The Company has determined that it has two reportable operating segments: Real Estate Lending and Corporate Tenant Leasing. The reportable segments were determined based on the management approach, which looks to the Company s internal organizational structure. These two lines of business require different support infrastructures.

The Real Estate Lending segment includes all of the Company s activities related to senior and mezzanine real estate debt and senior and mezzanine corporate capital investment activities and the financing thereof. These include a dedicated management team for real estate lending origination, acquisition and servicing.

The Corporate Tenant Leasing segment includes all of the Company s activities related to the ownership and leasing of corporate facilities. This includes a dedicated management team for the acquisition and management of our corporate tenant lease facilities.

The Company does not have significant foreign operations. The accounting policies of the segments are the same as those described in Note 3. The Company has no single customer that accounts for more than 2.8% of annualized total revenues (see Note 11 for other information regarding concentrations of credit risk).

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 17 Segment Reporting (Continued)

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

	Real Estate Lending	Corporate Tenant Leasing	Corporate/ Other(1)	Company Total
2006:				
Total revenues(2):	$ 626,474	$ 335,103	$ 18,616	$ 980,193
Equity in earnings (loss) from joint ventures and unconsolidated subsidiaries:		(458)	12,849	12,391
Total operating and interest expense(3):	20,483	121,922	499,692	642,097
Net operating income(4):	605,991	212,723	(468,227)	350,487
Total long-lived assets(5):	6,799,850	3,084,794	146,502	10,031,146
Total assets:	6,881,423	3,288,276	890,296	11,059,995
2005:				
Total revenues(2):	$ 471,451	$ 301,922	$ 16,358	$ 789,731
Equity in earnings (loss) from joint ventures and unconsolidated subsidiaries:		(504)	3,520	3,016
Total operating and interest expense(3):	38,578	166,591	312,376	517,545
Net operating income(4):	432,873	134,827	(292,498)	275,202
Total long-lived assets(5):	4,661,915	3,115,361	152,114	7,929,390
Total assets:	4,708,835	3,293,048	530,413	8,532,296
2004:				
Total revenues(2):	$ 397,843	$ 278,419	$ 4,640	$ 680,902
Equity in earnings (loss) from joint ventures and unconsolidated subsidiaries:		2,909		2,909
Total operating and interest expense(3):	57,673	138,992	299,059	495,724
Net operating income(4):	340,170	142,336	(294,419)	188,087
Total long-lived assets(5):	3,938,427	2,877,042		6,815,469
Total assets:	4,014,967	3,068,242	137,028	7,220,237

Explanatory Notes:

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

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

(3) Total operating and interest expense represents provision for loan losses for the Real Estate Lending business and operating costs on CTL assets for the Corporate Tenant Leasing business, as well as interest expense and loss on early extinguishment of debt specifically related to each segment. Interest expense on unsecured notes and the unsecured and secured revolving credit facilities and general and administrative expense is included in Corporate and Other for all periods. Depreciation and amortization of $77.0 million, $70.4 million and $61.8 million for the years ended December 31, 2006, 2005 and 2004, respectively, are included in the amounts presented above.

iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)

Note 17 Segment Reporting (Continued)

(4) Net operating income represents income before minority interest, income from discontinued operations and gain from discontinued operations.

(5) Total long-lived assets is comprised of Loans and other lending investments, net and Corporate tenant lease assets, net, for each respective segment.

Note 18 Quarterly Financial Information (Unaudited)

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

	Quarter Ended			
2006:	**December 31,**	**September 30,**	**June 30,**	**March 31,**
Revenue	$ 265,293	$ 255,489	$ 237,790	$ 221,619
Net income	91,693	104,650	90,499	87,986
Net income allocable to common shareholders	79,242	91,771	77,966	75,513
Net income allocable to HPU holders	1,871	2,299	1,953	1,893
Net income per common share basic	$ 0.66	$ 0.81	$ 0.69	$ 0.67
Net income per common share diluted	$ 0.65	$ 0.80	$ 0.68	$ 0.66
Net income per HPU share basic	$ 124.73	$ 153.27	$ 130.20	$ 126.20
Net income per HPU share diluted	$ 123.47	$ 151.67	$ 129.00	$ 125.00
Weighted average common shares outstanding basic	120,191	113,318	113,282	113,243
Weighted average common shares outstanding diluted	121,498	114,545	114,404	114,357
Weighted average HPU shares outstanding basic and diluted	15	15	15	15
2005:				
Revenue	$ 195,557	$ 220,045	$ 195,828	$ 178,302
Net income	80,320	58,535	78,739	70,319
Net income allocable to common shares	68,033	46,778	66,484	58,256
Net income allocable to HPU holders	1,707	1,177	1,675	1,483
Net income per common share basic	$ 0.60	$ 0.41	$ 0.59	$ 0.52
Net income per common share diluted	$ 0.60	$ 0.41	$ 0.58	$ 0.52
Net income per HPU share basic	$ 113.80	$ 78.47	$ 111.67	$ 98.87
Net income per HPU share diluted	$ 112.73	$ 77.67	$ 110.60	$ 97.87
Weighted average common shares outstanding basic	113,107	112,835	112,624	111,469
Weighted average common shares outstanding diluted	114,283	114,021	113,801	112,674
Weighted average HPU shares outstanding basic and diluted	15	15	15	15

Note 19 Subsequent Events

On January 9, 2007, the Company received the required consents to adopt proposed amendments to the indentures governing certain series of its outstanding senior notes. The purpose of the amendments was to conform most of the covenants in these indentures to the covenants contained in the indentures governing senior notes issued by the Company since it achieved an investment grade rating from the three primary nationally recognized credit rating agencies. On December 20, 2006, the Company issued a Consent Solicitation Statement soliciting the consents of the holders of the Company s 7.000% Senior Notes due 2008, 4.875% Senior Notes due 2009, 6.000% Senior Notes due 2010, 5.125% Senior Notes due 2011, 6.500% Senior Notes due 2013 and 5.700% Senior Notes due 2014. Adoption of the proposed amendments required the consent of holders of at least a majority of the aggregate principal amount of the outstanding notes of each series under the indentures.

iStar Financial Inc.
Schedule II Valuation and Qualifying Accounts and Reserves
(In thousands)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Other Charges	Deductions	Balance at End of Period
For the Year Ended December 31, 2004					
Reserve for loan losses(1)(2)	$ 33,436	$ 9,000	$	$	$ 42,436
Allowance for doubtful accounts(2)	800	70			870
	$ 34,236	$ 9,070	$	$	$ 43,306
For the Year Ended December 31, 2005					
Reserve for loan losses(1)(2)	$ 42,436	$ 2,250	$ 2,190 (3)	$	$ 46,876
Allowance for doubtful accounts(2)	870	365			1,235
	$ 43,306	$ 2,615	$ 2,190	$	$ 48,111
For the Year Ended December 31, 2006					
Reserve for loan losses(1)(2)	$ 46,876	$ 14,000	$	$ (8,675)	$ 52,201
Allowance for doubtful accounts(2)	1,235	475			1,710
	$ 48,111	$ 14,475	$	$ (8,675)	$ 53,911

Explanatory Notes:

(1) See Note 4 to the Company s Consolidated Financial Statements.

(2) See Note 3 to the Company s Consolidated Financial Statements.

(3) Additional reserve acquired in acquisition of Falcon Financial.

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iStar Financial Inc.

Schedule III Corporate Tenant Lease Assets and Accumulated Depreciation

As of December 31, 2006

(Dollars in thousands)

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount Carried at Close of Period					
Location	State	Encumbrances	Land	Building and Improvements		Land	Building and Improvements	Total	Accumulated Depreciation	Date Acquired	Depreciable Life (Years)
OFFICE FACILITIES:											
Tempe	AZ	$	$ 1,512	$ 9,732	$ 301	$ 1,512	$ 10,033	$ 11,545	$ 1,765	1999	40.0
Tempe	AZ		1,033	6,652		1,033	6,652	7,685	1,192	1999	40.0
Tempe	AZ		1,033	6,652	615	1,033	7,267	8,300	1,323	1999	40.0
Tempe	AZ		1,034	6,652	2,272	1,034	8,924	9,958	1,718	1999	40.0
Tempe	AZ		701	4,339	815	701	5,154	5,855	919	1999	40.0
Commerce	CA		3,454	12,915		3,454	12,915	16,369	2,314	1999	40.0
Cupertino	CA		7,994	19,037	2	7,994	19,039	27,033	3,411	1999	40.0
Dublin	CA		17,040	84,549		17,040	84,549	101,589	10,323	2002	40.0
El Segundo	CA		6,813	31,974		6,813	31,974	38,787	823	2005	40.0
Milpitas	CA		4,139	5,064	529	4,139	5,593	9,732	1,112	2002	40.0
Mountain View	CA		12,834	28,158	1,391	12,834	29,549	42,383	5,083	1999	40.0
Mountain View	CA		5,798	12,720	1,009	5,798	13,729	19,527	2,306	1999	40.0
Newbury Park	CA		4,563	24,911		4,563	24,911	29,474	4,463	1999	40.0
Palo Alto	CA			19,168	113		19,281	19,281	3,443	1999	40.0
Redondo Beach	CA		2,598	9,212		2,598	9,212	11,810	1,650	1999	40.0
Englewood	CO		1,757	16,930	1,067	1,757	17,997	19,754	3,338	1999	40.0
Englewood	CO		2,967	15,008	2,109	2,967	17,117	20,084	2,952	1999	40.0
Englewood	CO		8,536	27,428	8,386	8,536	35,814	44,350	5,864	1999	40.0
Ft. Collins	CO	10,802		16,752			16,752	16,752	1,994	2002	40.0
Westminster	CO		307	3,524	955	307	4,479	4,786	742	1999	40.0
Westminster	CO		616	7,290		616	7,290	7,906	1,306	1999	40.0
Plantation	FL		7,125	23,648	255	7,125	23,903	31,028	1,797	2003	40.0
Tampa	FL		1,920	18,435		1,920	18,435	20,355	2,292	2002	40.0
Alpharetta	GA		905	6,744	199	905	6,943	7,848	1,284	1999	40.0
Atlanta	GA		5,709	49,091	8,202	5,709	57,293	63,002	11,083	1999	40.0
Duluth	GA		1,655	14,484	387	1,655	14,871	16,526	2,614	1999	40.0
Lisle	IL		6,153	14,993	8	6,153	15,001	21,154	2,689	1999	40.0
Vernon Hills	IL		1,400	12,597	5	1,400	12,602	14,002	2,257	1999	40.0
Chelmsford	MA	17,872	1,600	21,947	54	1,600	22,001	23,601	2,615	2002	40.0
Foxborough	MA	2,412	1,218	3,756	25	1,218	3,781	4,999	674	1999	40.0
Mansfield	MA		584	1,443	55	584	1,498	2,082	265	1999	40.0
Quincy	MA		3,562	23,420	1,013	3,562	24,433	27,995	4,346	1999	40.0
Largo	MD	17,530	1,800	18,706	37	1,800	18,743	20,543	2,147	2002	40.0
Arden Hills	MN		719	6,541	1,043	719	7,584	8,303	1,491	1999	40.0
Jersey City	NJ		15,667	162,578	806	15,667	163,384	179,051	13,242	2003	40.0
Mt. Laurel	NJ	58,634	7,726	74,429	10	7,724	74,441	82,165	7,559	2002	40.0
Parsippany	NJ		8,242	31,758		8,242	31,758	40,000	2,992	2003	40.0
Riverview	NJ	13,602	1,008	13,763	(170)	1,008	13,593	14,601	990	2004	40.0
Riverview	NJ	26,044	2,456	28,955	(53)	2,456	28,902	31,358	2,087	2004	40.0
Columbus	OH		1,275	10,326	45	1,275	10,371	11,646	1,359	2001	40.0
Harrisburg	PA	16,668	690	26,098	(5)	690	26,093	26,783	3,446	2001	40.0
Spartanburg	SC		800	11,192	5	800	11,197	11,997	1,413	2001	40.0
Memphis	TN		2,702	25,129	49	2,702	25,178	27,880	4,504	1999	40.0
Dallas	TX		1,918	4,632	81	1,918	4,713	6,631	830	1999	40.0
Irving	TX		6,083	42,016		6,083	42,016	48,099	7,528	1999	40.0
Irving	TX		1,364	10,628	7,086	2,371	16,707	19,078	2,711	1999	40.0
Irving	TX		1,804	5,815	582	1,804	6,397	8,201	1,113	1999	40.0
Irving	TX		3,363	21,376		3,363	21,376	24,739	3,830	1999	40.0
Richardson	TX		1,233	15,160	36	1,233	15,196	16,429	2,436	1999	40.0
Richardson	TX		2,932	31,235	4,532	2,932	35,767	38,699	5,974	1999	40.0
Richardson	TX		1,230	5,660	1,428	1,230	7,088	8,318	1,440	1999	40.0
Dulles	VA		2,647	14,817		2,647	14,817	17,464	1,393	2003	40.0

McLean	VA		20,110	125,516	95	20,110	125,611	145,721	14,543	2002	40.0
Reston	VA		4,436	22,362	9,996	4,436	32,358	36,794	5,786	1999	40.0
Milwaukee	WI		1,875	13,914	3	1,875	13,917	15,792	2,493	1999	40.0
Subtotal		163,564	208,640	1,281,831	55,373	209,645	1,336,199	1,545,844	181,264		

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Location	State	Encumbrances	Initial Cost to Company Land	Initial Cost to Company Building and Improvements	Cost Capitalized Subsequent to Acquisition	Gross Amount Carried at Close of Period Land	Gross Amount Carried at Close of Period Building and Improvements	Total	Accumulated Depreciation	Date Acquired	Depreciable Life (Years)
INDUSTRIAL FACILITIES:											
Oxnard	CA		741	495		741	495	1,236	5	2006	40.0
San Diego	CA		1,343	1,670		1,343	1,670	3,013	16	2006	40.0
Burlingame	CA		1,219	3,470	(106)	1,041	3,542	4,583	608	1999	40.0
City of Industry	CA		5,002	11,766		5,002	11,766	16,768	2,108	1999	40.0
East Los Angeles	CA		9,334	12,501	2	9,334	12,503	21,837	2,240	1999	40.0
Fremont	CA		654	4,591	156	654	4,747	5,401	833	1999	40.0
Fremont	CA		1,086	7,964	235	1,086	8,199	9,285	1,430	1999	40.0
Millbrae	CA		741	2,107	9	741	2,116	2,857	380	1999	40.0
Milpitas	CA		4,880	12,367	1,539	4,880	13,906	18,786	3,308	1999	40.0
Milpitas	CA		6,857	8,378	308	6,857	8,686	15,543	1,257	2002	40.0
Milpitas	CA		4,095	8,323	582	4,095	8,905	13,000	1,559	1999	40.0
Milpitas	CA		9,802	12,116	493	9,802	12,609	22,411	1,816	2002	40.0
Milpitas	CA		5,051	6,170	328	5,051	6,498	11,549	958	2002	40.0
Milpitas	CA		4,119	5,034	17	4,119	5,051	9,170	742	2002	40.0
Milpitas	CA		3,044	3,716	629	3,044	4,345	7,389	940	2002	40.0
Milpitas	CA		2,633	3,219	290	2,633	3,509	6,142	517	2002	40.0
Milpitas	CA		3,000	3,669	1,047	3,000	4,716	7,716	654	2002	40.0
Milpitas	CA		4,600	5,627	201	4,600	5,828	10,428	892	2002	40.0
Milpitas	CA		5,617	6,877	1,189	5,619	8,064	13,683	1,185	2002	40.0
Milpitas	CA		9,526	11,655	1,199	9,526	12,854	22,380	1,847	2002	40.0
San Jose	CA		9,677	23,288	5,895	9,677	29,183	38,860	4,560	1999	40.0
Sunnyvale	CA		15,708	27,987	3,540	15,708	31,527	47,235	6,938	2004	40.0
Walnut Creek	CA		571	5,874	1,704	571	7,578	8,149	1,236	1999	40.0
Walnut Creek	CA		808	8,306	572	808	8,878	9,686	1,761	1999	40.0
Golden	CO		645	684		645	684	1,329	6	2006	40.0
Aurora	CO		580	3,677		580	3,677	4,257	478	2001	40.0
Jacksonville	FL		322	323		322	323	645	3	2006	40.0
Jacksonville	FL		2,310	5,435		2,310	5,435	7,745	974	1999	40.0
Miami	FL		3,048	8,676		3,048	8,676	11,724	1,554	1999	40.0
McDonough	GA		1,900	14,318		1,900	14,318	16,218	1,797	2001	40.0
Stockbridge	GA		1,350	18,393		1,350	18,393	19,743	2,309	2001	40.0
DeKalb	IL		1,600	28,015		1,600	28,015	29,615	3,517	2001	40.0
Dixon	IL		519	15,363		519	15,363	15,882	1,249	2003	40.0
Lincolnshire	IL		3,192	7,507		3,192	7,507	10,699	1,345	1999	40.0
Seymour	IN	15,505	550	22,240	121	550	22,361	22,911	3,357	2000	40.0
South Bend	IN		140	4,640	450	140	5,090	5,230	938	1999	40.0
Campbellsville	KY		400	17,219	45	400	17,264	17,664	1,772	2002	40.0
Canton	MA		1,077	2,746	100	1,077	2,846	3,923	514	1999	40.0
Lakeville	MA		1,012	4,048	539	1,012	4,587	5,599	803	1999	40.0
Milford	MA	15,903	834	20,991		834	20,991	21,825	1,132	2004	40.0
Baltimore	MD		1,535	9,324	179	1,535	9,503	11,038	1,690	1999	40.0
Little Falls	MN		6,705	17,690		6,225	18,170	24,395	868	2005	40.0
O Fallon	MO		1,388	12,700	100	1,388	12,800	14,188	2,308	1999	40.0
Belmont	NC	5,640	680	5,947		680	5,947	6,627	321	2004	40.0
Newington	NH			13,546			13,546	13,546	736	2004	40.0
Las Vegas	NV		4,137	2,963		4,137	2,963	7,100	28	2006	40.0
Reno	NV		248	707		248	707	955	127	1999	40.0
Astoria	NY		897	2,555	(506)	655	2,291	2,946	430	1999	40.0
Astoria	NY		1,796	5,109	3	1,796	5,112	6,908	916	1999	40.0
Garden City	NY		8,400	6,430		8,400	6,430	14,830	522	2003	40.0
Lockbourne	OH		2,000	17,320		2,000	17,320	19,320	2,174	2001	40.0
Richfield	OH		2,327		12,210	2,327	12,210	14,537	1,594	2000	40.0
York	PA		2,850	30,713		2,850	30,713	33,563	3,856	2001	40.0
Philadelphia	PA		619	1,765		619	1,765	2,384	316	1999	40.0
Spartanburg	SC		943	16,836		943	16,836	17,779	3,016	1999	40.0

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			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount Carried at Close of Period					Depreciable Life
Location	**State**	**Encumbrances**	**Land**	**Building and Improvements**		**Land**	**Building and Improvements**	**Total**	**Accumulated Depreciation**	**Date Acquired**	**(Years)**
Memphis	TN		1,486	23,279	819	1,486	24,098	25,584	4,220	1999	40.0
Houston	TX		3,213	4,105		3,213	4,105	7,318	38	2006	40.0
Allen	TX		1,238	9,224		1,238	9,224	10,462	1,653	1999	40.0
Farmers Branch	TX		1,314	8,903	46	1,314	8,949	10,263	1,598	1999	40.0
Houston	TX		2,500	25,743		2,500	25,743	28,243	3,199	2001	40.0
Richardson	TX		858	8,556	1	858	8,557	9,415	1,533	1999	40.0
Terrell	TX		400	22,163		400	22,163	22,563	2,782	2001	40.0
Seattle	WA		828	2,355	3	828	2,358	3,186	423	1999	40.0
Subtotal		37,048	175,949	619,378	33,939	175,051	654,215	829,266	93,886		
GROUND LEASE:											
San Jose	CA		41,106			41,106		41,106		2000	
Lanham	MD		2,486			2,486		2,486	41	1999	70.0
Dallas	TX		3,375			3,375		3,375		2005	
Dallas	TX		3,621			3,621		3,621		2005	
Dallas	TX		2,423			2,423		2,423		2005	
Subtotal			53,011			53,011		53,011	41		
LAND:											
San Jose	CA		41,106		(14,115)	26,991		26,991		2000	
Irving	TX		5,243		60	5,303		5,303		2002	
Subtotal			46,349		(14,055)	32,294		32,294			
MEDICAL:											
Tomball	TX		1,299		17,416	1,299	17,416	18,715	162	2005	40.0
Webster	TX		1,002		11,747	1,002	11,747	12,749		2005	
Subtotal			2,301		29,163	2,301	29,163	31,464	162		
ENTERTAINMENT:											
Decatur	AL		277	357		277	357	634	25	2004	40.0
Huntsville	AL		319	414		319	414	733	29	2004	40.0
Chandler	AZ		793	1,025		793	1,025	1,818	73	2004	40.0
Chandler	AZ		521	673		521	673	1,194	48	2004	40.0
Glendale	AZ		305	393		305	393	698	28	2004	40.0
Mesa	AZ		630	813		630	813	1,443	58	2004	40.0
Peoria	AZ		590	762		590	762	1,352	54	2004	40.0
Phoenix	AZ		476	615		476	615	1,091	44	2004	40.0
Phoenix	AZ		654	844		654	844	1,498	60	2004	40.0
Phoenix	AZ		666	861		666	861	1,527	61	2004	40.0
Tempe	AZ		460	595		460	595	1,055	42	2004	40.0
Alameda	CA		1,097	1,417	29	1,097	1,446	2,543	103	2004	40.0
Bakersfield	CA		434	560		434	560	994	40	2004	40.0
Bakersfield	CA		332	428		332	428	760	30	2004	40.0
Mar Vista	CA		1,642	2,120		1,642	2,120	3,762	150	2004	40.0
Milpitas	CA		676	874		676	874	1,550	62	2004	40.0
Riverside	CA		720	930		720	930	1,650	66	2004	40.0
Rocklin	CA		574	742		574	742	1,316	53	2004	40.0
Sacramento	CA		392	507		392	507	899	36	2004	40.0
San Bernardino	CA		358	463		358	463	821	33	2004	40.0
San Diego	CA			18,000			18,000	18,000	1,368	2003	40.0
San Marcos	CA		852	1,100		852	1,100	1,952	78	2004	40.0
Santa Clara	CA		1,572	2,030		1,572	2,030	3,602	144	2004	40.0
Torrance	CA		659	851		659	851	1,510	61	2004	40.0
Visalia	CA		562	727		562	727	1,289	52	2004	40.0
Whittier	CA		896	1,157		896	1,157	2,053	82	2004	40.0
Arvada	CO		466	601		466	601	1,067	43	2004	40.0

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			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount Carried at Close of Period					
Location	State	Encumbrances	Land	Building and Improvements		Land	Building and Improvements	Total	Accumulated Depreciation	Date Acquired	Depreciable Life (Years)
Aurora	CO		640	826		640	826	1,466	59	2004	40.0
Denver	CO		729	941		729	941	1,670	67	2004	40.0
Englewood	CO		536	693		536	693	1,229	49	2004	40.0
Littleton	CO		412	532		412	532	944	38	2004	40.0
Littleton	CO		901	1,163		901	1,163	2,064	83	2004	40.0
Milford	CT		1,097	1,418	30	1,097	1,448	2,545	102	2004	40.0
Old Saybrook	CT		330	425	9	330	434	764	31	2004	40.0
Wilmington	DE		1,076	1,390		1,076	1,390	2,466	99	2004	40.0
Boca Raton	FL			41,809			41,809	41,809	2,849	2005	27.0
Boynton Beach	FL		412	531		412	531	943	38	2004	40.0
Boynton Beach	FL		6,550		8,919	6,551	8,918	15,469		2006	
Bradenton	FL		1,067	1,379		1,067	1,379	2,446	98	2004	40.0
Clearwater	FL		340	439		340	439	779	31	2004	40.0
Davie	FL		401	519		401	519	920	37	2004	40.0
Gainesville	FL		507	654		507	654	1,161	47	2004	40.0
Lakeland	FL		282	364		282	364	646	26	2004	40.0
Leesburg	FL		352	454		352	454	806	32	2004	40.0
Longwood	FL		404	523		404	523	927	37	2004	40.0
Ocala	FL		437	565		437	565	1,002	40	2004	40.0
Ocala	FL		532	687		532	687	1,219	49	2004	40.0
Ocala	FL		379	489		379	489	868	35	2004	40.0
Orange City	FL		486	627		486	627	1,113	45	2004	40.0
Orlando	FL		433	560		433	560	993	40	2004	40.0
Pembroke Pines	FL		497	642		497	642	1,139	46	2004	40.0
Sarasota	FL		643	831	17	643	848	1,491	60	2004	40.0
St. Petersburg	FL		4,200	18,272		4,200	18,272	22,472	843	2005	40.0
Tampa	FL		551	712		551	712	1,263	51	2004	40.0
Tampa	FL		364	470		364	470	834	33	2004	40.0
Venice	FL		507	654		507	654	1,161	47	2004	40.0
W. Palm Beach	FL			19,337			19,337	19,337	892	2005	40.0
Atlanta	GA		510	659		510	659	1,169	47	2004	40.0
Augusta	GA		286	370		286	370	656	26	2004	40.0
Conyers	GA		474	611		474	611	1,085	44	2004	40.0
Marietta	GA		581	750		581	750	1,331	53	2004	40.0
Savannah	GA		718	929		718	929	1,647	66	2004	40.0
Snellville	GA		546	704		546	704	1,250	50	2004	40.0
Woodstock	GA		502	650		502	650	1,152	46	2004	40.0
Des Moines	IA		425	550		425	550	975	39	2004	40.0
Bloomington	IL		335	433	9	335	442	777	32	2004	40.0
Bolingbrook	IL		481	620		481	620	1,101	44	2004	40.0
Chicago	IL		8,803	57	4,870	8,803	4,927	13,730		2006	
Lyons	IL		433	559	12	433	571	1,004	41	2004	40.0
Springfield	IL		431	556		431	556	987	40	2004	40.0
Evansville	IN		542	700		542	700	1,242	50	2004	40.0

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			Initial Cost to Company		Cost Capitalized	Gross Amount Carried at Close of Period					Depreciable
				Building and	Subsequent to		Building and		Accumulated	Date	Life
Location	State	Encumbrances	Land	Improvements	Acquisition	Land	Improvements	Total	Depreciation	Acquired	(Years)
Louisville	KY		417	538		417	538	955	38	2004	40.0
Louisville	KY		365	472		365	472	837	34	2004	40.0
Auburn	MA		523	676		523	676	1,199	48	2004	40.0
Chicopee	MA		548	709		548	709	1,257	50	2004	40.0
Somerset	MA		519	671		519	671	1,190	48	2004	40.0
Taunton	MA		344	444		344	444	788	32	2004	40.0
Baltimore	MD		428	552		428	552	980	39	2004	40.0
Baltimore	MD		575	743	15	575	758	1,333	54	2004	40.0
Baltimore	MD		362	467		362	467	829	33	2004	40.0
Gaithersburg	MD		884	1,143		884	1,143	2,027	81	2004	40.0
Glen Burnie	MD		371	480		371	480	851	34	2004	40.0
Hyattsville	MD		399	517		399	517	916	37	2004	40.0
Laurel	MD		649	837		649	837	1,486	60	2004	40.0
Linthicum	MD		366	473		366	473	839	34	2004	40.0
Pikesville	MD		398	515		398	515	913	37	2004	40.0
Randallstown	MD		388	504		388	504	892	36	2004	40.0
Timonium	MD		1,126	1,454		1,126	1,454	2,580	103	2004	40.0
Benton Harbor	MI		309	399		309	399	708	28	2004	40.0
Flint	MI		516	666		516	666	1,182	47	2004	40.0
Grand Rapids	MI		554	716		554	716	1,270	51	2004	40.0
Jackson	MI		387	499		387	499	886	36	2004	40.0
Roseville	MI		533	689		533	689	1,222	49	2004	40.0
Sturgis	MI		356	459		356	459	815	33	2004	40.0
Brooklyn Center	MN		666	859		666	859	1,525	61	2004	40.0
Burnsville	MN		2,961			2,961		2,961		2006	
Fridley	MN		359	463		359	463	822	33	2004	40.0
Rochester	MN		2,437	8,716		2,437	8,716	11,153	24	2006	40.0
Columbia	MO		334	431		334	431	765	31	2004	40.0
Florissant	MO		404	522		404	522	926	37	2004	40.0
Kansas City	MO		462	596		462	596	1,058	42	2004	40.0
North Kansas City	MO		878	1,137		878	1,137	2,015	81	2004	40.0
Asheville	NC		397	512							