

CAPITAL TRUST INC  
Form 10-Q  
August 03, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-14788

Capital Trust, Inc.  
(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of  
incorporation or organization)

94-6181186  
(I.R.S. Employer Identification No.)

410 Park Avenue, 14th Floor, New York,  
NY

(Address of principal executive offices)

10022

(Zip Code)

(212) 655-0220  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer   
Non-accelerated filer  (Do not check if a smaller  
reporting company)

Accelerated filer   
Smaller Reporting  
Company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of outstanding shares of the registrant's class A common stock, par value \$0.01 per share, as of July 29, 2011 was 22,211,108.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

Capital Trust, Inc. and Subsidiaries  
Consolidated Balance Sheets  
June 30, 2011 and December 31, 2010  
(in thousands, except per share data)

	June 30, 2011 (unaudited)	December 31, 2010
<b>Assets</b>		
Cash and cash equivalents	\$28,430	\$24,449
Securities held-to-maturity	—	3,455
Loans receivable, net	28,660	606,318
Loans held-for-sale, net	—	5,750
Equity investments in unconsolidated subsidiaries	9,851	8,932
Accrued interest receivable	—	2,392
Deferred income taxes	1,597	658
Prepaid expenses and other assets	1,985	9,952
Subtotal	70,523	661,906
<b>Assets of Consolidated Variable Interest Entities ("VIEs")</b>		
<b>CT Legacy REIT, Excluding Securitization Vehicles</b>		
Restricted cash	10,225	—
Securities held-to-maturity	3,664	—
Loans receivable, net	247,190	—
Loans held-for-sale, net	32,107	—
Accrued interest receivable and other assets	5,995	—
Subtotal	299,181	—
<b>Securitization Vehicles</b>		
Securities held-to-maturity	467,420	504,323
Loans receivable, net	1,504,991	2,891,379
Real estate held-for-sale	8,055	8,055
Accrued interest receivable and other assets	15,230	55,027
Subtotal	1,995,696	3,458,784
<b>Total assets</b>	<b>\$2,365,400</b>	<b>\$4,120,690</b>

See accompanying notes to consolidated financial statements.



Capital Trust, Inc. and Subsidiaries  
Consolidated Balance Sheets  
June 30, 2011 and December 31, 2010  
(in thousands, except per share data)

	June 30, 2011 (unaudited)	December 31, 2010
<b>Liabilities &amp; Shareholders' Deficit</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$8,618	\$6,726
Repurchase obligations	—	372,582
Senior credit facility	—	98,124
Junior subordinated notes	—	132,190
Secured notes	7,529	—
Participations sold	28,660	259,304
Interest rate hedge liabilities	—	8,451
Subtotal	44,807	877,377
<b>Non-Recourse Liabilities of Consolidated VIEs</b>		
<b>CT Legacy REIT, Excluding Securitization Vehicles</b>		
Accounts payable and accrued expenses	760	—
Repurchase obligations	119,343	—
Mezzanine loan, net of unamortized discount	51,631	—
Participations sold	97,465	—
Interest rate hedge liabilities	8,288	—
Subtotal	277,487	—
<b>Securitization Vehicles</b>		
Accounts payable and accrued expenses	2,856	3,809
Securitized debt obligations	2,129,571	3,621,229
Interest rate hedge liabilities	26,849	29,462
Subtotal	2,159,276	3,654,500
<b>Total liabilities</b>	<b>2,481,570</b>	<b>4,531,877</b>
<b>Commitments and contingencies</b>	<b>—</b>	<b>—</b>
<b>Equity:</b>		
Class A common stock, \$0.01 par value, 100,000 shares authorized, 21,967 and 21,917 shares issued and outstanding as of June 30, 2011 and December 31, 2010, respectively ("class A common stock")	220	219
Restricted class A common stock, \$0.01 par value, 244 and 33 shares issued and outstanding as of June 30, 2011 and December 31, 2010, respectively ("restricted class A common stock" and together with class A common stock, "common stock")	2	—
Additional paid-in capital	596,749	559,411
Accumulated other comprehensive loss	(40,303 )	(50,462 )

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Accumulated deficit	(667,615 )	(920,355 )
Total Capital Trust, Inc. shareholders' deficit	(110,947 )	(411,187 )
Noncontrolling interests	(5,223 )	—
Total liabilities and shareholders' deficit	\$2,365,400	\$4,120,690

See accompanying notes to consolidated financial statements.



Capital Trust, Inc. and Subsidiaries  
Consolidated Statements of Operations  
Three and Six Months Ended June 30, 2011 and 2010  
(in thousands, except share and per share data)  
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<b>Income from loans and other investments:</b>				
Interest and related income	\$32,554	\$39,525	\$69,545	\$79,503
Less: Interest and related expenses	32,296	31,653	58,543	62,905
Income from loans and other investments, net	258	7,872	11,002	16,598
<b>Other revenues:</b>				
Management fees from affiliates	1,595	924	3,174	3,940
Servicing fees	438	1,226	748	2,737
Total other revenues	2,033	2,150	3,922	6,677
<b>Other expenses:</b>				
General and administrative	4,649	4,509	14,928	9,251
Total other expenses	4,649	4,509	14,928	9,251
Total other-than-temporary impairments of securities	—	(3,848 )	(4,933 )	(39,835 )
Portion of other-than-temporary impairments of securities recognized in other comprehensive income	—	1,852	(3,271 )	18,015
Net impairments recognized in earnings	—	(1,996 )	(8,204 )	(21,820 )
Recovery of (provision for) loan losses	8,088	(2,010 )	17,249	(54,227 )
Valuation allowance on loans held-for-sale	(224 )	—	(224 )	—
Gain on extinguishment of debt	937	463	250,976	463
Income from equity investments	842	932	1,797	1,302
Income (loss) before income taxes	7,285	2,902	261,590	(60,258 )
Income tax provision	1,061	—	1,450	293
Net income (loss)	\$6,224	\$2,902	\$260,140	(\$60,551 )
Less: Net income attributable to noncontrolling interests	(8,069 )	—	(7,400 )	—
Net (loss) income attributable to Capital Trust, Inc.	(\$1,845 )	\$2,902	\$252,740	(\$60,551 )
<b>Per share information:</b>				
Net (loss) income per share of common stock:				
Basic	(\$0.08 )	\$0.13	\$11.19	(\$2.71 )
Diluted	(\$0.08 )	\$0.13	\$10.52	(\$2.71 )
<b>Weighted average shares of common stock outstanding:</b>				
Basic	22,723,146	22,344,552	22,580,143	22,340,071
Diluted	22,723,146	22,667,326	24,024,222	22,340,071

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See accompanying notes to consolidated financial statements.

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Capital Trust, Inc. and Subsidiaries  
Consolidated Statements of Changes in Shareholders' Deficit  
For the Six Months Ended June 30, 2011 and 2010  
(in thousands)  
(unaudited)

	Comprehensive (Loss) Income	Restricted Class A Common Stock	Restricted Class A Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Accumulated Deficit
Balance at January 1, 2010		\$218	\$1	\$559,145	(\$39,135)	\$—	(\$689)
Net loss attributable to Capital Trust, Inc.	(\$60,551 )	—	—	—	—	—	(60,551 )
Cumulative effect of change in accounting principle	—	—	—	—	3,800	—	(45,600 )
Unrealized loss on derivative financial instruments	(5,994 )	—	—	—	(5,994 )	—	—
Amortization of unrealized gains and losses on securities	(406 )	—	—	—	(406 )	—	—
Amortization of deferred gains and losses on settlement of swaps	(50 )	—	—	—	(50 )	—	—
Other-than-temporary impairments of securities related to fair value adjustments in excess of expected credit losses, net of amortization	(15,800 )	—	—	—	(15,800 )	—	—
Restricted class A common stock earned	—	1	—	19	—	—	—
Deferred directors' compensation	—	—	—	103	—	—	—
Balance at June 30, 2010	(\$82,801 )	\$219	\$1	\$559,267	(\$57,585)	\$—	(\$795)
Balance at January 1, 2011		\$219	\$—	\$559,411	(\$50,462)	\$—	(\$920)
Net income attributable to Capital Trust, Inc.	\$252,740	—	—	—	—	—	\$252,740
Net income attributable to noncontrolling interests	7,400	—	—	—	—	7,400	—
Allocation to noncontrolling interests	—	—	—	37,156	—	(12,623)	—
Purchase of noncontrolling interests	—	—	—	(142 )	—	—	—
Unrealized gain on derivative financial instruments	3,545	—	—	—	3,545	—	—
Loss on interest rate swaps not designated as cash flow hedges	3,201	—	—	—	3,201	—	—
Amortization of unrealized gains and losses on securities	(506 )	—	—	—	(506 )	—	—
Amortization of deferred gains and losses on settlement of swaps	(47 )	—	—	—	(47 )	—	—
Other-than-temporary impairments of securities related to fair value adjustments in excess of expected credit losses, net of amortization	3,966	—	—	—	3,966	—	—
Restricted class A common stock earned	—	1	2	230	—	—	—
Deferred directors' compensation	—	—	—	94	—	—	—
Balance at June 30, 2011	\$270,299	\$220	\$2	\$596,749	(\$40,303)	(\$5,223)	(\$667)

See accompanying notes to consolidated financial statements.



Capital Trust, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
For the Six Months Ended June 30, 2011 and 2010  
(in thousands)  
(unaudited)

	2011	2010
Cash flows from operating activities:		
Net income (loss)	\$260,140	(\$60,551)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net impairments recognized in earnings	8,204	21,820
(Recovery of) provision for loan losses	(17,249)	54,227
Valuation allowance on loans held-for-sale	224	—
Gain on extinguishment of debt	(250,976)	(463)
Income from equity investments	(1,797)	(1,302)
Employee stock-based compensation	317	76
Incentive awards plan expense	2,980	—
Deferred directors' compensation	94	103
Amortization of premiums/discounts on loans and securities and deferred interest on loans	(912)	(1,347)
Amortization of deferred gains and losses on settlement of swaps	(47)	(50)
Amortization of deferred financing costs and premiums/discounts on debt obligations	6,648	3,711
Deferred interest on senior credit facility	—	1,977
Loss on interest rate swaps not designated as cash flow hedges	3,970	—
Changes in assets and liabilities, net:		
Accrued interest receivable	2,617	312
Deferred income taxes	(939)	321
Prepaid expenses and other assets	448	586
Accounts payable and accrued expenses	(1,283)	810
Net cash provided by operating activities	12,439	20,230
Cash flows from investing activities:		
Principal collections and proceeds from securities	31,435	10,758
Add-on fundings under existing loan commitments	—	(886)
Distributions from equity investments	3,360	—
Principal collections of loans receivable	1,680,725	77,206
Proceeds from disposition of loans	5,750	23,548
Contributions to unconsolidated subsidiaries	(1,991)	(1,528)

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Distributions from unconsolidated subsidiaries	2,869	—
Increase in restricted cash	(10,225)	—
Net cash provided by investing activities	1,711,923	109,098
Cash flows from financing activities:		
Repayments under repurchase obligations	(253,336)	(21,883)
Repayments under senior credit facility	(22,932)	(2,500)
Repayment of junior subordinated notes	(4,640)	—
Borrowing under mezzanine loan	83,000	—
Repayments under mezzanine loan	(20,000)	—
Repayment of securitized debt obligations	(1,490,715)	(106,404)
Payment of financing expenses	(11,126)	—
Purchase of noncontrolling interests	(142)	—
Purchase of secured notes	(405)	—
Vesting of restricted Class A common stock	(85)	—
Net cash used in financing activities	(1,720,381)	(130,787)
Net increase (decrease) in cash and cash equivalents	3,981	(1,459)
Cash and cash equivalents at beginning of period	24,449	27,954
Cash and cash equivalents at end of period	\$28,430	\$26,495

See accompanying notes to consolidated financial statements.

Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(unaudited)

## Note 1. Organization

References herein to “we,” “us” or “our” refer to Capital Trust, Inc. and its subsidiaries unless the context specifically requires otherwise.

We are a fully integrated, self-managed, real estate finance and investment management company that specializes in credit sensitive financial products. To date, our investment programs have focused on loans and securities backed by commercial real estate assets. We invest for our own account directly on our balance sheet and for third parties through a series of investment management vehicles. Our business model is designed to produce a mix of net interest margin from our balance sheet investments, and fee income and co-investment income from our investment management vehicles. In managing our operations, we focus on originating investments, managing our portfolios and capitalizing our business. From the inception of our finance business in 1997 through June 30, 2011, we have completed over \$11.8 billion of investments in the commercial real estate debt arena. We conduct our operations as a real estate investment trust, or REIT, for federal income tax purposes. We are traded on the New York Stock Exchange, or NYSE, under the symbol “CT”, and are headquartered in New York City.

### March 2011 Restructuring

On March 31, 2011, we restructured, amended, or extinguished all of our outstanding recourse debt obligations, which we refer to as our March 2011 restructuring. Our March 2011 restructuring involved: (i) the contribution of certain of our legacy assets to a newly formed subsidiary, CT Legacy REIT Mezz Borrower, Inc., or CT Legacy REIT, (ii) the assumption of our legacy repurchase obligations by CT Legacy REIT, and (iii) the extinguishment of the remainder of our recourse obligations; our senior credit facility and junior subordinated notes. The restructuring was financed with a new \$83.0 million mezzanine loan obtained by CT Legacy REIT from an affiliate of Five Mile Capital Partners LLC, or Five Mile, and the issuance of equity interests in the common stock of CT Legacy REIT to our former junior subordinated noteholders and former lenders under our senior credit facility, as well as to an affiliate of Five Mile.

### Capital Trust, Inc.

Following the completion of our March 2011 restructuring, we no longer have any recourse debt obligations, and retain unencumbered ownership of 100% of (i) our investment management platform, CT Investment Management Co., LLC, (ii) our co-investment in CT Opportunity Partners I, LP, (iii) our residual ownership interests in CT CDOs I, II, and IV, and (iv) our tax-basis net operating losses. Furthermore, we have a 52% equity interest in the common stock of CT Legacy REIT. Our economic interest in CT Legacy REIT is, however, subject to (i) the secured notes, which are collateralized by certain of our retained equity interests in the common stock of CT Legacy REIT, (ii) incentive awards that provide for the participation in our retained equity interests in CT Legacy REIT, and (iii) the subordinate class B common stock of CT Legacy REIT owned by our former junior subordinate noteholders. See below for further discussion of the secured notes, management incentive awards plan, and class B common stock.

In addition to our interest in the common stock of CT Legacy REIT, we also own 100% of its class A preferred stock. The class A preferred stock initially entitles us to cumulative preferred dividends of \$7.5 million per annum, which dividends will be reduced in 2013 as the CT Legacy REIT portfolio assets repay or are sold.

### CT Legacy REIT

In connection with the restructuring, we transferred substantially all of our directly held interest earning assets to CT Legacy REIT. The transferred assets included: (i) all of the loans and securities which serve as collateral for the legacy repurchase obligations, except for certain subordinate interests in CT CDOs I and II, (ii) our subordinate interests in CT CDO III, and (iii) 100% of our previously unencumbered loans and securities, which we collectively refer to as our Legacy Assets.

CT Legacy REIT, which is expected to be taxed as a REIT commencing in 2011, is owned 52% by us, 24% by an affiliate of Five Mile, and 24% by the former lenders under our senior credit facility. In addition, the former holders of our junior subordinated notes received class B common stock, a subordinate class of common stock of CT Legacy REIT, which is described below. Capital Trust, Inc. will manage CT Legacy REIT and the Legacy Assets as a liquidating portfolio.

During the second quarter of 2011, the CT Legacy REIT portfolio received repayments of \$207.0 million, including full loan satisfactions of \$191.2 million and partial repayments of \$15.8 million, which repayments represented approximately 41.5% of the net book value of the CT Legacy REIT portfolio as of March 31, 2011.

#### Mezzanine Loan

CT Legacy REIT entered into an \$83.0 million mezzanine loan (which was subsequently reduced to \$63.0 million as of June 30, 2011) that carries a 15.0% per annum interest rate, of which 7.0% per annum may be deferred, and that matures on March 31, 2016. The mezzanine loan is not recourse to Capital Trust, Inc. except for certain limited non-recourse, "bad boy" carve outs. Proceeds from the mezzanine loan were used to (i) extinguish the senior credit facility, (ii) extinguish the junior subordinated notes, (iii) provide for cash paydowns of the repurchase obligations, (iv) pay transaction expenses, and (v) establish liquidity reserves at CT Legacy REIT.



Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(unaudited)

The mezzanine loan is collateralized by 100% of the equity interests in a subsidiary of CT Legacy REIT, which in-turn owns all of our Legacy Assets, subject in-part to the repurchase obligations. Five Mile has consent rights with respect to material actions on the Legacy Assets such as material modifications, sales, and/or the pursuit of certain remedies with regard to the Legacy Assets. The mezzanine loan also contains covenants that (i) prohibit CT Legacy REIT from paying common stock cash dividends until the mezzanine loan has been repaid, (ii) prohibit us from selling or otherwise transferring our equity interests in CT Legacy REIT, and (iii) require the continued employment of certain key employees.

During the second quarter of 2011, \$20.0 million of the mezzanine loan was repaid using proceeds from the satisfaction of former repurchase facility collateral assets. As further described below, during the second quarter of 2011 the Morgan Stanley and Citigroup repurchase facilities were terminated and the remaining collateral thereunder was released.

In addition, as discussed above, an affiliate of Five Mile acquired a 24% equity interest in the common stock of CT Legacy REIT in conjunction with the making of the mezzanine loan. Subsequently, during the second quarter of 2011, an affiliate of Five Mile also acquired 9.4% of the subordinate class B common stock of CT Legacy REIT which was originally issued to our former junior subordinate noteholders. See below for further discussion of the class B common stock.

#### Repurchase Obligations

Our \$339.6 million of legacy repurchase obligations (which were subsequently reduced to \$119.3 million as of June 30, 2011) with JP Morgan, Morgan Stanley and Citigroup were assumed by wholly-owned subsidiaries of CT Legacy REIT, and the recourse to Capital Trust, Inc. was eliminated. In addition, the facilities were amended with the following terms:

- Each of the repurchase lenders received cash paydowns equal to 10% of their then outstanding balances, in the aggregate \$33.9 million.
- Except for certain key man provisions, all restrictive covenants governing the operations of Capital Trust, Inc. were eliminated, including covenants restricting employee compensation, dividend payments, and new balance sheet investments.
  - Net interest margin sweep and periodic amortization provisions were eliminated.
  - All forms of margin call or similar requirements under the facilities were eliminated.
- Maturity dates were extended to December 15, 2014 in the case of JPMorgan, January 31, 2013 in the case of Morgan Stanley, and March 31, 2013 in the case of Citigroup, subject in all three cases to periodic required repayment thresholds.
- Interest rates were increased to LIBOR + 2.50% per annum in the cases of JPMorgan and Morgan Stanley, and LIBOR + 1.50% per annum in the case of Citigroup, subject in all three cases to periodic rate increases over the term of each respective facility.

During the second quarter of 2011, \$185.4 million of the legacy repurchase obligations were repaid, including the full repayment and termination of the Morgan Stanley and Citigroup facilities and a release of the remaining collateral thereunder, as well as a \$54.1 million repayment of the JP Morgan facility.

#### Senior Credit Facility

Our \$98.1 million senior credit facility was fully satisfied and all collateral for the senior credit facility was released in exchange for (i) a cash payment of \$22.9 million, (ii) a 24% equity interest in the common stock of CT Legacy REIT, and (iii) \$2.8 million of secured notes, as further discussed below.

#### Junior Subordinated Notes

Our \$143.8 million of junior subordinated notes were fully satisfied in exchange for (i) a cash payment of \$4.6 million, (ii) 100% of the subordinate class B common stock of CT Legacy REIT, and (iii) \$5.0 million of secured notes, as further discussed below. The subordinate class B common stock is a subordinate class that entitles its holders to receive approximately 25% of the dividends that would otherwise be payable to us on certain of our equity interest in the common stock of CT Legacy REIT, after aggregate cash distributions of \$50.0 million have been paid to all other classes of common stock.

Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(unaudited)

### Secured Notes

In conjunction with the satisfaction of the senior credit facility and the junior subordinated notes, a wholly-owned subsidiary issued secured notes to our former creditors, which secured notes are non-recourse to us. The secured notes had an aggregate initial face balance of \$7.8 million and are secured by 93.5% of our equity interests in the class A-1 and class A-2 common stock of CT Legacy REIT, which represents 48.3% of the total outstanding class A-1 and class A-2 common stock of CT Legacy REIT. The secured notes mature on March 31, 2016 and bear interest at a rate of 8.2% per annum, which interest may be deferred until maturity. All dividends we receive from our equity interests in the common stock of CT Legacy REIT which serve as collateral under the secured notes must be used to pay, or prepay, interest and principal due thereunder. Any prepayment, or partial prepayment, of the remaining secured notes will incur a prepayment premium resulting in a total payment of principal and interest under the secured notes of \$11.1 million.

During the second quarter of 2011, we purchased \$405,000 of the secured notes at par.

### Management Incentive Awards Plan

Upon completion of our March 2011 restructuring, we granted senior level employees incentive awards issued under our long term incentive plan that participate in amounts earned from our retained equity interest in CT Legacy REIT. The awards provide payments to certain senior level employees equal to 6.75% of the total recovery (subject to certain caps) of our legacy assets, net of CT Legacy REIT's obligations, when and if distributed to us as dividends.

### Note 2. Summary of Significant Accounting Policies

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP, for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the consolidated financial statements and the related management's discussion and analysis of financial condition and results of operations filed with our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. In our opinion, all material adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation, in accordance with GAAP, have been included. The results of operations for the six months ended June 30, 2011 are not necessarily indicative of results that may be expected for the entire year ending December 31, 2011.

### Principles of Consolidation

The accompanying financial statements include, on a consolidated basis, our accounts, the accounts of our wholly-owned subsidiaries, and variable interest entities, or VIEs, in which we are the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation.

VIEs are defined as entities in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as its primary beneficiary, and is generally the entity with (i) the power to direct the activities that most significantly impact the VIE's economic performance, and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE.

Our consolidated VIEs include: (i) the CT Legacy REIT, and (ii) eleven securitization vehicles, including our four CT CDOs which were sponsored and issued by us, as well as seven other, similar, vehicles. See Note 10 and Note 11 for additional information on our investments in VIEs.

#### Balance Sheet Presentation

Our consolidated balance sheets separately present: (i) our direct assets and liabilities, (ii) the direct assets and liabilities of CT Legacy REIT, and (iii) the assets and liabilities of consolidated securitization vehicles, some of which are subsidiaries of CT Legacy REIT. Assets of all consolidated VIEs can generally only be used to satisfy the obligations of those VIEs, and the liabilities of consolidated VIEs are non-recourse to us.

We have aggregated all the assets and liabilities of the consolidated securitization vehicles due to our determination that these entities are substantively similar and therefore a further disaggregated presentation would not be more meaningful. Similarly, the notes to our consolidated financial statements separately describe (i) our direct assets and liabilities, (ii) the direct assets and liabilities of CT Legacy REIT, and (iii) the assets and liabilities of consolidated securitization vehicles, some of which are subsidiaries of CT Legacy REIT.

Capital Trust, Inc. and Subsidiaries  
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#### Equity Investments in Unconsolidated Subsidiaries

Our co-investment interests in the private equity funds we manage are accounted for using the equity method. These entities' assets and liabilities are not consolidated into our financial statements due to our determination that (i) these entities are not VIEs, and (ii) the investors have sufficient rights to preclude consolidation by us. As such, we report our allocable percentage of the earnings or losses of these entities on a single line item in our consolidated statements of operations as income from equity investments.

One such fund, CT Opportunity Partners I, LP, or CTOPI, maintains its financial records at fair value in accordance with GAAP. We have applied such accounting relative to our investment in CTOPI, and include any adjustments to fair value recorded at the fund level in determining the income we record on our equity investment in CTOPI.

#### Revenue Recognition

Interest income from our loans receivable is recognized over the life of the investment using the effective interest method and is recorded on the accrual basis. Fees, premiums, discounts and direct costs associated with these investments are deferred until the loan is advanced and are then recognized over the term of the loan as an adjustment to yield. For loans where we have unfunded commitments, we amortize these fees and other items on a straight line basis. Fees on commitments that expire unused are recognized at expiration. Income accrual is generally suspended for loans at the earlier of the date at which payments become 90 days past due or when, in the opinion of management, recovery of income and principal becomes doubtful. Income is then recorded on the basis of cash received until accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed.

Interest income from our securities is recognized using a level yield with any purchase premium or discount accreted through income over the life of the security. This yield is calculated using cash flows expected to be collected which are based on a number of assumptions on the underlying loans. Examples include, among other things, the rate and timing of principal payments, including prepayments, repurchases, defaults and liquidations, the pass-through or coupon rate, and interest rates. Additional factors that may affect reported interest income on our securities include interest payment shortfalls due to delinquencies on the underlying mortgage loans and the timing and magnitude of expected credit losses on the mortgage loans underlying the securities. These are impacted by, among other things, the general condition of the real estate market, including competition for tenants and their related credit quality, and changes in market rental rates. These uncertainties and contingencies are difficult to predict and are subject to future events that may alter the assumptions.

Fees from special servicing and asset management services are recorded on an accrual basis as services are rendered under the applicable agreements, and when receipt of fees is reasonably certain. We do not recognize incentive income from our investment management business until contingencies have been eliminated. Depending on the structure of our investment management vehicles, certain incentive fees may be in the form of carried interest or promote distributions.

#### Cash and Cash Equivalents

We classify highly liquid investments with original maturities of three months or less from the date of purchase as cash equivalents. We place our cash and cash equivalents with high credit quality institutions to minimize credit risk exposure. As of, and for the periods ended, June 30, 2011 and December 31, 2010, we had bank balances in excess of federally insured amounts. We have not experienced any losses on our demand deposits, commercial paper or money market investments.

#### Restricted Cash

We classify the cash balances held by CT Legacy REIT as restricted because of limitations imposed on the payment of dividends by CT Legacy REIT to its common equity holders, including us. As further described in Notes 1 and 10, common dividends cannot be paid by CT Legacy REIT until the mezzanine loan and repurchase obligations have been satisfied. Accordingly, while these cash balances are available for use by CT Legacy REIT for operations, debt service, or other purposes, they are currently unavailable to us.

#### Securities

We classify our securities as held-to-maturity, available-for-sale, or trading on the date of acquisition of the investment. Held-to-maturity investments are stated at cost, adjusted for the amortization of any premiums or discounts, which are amortized through our consolidated statements of operations using the level yield method described above. Other than in the instance of an other-than-temporary impairment, as discussed below, these held-to-maturity investments are carried on our consolidated financial statements at their amortized cost basis.

Capital Trust, Inc. and Subsidiaries  
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We may also invest in securities which may be classified as available-for-sale. Available-for-sale securities are carried at estimated fair value with the net unrealized gains or losses reported as a component of accumulated other comprehensive income (loss) in shareholders' equity. Changes in the valuations do not affect our reported income or cash flows, but do impact shareholders' equity and, accordingly, book value per share. On August 4, 2005, we changed the accounting classification of certain of our securities from available-for-sale to held-to-maturity. We have not designated any securities as available-for-sale since that time.

Further, as required under GAAP, when, based on current information and events, there has been an adverse change in the cash flows expected to be collected from those previously estimated for one of our securities, an other-than-temporary impairment is deemed to have occurred. A change in expected cash flows is considered adverse if the present value of the revised cash flows (taking into consideration both the timing and amount of cash flows expected to be collected) discounted using the security's current yield is less than the present value of the previously estimated remaining cash flows, adjusted for cash receipts during the intervening period.

Should an other-than-temporary impairment be deemed to have occurred, the security is written down to fair value. The total other-than-temporary impairment is bifurcated into (i) the amount related to expected credit losses, and (ii) the amount related to fair value adjustments in excess of expected credit losses, or the Valuation Adjustment. The portion of the other-than-temporary impairment related to expected credit losses is calculated by comparing the amortized cost basis of the security to the present value of cash flows expected to be collected, discounted at the security's current yield, and is recognized through earnings in the consolidated statement of operations. The remaining other-than-temporary impairment related to the Valuation Adjustment is recognized as a component of accumulated other comprehensive income (loss) in shareholders' equity. A portion of other-than-temporary impairments recognized through earnings is accreted back to the amortized cost basis of the security through interest income, while amounts recognized through other comprehensive income (loss) are amortized over the life of the security with no impact on earnings.

#### Loans Receivable, Provision for Loan Losses, Loans Held-for-Sale and Related Allowance

We purchase and originate commercial real estate debt and related instruments, or Loans, generally to be held as long-term investments at amortized cost. Management is required to periodically evaluate each of these Loans for possible impairment. Impairment is indicated when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the Loan. If a Loan is determined to be impaired, we write down the Loan through a charge to the provision for loan losses. Impairment on these loans is measured by comparing the estimated fair value of the underlying collateral to the book value of the respective loan. These valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management. Actual losses, if any, could ultimately differ from these estimates.

In conjunction with our quarterly loan portfolio review, management assesses the performance of each loan, and assigns a risk rating based on several factors including risk of loss, loan-to-value ratio, or LTV, collateral performance, structure, exit plan, and sponsorship. Loans are rated one through eight, which are defined as follows:

- 1 -Low Risk: A loan that is expected to perform through maturity, with relatively lower LTV, higher in-place debt yield, and stable projected cash flow.
- 2 -Average Risk: A loan that is expected to perform through maturity, with medium LTV, average in-place debt yield, and stable projected cash flow.

- 3 Acceptable Risk: A loan that is expected to perform through maturity, with relatively higher LTV, acceptable in-place debt yield, and some uncertainty (due to lease rollover or other factors) in projected cash flow.
- 4 - Higher Risk: A loan that is expected to perform through maturity, but has exhibited a material deterioration in cash flow and/or other credit factors. If negative trends continue, default could occur.
- 5 -Low Probability of Default/Loss: A loan with one or more identified weakness that we expect to have a 15% probability of default or principal loss.
- 6 -Medium Probability of Default/Loss: A loan with one or more identified weakness that we expect to have a 33% probability of default or principal loss.



Capital Trust, Inc. and Subsidiaries  
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7 High Probability of Default/Loss: A loan with one or more identified weakness that we expect to have a 67% or - higher probability of default or principal loss.

8 - In Default: A loan which is in contractual default and/or which has a very high likelihood of principal loss.

In addition, for certain pools of smaller loans which have similar credit characteristics, primarily loans with an outstanding principal balance of \$10.0 million or less in our consolidated securitization vehicles, we have recorded a general provision for loan losses in lieu of the asset-specific provisions we record on all other loans. This general provision is based on macroeconomic data with respect to historic loan losses, vintage, property type, and other factors deemed relevant for such loan pools. These loans do not undergo the same level of asset management as our larger, direct investments.

In certain cases, we may classify loans as held-for-sale based upon the specific facts and circumstances of particular Loans, including known or expected transactions. Loans held-for-sale are carried at the lower of our amortized cost basis and fair value. A reduction in the fair value of loans held-for-sale is recorded as a charge to our consolidated statement of operations as a valuation allowance on loans held-for-sale.

#### Real Estate Held-for-Sale

Loan investments where we have foreclosed upon the underlying collateral and own an equity interest in real estate are categorized as real estate owned. We generally do not intend to hold such foreclosed assets for long-term operations and therefore classify such assets as real estate held-for-sale on our consolidated balance sheets. Real estate held-for-sale are carried at the lower of our basis in the real estate and fair value, with reductions in fair value recorded as an impairment of real estate-held-for-sale on our consolidated statements of operations.

#### Deferred Financing Costs

The deferred financing costs which are included in prepaid expenses and other assets on our consolidated balance sheets include issuance costs related to our debt obligations, and are amortized using the effective interest method, or a method that approximates the effective interest method, over the life of the related obligations.

#### Repurchase Obligations

In certain circumstances, we have financed the purchase of investments from a counterparty through a repurchase agreement with that same counterparty. We currently record these investments in the same manner as other investments financed with repurchase agreements, with the investment recorded as an asset and the related borrowing under any repurchase agreement recorded as a liability on our consolidated balance sheets. Interest income earned on the investments and interest expense incurred on the repurchase obligations are reported separately on our consolidated statements of operations.

#### Interest Rate Derivative Financial Instruments

In the normal course of business, we use interest rate derivative financial instruments to manage, or hedge, cash flow variability caused by interest rate fluctuations. Specifically, we currently use interest rate swaps to effectively convert floating rate liabilities that are financing fixed rate assets to fixed rate liabilities. The differential to be paid or received on these agreements is recognized on the accrual basis as an adjustment to the interest expense related to the attendant liability. The interest rate swap agreements are generally accounted for on a held-to-maturity basis, and, in cases where they are terminated early, any gain or loss is generally amortized over the remaining life of the hedged item. These swap agreements must be effective in reducing the variability of cash flows of the hedged items in order to qualify for the aforementioned hedge accounting treatment. Changes in value of effective cash flow hedges are

reflected on our consolidated financial statements through accumulated other comprehensive income (loss) and do not affect our net income (loss). To the extent a derivative does not qualify for hedge accounting, and is deemed a non-hedge derivative, the changes in its value are included in net income (loss).

To determine the fair value of interest rate derivative financial instruments, we use a third-party derivative specialist to assist us in periodically valuing our interests.

#### Income Taxes

Our financial results generally do not reflect provisions for current or deferred income taxes on our REIT taxable income. Management believes that we operate in a manner that will continue to allow us to be taxed as a REIT and, as a result, we generally do not expect to pay substantial corporate level taxes other than those payable by our taxable REIT subsidiaries. Many of these requirements, however, are highly technical and complex. If we were to fail to meet these requirements, we may be subject to federal, state and local income tax on current and past income, and penalties.

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#### Accounting for Stock-Based Compensation

Stock-based compensation expense is recognized in net income using a fair value measurement method, which we determine with the assistance of a third-party appraisal firm. Compensation expense for the time vesting of stock-based compensation grants is recognized on the accelerated attribution method and compensation expense for performance vesting of stock-based compensation grants is recognized on a straight line basis.

The fair value of the performance vesting restricted common stock is measured on the grant date using a Monte Carlo simulation to estimate the probability of the market vesting conditions being satisfied. The Monte Carlo simulation is run approximately 100,000 times. For each simulation, the payoff is calculated at the settlement date, and is then discounted to the grant date at a risk-free interest rate. The average of the values over all simulations is the expected value of the restricted common stock on the grant date. The valuation is performed in a risk-neutral framework, so no assumption is made with respect to an equity risk premium. Significant assumptions used in the valuation include an expected term and stock price volatility, an estimated risk-free interest rate and an estimated dividend growth rate.

Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by us.

#### Comprehensive Income (Loss)

Total comprehensive income (loss) was \$270.3 million and (\$82.8) million for the six months ended June 30, 2011 and 2010. The primary components of comprehensive income (loss) other than net income (loss) are the unrealized gains and losses on derivative financial instruments and the component of other-than-temporary impairments of securities related to the Valuation Adjustment.

There was a one-time \$3.8 million adjustment to accumulated other comprehensive loss upon our adoption of new accounting guidance effective January 1, 2010. See below discussion under “Recent Accounting Pronouncements” in this Note 2 for additional information. See Note 12 for additional discussion of accumulated other comprehensive loss.

#### Earnings per Share of Common Stock

Basic earnings per share, or EPS, is computed based on the net earnings allocable to common stock and stock units, divided by the weighted average number of shares of common stock and stock units outstanding during the period. Diluted EPS is based on the net earnings allocable to common stock and stock units, divided by the weighted average number of shares of common stock, stock units and potentially dilutive common stock options and warrants. See Note 12 for additional discussion of earnings per share.

#### 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 date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may ultimately differ from those estimates.

#### Reclassifications

Certain reclassifications have been made in the presentation of the prior period consolidated financial statements to conform to the June 30, 2011 presentation.

### Segment Reporting

We operate in two reportable segments. We have an internal information system that produces performance and asset data for the two segments along service lines.

The Balance Sheet Investment segment includes our consolidated portfolio of interest earning assets and the financing thereof.

The Investment Management segment includes the investment management activities of our wholly-owned investment management subsidiary, CT Investment Management Co., LLC, or CTIMCO, and its subsidiaries, as well as our co-investments in investment management vehicles. CTIMCO is a taxable REIT subsidiary and serves as the investment manager of Capital Trust, Inc., all of our investment management vehicles and CT CDOs, and serves as senior servicer and special servicer for certain of our investments and for third parties.

### Fair Value of Financial Instruments

The “Fair Value Measurements and Disclosures” Topic of the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or the Codification, defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements under GAAP. Specifically, this guidance defines fair value based on exit price, or the price that would be received upon the sale of an asset or the transfer of a liability in an orderly transaction between market participants at the measurement date. Our assets and liabilities which are measured at fair value are discussed in Note 17.

Capital Trust, Inc. and Subsidiaries  
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#### Recent Accounting Pronouncements

New accounting guidance which was effective as of January 1, 2010 changed the criteria for consolidation of VIEs and removed a preexisting consolidation exception for qualified special purpose entities, which includes certain securitization vehicles. The amended guidance requires a qualitative, rather than quantitative assessment of when a VIE should be consolidated. Specifically, an entity would generally be required to consolidate a VIE if it has (i) the power to direct the activities that most significantly impact the entity's economic performance, and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE.

As a result of the amended guidance, we have consolidated an additional seven VIEs beginning January 1, 2010, all of which are securitization vehicles not sponsored by us. We have consolidated these entities generally due to our ownership interests in subordinate classes of securities issued by the VIEs, which investments carry certain control provisions. Although our investments are generally passive in nature, by owning more than 50% of the controlling class of each vehicle we do control special servicer naming rights, which we believe gives us the power to direct the most significant economic activities of these entities.

Upon consolidation of these seven securitization vehicles, we recorded a one-time adjustment to shareholders' equity of (\$41.8) million on January 1, 2010. This reduction in equity is due to the difference between the aggregate pre-consolidation book value of our investment in these vehicles (which were accounted for as securities) and the aggregate net assets, or equity, of those vehicles upon consolidation. This difference was primarily caused by asset impairments recorded at the entity-level which are in excess of our investment amount. Due to the fact that the liabilities of these vehicles are entirely non-recourse to us, this excess charge to equity, as well as similar charges on securitization vehicles previously consolidated, will eventually be reversed when our interests in the entities are repaid or sold, or the entities are otherwise deconsolidated in the future.

In January 2010, the FASB issued Accounting Standards Update 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements," or ASU 2010-06. ASU 2010-06 amends existing disclosure guidance related to fair value measurements. Specifically, ASU 2010-06 requires (i) details of significant asset or liability transfers in and out of Level 1 and Level 2 measurements within the fair value hierarchy, and (ii) inclusion of gross purchases, sales, issuances, and settlements within the rollforward of assets and liabilities valued using Level 3 inputs within the fair value hierarchy. In addition, ASU 2010-06 clarifies and increases existing disclosure requirements related to (i) the disaggregation of fair value disclosures, and (ii) the inputs used in arriving at fair values for assets and liabilities valued using Level 2 and Level 3 inputs within the fair value hierarchy. ASU 2010-06 is effective for the first interim or annual period beginning after December 15, 2009, except for the gross presentation of the Level 3 rollforward, which is required for annual reporting periods beginning after December 15, 2010 and for interim periods within those years. The adoption of ASU 2010-06 did not have a material impact on our consolidated financial statements. Additional disclosures, as applicable, are included in Note 17.

In July 2010, the FASB issued Accounting Standards Update 2010-20, "Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," or ASU 2010-20. ASU 2010-20 primarily requires additional disaggregated disclosures of (i) credit risks associated with financing receivables, and (ii) impaired financing receivables and the related allowance for credit losses. ASU 2010-20 is generally effective for the first interim or annual period ending after December 15, 2010; however certain disclosures are not required until the first interim or annual period beginning after December 15, 2010. The adoption of ASU 2010-20 did not have a material impact on our consolidated financial statements. Additional disclosures have been included, as applicable, in the notes to our consolidated financial statements.

In April 2011, the FASB issued Accounting Standards Update 2011-02, "Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring," or ASU 2011-02. ASU 2011-02 primarily clarifies when creditors should classify loan modifications as troubled debt restructurings and provides examples and factors to be considered. Loan modifications which are considered troubled debt restructurings could result in additional disclosure requirements and could impact the related provision for loan losses. ASU 2011-02 is effective for the first interim or annual period beginning after June 15, 2011, with retrospective application to the beginning of the year. The adoption of ASU 2011-02 will impact how we account for loan modifications, and may result in an increase in the loan modifications we classify as troubled debt restructurings, and therefore our provision for loan losses.

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In April 2011, the FASB issued Accounting Standards Update 2011-03, "Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements," or ASU 2011-03. ASU 2011-03 primarily removes certain criteria from the consideration of effective control over assets subject to repurchase agreements. The removal of these criteria will generally result in asset transfers pursuant to repurchase agreements being accounted for as secured borrowings, with both the transferred assets and repurchase liability recorded on the transferor's balance sheet. ASU 2011-03 is effective for the first interim or annual period beginning after December 15, 2011, and is to be applied prospectively to transactions which occur subsequent to the effective date. The adoption of ASU 2011-03 is not expected to have a material impact on our financial statements.

In May 2011, the FASB issued Accounting Standards Update 2011-04, "Fair Value Measurement (Topic 860): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," or ASU 2011-04. ASU 2011-04 amends existing guidance on fair value measurements related to (i) instruments held in a portfolio, (ii) instruments classified within shareholders' equity, (iii) application of the "highest and best use" concept to nonfinancial assets, (iv) application of blockage factors and other premiums and discounts in the valuation process, and (v) other matters. In addition, ASU 2011-04 expanded the required disclosures around fair value measurements including (i) reporting the level in the fair value hierarchy used to value assets and liabilities which are not measured at fair value, but where fair value is disclosed, and (ii) qualitative disclosures about the sensitivity of Level 3 fair value measurements to changes in unobservable inputs used. ASU 2011-04 is effective for the first interim or annual period beginning after December 15, 2011. The adoption of ASU 2011-04 is not expected to have a material impact on our financial statements, however may significantly expand our disclosures related to fair value measurements.

In June 2011, the FASB issued Accounting Standards Update 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income," or ASU 2011-05. ASU 2011-05 does not change the items that must be reported in other comprehensive income, however it eliminates the option to present other comprehensive income on the statement of shareholders' equity and instead requires either (i) a continuous statement of comprehensive income which would replace the current statement of operations, or (ii) an additional statement of other comprehensive income, which would immediately follow the statement of operations, and would report the components of other comprehensive income. ASU 2011-05 is effective for the first interim or annual period beginning after December 15, 2011, and should be applied retrospectively to all periods reported after the effective date. The adoption of ASU 2011-05 is not expected to have a material impact on our financial statements.

### Note 3. Securities Held-to-Maturity

As described in Note 1, in conjunction with our March 2011 restructuring of our recourse debt obligations, a significant portion of our assets, including all of our securities, were transferred to a majority-owned subsidiary, CT Legacy REIT. In addition, as described in Note 2, our consolidated balance sheets separately state our direct assets and liabilities and certain assets and liabilities of consolidated VIEs. See Note 10 for disclosures regarding securities that have been transferred to CT Legacy REIT, and see Note 11 for comparable disclosures regarding securities that are held in consolidated securitization vehicles, as separately stated on our consolidated balance sheets.

Capital Trust, Inc. and Subsidiaries  
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Prior to their transfer to CT Legacy REIT, our securities portfolio consisted of commercial mortgage-backed securities, or CMBS, collateralized debt obligations, or CDOs, and other securities. Activity relating to our securities portfolio for the six months ended June 30, 2011 was as follows (in thousands):

	CMBS	CDOs & Other	Total Book Value (1)
December 31, 2010	\$2,246	\$1,209	\$3,455
Principal paydowns	(45 )	—	(45 )
Discount/premium amortization & other (2)	168	12	180
Other-than-temporary impairments:			
Recognized in earnings	(1,653 )	—	(1,653 )
Recognized in accumulated other comprehensive income	1,640	—	1,640
Transfer to CT Legacy REIT	(2,356 )	(1,221 )	(3,577 )
June 30, 2011	\$—	\$—	\$—

- (1) Includes securities with a total face value of \$36.0 million as of December 31, 2010. All securities have been transferred to CT Legacy REIT on March 31, 2011, as discussed in Note 1.
- (2) Includes mark-to-market adjustments on securities previously classified as available-for-sale, amortization of other-than-temporary impairments, and losses, if any.

The following table details overall statistics for our securities portfolio as of June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
Number of securities		7
Number of issues		5
Rating (1) (2)	n/a	CCC
Fixed / Floating (in millions) (3)	\$ / \$	\$2 / \$1
Coupon (1) (4)	n/a	7.44%
Yield (1) (4)	n/a	10.54%
Life (years) (1) (5)	n/a	1.9

- (1) Represents a weighted average as of December 31, 2010.
- (2) Weighted average ratings are based on the lowest rating published by Fitch Ratings, Standard & Poor's or Moody's Investors Service for each security and exclude unrated equity investments in CDOs with a net book value of \$1.2 million as of December 31, 2010.
- (3) Represents the aggregate net book value of our portfolio allocated between fixed rate and floating rate securities.



- (4) Coupon is based on the securities' contractual interest rates, while yield is based on expected cash flows for each security, and considers discounts/premiums and asset non-performance. Calculations for floating rate securities are based on LIBOR of 0.26% as of December 31, 2010.
- (5) Weighted average life is based on the timing and amount of future expected principal payments through the expected repayment date of each respective investment.

The table below details the ratings and vintage distribution of our securities as of June 30, 2011 and December 31, 2010 (in thousands):

Vintage	Rating as of June 30, 2011			Rating as of December 31, 2010		
	B	CCC and Below	Total	B	CCC and Below	Total
2003	\$—	\$—	\$—	\$—	\$1,210	\$1,210
2002	—	—	—	—	—	—
2000	—	—	—	—	955	955
1997	—	—	—	218	—	218
1996	—	—	—	—	1,072	1,072
Total	\$—	\$—	\$—	\$218	\$3,237	\$3,455

#### Other-than-temporary impairments

Quarterly, we reevaluate our securities portfolio to determine if there has been an other-than-temporary impairment based upon expected future cash flows from each securities investment. As a result of this evaluation, under the accounting guidance discussed in Note 2, during the first quarter of 2011, we recorded a gross other-than-temporary impairment of \$13,000 prior to the transfer of these securities to CT Legacy REIT. In addition, we determined that \$1.6 million of impairments previously recorded in other comprehensive income should be recognized as credit losses due to a decrease in cash flow expectations for two of our securities.

Capital Trust, Inc. and Subsidiaries  
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To determine the component of the gross other-than-temporary impairment related to expected credit losses, we compare the amortized cost basis of each other-than-temporarily impaired security to the present value of its revised expected cash flows, discounted using its pre-impairment yield. Significant judgment of management is required in this analysis that includes, but is not limited to, (i) assumptions regarding the collectability of principal and interest on the underlying loans, net of related expenses, and (ii) current subordination levels at both the individual loans which serve as collateral under our securities and at the securities themselves.

The following table summarizes activity related to the other-than-temporary impairments of our securities during the six months ended June 30, 2011 (in thousands):

	Gross Other-Than- Temporary Impairments	Credit Related Other-Than-Temporary Impairments	Non-Credit Related Other-Than-Temporary Impairments
December 31, 2010	\$30,567	\$27,776	\$2,791
Additions due to change in expected cash flows	13	1,653	(1,640 )
Amortization of other-than-temporary impairments	(110 )	(67 )	(43 )
Transfer to CT Legacy REIT (1)	(30,470 )	(29,362 )	(1,108 )
June 30, 2011	\$—	\$—	\$—

(1) All securities have been transferred to CT Legacy REIT on March 31, 2011, as discussed in Note 1.

#### Unrealized losses and fair value of securities

As discussed above, we do not directly own any securities as of June 30, 2011. Historically, certain of our securities have been carried at values in excess of their fair values. This difference can be caused by, among other things, changes in credit spreads and interest rates.

The following table shows the gross unrealized losses and fair value of our securities for which the fair value is lower than our book value as of December 31, 2010 and that were not deemed to be other-than-temporarily impaired (in millions):

	Less Than 12 Months		Greater Than 12 Months		Total		Book Value (1)
	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	
Floating Rate	\$—	\$—	\$0.2	(\$1.1 )	\$0.2	(\$1.1 )	\$1.3

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Fixed Rate	—	—	—	—	—	—	—
Total	\$—	\$—	\$0.2	(\$1.1 )	\$0.2	(\$1.1 )	\$1.3

- (1) Excludes, as of December 31, 2010, \$2.2 million of securities which were carried at or below fair value and securities against which an other-than-temporary impairment equal to the entire book value was recognized in earnings.

As of December 31, 2010, one of our securities with a book value of \$1.3 million was carried at a balance in excess of its fair value. Fair value for this security was \$158,000 as of December 31, 2010. In total, as of December 31, 2010, we had seven investments in securities with an aggregate book value of \$3.5 million that have an estimated fair value of \$5.5 million, including three investments in CMBS with an estimated fair value of \$5.3 million and four investments in CDOs and other securities with an estimated fair value of \$158,000. These valuations do not include the value of interest rate swaps entered into in conjunction with the purchase/financing of these investments, if any.

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We determine fair values using third party dealer assessments of value, and our own internal financial model-based estimations of fair value. See Note 17 for further discussion of fair value.

Note 4. Loans Receivable, Net

As described in Note 1, in conjunction with our March 2011 restructuring of our recourse debt obligations, a significant portion of our assets, including all of our loans, were transferred to a majority-owned subsidiary, CT Legacy REIT. Our only remaining loans have been sold to third-parties and recorded as participations sold assets and liabilities, as further described in Note 8. In addition, as described in Note 2, our consolidated balance sheets separately state our direct assets and liabilities and certain assets and liabilities of consolidated VIEs. See Note 10 for disclosures regarding loans receivable that have been transferred to CT Legacy REIT, and see Note 11 for comparable disclosures regarding loans receivable that are held in consolidated securitization vehicles, as separately stated on our consolidated balance sheets.

Activity relating to our loans receivable for the six months ended June 30, 2011 was as follows (in thousands):

	Gross Book Value	Provision for Loan Losses	Net Book Value (1)
December 31, 2010	\$978,098	(\$371,780 )	\$606,318
Satisfactions (2)	(71,070 )	—	(71,070 )
Principal paydowns	(11,437 )	—	(11,437 )
Discount/premium amortization & other	(7,653 )	—	(7,653 )
Recovery of provision for loan losses	—	7,914	7,914
Realized loan losses	(119,584 )	119,584	—
Transfer to CT Legacy REIT	(739,694 )	244,282	(495,412 )
June 30, 2011	\$28,660	\$—	\$28,660

(1) Includes loans with a total principal balance of \$28.7 million and \$979.1 million as of June 30, 2011 and December 31, 2010, respectively.

(2) Includes final maturities, full repayments, and sales.

The following table details overall statistics for our loans receivable portfolio as of June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
Number of investments (1)	1	29
Fixed / Floating (in millions) (2)	\$ / \$29	\$55 / \$551
Coupon (3) (4)	1.44%	4.02%
Yield (3) (4)	1.44%	3.81%
	0.4	1.7

Maturity (years) (3)  
(5)

- (1) Our only remaining loan has been sold to third-parties and recorded as participations sold assets and liabilities, as further described in Note 8
- (2) Represents the aggregate net book value of our portfolio allocated between fixed rate and floating rate loans.
- (3) Represents a weighted average as of June 30, 2011 and December 31, 2010, respectively.
- (4) Calculations for floating rate loans are based on LIBOR of 0.19% and 0.26% as of June 30, 2011 and December 31, 2010, respectively.
- (5) Represents the final maturity of each investment assuming all extension options are executed.

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The tables below detail the types of loans in our portfolio, as well as the property type and geographic distribution of the properties securing our loans as of June 30, 2011 and December 31, 2010 (in thousands):

Asset Type	June 30, 2011		December 31, 2010	
	Book Value	Percentage	Book Value	Percentage
Subordinate interests in mortgages	\$28,660	100%	\$113,591	18%
Senior mortgages	—		240,150	39
Mezzanine loans	—		229,346	38
Other	—		23,231	5
<b>Total</b>	<b>\$28,660</b>	<b>100%</b>	<b>\$606,318</b>	<b>100%</b>

Property Type	June 30, 2011		December 31, 2010	
	Book Value	Percentage	Book Value	Percentage
Hotel	28,660	100%	\$147,014	24%
Office	—		307,390	51
Healthcare	—		53,705	9
Multifamily	—		18,093	3
Retail	—		11,460	2
Other	—		68,656	11
<b>Total</b>	<b>\$28,660</b>	<b>100%</b>	<b>\$606,318</b>	<b>100%</b>

Geographic Location	June 30, 2011		December 31, 2010	
	Book Value	Percentage	Book Value	Percentage
Southeast	\$13,761	48%	\$170,400	28%
Southwest	12,388	43	94,491	15
Midwest	2,511	9	6,967	1
Northeast	—		175,297	29
West	—		54,688	9
Northwest	—		29,926	5
International	—		39,470	7
Diversified	—		35,079	6
<b>Total</b>	<b>\$28,660</b>	<b>100%</b>	<b>\$606,318</b>	<b>100%</b>

#### Loan risk ratings

Quarterly, management evaluates our loan portfolio for impairment as described in Note 2. In conjunction with our quarterly loan portfolio review, management assesses the performance of each loan, and assigns a risk rating based on several factors including risk of loss, LTV, collateral performance, structure, exit plan, and sponsorship. Loans are rated one (less risk) through eight (greater risk), which ratings are defined in Note 2.

The following table allocates the net book value and principal balance of our loans receivable based on our internal risk ratings as of June 30, 2011 and December 31, 2010 (in thousands):

Risk Rating	Loans Receivable as of June 30, 2011			Loans Receivable as of December 31, 2010		
	Number of Loans	Principal Balance	Net Book Value	Number of Loans	Principal Balance	Net Book Value
1 - 3	1	\$28,660	\$28,660	10	\$375,169	\$374,885
4 - 5	—	—	—	8	141,667	126,540

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6 - 8	—	—	—	11	462,221	104,893
Total	1	\$28,660	\$28,660	29	\$979,057	\$606,318

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Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
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In making this risk assessment, one of the primary factors we consider is how senior or junior each loan is relative to other debt obligations of the borrower. The following tables further allocate our loans receivable by both loan type and our internal risk ratings as of June 30, 2011 and December 31, 2010 (in thousands):

Senior Mortgage Loans						
Risk Rating	Number of Loans	as of June 30, 2011		as of December 31, 2010		
		Principal Balance	Net Book Value	Number of Loans	Principal Balance	Net Book Value
1 - 3	—	\$—	\$—	2	\$129,200	\$128,852
4 - 5	—	—	—	4	57,554	57,513
6 - 8	—	—	—	3	66,347	53,785
<b>Total</b>	—	<b>\$—</b>	<b>\$—</b>	<b>9</b>	<b>\$253,101</b>	<b>\$240,150</b>

Subordinate Interests in Mortgages						
Risk Rating	Number of Loans	as of June 30, 2011		as of December 31, 2010		
		Principal Balance	Net Book Value	Number of Loans	Principal Balance	Net Book Value
1 - 3	1	\$28,660	\$28,660	1	\$48,000	\$48,000
4 - 5	—	—	—	1	28,965	14,483
6 - 8	—	—	—	5	110,585	51,108
<b>Total</b>	<b>1</b>	<b>\$28,660</b>	<b>\$28,660</b>	<b>7</b>	<b>\$187,550</b>	<b>\$113,591</b>

Mezzanine & Other Loans						
Risk Rating	Number of Loans	as of June 30, 2011		as of December 31, 2010		
		Principal Balance	Net Book Value	Number of Loans	Principal Balance	Net Book Value
1 - 3	—	\$—	\$—	7	\$197,969	\$198,033
4 - 5	—	—	—	3	55,148	54,544
6 - 8	—	—	—	3	285,289	—
<b>Total</b>	—	<b>\$—</b>	<b>\$—</b>	<b>13</b>	<b>\$538,406</b>	<b>\$252,577</b>

#### Loan impairments

We have no impaired loans as of June 30, 2011. However, certain of our loans receivable which were transferred to CT Legacy REIT had previously been impaired, and are discussed in Note 10.

The following table details our average balance of impaired loans by loan type, and the income recorded on such loans subsequent to their impairment during the six months ended June 30, 2011 (in thousands):

Income on Impaired Loans for the Six Months Ended June 30, 2011		
Asset Type	Average Net Book Value	Income Recorded (1)
Senior Mortgage Loans	\$17,269	\$255



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Subordinate Interests in		
Mortgages	19,940	225
Mezzanine & Other Loans	—	1,915
Total	\$37,209	\$2,395

- (1) Substantially all of the income recorded on impaired loans during the period was received in cash. See also Note 10 for disclosure of income recorded on impaired loans subsequent to their transfer to CT Legacy REIT, substantially all of which was also received in cash.

Nonaccrual loans

In accordance with our revenue recognition policies discussed in Note 2, we do not accrue interest on loans which are 90 days past due or, in the opinion of management, are otherwise uncollectable. Accordingly, we do not have any material interest receivable accrued on nonperforming loans as of June 30, 2011.

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Note 5. Loans Held-for-Sale, Net

Activity relating to our loans held-for-sale for the six months ended June 30, 2011 was as follows (in thousands):

	Gross Book Value	Valuation Allowance	Net Book Value
December 31, 2010	\$16,130	(\$10,380 )	\$5,750
Satisfactions	(16,130 )	10,380	(5,750 )
June 30, 2011	\$—	\$—	\$—

During the second quarter of 2010, we reclassified a \$16.1 million mezzanine loan to loans held-for-sale, against which we have previously recorded a provision for loan losses of \$10.6 million. During 2010, we increased the book value of this loan by \$263,000 resulting in a net book value of \$5.8 million as of December 31, 2010. The loan was subsequently sold in January 2011 for its net book value of \$5.8 million.

Note 6. Equity Investments in Unconsolidated Subsidiaries

Our equity investments in unconsolidated subsidiaries consist of our co-investments in investment management vehicles that we sponsor and manage. As of June 30, 2011, we had a co-investment in one such vehicle, CT Opportunity Partners I, LP, or CTOPI, in which we have a commitment to invest up to \$25.0 million, or 4.6% of CTOPI's total capital commitments. We have funded \$14.4 million of our commitment as of June 30, 2011 and received \$3.9 million as a return of capital, resulting in a \$14.5 million unfunded commitment balance.

Activity relating to our equity investments in unconsolidated subsidiaries for the six months ended June 30, 2011 was as follows (in thousands):

	CTOPI	Other	Total
December 31, 2010	\$8,931	\$1	\$8,932
Contributions	1,991	—	1,991
Income from equity investments	1,798	(1 )	1,797
Distributions	(2,869 )	—	(2,869 )
June 30, 2011	\$9,851	\$—	\$9,851

In accordance with the CTOPI management agreement, CTIMCO may earn incentive compensation when certain returns are achieved for the partners of CTOPI, which will be accrued if and when earned, and when appropriate contingencies have been eliminated.

As of June 30, 2011, our maximum exposure to loss from CTOPI was \$10.3 million.

Note 7. Debt Obligations

As described in Note 1, on March 31, 2011, we restructured, amended, or extinguished all of our outstanding recourse debt obligations, which restructuring included the assumption of certain debt obligations by a subsidiary, CT Legacy REIT. In addition, as described in Note 2, our consolidated balance sheets separately state our direct assets and liabilities and certain assets and liabilities of consolidated VIEs. See Note 10 for disclosures regarding debt obligations of CT Legacy REIT, and see Note 11 for comparable disclosures regarding debt obligations of consolidated securitization vehicles, all of which are non-recourse to us, as separately stated on our consolidated balance sheets.

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Capital Trust, Inc. and Subsidiaries  
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As of June 30, 2011 and December 31, 2010, we had \$7.5 million and \$602.9 million of total debt obligations outstanding, respectively. The balances of each category of debt, their respective coupons and all-in effective costs, including the amortization of fees and expenses, were as follows (in thousands):

Debt Obligations	June 30, 2011 Principal Balance	Book Value	December 31, 2010 Book Value	June 30, 2011 Coupon	All-In Cost	Maturity Date
Secured notes	\$7,529	\$7,529	\$—	8.19%	8.19%	March 31, 2016
Repurchase obligations						
JPMorgan	—	—	224,915	N/A	N/A	N/A
Morgan Stanley	—	—	105,044	N/A	N/A	N/A
Citigroup	—	—	42,623	N/A	N/A	N/A
Total repurchase obligations	—	—	372,582	N/A	N/A	N/A
Senior credit facility	—	—	98,124	N/A	N/A	N/A
Junior subordinated notes	—	—	132,190	N/A	N/A	N/A
Total/Weighted Average	\$7,529	\$7,529	\$602,896	8.19%	8.19%	March 31, 2016

#### Secured Notes

In conjunction with our March 2011 restructuring and the corresponding satisfaction of our senior credit facility and junior subordinated notes, a wholly-owned subsidiary issued secured notes to our former creditors, which secured notes are non-recourse to us. The secured notes had an aggregate initial face balance of \$7.8 million and are secured by 93.5% of our equity interests in the class A-1 and class A-2 common stock of CT Legacy REIT, which represents 48.3% of the total outstanding class A-1 and class A-2 common stock of CT Legacy REIT. The secured notes mature on March 31, 2016 and bear interest at a rate of 8.2% per annum, which interest may be deferred until maturity. All dividends we receive from our equity interests in the common stock of CT Legacy REIT which serve as collateral under the secured notes must be used to pay, or prepay, interest and principal due thereunder. Any prepayment, or partial prepayment, of the secured notes will incur a prepayment premium resulting in a total payment of principal and interest under the secured notes of \$11.1 million.

During the second quarter of 2011, we purchased \$405,000 of the secured notes at par.

#### Repurchase Obligations

On March 31, 2011, our legacy repurchase obligations with JP Morgan, Morgan Stanley and Citigroup were assumed by wholly-owned subsidiaries of CT Legacy REIT, and the recourse to Capital Trust, Inc. was eliminated. See Note 10 for further discussion of these amended facilities at CT Legacy REIT.

### Senior Credit Facility

On March 31, 2011, our senior credit facility was fully satisfied and all collateral for the senior credit facility was released in exchange for (i) a cash payment of \$22.9 million, (ii) a 24% equity interest in the common stock of CT Legacy REIT, and (iii) \$2.8 million of secured notes, as discussed above.

### Junior Subordinated Notes

On March 31, 2011, our junior subordinated notes were fully satisfied in exchange for (i) a cash payment of \$4.6 million, (ii) 100% of the subordinate class B common stock of CT Legacy REIT, and (iii) \$5.0 million of secured notes, as discussed above.

### Note 8. Participations Sold

Participations sold represent interests in certain loans that we originated and subsequently sold to one of our investment management vehicles or to third-parties. We present these participations sold as both assets and non-recourse liabilities because these arrangements do not qualify as sales under GAAP. Generally, participations sold are recorded as assets and liabilities in equal amounts on our consolidated balance sheets, and an equivalent amount of interest income and interest expense is recorded on our consolidated statements of operations. However, impaired loan assets must be reduced through the provision for loans losses while the associated non-recourse liability cannot be reduced until the participation has been contractually extinguished. This can result in an imbalance between the loan participations sold asset and liability. We have no economic exposure to these liabilities.

Capital Trust, Inc. and Subsidiaries  
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During the six months ended June 30, 2011, (i) a \$75.0 million loan participation sold, which had previously been 100% impaired, was terminated as a result of a restructuring which termination resulted in recognition of a \$75.0 million gain on extinguishment of debt, (ii) a \$97.5 million loan participation sold, which had similarly been 100% impaired, was transferred to CT Legacy REIT, and (iii) a \$51.8 million loan participation sold was fully repaid.

The following table describes our participations sold assets and liabilities as of June 30, 2011 and December 31, 2010 (in thousands):

	June 30, 2011	December 31, 2010
<b>Participations sold assets</b>		
Gross carrying value	\$28,660	\$259,304
Less: Provision for loan losses	—	(172,465 )
Net book value of assets	28,660	86,839
<b>Participations sold liabilities</b>		
Net book value of liabilities	28,660	259,304
Net impact to shareholders' equity	\$—	(\$172,465 )

#### Note 9. Derivative Financial Instruments

As described in Note 1, in conjunction with our March 2011 restructuring of our recourse debt obligations a significant portion of our assets were transferred to a majority-owned subsidiary, CT Legacy REIT. This transfer included all of our interest rate hedging instruments. In addition, as described in Note 2, our consolidated balance sheets separately state our direct assets and liabilities and certain assets and liabilities of consolidated VIEs. See Note 10 for disclosures regarding interest rate hedging instruments of CT Legacy REIT, and see Note 11 for comparable disclosures regarding interest rate hedging instruments of consolidated securitization vehicles, all of which are non-recourse to us, as separately stated on our consolidated balance sheets.

The following table summarizes the notional amounts and fair values of our interest rate swaps as of June 30, 2011 and December 31, 2010 (in thousands).

Counterparty	June 30, 2011			June 30,	December 31,
	Notional Amount	Interest Rate	Maturity	2011 Fair Value	2010 Fair Value
JPMorgan Chase	\$—	N/A	N/A	\$—	(\$2,172 )
JPMorgan Chase	—	N/A	N/A	—	(1,969 )
JPMorgan Chase	—	N/A	N/A	—	(2,773 )
JPMorgan Chase	—	N/A	N/A	—	(1,015 )
JPMorgan Chase	—	N/A	N/A	—	(490 )
JPMorgan Chase	—	N/A	N/A	—	(32 )
Total/Weighted Average	\$—	N/A	N/A	\$—	(\$8,451 )

As of December 31, 2010, all of our derivative financial instruments were designated as cash flow hedges and recorded at their fair value as interest rate hedge liabilities on our consolidated balance sheet. During the six months ended June 30, 2011, we did not enter into any new derivative financial instrument contracts.

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The table below shows amounts recorded to other comprehensive income and amounts recorded to interest expense from other comprehensive income for the six months ended June 30, 2011 and 2010 (in thousands).

Hedge	Amount of gain (loss) recognized in OCI for the six months ended <sup>(1)</sup>		Amount of loss reclassified from OCI to income for the six months ended <sup>(2)</sup>	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Interest rate swaps	\$933	(\$160)	(\$682)	(\$1,489)

- (1) Represents the amount of unrealized gains and losses recorded to other comprehensive income during the period, net of the amount reclassified to interest expense.
- (2) Represents net amounts paid to swap counterparties during the period, which are included in interest expense, offset by an immaterial amount of non-cash swap amortization.

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Note 10. CT Legacy REIT, Excluding Securitization Vehicles

As described in Note 1, on March 31, 2011, we restructured, amended, or extinguished all of our outstanding recourse debt obligations, and contributed certain of our legacy assets and debt obligations to a newly formed subsidiary, CT Legacy REIT Mezz Borrower, Inc., or CT Legacy REIT.

CT Legacy REIT is a consolidated VIE that is economically owned 52% by us, 24% by an affiliate of Five Mile, and 24% by the former lenders under our senior credit facility. In addition, the former holders of our junior subordinated notes received class B common stock of CT Legacy REIT, a subordinate class of common stock which entitles its holders to receive approximately 25% of the dividends that would otherwise be payable to us on our equity interest in the common stock of CT Legacy REIT, after aggregate cash distributions of \$50.0 million have been paid to all other classes of common stock.

As of June 30, 2011, our consolidated balance sheet includes an aggregate \$299.2 million of assets and \$277.5 million of liabilities related to CT Legacy REIT. In addition, CT Legacy REIT consolidates three securitization trusts which are presented on our consolidated balance sheets with other securitization trusts owned by us directly, which are discussed in Note 11.

The liabilities of CT Legacy REIT are all non-recourse to us, and we are not obligated to provide, nor have we provided, any financial support to CT Legacy REIT. Accordingly, other than in the event of a breach of certain limited non-recourse, “bad boy” carve outs, our maximum exposure to loss as a result of our investment in CT Legacy REIT is limited to \$178.4 million, the face amount of our equity interest in CT Legacy REIT’s net assets. After giving effect to provisions for loan losses and other-than-temporary impairments recorded as of June 30, 2011, our remaining net exposure to loss from CT Legacy REIT is \$65.6 million.

As described in Note 2, our consolidated balance sheets separately present: (i) our direct assets and liabilities, (ii) the direct assets and liabilities of CT Legacy REIT, and (iii) the assets and liabilities of consolidated securitization vehicles, some of which are subsidiaries of CT Legacy REIT. The following disclosures relate specifically to the direct assets and liabilities of CT Legacy REIT, as separately stated on our consolidated balance sheets.

A. Securities Held-to-Maturity – CT Legacy REIT

CT Legacy REIT’s securities portfolio consists of CMBS, CDOs, and other securities. Activity relating to these securities for the six months ended June 30, 2011 was as follows (in thousands):

	CMBS	CDOs & Other	Total Book Value (1)
December 31, 2010	\$—	\$—	\$—
Transfer from Capital Trust, Inc.	2,356	1,221	3,577
Principal paydowns	(47 )	—	(47 )
Discount/premium amortization & other (2)	122	12	134
June 30, 2011	\$2,431	\$1,233	\$3,664



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(1) Includes securities with a total face value of \$35.7 million as of June 30, 2011.

As of June 30, 2011, all of CT Legacy REIT's securities were classified as held-to-maturity.

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Capital Trust, Inc. and Subsidiaries  
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The following table allocates the book value of CT Legacy REIT's securities as of June 30, 2011 between their amortized cost basis, amounts related to mark-to-market adjustments on securities previously classified as available-for-sale, and the portion of other-than-temporary impairments not related to expected credit losses (in thousands):

	CMBS	CDOs & Other	Total Securities
Amortized cost basis	\$4,035	\$1,233	\$5,268
Mark-to-market adjustments on securities previously classified as available-for-sale	(535 )	—	(535 )
Other-than-temporary impairments recognized in accumulated other comprehensive income	(1,069 )	—	(1,069 )
<b>Total book value as of June 30, 2011</b>	<b>\$2,431</b>	<b>\$1,233</b>	<b>\$3,664</b>

The following table details overall statistics for CT Legacy REIT's securities portfolio as of June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
Number of securities	7	
Number of issues	5	
Rating (1) (2)	CCC	n/a
Fixed / Floating (in millions) (3)	\$3 / \$1	\$ / \$
Coupon (1) (4)	8.05%	n/a
Yield (1) (4)	8.89%	n/a
Life (years) (1) (5)	6.6	n/a

- (1) Represents a weighted average as of June 30, 2011.
- (2) Weighted average ratings are based on the lowest rating published by Fitch Ratings, Standard & Poor's or Moody's Investors Service for each security.
- (3) Represents the aggregate net book value of the portfolio allocated between fixed rate and floating rate securities.
- (4) Coupon is based on the securities' contractual interest rates, while yield is based on expected cash flows for each security, and considers discounts/premiums and asset non-performance. Calculations for floating rate securities are based on LIBOR of 0.19% as of June 30, 2011.
- (5) Weighted average life is based on the timing and amount of future expected principal payments through the expected repayment date of each respective investment.

The table below details the ratings and vintage distribution of CT Legacy REIT's securities as of June 30, 2011 (in thousands):

Vintage	Rating as of June 30, 2011		Total
	B	CCC and Below	
2003	\$—	\$1,233	\$1,233

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2000	—	1,102	1,102
1997	200	—	200
1996	—	1,129	1,129
Total	\$200	\$3,464	\$3,664

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## Other-than-temporary impairments

Certain of the securities which were transferred to CT Legacy REIT have previously been other-than-temporarily impaired both during the six months ended June 30, 2011, and in prior periods. The following table summarizes activity related to the other-than-temporary impairments of these securities as of June 30, 2011 (in thousands):

	Gross Other-Than-Temporary Impairments	Credit Related Other-Than-Temporary Impairments	Non-Credit Related Other-Than-Temporary Impairments
December 31, 2010	\$—	\$—	\$—
Transfer from Capital Trust, Inc.	30,470	29,362	1,108
Amortization of other-than-temporary impairments	(118 )	(79 )	(39 )
June 30, 2011	\$30,352	\$29,283	\$1,069

## Unrealized losses and fair value of securities

Certain of CT Legacy REIT's securities are carried at values in excess of their fair values. This difference can be caused by, among other things, changes in credit spreads and interest rates. The following table shows the gross unrealized losses and fair value of securities for which the fair value is lower than their book value as of June 30, 2011, and that are not deemed to be other-than-temporarily impaired (in millions):

	Less Than 12 Months		Greater Than 12 Months		Total		Book Value (1)
	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	
Floating Rate	\$—	\$—	\$0.2	(\$1.1 )	\$0.2	(\$1.1 )	\$1.3
Fixed Rate	—	—	—	—	—	—	—
Total	\$—	\$—	\$0.2	(\$1.1 )	\$0.2	(\$1.1 )	\$1.3

- (1) Excludes, as of June 30, 2011, \$2.4 million of securities which were carried at or below fair value and securities against which an other-than-temporary impairment equal to the entire book value was recognized in earnings.

As of June 30, 2011, one of CT Legacy REIT's securities with a book value of \$1.3 million was carried at a value in excess of its fair value. Fair value for this security was \$158,000 as of June 30, 2011. In total, as of June 30, 2011, CT Legacy REIT had seven investments in securities with an aggregate book value of \$3.7 million that have an estimated fair value of \$3.8 million, including three investments in CMBS with an estimated fair value of \$3.6 million and four investments in CDOs and other securities with an estimated fair value of \$158,000.

We determine fair values using third party dealer assessments of value, and our own internal financial model-based estimations of fair value. See Note 19 for further discussion of fair value. We regularly examine our securities portfolio and have determined that, despite the differences between book value and fair value discussed above, our expectations of future cash flows have changed adversely for six of our securities, against which we have recognized other-than-temporary-impairments.

Our estimation of cash flows expected to be generated by our securities portfolio is based upon an internal review of the underlying loans securing our investments both on an absolute basis and compared to our initial underwriting for each investment. Our efforts are supplemented by third-party research reports, third-party market assessments and our dialogue with market participants.

#### Investments in variable interest entities

CT Legacy REIT's securities portfolio includes investments in both CMBS and CDOs, which securitization structures are generally considered VIEs. We have not consolidated these VIEs due to our determination that, based on the structural provisions of each entity and the nature of our investments, we do not have the power to direct the activities that most significantly impact these entities' economic performance.

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These securities were acquired through investment, and do not represent a securitization or other transfer of our assets. We are not named as special servicer on these investments, nor do we have the right to name special servicer.

CT Legacy REIT is not obligated to provide, nor has it provided, any financial support to these entities. As of June 30, 2011, CT Legacy REIT's maximum exposure to loss as a result of its investment in these entities is \$35.7 million, the principal amount of its securities portfolio. We have recorded other-than-temporary impairments of \$30.4 million against this portfolio, resulting in a net exposure to loss of \$5.3 million as of June 30, 2011.

#### B. Loans Receivable, Net – CT Legacy REIT

Activity relating to CT Legacy REIT's loans receivable for the six months ended June 30, 2011 was as follows (in thousands):

	Gross Book Value	Provision for Loan Losses	Net Book Value (1)
December 31, 2010	\$—	\$—	\$—
Transfer from Capital Trust, Inc. on March 31, 2011	739,694	(244,282 )	495,412
Satisfactions (2)	(191,193 )	—	(191,193 )
Principal paydowns	(16,170 )	—	(16,170 )
Discount/premium amortization & other	906	—	906
Provision for loan losses	—	(9,434 )	(9,434 )
Realized loan losses	(1,434 )	1,434	—
Reclassification to loans held-for-sale	(32,331 )	—	(32,331 )
June 30, 2011	\$499,472	(\$252,282 )	\$247,190

(1) Includes loans with a total principal balance of \$499.1 million as of June 30, 2011.

(2) Includes final maturities, full repayments, and sales.

The following table details overall statistics for CT Legacy REIT's loans receivable portfolio as of June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
Number of investments	20	
Fixed / Floating (in millions) (1)	\$50 / \$197	\$ / \$
Coupon (2) (3)	4.05%	n/a
Yield (2) (3)	4.35%	n/a
Maturity (years) (2) (4)	1.6	n/a

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- (1) Represents the aggregate net book value of the portfolio allocated between fixed rate and floating rate loans.
- (2) Represents a weighted average as of June 30, 2011.
- (3) Calculations for floating rate loans are based on LIBOR of 0.19% as of June 30, 2011.
- (4) Represents the final maturity of each investment assuming all extension options are executed.

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Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
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The tables below detail the types of loans in CT Legacy REIT's portfolio, as well as the property type and geographic distribution of the properties securing these loans, as of June 30, 2011 and December 31, 2010 (in thousands):

Asset Type	June 30, 2011		December 31, 2010	
	Book Value	Percentage	Book Value	Percentage
Senior mortgages	\$81,624	32%	\$—	%
Mezzanine loans	71,215	29	—	
Subordinate interests in mortgages	71,166	29	—	
Other	23,185	10	—	
<b>Total</b>	<b>\$247,190</b>	<b>100%</b>	<b>\$—</b>	<b>%</b>

Property Type	June 30, 2011		December 31, 2010	
	Book Value	Percentage	Book Value	Percentage
Office	\$122,475	50%	\$—	%
Hotel	75,428	31	—	
Multifamily	14,212	5	—	
Other	35,075	14	—	
<b>Total</b>	<b>\$247,190</b>	<b>100%</b>	<b>\$—</b>	<b>%</b>

Geographic Location	June 30, 2011		December 31, 2010	
	Book Value	Percentage	Book Value	Percentage
Northeast	\$67,254	27%	\$—	%
Southwest	55,851	23	—	
West	52,385	21	—	
Southeast	27,297	11	—	
Northwest	10,113	4	—	
International	34,290	14	—	
<b>Total</b>	<b>\$247,190</b>	<b>100%</b>	<b>\$—</b>	<b>%</b>

#### Loan risk ratings

Quarterly, management evaluates CT Legacy REIT's loan portfolio for impairment as described in Note 2. In conjunction with our quarterly loan portfolio review, management assesses the performance of each loan, and assigns a risk rating based on several factors including risk of loss, LTV, collateral performance, structure, exit plan, and sponsorship. Loans are rated one (less risk) through eight (greater risk), which ratings are defined in Note 2.

The following table allocates the net book value and principal balance of CT Legacy REIT's loans receivable based on our internal risk ratings as of June 30, 2011 and December 31, 2010 (in thousands):

Risk Rating	Loans Receivable as of June 30, 2011			Loans Receivable as of December 31, 2010		
	Number of Loans	Principal Balance	Net Book Value	Number of Loans	Principal Balance	Net Book Value
1 - 3	5	\$94,280	\$94,716	—	\$—	\$—
4 - 5	7	114,673	100,190	—	—	—
6 - 8	8	290,113	52,284	—	—	—



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Total	20	\$499,066	\$247,190	—	\$—	\$—
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Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
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In making this risk assessment, one of the primary factors we consider is how senior or junior each loan is relative to other debt obligations of the borrower. The following tables further allocate CT Legacy REIT's loans receivable by both loan type and our internal risk ratings as of June 30, 2011 and December 31, 2010 (in thousands):

Senior Mortgage Loans

Risk Rating	Number of Loans	as of June 30, 2011		as of December 31, 2010		Net Book Value
		Principal Balance	Net Book Value	Number of Loans	Principal Balance	
1 - 3	1	\$6,000	\$5,969	—	\$—	\$—
4 - 5	3	44,667	44,667	—	—	—
6 - 8	2	44,050	30,988	—	—	—
<b>Total</b>	<b>6</b>	<b>\$94,717</b>	<b>\$81,624</b>	<b>—</b>	<b>\$—</b>	<b>\$—</b>

Subordinate Interests in Mortgages

Risk Rating	Number of Loans	as of June 30, 2011		as of December 31, 2010		Net Book Value
		Principal Balance	Net Book Value	Number of Loans	Principal Balance	
1 - 3	1	\$13,000	\$13,000	—	\$—	\$—
4 - 5	2	51,353	36,870	—	—	—
6 - 8	4	85,773	21,296	—	—	—
<b>Total</b>	<b>7</b>	<b>\$150,126</b>	<b>\$71,166</b>	<b>—</b>	<b>\$—</b>	<b>\$—</b>

Mezzanine & Other Loans

Risk Rating	Number of Loans	as of June 30, 2011		as of December 31, 2010		Net Book Value
		Principal Balance	Net Book Value	Number of Loans	Principal Balance	
1 - 3	3	\$75,280	\$75,747	—	\$—	\$—
4 - 5	2	18,653	18,653	—	—	—
6 - 8	2	160,290	—	—	—	—
<b>Total</b>	<b>7</b>	<b>\$254,223</b>	<b>\$94,400</b>	<b>—</b>	<b>\$—</b>	<b>\$—</b>

Loan impairments

The following table describes CT Legacy REIT's impaired loans as of June 30, 2011, including impaired loans that are current in their interest payments and those that are delinquent on contractual payments (in thousands):

Impaired Loans	No. of Loans	Gross Book Value	June 30, 2011	Net Book Value
			Provision for Loan Loss	
Performing loans	5	\$253,536	(\$218,834)	\$34,702

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Non-performing loans	2	43,420	(33,448 )	9,972
Total impaired loans	7	\$296,956	(\$252,282)	\$44,674

The following table details the allocation of CT Legacy REIT's provision for loan losses as of June 30, 2011 (in thousands):

Impaired Loans	Principal Balance	June 30, 2011 Provision for Loan Loss	Loss Severity
Mezzanine & other loans	\$254,223	\$160,289	63%
Subordinate interests in mortgages	150,126	78,931	53
Senior mortgages	94,717	13,062	14
Total/Weighted Average	\$499,066	\$252,282	51%

Generally, we have recorded provisions for loan loss against all loans which are in maturity default, or otherwise have past-due principal payments. As of June 30, 2011, CT Legacy REIT had three loans with an aggregate net book value of \$44.5 million which were in maturity default but had no provision recorded. We expect to collect all principal and interest due under these loans upon their resolution.

Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
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The following table details CT Legacy REIT's average balance of impaired loans by loan type, and the income recorded on such loans subsequent to their impairment during the six months ended June 30, 2011 (in thousands):

Income on Impaired Loans for the Six Months Ended June 30, 2011		
Asset Type	Average Net Book Value	Income Recorded (1)
Senior Mortgage Loans	\$9,025	\$140
Subordinate Interests in Mortgages	24,172	127
Mezzanine & Other Loans	—	1,585
<b>Total</b>	<b>\$33,197</b>	<b>\$1,852</b>

(1) Substantially all of the income recorded on impaired loans during the period was received in cash. See also Note 4 for disclosure of income recorded on impaired loans prior to their transfer to CT Legacy REIT, substantially all of which was also received in cash.

#### Nonaccrual loans

In accordance with our revenue recognition policies discussed in Note 2, we do not accrue interest on loans which are 90 days past due or, in the opinion of management, are otherwise uncollectable. Accordingly, we do not have any material interest receivable accrued on CT Legacy REIT's nonperforming loans as of June 30, 2011.

The following table details CT Legacy REIT's loans receivable which are on nonaccrual status as of June 30, 2011 (in thousands):

Non-Accrual Loans Receivable as of June 30, 2011		
Asset Type	Principal Balance	Net Book Value
Senior Mortgage Loans	\$1,779	\$1,779
Subordinate Interests in Mortgages	85,773	21,296
Mezzanine & Other Loans	152,289	—
<b>Total</b>	<b>\$239,841</b>	<b>\$23,075</b>

#### C. Loans Held-for-Sale, Net – CT Legacy REIT

Activity relating to CT Legacy REIT's loans held-for-sale for the six months ended June 30, 2011 was as follows (in thousands):

	Gross Book Value	Valuation Allowance	Net Book Value
December 31, 2010	\$—	\$—	\$—

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Reclassification from loans receivable	32,331	—	32,331
Valuation allowance on loans held-for-sale	—	(224 )	(224 )
June 30, 2011	\$32,331	(\$224 )	\$32,107

During the second quarter of 2011, CT Legacy REIT reclassified a \$32.5 million senior mortgage loan to loans held-for-sale, against which it has recorded a \$224,000 valuation allowance to reflect this loan at its approximate fair value.

Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
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## D. Debt Obligations – CT Legacy REIT

As of June 30, 2011, CT Legacy REIT had \$182.3 million of total debt obligations outstanding. The balances of each category of debt, their respective coupons and all-in effective costs (including the amortization of fees and expenses) were as follows (in thousands):

Debt Obligations	June 30,		December		June 30,		Maturity Date(2)
	Principal Balance	Book Value	31, 2010 Book Value	Coupon(1)	All-In Cost(1)	2011	
Repurchase obligation (JPMorgan)	\$119,343	\$119,343	\$—	2.69 %	2.69 %		December 15, 2014
Mezzanine loan(3)	63,000	51,631	—	15.00 %	18.74 %		March 31, 2016
Total/Weighted Average	\$182,343	\$170,974	\$—	6.94 %	8.23 % (4)		May 27, 2015

(1) Assumes LIBOR of 0.19% at June 30, 2011 for floating rate debt obligations.

(2) Maturity dates represent the contractual maturity of each facility.

(3) The mezzanine loan carries a 15.0% per annum interest rate, of which 7.0% per annum may be deferred. The all-in cost of the mezzanine loan includes the amortization of deferred fees and expenses.

(4) Including the impact of interest rate hedges with an aggregate notional balance of \$61.0 million as of June 30, 2011, the effective all-in cost of CT Legacy REIT's debt obligations would be 9.90% per annum.

## Repurchase Obligations

In conjunction with our March 2011 restructuring, on March 31, 2011 our legacy repurchase obligations with JP Morgan, Morgan Stanley and Citigroup were assumed by wholly-owned subsidiaries of CT Legacy REIT, and the recourse to Capital Trust, Inc. was eliminated. The balances then outstanding under the three repurchase obligations with JP Morgan, Morgan Stanley and JP Morgan were \$173.5 million, \$93.2 million, and \$38.1 million, respectively.

During the second quarter of 2011, the Morgan Stanley and Citigroup repurchase obligations were fully repaid and extinguished, and the remaining collateral thereunder was released.

The JP Morgan facility matures on December 15, 2014 and bears interest at a rate of LIBOR + 2.50% per annum (2.69% as of June 30, 2011), which rate will increase to LIBOR + 3.00% per annum for the period from March 31, 2013 through March 30, 2014, and then to LIBOR + 3.50% per annum for the period from March 31, 2014 through maturity. In addition, periodic repayment targets must be met under the facility, which require the outstanding balance be reduced to: \$110.0 million by December 15, 2011, \$65.0 million by December 15, 2012, and \$30 million by December 15, 2013.

As of June 30, 2011, the JP Morgan facility had an outstanding balance of \$119.3 million.

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The following table details the aggregate outstanding principal balance, book value and fair value of CT Legacy REIT's assets, primarily loans receivable, which were pledged as collateral under the JP Morgan repurchase facility as of June 30, 2011, as well as the amount at risk (in thousands). The amount at risk is generally equal to the book value of our collateral less the outstanding principal balance of the repurchase facility.

Loans and Securities Collateral Balances,  
as of June 30, 2011

Repurchase Lender	Facility Balance	Principal Balance	Book Value	Fair Value(1)	Amount at Risk(2)
JPMorgan	\$119,343	\$371,543	\$216,449	\$190,527	\$104,125

- (1) Fair values represent the amount at which assets could be sold in an orderly transaction between a willing buyer and willing seller. The immediate liquidation value of these assets would likely be substantially lower.
- (2) Amount at risk is calculated on an asset-by-asset basis for each facility and considers the greater of (a) the book value of an asset and (b) the fair value of an asset, in determining the total risk.

Capital Trust, Inc. and Subsidiaries  
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### Mezzanine Loan

On March 31, 2011, CT Legacy REIT entered into an \$83.0 million mezzanine loan with Five Mile that carries a 15.0% per annum interest rate, of which 7.0% per annum may be deferred, and that matures on March 31, 2016. The mezzanine loan is not recourse to Capital Trust, Inc. except for certain limited non-recourse, “bad boy” carve outs.

The mezzanine loan is collateralized by 100% of the equity interests in a subsidiary of CT Legacy REIT, which in-turn owns all of CT Legacy REIT’s assets, subject in-part to the repurchase obligations described above. Five Mile has consent rights with respect to material actions concerning CT Legacy REIT’s assets such as material modifications, sales, and/or the pursuit of certain remedies with regard to such assets. The mezzanine loan also contains covenants that (i) prohibit CT Legacy REIT from paying common stock cash dividends until the mezzanine loan has been repaid, (ii) prohibit us from selling or otherwise transferring our equity interests in CT Legacy REIT, and (iii) require the continued employment of certain key employees.

In addition, an affiliate of Five Mile acquired a 24% equity interest in the common stock of CT Legacy REIT in conjunction with the making of the mezzanine loan. Subsequently, during the second quarter of 2011, an affiliate of Five Mile also acquired 9.4% of the subordinate class B common stock of CT Legacy REIT which was originally issued to our former junior subordinate noteholders. See above in this Note 10 for further discussion of the class B common stock.

As of June 30, 2011, the mezzanine loan had an outstanding principal balance of \$63.0 million and a book balance of \$51.6 million. The difference between book balance and principal outstanding is due to costs associated with the mezzanine loan, primarily the equity interest in CT Legacy REIT discussed above. Including the amortization of these deferred costs, the mezzanine loan has an all-in cost of 18.74%.

### E. Participations Sold – CT Legacy REIT

Participations sold represent interests in certain loans that we originated and subsequently sold to one of our investment management vehicles or to third-parties. We present these participations sold as both assets and non-recourse liabilities because these arrangements do not qualify as sales under GAAP. Generally, participations sold are recorded as assets and liabilities in equal amounts on our consolidated balance sheets, and an equivalent amount of interest income and interest expense is recorded on our consolidated statements of operations. However, impaired loan assets must be reduced through the provision for loans losses while the associated non-recourse liability cannot be reduced until the participation has been contractually extinguished. This can result in an imbalance between the loan participations sold asset and liability. We have no economic exposure to these liabilities.

In connection with our March 2011 restructuring, a \$152.3 million loan, in which we have previously sold a \$97.5 million participation, was transferred to CT Legacy REIT.

The following table describes CT Legacy REIT’s participations sold assets and liabilities as of June 30, 2011 and December 31, 2010 (in thousands):

	June 30, 2011	December 31, 2010
Participations sold assets		
Gross carrying value	\$97,465	\$—



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Less: Provision for loan losses	(97,465 )	—
Net book value of assets	—	—
Participations sold liabilities		
Net book value of liabilities	97,465	—
Net impact to shareholders' equity	(\$97,465 )	\$—

F. Derivative Financial Instruments – CT Legacy REIT

To manage interest rate risk, we have historically employed interest rate swaps, or other arrangements, to convert a portion of our floating rate debt to fixed rate debt in order to index-match our assets and liabilities. The interest rate swaps that we have employed were designated as cash flow hedges and designed to hedge fixed rate assets against floating rate liabilities. Under cash flow hedges, we pay our hedge counterparties a fixed rate amount and our counterparties pay us a floating rate amount, which we settle monthly, and record as a component of interest expense. Our counterparties in these transactions are financial institutions and we are dependent upon the financial health of these counterparties and a functioning interest rate derivative market in order to effectively execute our hedging strategy.

Capital Trust, Inc. and Subsidiaries  
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The following table summarizes the notional amounts and fair values of CT Legacy REIT's interest rate swaps as of June 30, 2011 and December 31, 2010 (in thousands). The notional amount provides an indication of the extent of our involvement in the instruments at that time, but does not represent exposure to credit or interest rate risk.

Counterparty	June 30, 2011			Maturity	June 30, 2011	December
	Notional Amount	Interest Rate (1)			Fair Value	31, 2010 Fair Value
JPMorgan Chase	\$17,667	5.14 %		2014	(\$2,048 )	\$—
JPMorgan Chase	16,705	4.83 %		2014	(1,910 )	—
JPMorgan Chase	16,380	5.52 %		2018	(2,812 )	—
JPMorgan Chase	7,062	5.11 %		2016	(1,031 )	—
JPMorgan Chase	3,187	5.45 %		2015	(487 )	—
Total/Weighted Average	\$61,001	5.17 %		2015	(\$8,288 )	\$—

- (1) Represents the gross fixed interest rate we pay to our counterparties under these derivative instruments. We receive an amount of interest indexed to one-month LIBOR on all of our interest rate swaps.

During the second quarter of 2011, as a result of significant repayments of CT Legacy REIT's floating rate debt obligations, these interest rate swaps ceased to be highly effective hedging instruments. We therefore discontinued the designation of these hedges as cash flow hedges. As a result, beginning in the second quarter of 2011, any change in the fair values of these interest rate swaps is recorded as a non-cash component of interest expense on our consolidated statement of operations. We recognized \$770,000 of such non-cash interest expense during the six months ended June 30, 2011.

In addition, as a result of the termination of the effective hedge designation, we reclassified \$3.2 million from accumulated other comprehensive income as non-cash interest expense on our consolidated financial statements. In future periods we will recognize additional non-cash interest expense as the remaining balance of accumulated other comprehensive income is amortized over the life of each related facility. Net payments under such interest rate swaps during the six months ended June 30, 2011 totaled \$774,000, and were recorded as a component of interest expense.

Over the next twelve months, we expect approximately \$2.4 million to be reclassified from other comprehensive income to interest expense. This amount represents the amortization of losses previously recorded in other comprehensive income on interest rate swaps which are no longer designated as cash flow hedges.

As of June 30, 2011, CT Legacy REIT has not posted any assets as collateral under derivative agreements.

#### Note 11. Consolidated Securitization Vehicles

As of June 30, 2011, our consolidated balance sheet includes an aggregate \$2.0 billion of assets and \$2.2 billion of liabilities related to 10 consolidated securitization vehicles. Due to the non-recourse nature of these vehicles, and other factors discussed below, our net exposure to loss from investments in these entities is limited to \$15.2 million.

Our consolidated securitization vehicles include two categories of entities: (i) collateralized debt obligations sponsored and issued by us, which we refer to as CT CDOs and (ii) other consolidated securitization vehicles which were not issued or sponsored by us. We have historically consolidated the CT CDOs; however we began consolidating the additional securitization vehicles as of January 1, 2010, as discussed in Note 2.

## CT CDOs

We currently consolidate four collateralized debt obligation, or CDO, entities, which are VIEs that were sponsored by us. These CT CDOs invest in commercial real estate debt instruments, some of which we originated/acquired and transferred to the CDO entities, and are financed by the debt and equity they issue. We are named as collateral manager of all four CT CDOs and are named special servicer on a number of CDO collateral assets. As a result of consolidation, our subordinate debt and equity ownership interests in these CT CDOs have been eliminated, and our balance sheet reflects both the assets held and debt issued by these CDOs to third-parties. Similarly, our operating results and cash flows include the gross amounts related to the assets and liabilities of the CT CDO entities, as opposed to our net economic interests in these entities. Fees earned by us for the management of these CDOs are eliminated in consolidation.

Our interest in the assets held by these CT CDOs, which are consolidated on our balance sheet, is restricted by the structural provisions of these entities, and our recovery of these assets will be limited by the CDOs' distribution provisions, which are subject to change due to covenant breaches or asset impairments, as further described below in this Note 11. The liabilities of the CT CDOs, which are also consolidated on our balance sheet, are non-recourse to us, and can generally only be satisfied from each CDOs' respective asset pool.

Capital Trust, Inc. and Subsidiaries  
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We are not obligated to provide, nor have we provided, any financial support to these CT CDOs. Accordingly, other than in the event of a breach of certain representations or warranties, which are discussed in detail below, our maximum exposure to loss as a result of our investment in these entities is limited to \$233.6 million, the notional amount of the subordinate debt and equity interest we retained in these CDOs. After giving effect to certain transfers of these interests, provisions for loan losses and other-than-temporary impairments recorded as of June 30, 2011, our remaining net exposure to loss from these entities is \$15.2 million.

#### Other Consolidated Securitization Vehicles

As discussed above, we currently consolidate six additional securitization vehicles, all of which are substantially similar to the CT CDOs. These securitization vehicles invest in commercial real estate debt instruments, which investments were not originated or transferred to the entities by us. In addition to our investment in the subordinate classes of the securities issued by these vehicles, we are named special servicer on a number of their assets. As a result of consolidation, our ownership interests in these consolidation vehicles have been eliminated, and our balance sheet reflects both the assets held and debt issued by these vehicles to third-parties. Similarly, our operating results and cash flows include the gross amounts related to the assets and liabilities of the securitization vehicles, as opposed to our net economic interests in these entities. Special servicing fees paid to us on assets owned by these vehicles are eliminated in consolidation.

Our interest in the assets held by these securitization vehicles, which are consolidated on our balance sheet, is restricted by the structural provisions of these entities, and a recovery of our investment in the vehicles will be limited by each entity's distribution provisions. The liabilities of the securitization vehicles, which are also consolidated on our balance sheet, are non-recourse to us, and can generally only be satisfied from each vehicle's respective asset pool.

We are not obligated to provide, nor have we provided, any financial support to these entities. In addition, five of these six investments have been made through our CT CDOs, which limits our exposure to loss as discussed above. Accordingly, as of June 30, 2011, our maximum exposure to loss as a result of our investment in these entities is limited to \$69.0 million, the notional amount of our investment in the only securitization vehicle not held by our CT CDOs. Prior to consolidation, we have previously impaired 100% of our investment in this entity, resulting in a zero net exposure to loss as of June 30, 2011.

As described in Note 2, our consolidated balance sheets separately present: (i) our direct assets and liabilities, (ii) the direct assets and liabilities of CT Legacy REIT, and (iii) the assets and liabilities of consolidated securitization vehicles, some of which are subsidiaries of CT Legacy REIT. The following disclosures relate specifically to the assets and liabilities of consolidated securitization vehicles, as separately stated on our consolidated balance sheets.

#### A. Securities Held-to-Maturity – Consolidated Securitization Vehicles

Our consolidated securitization vehicles' securities portfolio consists of CMBS, CDOs, and other securities. Activity relating to these securities for the six months ended June 30, 2011 was as follows (in thousands):

	CMBS	CDOs & Other	Total Book Value (1)
December 31, 2010	\$456,312	\$48,011	\$504,323

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Principal paydowns	(9,924 )	(21,419 )	(31,343 )
Discount/premium amortization & other (2)	(149 )	(491 )	(640 )
Other-than-temporary impairments:			
Recognized in earnings	(6,551 )	—	(6,551 )
Recognized in accumulated other comprehensive income	1,631	—	1,631
June 30, 2011	\$441,319	\$26,101	\$467,420

(1) Includes securities with a total face value of \$561.3 million and \$594.4 million as of June 30, 2011 and December 31, 2010, respectively.

(2) Includes mark-to-market adjustments on securities previously classified as available-for-sale, amortization of other-than-temporary impairments, and losses, if any.

As of both June 30, 2011 and December 31, 2010, all of our consolidated securitization vehicles' securities were classified as held-to-maturity.

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The following table allocates the book value of our consolidated securitization vehicles' securities as of June 30, 2011 between their amortized cost basis, amounts related to mark-to-market adjustments on securities previously classified as available-for-sale, and the portion of other-than-temporary impairments not related to expected credit losses (in thousands):

	CMBS	CDOs & Other	Total Securities
Amortized cost basis	\$448,969	\$26,101	\$475,070
Mark-to-market adjustments on securities previously classified as available-for-sale	4,116	—	4,116
Other-than-temporary impairments recognized in accumulated other comprehensive income	(11,766 )	—	(11,766 )
<b>Total book value as of June 30, 2011</b>	<b>\$441,319</b>	<b>\$26,101</b>	<b>\$467,420</b>

The following table details overall statistics for our consolidated securitization vehicles' securities portfolio as of June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
Number of securities	55	56
Number of issues	39	40
Rating (1) (2)	BB+	BB+
Fixed / Floating (in millions) (3)	\$466 / \$1	\$503 / \$1
Coupon (1) (4)	6.66%	6.66%