

ISTAR FINANCIAL INC  
 Form 10-K  
 March 03, 2014  
Table of Contents

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

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 No. 1-15371

iSTAR FINANCIAL INC.

(Exact name of registrant as specified in its charter)

Maryland	95-6881527
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1114 Avenue of the Americas, 39th Floor	10036
New York, NY	(Zip code)

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

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

Title of each class:	Name of Exchange on which registered:
Common Stock, \$0.001 par value	New York Stock Exchange
8.000% Series D Cumulative Redeemable Preferred Stock, \$0.001 par value	New York Stock Exchange
7.875% Series E Cumulative Redeemable Preferred Stock, \$0.001 par value	New York Stock Exchange
7.8% Series F Cumulative Redeemable Preferred Stock, \$0.001 par value	New York Stock Exchange
7.65% Series G Cumulative Redeemable Preferred Stock, \$0.001 par value	New York Stock Exchange
7.50% Series I Cumulative Redeemable Preferred Stock, \$0.001 par value	New York Stock Exchange

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

Title of each class:	Name of Exchange on which registered:
4.50% Series J Convertible Perpetual Preferred Stock, \$0.001 par value	N/A



Table of Contents

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant: (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports); and (ii) has been subject to such filing requirements for the past 90 days. Yes  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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 (check one):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
---	--	---	--

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No   
 As of June 30, 2013, the aggregate market value of the common stock, \$0.001 par value per share of iStar Financial Inc. ("Common Stock"), held by non-affiliates (1) of the registrant was approximately \$926.4 million, based upon the closing price of \$11.29 on the New York Stock Exchange composite tape on such date.

As of February 21, 2014, there were 84,871,977 shares of Common Stock outstanding.

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

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for the registrant's 2013 Annual Meeting, to be filed within 1.120 days after the close of the registrant's fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

Table of Contents

## TABLE OF CONTENTS

	Page
<u>PART I</u>	<u>1</u>
<u>Item 1. Business</u>	<u>1</u>
<u>Item 1a. Risk Factors</u>	<u>12</u>
<u>Item 1b. Unresolved Staff Comments</u>	<u>20</u>
<u>Item 2. Properties</u>	<u>20</u>
<u>Item 3. Legal Proceedings</u>	<u>21</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>21</u>
<u>PART II</u>	<u>21</u>
<u>Item 5. Market for Registrant's Equity and Related Share Matters</u>	<u>21</u>
<u>Item 6. Selected Financial Data</u>	<u>22</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>24</u>
<u>Item 7a. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>42</u>
<u>Item 8. Financial Statements and Supplemental Data</u>	<u>43</u>
<u>Item 9. Changes and Disagreements with Registered Public Accounting Firm on Accounting and Financial Disclosure</u>	<u>108</u>
<u>Item 9a. Controls and Procedures</u>	<u>108</u>
<u>Item 9b. Other Information</u>	<u>108</u>
<u>Part III</u>	<u>109</u>
<u>Item 10. Directors, Executive Officers and Corporate Governance of the Registrant</u>	<u>109</u>
<u>Item 11. Executive Compensation</u>	<u>109</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>109</u>
<u>Item 13. Certain Relationships, Related Transactions and Director Independence</u>	<u>109</u>
<u>Item 14. Principal Registered Public Accounting Firm Fees and Services</u>	<u>109</u>
<u>Part IV</u>	<u>109</u>
<u>Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K</u>	<u>109</u>
<u>SIGNATURES</u>	<u>114</u>

---

Table of Contents

PART I

Item 1. Business

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

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are included with respect to, among other things, iStar Financial Inc.'s current business plan, business strategy, portfolio management, prospects and liquidity. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results or outcomes to differ materially from those contained in the forward-looking statements. Important factors that iStar Financial Inc. believes might cause such differences are discussed in the section entitled, "Risk Factors" in Part I, Item 1a of this Form 10-K or otherwise accompany the forward-looking statements contained in this Form 10-K. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In assessing all forward-looking statements, readers are urged to read carefully all cautionary statements contained in this Form 10-K.

Overview

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

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

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

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

The land portfolio is primarily comprised of land entitled for master planned communities as well as waterfront and urban infill land parcels located throughout the U.S. Master planned communities represent large-scale residential projects that the Company will entitle, plan and/or develop and may sell through retail channels to home builders or in bulk. Waterfront parcels are generally entitled for residential projects and urban infill parcels are generally entitled for mixed-use projects. The Company may develop these properties itself or sell to or partner with commercial real estate

developers.

The Company's primary sources of revenues are operating lease income, which is the rent and reimbursements that tenants pay to lease its properties, and interest income, which is the interest that borrowers pay on loans. The Company primarily generates income through a "spread" or "margin," which is the difference between the revenues generated from leases and loans and interest expense and the cost of real estate operations. In addition, the Company expects to generate

1

---

## Table of Contents

income from commercial operating property revenue and sales of its remaining residential condominium assets and from its land portfolio over time.

### Company History and Recent Developments

The Company began its business in 1993 through the management of private investment funds and became publicly traded in 1998. Since that time, the Company has grown through the origination of new lending and leasing transactions, as well as through corporate acquisitions. During the last several years, the composition of the Company's portfolio changed as loans were repaid and the Company acquired title to assets of defaulting borrowers. The size of the Company's lending portfolio declined and its real estate portfolio increased to include operating properties and land, in addition to net lease assets. As conditions in the economy and financing markets have improved, the Company has been increasing its originations of new lending and net lease investments, repositioning or redeveloping its operating properties and progressing on the entitlement and development of its land assets. We intend to continue these efforts, with the objective of having these assets contribute positively to earnings in the future. The Company's business segments are discussed in further detail below.

### Financing Strategy

The Company has continued to strengthen its balance sheet through its financing activities. During 2012, the Company's credit ratings were upgraded and over the last two years, it has executed 10 capital markets transactions, including issuing secured and unsecured debt and preferred stock. As a result of these transactions, the Company has satisfied all of its significant near term debt maturities while meaningfully extending its debt maturity profile. These transactions, along with fundamental improvements in the overall economy and real estate markets, have allowed the Company to reduce its overall cost of capital while maintaining lower leverage. Going forward, the Company will seek to raise capital through a variety of means, which may include secured and unsecured debt financing, debt refinancings, asset sales, issuances of equity, joint ventures and other third party capital arrangements. A more detailed discussion of the Company's current liquidity and capital resources is provided in Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations."

### Investment Strategy

During 2013, the Company funded a total of \$483.7 million of investments, including \$259.1 million in lending and other investments, \$128.6 million to acquire and invest in net lease assets and \$96.0 million of capital to reposition or redevelop its operating properties and develop its land assets.

One of the Company's objectives is to continue to increase its new investment activities. In making new investments, the Company expects its strategy will focus on the following:

- Targeting the origination of custom-tailored mortgage, corporate and lease financings where customers require flexible financial solutions and "one-call" responsiveness post-closing;
- Avoiding commodity businesses where there is significant direct competition from other providers of capital;
- Developing direct relationships with borrowers and corporate customers in addition to sourcing transactions through intermediaries;
- Adding value beyond simply providing capital by offering borrowers and corporate customers specific lending expertise, flexibility, certainty of closing and continuing relationships beyond the closing of a particular financing transaction;
- Taking advantage of market anomalies in the real estate financing markets when, in the Company's view, credit is mispriced by other providers of capital; and
- Evaluating relative risk adjusted returns across multiple investment markets.

### Underwriting Process

The Company reviews investment opportunities with its investment professionals, as well as representatives from its legal, credit, risk management and capital markets areas. The Company has developed a process for screening potential investments called the Six Point Methodology. Through this process, the Company evaluates an investment opportunity prior to beginning its formal due diligence process by: (1) evaluating the source of the opportunity; (2) evaluating the quality of the collateral, corporate credit or lessee, as well as the market and industry dynamics; (3) evaluating the borrower equity, corporate sponsorship and/or guarantors; (4) determining the optimal legal and financial structure for the transaction given its risk profile; (5) performing an alternative investment test; and

(6) evaluating the liquidity of the investment and the ability to match fund the asset. Participation is encouraged from professionals in all disciplines throughout the entire origination process, from the initial consideration of the opportunity, through the Six Point Methodologysm and into the preparation and distribution of an approval memorandum for the Company's internal and/or Board of Directors investment committees and into the documentation and closing process.

2

---

Table of Contents

Any commitment to make an investment of \$25 million or less (\$50 million or less in the case of a corporate debt instrument or aggregate debt instruments issued by a single corporate issuer) in any transaction or series of related transactions requires the approval of the Chief Executive Officer and Chief Investment Officer. Any commitment in excess of \$25 million but less than or equal to \$50 million requires the further approval of the Company's internal investment committee, consisting of senior management representatives from all of the Company's key disciplines. Any commitment in excess of \$50 million but less than or equal to \$75 million requires the further approval of the Investment Committee of the Board of Directors. Any commitment in excess of \$75 million, and any strategic investment such as a corporate merger, acquisition or material transaction involving the Company's entry into a new line of business, requires the approval of the full Board of Directors.

Hedging Strategy

The Company finances its business with a combination of fixed-rate and variable-rate debt and its asset base consists of fixed-rate and variable-rate investments. Its variable-rate assets and liabilities create a natural hedge against changes in variable interest rates. This means that as interest rates increase, the Company earns more on its variable-rate lending assets and pays more on its variable-rate debt obligations and, conversely, as interest rates decrease, the Company earns less on its variable-rate lending assets and pays less on its variable-rate debt obligations. When the Company's variable-rate debt obligations differ significantly from its variable-rate lending assets, the Company may utilize derivative instruments to limit the impact of changing interest rates on its net income. The Company also uses derivative instruments to limit its exposure to changes in currency rates in respect of certain investments denominated in foreign currencies. The Company does not use derivative instruments for speculative purposes. The derivative instruments the Company uses are typically in the form of interest rate swaps, interest rate caps and foreign exchange contracts.

Portfolio Overview

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

Asset Type

Table of Contents

## Property Type

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

## Geography

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

## Explanatory Notes:

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

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

Table of Contents

## Industry Segments

The Company has four business segments: Real Estate Finance, Net Lease, Operating Properties and Land. The following describes the Company's reportable segments (\$ in thousands) as of December 31, 2013:

	Real Estate Finance	Net Lease	Operating Properties	Land	Corporate / Other(1)	Total
Real estate, at cost	\$—	\$1,696,888	\$720,508	\$803,238	\$—	\$3,220,634
Less: accumulated depreciation	—	(338,640 )	(82,420 )	(3,393 )	—	(424,453 )
Real estate, net	—	1,358,248	638,088	799,845	—	2,796,181
Real estate available and held for sale	—	—	228,328	132,189	—	360,517
Total real estate	—	1,358,248	866,416	932,034	—	3,156,698
Loans receivable and other lending investments, net	1,370,109	—	—	—	—	1,370,109
Other investments	—	16,408	16,032	29,765	145,004	207,209
Total portfolio assets	\$1,370,109	\$1,374,656	\$882,448	\$961,799	\$145,004	\$4,734,016

Explanatory Note:

(1) Corporate/Other includes certain equity investments that are not included in a reportable segment. See Item 8—"Financial Statements and Supplementary Data—Note 6" for further detail on these investments.

Additional information regarding segment revenue and profit information as well as prior period information is presented in Item 8—"Financial Statements and Supplementary Data—Note 15" and a discussion of operating results is presented in Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations."

## Real Estate Finance

A majority of the Company's real estate finance portfolio consists of senior mortgage loans that are secured by commercial real estate assets where the Company is the first lien holder. The portfolio also consists of subordinated mortgage loans that are secured by subordinated interests in commercial and residential real estate assets where the Company is in either a second lien or junior position, and corporate/partnership loans, which represent mezzanine or subordinated loans to entities for which the Company does not have a lien on the underlying asset, but may have a pledge of underlying equity ownership of such assets. In addition, the Company has a preferred equity investment classified as other lending investments.

The Company's real estate finance portfolio included the following (\$ in thousands):

	As of December 31,				
	2013 Total	% of Total	2012 Total	% of Total	
Performing loans(1):					
Senior mortgages	\$563,513	40.3	% \$829,894	44.5	%
Subordinate mortgages	60,679	4.3	% 98,758	5.3	%
Corporate/partnership loans	429,586	30.7	% 431,321	23.2	%
Subtotal	\$1,053,778	75.3	% \$1,359,973	73.0	%
Non-performing loans(1):					
Senior mortgages	\$203,604	14.6	% \$478,602	25.7	%
Subordinate mortgages	—	—	% 14,400	0.8	%
Corporate/partnership loans	—	—	% 10,110	0.5	%
Subtotal	\$203,604	14.6	% \$503,112	27.0	%
Total carrying value of loans	\$1,257,382	89.9	% \$1,863,085	100.0	%
Other lending investments—securities	141,927	10.1	% —	—	%
Total carrying value	\$1,399,309	100.0	% \$1,863,085	100.0	%

Edgar Filing: ISTAR FINANCIAL INC - Form 10-K

General reserve for loan losses	(29,200 )	(33,100 )
Total loans receivable and other lending investments, net	\$ 1,370,109	\$ 1,829,985

5

---

Table of Contents

## Explanatory Note:

Performing and non-performing loans are presented net of asset-specific loan loss reserves of \$31.0 million and \$317.0 million, respectively, as of December 31, 2013, and \$15.3 million and \$476.1 million, respectively, as of (1) December 31, 2012. See Item 8—"Financial Statements and Supplemental Data—Note 3" for a discussion of the Company's policies regarding non-performing loans and reserves for loan losses.

Summary of Portfolio Characteristics—As of December 31, 2013, the Company's performing loans and other lending investments had a weighted average loan to value ratio of 72%, while non-performing loans had a weighted average loan to value ratio of 94%. Additionally, the Company's performing loans were comprised of 68% fixed-rate loans and 32% variable-rate loans that had weighted average accrual rates of 9.3% and 6.2%, respectively, and had a weighted average remaining term of 2.8 years.

Portfolio Activity—During the year ended December 31, 2013, the Company originated and funded \$257.6 million of loans, received principal repayments of \$613.6 million and sold loans with a total carrying value of \$95.1 million. In addition, the Company took title to property in full or partial satisfaction of non-performing mortgage loans with a fair value of \$31.1 million, for which the properties had served as collateral. See Item 8—"Financial Statements and Supplemental Data—Note 5" for further details on real estate finance activities.

Summary of Interest Rate Characteristics—The Company's loans receivable and other lending investments had the following interest rate characteristics (\$ in thousands):

	As of December 31, 2013			2012				
	Carrying Value	% of Total	Weighted Average Accrual Rate	Carrying Value	% of Total	Weighted Average Accrual Rate		
Fixed-rate loans and other lending investments	\$811,128	58.0	% 9.3	% \$704,653	37.8	% 8.2	%	
Variable-rate loans(1)	384,577	27.4	% 6.2	% 655,320	35.2	% 6.1	%	
Non-performing loans(2)	203,604	14.6	% N/A	503,112	27.0	% N/A		
Total carrying value	\$1,399,309	100.0	%	\$1,863,085	100.0	%		
General reserve for loan losses	(29,200 )			(33,100 )				
Total loans receivable and other lending investments, net	\$1,370,109			\$1,829,985				

## Explanatory Notes:

(1) As of December 31, 2013 and 2012, includes \$117.9 million and \$286.3 million, respectively, of loans with a weighted average interest rate floor of 3.2% and 3.3%, respectively.

Performing and non-performing loans are presented net of asset-specific loan loss reserves of \$31.0 million and (2)\$317.0 million, respectively, as of December 31, 2013, and \$15.3 million and \$476.1 million, respectively, as of December 31, 2012.

Table of Contents

Summary of Maturities—As of December 31, 2013, the Company's loans receivable and other lending investments had the following maturities (\$ in thousands)(1):

Year of Maturity	Number of Loans Maturing	Carrying Value	% of Total	
2014	14	\$429,523	30.6	%
2015	9	111,539	8.0	%
2016	5	323,208	23.1	%
2017	5	63,784	4.6	%
2018	5	14,459	1.0	%
2019 and thereafter	8	253,192	18.1	%
Total performing loans and other lending investments	46	\$1,195,705	85.4	%
Non-performing loans	9	203,604	14.6	%
Total carrying value	55	\$1,399,309	100.0	%
General reserve for loan losses		(29,200	)	
Total loans receivable and other lending investments, net		\$1,370,109		

Explanatory Note:

(1) Performing and non-performing loans are presented net of asset-specific loan loss reserves of \$31.0 million and \$317.0 million, respectively.

#### Net Lease

The net lease portfolio is primarily comprised of properties owned by the Company and leased to single creditworthy tenants where the properties are subject to long-term leases. The majority of the leases provide for expenses at the facility to be paid by the tenant on a triple net lease basis. The Company generally intends to hold its net lease assets for long-term investment. However, the Company may dispose of assets if it deems the disposition to be in the Company's best interests.

Under a typical net lease agreement, the tenant agrees to pay a base monthly operating lease payment and most or all of the facility operating expenses (including taxes, utilities, maintenance and insurance). The Company generally targets corporate customers with facilities that are critical to their ongoing businesses.

The Company's net lease portfolio included the following (\$ in thousands):

	As of December 31,	
	2013	2012
Real estate, at cost	\$1,696,888	\$1,626,810
Less: accumulated depreciation	(338,640	) (310,605
Real estate, net	1,358,248	1,316,205
Real estate available and held for sale	—	—
Other investments	16,408	16,380
Total	\$1,374,656	\$1,332,585

Summary of Portfolio Characteristics—As of December 31, 2013, the Company owned 263 facilities, comprising 20.4 million square feet in 33 states. The Company's net lease assets were 94% leased with a weighted average remaining lease term of approximately 12 years. The annual average effective base rent per square foot, net of any tenant concessions, was \$7.94 per square foot.

Portfolio Activity—During the year ended December 31, 2013, the Company purchased a net lease asset for \$93.6 million and funded \$33.8 million of capital expenditures on existing net lease assets, including \$26.7 million of fundings on a \$40.0 million build-to-suit that is subject to an 18 year lease. In addition, the Company sold assets with a net carrying value of \$18.7 million and transferred title of assets with a carrying value of \$8.7 million to a tenant during 2013. See Item 8 —"Financial Statements and Supplemental Data—Note 4" for further details on net lease asset

activities.

7

---

Table of Contents

Summary of Lease Expirations—As of December 31, 2013, lease expirations on the Company's net lease assets are as follows (\$ in thousands):

Year of Lease Expiration	Number of Leases Expiring	Square Feet of Leases Expiring (in thousands)	Annualized NLA In-Place Operating Lease Income(1)	% of NLA In-Place Operating Lease Income	% of Total Revenue(2)	
2014	2	157	\$2,969	1.9	% 0.7	%
2015	2	147	2,067	1.4	% 0.5	%
2016	4	478	5,966	3.9	% 1.5	%
2017	6	372	5,064	3.3	% 1.3	%
2018	5	281	3,743	2.4	% 0.9	%
2019	3	95	1,076	0.7	% 0.3	%
2020	4	368	3,993	2.6	% 1.0	%
2021	3	223	4,513	2.9	% 1.1	%
2022	2	535	9,071	5.9	% 2.2	%
2023	4	271	6,212	4.1	% 1.5	%
2024 and thereafter	19	16,378	108,524	70.9	% 26.8	%
Total	54	19,305	\$153,198	100.0	%	
Weighted average remaining lease term	11.6 years					

Explanatory Notes:

(1) Reflects annualized GAAP operating lease income for NLA leases in-place.

(2) Reflects the percentage of annualized GAAP operating lease income for NLA leases in-place as a percentage of annualized total revenue.

#### Operating Properties

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

The Company's operating properties portfolio included the following (\$ in thousands):

	Commercial		Residential	
	As of December 31, 2013	As of December 31, 2012	As of December 31, 2013	As of December 31, 2012
Real estate, at cost	\$720,508	\$704,481	\$—	\$—
Less: accumulated depreciation and amortization	(82,420)	(65,409)	—	—
Real estate, net	\$638,088	\$639,072	\$—	\$—
Real estate available and held for sale	7,300	80,504	221,028	374,083
Other investments	13,809	14,599	2,223	11,146
Total portfolio assets	\$659,197	\$734,175	\$223,251	\$385,229

#### Commercial Properties

Summary of Portfolio Characteristics—As of December 31, 2013, commercial properties within the operating properties portfolio included 28 facilities, comprising 5.5 million square feet in 10 states. Excluding hotel properties, the commercial properties were 61% leased with a weighted average remaining lease term of approximately 6.0 years.

The Company had 4 commercial properties classified as held for sale as of December 31, 2013 and their operating results are presented in "Income from discontinued operations" on the Company's Consolidated Statements of Operations. As of December 31, 2013, stabilized

8

---

Table of Contents

commercial properties had a total carrying value of \$134.7 million, or 18% of the portfolio, and generated an unleveraged weighted average effective yield of 9.3% on gross carrying value for the year ended December 31, 2013. Stabilized commercial properties, excluding hotel properties, were 86% leased as of December 31, 2013. Transitional commercial properties had a total carrying value of \$606.9 million, or 82% of the portfolio, and generated an unleveraged weighted average effective yield of 3.1% on gross carrying value for the year ended December 31, 2013. Transitional commercial properties, excluding hotel properties, were 56% leased as of December 31, 2013.

Portfolio Activity—During the year ended December 31, 2013, the Company sold properties with a carrying value of \$72.6 million, which resulted in a gain of \$18.6 million. In addition, the Company funded \$19.2 million of capital expenditures. During the year ended December 31, 2013 and 2012, the Company's hotel properties had revenues of \$29.3 million and \$32.6 million, respectively, and expenses of \$28.9 million and \$31.9 million, respectively. As of December 31, 2013, lease expirations on commercial properties within the operating properties portfolio were as follows (\$ in thousands)(1):

Year of Lease Expiration	Number of Leases Expiring	Square Feet of Leases Expiring (in thousands)	Annualized Operating Property In-Place Operating Lease Income(2)	% of In-Place Operating Property Operating Lease Income	% of Total Revenue(3)	
2014	186	594	\$9,175	15.0	% 2.3	%
2015	51	460	2,463	4.0	% 0.6	%
2016	51	140	3,217	5.3	% 0.8	%
2017	44	306	6,272	10.3	% 1.6	%
2018	60	515	7,246	11.9	% 1.8	%
2019	33	151	5,364	8.8	% 1.3	%
2020	21	112	4,214	6.9	% 1.0	%
2021	25	281	5,069	8.3	% 1.3	%
2022	17	225	4,800	7.9	% 1.2	%
2023	16	301	4,339	7.1	% 1.1	%
2024 and thereafter	45	288	8,913	14.5	% 2.2	%
Total	549	3,373	\$61,072	100.0	%	
Weighted average remaining lease term	6.0 years					

## Explanatory Notes:

(1)Excludes hotel properties included in the commercial operating properties portfolio.

(2)Reflects annualized GAAP operating lease income for operating property leases in-place.

(3) Reflects the percentage of annualized GAAP operating lease income for operating property leases in-place as a percentage of annualized total revenue.

## Residential Properties

Summary of Portfolio Characteristics—As of December 31, 2013, residential properties within the operating properties portfolio included 12 residential projects, representing approximately 616 units located in major cities throughout the United States.

Portfolio Activity—During the year ended December 31, 2013, the Company sold 393 residential property units for net proceeds of \$269.7 million, resulting in gains on sales of residential units of \$82.6 million. During the same period, the Company funded \$21.9 million of capital expenditures related to these projects, acquired title to \$16.1 million of residential properties through resolution of non-performing loans and incurred \$19.8 million of net carrying costs that were reflected in "Real estate expenses" on the Company's Consolidated Statements of Operations.

## Land

The Company's land portfolio primarily consists of master planned community projects, urban infill land parcels and waterfront land parcels located throughout the United States. Master planned communities represent large-scale residential projects that the Company will entitle, plan and/or develop and may sell through retail channels to home builders or in bulk. The remainder of the Company's land includes infill and waterfront parcels located in and around major cities that the Company

Table of Contents

will develop, sell to or partner with commercial real estate developers. Waterfront parcels are generally entitled for residential projects and urban infill parcels are generally entitled for mixed-use projects.

The Company's land portfolio included the following (\$ in thousands):

	As of December 31,	
	2013	2012
Real estate, net	799,845	783,822
Real estate available and held for sale	132,189	181,278
Other investments	29,765	5,493
Total	\$961,799	\$970,593

Summary of Portfolio Characteristics—As of December 31, 2013, the Company's Land Segment included 27 properties, comprised of 11 master planned community projects, 10 infill land parcels and 6 waterfront land parcels located throughout the United States. The master planned communities are currently entitled for more than 25,000 lots and the waterfront and urban infill parcels are currently entitled for approximately 6,000 units.

Portfolio Activity—During the year ended December 31, 2013, the Company funded \$36.3 million of capital expenditures in the portfolio and acquired title to \$15.6 million of land assets through resolution of non-performing loans. The Company also sold assets with a carrying value of \$51.7 million and transferred land assets of \$34.7 million to newly formed unconsolidated entities during the year.

As of December 31, 2013, the Company had 5 land projects in production, 11 in development and 11 in the pre-development phase.

#### Policies with Respect to Other Activities

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

#### Investment Restrictions or Limitations

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

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

#### Competition

The Company operates in a competitive market. See Item 1a—Risk factors—"We compete with a variety of investment, financing and leasing sources for our customers," for a discussion of how we may be affected by competition.

#### Regulation

The operations of the Company are subject, in certain instances, to supervision and regulation by state and federal governmental authorities and may be subject to various laws and judicial and administrative decisions imposing various



Table of Contents

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

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

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

Code of Conduct

The Company has adopted a Code of Conduct that sets forth the principles of conduct and ethics to be followed by our directors, officers and employees. The purpose of the Code of Conduct is to promote honest and ethical conduct, compliance with applicable governmental rules and regulations, full, fair, accurate, timely and understandable disclosure in periodic reports, prompt internal reporting of violations of the Code of Conduct and a culture of honesty and accountability. A copy of the Code of Conduct has been provided to each of our directors, officers and employees, who are required to acknowledge that they have received and will comply with the Code of Conduct. A copy of the Company's Code of Conduct has been previously filed with the SEC and is incorporated by reference in this Annual Report on Form 10-K as Exhibit 14.0. The Code of Conduct is also available on the Company's website at [www.istarfinancial.com](http://www.istarfinancial.com). The Company will disclose to shareholders material changes to its Code of Conduct, or any waivers for directors or executive officers, if any, within four business days of any such event. As of December 31, 2013, there were no waivers or changes since adoption of the current Code of Conduct in October 2002.

Employees

As of January 31, 2014, the Company had 175 employees and believes it has good relationships with its employees. The Company's employees are not represented by any collective bargaining agreements.

Other

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

Table of Contents

Item 1a. Risk Factors

In addition to the other information in this report, you should consider carefully the following risk factors in evaluating an investment in our securities. Any of these risks or the occurrence of any one or more of the uncertainties described below could have a material adverse effect on our business, financial condition, results of operations, cash flows and trading price of our common stock. The risks set forth below speak only as of the date of this report and we disclaim any duty to update them except as required by law. For purposes of these risk factors, the terms "our Company," "we," "our" and "us" refer to iStar Financial Inc. and its consolidated subsidiaries, unless the context indicates otherwise.

Risks Related to Our Business

Changes in general economic conditions may adversely affect our business.

Our success is generally dependent upon economic conditions in the U.S. and, in particular, the geographic areas in which our investments are located. Substantially all businesses, including ours, were negatively affected by the previous economic recession and resulting illiquidity and volatility in the credit and commercial real estate markets. Although the commercial real estate and credit markets have improved, such markets remain volatile and it is not possible for us to predict whether these trends will continue in the future or quantify the impact of these or other trends on our financial results. Deterioration in economic trends could have a material adverse effect on our financial performance and our ability to meet our debt obligations.

We have suffered adverse consequences as a result of our credit ratings.

Our borrowing costs and our access to the debt capital markets depend significantly on our credit ratings. Our unsecured corporate credit ratings from major national credit rating agencies are currently below investment grade. Having below investment grade credit ratings increases our borrowing costs and caused restrictive covenants in our public debt instruments to become operative. These restrictive covenants are described below in "Covenants in our indebtedness could limit our flexibility and adversely affect our financial condition." These factors have adversely impacted our financial performance and will continue to do so unless our credit ratings improve.

Covenants in our indebtedness could limit our flexibility and adversely affect our financial condition.

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

Our Secured Credit Facilities contain certain covenants, including covenants relating to collateral coverage, dividend payments, restrictions on fundamental changes, transactions with affiliates, matters relating to the liens granted to the lenders and the delivery of information to the lenders. In particular, we are required to maintain collateral coverage of 1.25x outstanding borrowings. In addition, for so long as we maintain our qualification as a REIT, the Secured Credit Facilities permit us to distribute 100% of our REIT taxable income on an annual basis and the February 2013 Secured Credit Facility permits us to distribute up to \$200 million of real property assets, or interests therein. We may not pay common dividends if we cease to qualify as a REIT.

Our Secured Credit Facilities contain cross default provisions that would allow the lenders to declare an event of default and accelerate our indebtedness to them if we fail to pay amounts due in respect of our other recourse indebtedness in excess of specified thresholds or if the lenders under such other indebtedness are otherwise permitted to accelerate such indebtedness for any reason. The indentures governing our unsecured public debt securities permit the bondholders to declare an event of default and accelerate our indebtedness to them if our other recourse indebtedness in excess of specified thresholds is not paid at final maturity or if such indebtedness is accelerated. A default by us on our indebtedness would have a material adverse effect on our business and the market prices of our Common Stock.

We have significant indebtedness and limitations on our liquidity and ability to raise capital may adversely affect us.

Sufficient liquidity is critical to the management of our balance sheet and our ability to meet our scheduled debt payments. We have relied on secured borrowings, proceeds from issuance of unsecured debt, repayments from our loan assets and proceeds from asset sales to fund our operations and meet our debt maturities, and we expect to continue to rely primarily on these sources of liquidity for the foreseeable future. While we had access to various sources of capital in 2013, our ability to access capital in the future will be subject to a number of factors, many of which are outside of our control, such as conditions prevailing in the

Table of Contents

credit and real estate markets. There can be no assurance that we will have access to liquidity when needed or, on terms that are acceptable to us. We may also encounter difficulty in selling assets or executing capital raising strategies on acceptable terms in a timely manner, which could impact our ability to make scheduled repayments on our outstanding debt. Failure to repay or refinance our borrowings as they come due would be an event of default under the relevant debt instruments, which could result in a cross default and acceleration of our other outstanding debt obligations, all of which would have a material adverse effect on our business and stock price.

We may utilize derivative instruments to hedge risk, which may adversely affect our borrowing cost and expose us to other risks.

The derivative instruments we may use are typically in the form of interest rate swaps, interest rate caps and foreign exchange contracts. Interest rate swaps effectively change variable-rate debt obligations to fixed-rate debt obligations or fixed-rate debt obligations to variable-rate debt obligations. Interest rate caps limit our exposure to rising interest rates. Foreign exchange contracts limit or offset our exposure to changes in currency rates in respect of certain investments denominated in foreign currencies.

Our use of derivative instruments also involves the risk that a counterparty to a hedging arrangement could default on its obligation and the risk that we may have to pay certain costs, such as transaction fees or breakage costs, if a hedging arrangement is terminated by us. As a matter of policy, we enter into hedging arrangements with counterparties that are large, creditworthy financial institutions typically rated at least "A/A2" by S&P and Moody's, respectively.

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

Significant increases in interest rates could have an adverse effect on our operating results.

Our operating results depend in part on the difference between the interest and related income earned on our assets and the interest expense incurred in connection with our interest bearing liabilities. Changes in the general level of interest rates prevailing in the financial markets will affect the spread between our interest earning assets and interest bearing liabilities subject to the impact of interest rate floors and caps, as well as the amounts of floating rate assets and liabilities. Any significant compression of the spreads between interest earning assets and interest bearing liabilities could have a material adverse effect on us. In the event of a significant rising interest rate environment, rates could exceed the interest rate floors that exist on certain of our floating rate debt and create a mismatch between our floating rate loans and our floating rate debt that could have a significant adverse effect on our operating results. In addition, an increase in interest rates could, among other things, reduce the value of our fixed-rate interest bearing assets and our ability to realize gains from the sale of such assets. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond our control.

We are required to make a number of judgments in applying accounting policies, and different estimates and assumptions could result in changes to our financial condition and results of operations.

Material estimates that are particularly susceptible to significant change underlie our determination of the reserve for loan losses, which is based primarily on the estimated fair value of loan collateral, as well as the valuation of real estate assets and deferred tax assets. While we have identified those accounting policies that are considered critical and have procedures in place to facilitate the associated judgments, different assumptions in the application of these policies could have a material adverse effect on our financial performance and results of operations and actual results may differ materially from our estimates.

Our reserves for loan losses may prove inadequate, which could have a material adverse effect on our financial results. We maintain loan loss reserves to protect against potential losses. Our general loan loss reserve reflects management's then-current estimation of the probability and severity of losses within our portfolio. In addition, our determination of asset-specific loan loss reserves relies on material estimates regarding the fair value of loan collateral. Estimation of ultimate loan losses, provision expenses and loss reserves is a complex and subjective process. As such, there can be no assurance that management's judgment will prove to be correct and that reserves will be adequate over time to protect against potential future losses. Such losses could be caused by factors including, but not limited to,

unanticipated adverse changes in the economy or events adversely affecting specific assets, borrowers, industries in which our borrowers operate or markets in which our borrowers or their properties are located. In particular, during the previous financial crisis, the weak economy and disruption of the credit markets adversely impacted the ability and willingness of many of our borrowers to service their debt and refinance our loans to them at maturity. If our reserves for credit losses prove inadequate we may suffer additional losses which would have a material adverse effect on our financial performance and results of operations.

## Table of Contents

We have suffered losses when a borrower defaults on a loan and the underlying collateral value is not sufficient, and we may suffer additional losses in the future.

We have suffered losses arising from borrower defaults on our loan assets and we may suffer additional losses in the future. In the event of a default by a borrower on a non-recourse loan, we will only have recourse to the real estate-related assets collateralizing the loan. If the underlying collateral value is less than the loan amount, we will suffer a loss. Conversely, we sometimes make loans that are unsecured or are secured only by equity interests in the borrowing entities. These loans are subject to the risk that other lenders may be directly secured by the real estate assets of the borrower. In the event of a default, those collateralized lenders would have priority over us with respect to the proceeds of a sale of the underlying real estate. In cases described above, we may lack control over the underlying asset collateralizing our loan or the underlying assets of the borrower prior to a default, and as a result the value of the collateral may be reduced by acts or omissions by owners or managers of the assets.

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

In the event of a borrower bankruptcy, we may not have full recourse to the assets of the borrower in order to satisfy our loan. In addition, certain of our loans are subordinate to other debts of the borrower. If a borrower defaults on our loan or on debt senior to our loan, or in the event of a borrower bankruptcy, our loan will be satisfied only after the senior debt receives payment. Where debt senior to our loan exists, the presence of intercreditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies (through "standstill" periods) and control decisions made in bankruptcy proceedings relating to borrowers. Bankruptcy and borrower litigation can significantly increase collection costs and losses and the time necessary to acquire title to the underlying collateral, during which time the collateral may decline in value, causing us to suffer additional losses. If the value of collateral underlying our loan declines or interest rates increase during the term of our loan, a borrower may not be able to obtain the necessary funds to repay our loan at maturity through refinancing. Decreasing collateral value and/or increasing interest rates may hinder a borrower's ability to refinance our loan because the underlying property cannot satisfy the debt service coverage requirements necessary to obtain new financing. If a borrower is unable to repay our loan at maturity, we could suffer additional loss which may adversely impact our financial performance.

We are subject to additional risks associated with loan participations.

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

We are subject to additional risk associated with owning and developing real estate.

We have obtained title to a number of assets that previously served as collateral on defaulted loans. These assets are predominantly land and operating properties. These assets expose us to additional risks, including, without limitation: We must incur costs to carry these assets and in some cases make repairs to defects in construction, make improvements to, or complete the assets, which requires additional liquidity and results in additional expenses that could exceed our original estimates and impact our operating results.

Real estate projects are not liquid and, to the extent we need to raise liquidity through asset sales, we may be limited in our ability to sell these assets in a short-time frame.

Uncertainty associated with rezoning, obtaining governmental permits and approvals, concerns of community associations, reliance on third party contractors, increasing commodity costs and threatened or pending litigation may materially delay our completion of rehabilitation and development activities and materially increase their cost to us. The values of our real estate investments are subject to a number of factors outside of our control, including changes in the general economic climate, changes in interest rates and the availability of attractive financing, over-building or decreasing demand in the markets where we own assets, and changes in law and governmental regulations.

Table of Contents

The residential market has experienced significant downturns that could recur and adversely affect us.

As of December 31, 2013, we owned land and residential operating properties with a net carrying value of \$1.19 billion. In recent years, the housing market in the United States was affected by weakness in the economy, including high unemployment levels and weak consumer confidence. Although the economy has begun to strengthen, it is uncertain whether the recovery is sustainable. It is possible another downturn could occur again in the near future and adversely impact our portfolio.

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

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

We are subject to risks relating to our asset concentration.

Our portfolio consists primarily of real estate and commercial real estate loans which are generally diversified by asset type, obligor, property type and geographic location. However, as of December 31, 2013, approximately 22% of the carrying value of our assets related to land, 15% related to office properties, 14% related to industrial/R&D properties and 11% related to entertainment/leisure properties. All of these property types have been adversely affected by the previous economic recession. In addition, as of December 31, 2013, approximately 21% of the carrying value of our assets related to properties located in the northeastern U.S., 21% related to properties located in the western U.S., 16% related to properties located in the southeastern U.S., 13% related to properties located in the mid-Atlantic region of the U.S. and 13% related to properties located in the southwestern U.S. These regions include areas that were particularly hard hit by the prior downturn in the residential real estate markets. In addition, we have \$118.8 million of European assets, which are subject to increased risks due to the economic uncertainty in the Eurozone. We may suffer additional losses on our assets due to these concentrations.

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

Lease expirations, lease defaults and lease terminations may adversely affect our revenue.

Lease expirations and lease terminations may result in reduced revenues if the lease payments received from replacement tenants are less than the lease payments received from the expiring or terminating corporate tenants. In addition, lease defaults or lease terminations by one or more significant tenants or the failure of tenants under expiring leases to elect to renew their leases could cause us to experience long periods of vacancy with no revenue from a

facility and to incur substantial capital expenditures and/or lease concessions in order to obtain replacement tenants. Leases representing approximately 22.5% of our in-place operating lease income are scheduled to expire during the next five years.

We compete with a variety of financing and leasing sources for our customers.

The financial services industry and commercial real estate markets are highly competitive. Our competitors include finance companies, other REITs, commercial banks and thrift institutions, investment banks and hedge funds. Our competitors seek to compete aggressively on the basis of a number of factors including transaction pricing, terms and structure. We may have difficulty

Table of Contents

competing to the extent we are unwilling to match our competitors' deal terms in order to maintain our interest margins and/or credit standards. To the extent that we match competitors' pricing, terms or structure, we may experience decreased interest margins and/or increased risk of credit losses, which could have an adverse effect on our financial performance.

We face significant competition within our net leasing business from other owners, operators and developers of properties, many of which own properties similar to ours in markets where we operate. Such competition may affect our ability to attract and retain tenants and reduce the rents we are able to charge. These competing properties may have vacancy rates higher than our properties, which may result in their owners offering lower rental rates than we would or providing greater tenant improvement allowances or other leasing concessions. This combination of circumstances could adversely affect our revenues and financial performance.

We are subject to certain risks associated with investing in real estate, including potential liabilities under environmental laws and risks of loss from weather conditions, man-made or natural disasters, climate change and terrorism.

Under various U.S. federal, state and local environmental laws, ordinances and regulations, a current or previous owner of real estate (including, in certain circumstances, a secured lender that succeeds to ownership or control of a property) may become liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. Those laws typically impose cleanup responsibility and liability without regard to whether the owner or control party knew of or was responsible for the release or presence of such hazardous or toxic substances. The costs of investigation, remediation or removal of those substances may be substantial. The owner or control party of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. Certain environmental laws also impose liability in connection with the handling of or exposure to asbestos-containing materials, pursuant to which third parties may seek recovery from owners of real properties for personal injuries associated with asbestos-containing materials. While a secured lender is not likely to be subject to these forms of environmental liability, when we foreclose on real property, we become an owner and are subject to the risks of environmental liability. Additionally, under our net lease assets we require our tenants to undertake the obligation for environmental compliance and indemnify us from liability with respect thereto. There can be no assurance that our tenants will have sufficient resources to satisfy their obligations to us.

Weather conditions and man-made or natural disasters such as hurricanes, tornadoes, earthquakes, floods, droughts, fires and other environmental conditions can damage properties we own. As of December 31, 2013, approximately 24% of the carrying value of our assets was located in the western and northwestern U.S., geographic areas at higher risk for earthquakes. Additionally, we own properties located near the coastline and the value of our properties will potentially be subject to the risks associated with long-term effects of climate change. A significant number of our properties are located in major urban areas which, in recent years, have been high risk geographical areas for terrorism and threats of terrorism. Certain forms of terrorism including, but not limited to, nuclear, biological and chemical terrorism, political risks, environmental hazards and/or Acts of God may be deemed to fall completely outside the general coverage limits of our insurance policies or may be uninsurable or cost prohibitive to justify insuring against. Furthermore, if the U.S. Terrorism Risk Insurance Program Reauthorization Act is not extended or renewed upon its expiration in 2014, the cost for terrorism insurance coverage may increase and/or the terms, conditions, exclusions, retentions, limits and sublimits of such insurance may be materially amended, and may effectively decrease the scope and availability of such insurance to the point where it is effectively unavailable. Future weather conditions, man-made or natural disasters, effects of climate change or acts of terrorism could adversely impact the demand for, and value of, our assets and could also directly impact the value of our assets through damage, destruction or loss, and could thereafter materially impact the availability or cost of insurance to protect against these events. Although we believe our owned real estate and the properties collateralizing our loan assets are adequately covered by insurance, we cannot predict at this time if we or our borrowers will be able to obtain appropriate coverage at a reasonable cost in the future, or if we will be able to continue to pass along all of the costs of insurance to our tenants. Any weather conditions, man-made or natural disasters, terrorist attack or effect of climate change, whether or not insured, could have a material adverse effect on our financial performance, the market price of our Common Stock and our ability to

pay dividends. In addition, there is a risk that one or more of our property insurers may not be able to fulfill their obligations with respect to claims payments due to a deterioration in its financial condition.

From time to time we make investments in companies over which we do not have sole control. Some of these companies operate in industries that differ from our current operations, with different risks than investing in real estate.

From time to time we make debt or equity investments in other companies that we may not control or over which we may not have sole control. Although these businesses generally have a significant real estate component, some of them operate in businesses that are different from our primary business segments. Consequently, investments in these businesses, among other risks, subject us to the operating and financial risks of industries other than real estate and to the risk that we do not have sole control over the operations of these businesses.

Table of Contents

From time to time we may make additional investments in or acquire other entities that may subject us to similar risks. Investments in entities over which we do not have sole control, including joint ventures, present additional risks such as having differing objectives than our partners or the entities in which we invest, or becoming involved in disputes, or competing with those persons. In addition, we rely on the internal controls and financial reporting controls of these entities and their failure to maintain effectiveness or comply with applicable standards may adversely affect us.

Declines in the market values of our equity investments may adversely affect periodic reported results.

Most of our equity investments are in funds or companies that are not publicly traded and their fair value may not be readily determinable. We may periodically estimate the fair value of these investments, based upon available information and management's judgment. Because such valuations are inherently uncertain, they may fluctuate over short periods of time. In addition, our determinations regarding the fair value of these investments may be materially higher than the values that we ultimately realize upon their disposal, which could result in losses that have a material adverse effect on our financial performance, the market price of our common stock and our ability to pay dividends. Quarterly results may fluctuate and may not be indicative of future quarterly performance.

Our quarterly operating results could fluctuate; therefore, reliance should not be placed on past quarterly results as indicative of our performance in future quarters. Factors that could cause quarterly operating results to fluctuate include, among others, variations in loan and real estate portfolio performance, levels of non-performing assets and related provisions, market values of investments, costs associated with debt, general economic conditions, the state of the real estate and financial markets and the degree to which we encounter competition in our markets.

Our ability to retain and attract key personnel is critical to our success.

Our success depends on our ability to retain our senior management and the other key members of our management team and recruit additional qualified personnel. We rely in part on equity compensation to retain and incentivize our personnel. In addition, if members of our management join competitors or form competing companies, the competition could have a material adverse effect on our business. Efforts to retain or attract professionals may result in additional compensation expense, which could affect our financial performance.

We are highly dependent on information systems, and systems failures or security breaches could significantly disrupt our business.

Our business is highly dependent on communications, information, financial and operational systems. Any failure or interruption of our systems, including as a result of a security breach could cause delays or other problems in our business activities, which could have a material adverse effect on our operations and financial performance.

We may change certain of our policies without stockholder approval.

Our charter does not set forth specific percentages of the types of investments we may make. We can amend, revise or eliminate our investment financing and conflict of interest policies at any time at our discretion without a vote of our shareholders. A change in these policies could adversely affect our financial condition or results of operations or the market price of our common stock.

Certain provisions in our charter may inhibit a change in control.

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

We would be subject to adverse consequences if we fail to qualify as a REIT.

We believe that we have been organized and operated in a manner so as to qualify for taxation as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 1998. However, our qualification as a REIT has depended and will continue to depend on our ability to meet various requirements concerning, among other things, the ownership of our outstanding stock, the nature of our assets, the sources of our income and the amount of our distributions to our shareholders.



## Table of Contents

If we were to fail to qualify as a REIT for any taxable year, we would not be allowed a deduction for distributions to our shareholders in computing our net taxable income and would be subject to U.S. federal income tax, including any applicable alternative minimum tax, or "AMT," on our net taxable income at regular corporate rates, as well as applicable state and local taxes. Unless entitled to relief under certain Code provisions, we would also be disqualified from treatment as a REIT for the four subsequent taxable years following the year during which our REIT qualification was lost. In that case, we may need to borrow money or sell assets to pay taxes. As a result, cash available for distribution would be reduced for each of the years involved. Furthermore, it is possible that future economic, market, legal, tax or other considerations may cause our REIT qualification to be revoked.

Our Secured Credit Facilities (see Item 8—"Financial Statements and Supplemental Data—Note 8") prohibit us from paying dividends on our common stock if we no longer qualify as a REIT.

To qualify as a REIT, we may be forced to borrow funds, sell assets or take other actions during unfavorable market conditions.

To qualify as a REIT, we generally must distribute to our shareholders at least 90% of our net taxable income, excluding net capital gains each year, and we will be subject to U.S. federal income tax, as well as applicable state and local taxes, to the extent that we distribute less than 100% of our net taxable income each year. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years.

In the event that principal, premium or interest payments with respect to a particular debt instrument that we hold are not made when due, we may nonetheless be required to continue to recognize the unpaid amounts as taxable income. Due to these and other potential timing differences between income recognition or expense deduction and cash receipts or disbursements, there is a significant risk that we may have substantial taxable income in excess of cash available for distribution. In order to qualify as a REIT and avoid the payment of income and excise taxes, we may need to borrow funds or take other actions to meet our REIT distribution requirements for the taxable year in which the "phantom income" is recognized.

Complying with the REIT requirements may cause us to forego and/or liquidate otherwise attractive investments.

In order to meet the income, asset and distribution tests under the REIT rules, we may be required to take or forego certain actions. For instance, we may not be able to make certain investments and we may have to liquidate other investments. In addition, we may be required to make distributions to shareholders at disadvantageous times or when we do not have funds readily available for distribution. These actions could have the effect of reducing our income and amounts available for distribution to our shareholders.

Certain of our business activities may potentially be subject to the prohibited transaction tax, which could reduce the return on your investment.

For so long as we qualify as a REIT, our ability to dispose of certain properties may be restricted under the REIT rules, which generally impose a 100% penalty tax on any gain recognized on "prohibited transactions," which refers to the disposition of property that is deemed to be inventory or held primarily for sale to customers in the ordinary course of our business, subject to certain exceptions. Whether property is inventory or otherwise held primarily for sale depends on the particular facts and circumstances. The Internal Revenue Code provides a safe harbor that, if met, allows a REIT to avoid being treated as engaged in a prohibited transaction. No assurance can be given that any property that we sell will not be treated as property held for sale to customers, or that we can comply with the safe harbor. The 100% tax does not apply to gains from the sale of foreclosure property or to property that is held through a taxable REIT subsidiary or other taxable corporation, although such income will be subject to tax in the hands of the corporation at regular corporate rates. We intend to structure our activities to avoid prohibited transaction characterization.

Certain of our activities, including our use of taxable REIT subsidiaries, are subject to taxes that could reduce our cash flows.

Even if we qualify as a REIT for U.S. federal income tax purposes, we will be required to pay some U.S. federal, state, local and non-U.S. taxes on our income and property, including taxes on any undistributed income, taxes on income from certain activities conducted as a result of foreclosures, and property and transfer taxes. We would be

required to pay taxes on net taxable income that we fail to distribute to our shareholders. In addition, we may be required to limit certain activities that generate non-qualifying REIT income, such as land development and sales of condominiums, and/or we may be required to conduct such activities through "taxable REIT subsidiaries," and we hold a significant amount of assets in our "taxable REIT subsidiaries," including assets that we have acquired through foreclosure, assets that may be treated as dealer property and other assets that could adversely affect our ability to qualify as a REIT if held directly by us. As a result, we will be required to pay income taxes on the taxable income generated by these assets. There are also limitations on the ability of taxable REIT subsidiaries to make interest payments to

Table of Contents

affiliated REITs. Furthermore, we will be subject to a 100% penalty tax to the extent our economic arrangements with our tenants or our taxable REIT subsidiaries are not comparable to similar arrangements among unrelated parties. We will also be subject to a 100% tax to the extent we derive income from the sale of assets to customers in the ordinary course of business other than through our taxable REIT subsidiaries. To the extent we or our taxable REIT subsidiaries are required to pay U.S. federal, state, local or non-U.S. taxes, we will have less cash available for distribution to our shareholders.

We have substantial net operating and net capital loss carry forwards which we use to offset our tax and distribution requirements. In the event that we experience an "ownership change" for purposes of Section 382 of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, our ability to use these losses will be limited. An "ownership change" is determined based upon complex rules which track the changes in ownership that occur in our Common Stock for a trailing three year period. We have experienced volatility and significant trading in our Common Stock in recent years. The occurrence of an ownership change is generally beyond our control and, if triggered, may increase our tax and distribution obligations for which we may not have sufficient cash flow.

A failure to comply with the limits on our ownership of and relationship with our taxable REIT subsidiaries would jeopardize our REIT qualification and may result in the application of a 100% excise tax.

No more than 25% of the value of a REIT's total assets may consist of stock or securities of one or more taxable REIT subsidiaries. This requirement limits the extent to which we can conduct activities through taxable REIT subsidiaries or expand the activities that we conduct through taxable REIT subsidiaries. The values of some of our assets, including assets that we hold through taxable REIT subsidiaries may not be subject to precise determination, and values are subject to change in the future. In addition, we hold certain mortgage and mezzanine loans to one or more of our taxable REIT subsidiaries that are secured by real property. We treat these loans as qualifying assets for purposes of the REIT assets tests to the extent that such mortgage loans are secured by real property and such mezzanine loans are secured by an interest in a limited liability company that holds real property, and pursuant to a private letter ruling we received from the IRS we do not treat such loans as subject to the limitation that securities from taxable REIT subsidiaries must constitute no more than 25% of our total assets. We are entitled to rely upon this private letter ruling only to the extent that we did not misstate or omit a material fact in the ruling request and that we continue to operate in accordance with the material facts described in such request, and no assurance can be given that we will always be able to do so. To the extent that any loan was recharacterized as equity, it would increase the amount of non-real estate securities that we have in our taxable REIT subsidiaries and could adversely affect our ability to meet the 25% limitation described above. If we were not able to exclude such loans to our taxable REIT subsidiaries from the 25% limitation described above, our ability to meet the REIT asset tests and other REIT requirements could be adversely affected. Accordingly, there can be no assurance that we have met or will be able to continue to comply with the taxable REIT subsidiary 25% limitation.

In addition, we may from time to time need to make distributions from a taxable REIT subsidiary in order to keep the value of our taxable REIT subsidiaries below 25% of our total assets. However, taxable REIT subsidiary dividends will generally not constitute qualifying income for purposes of the 75% REIT gross income test. While we will monitor our compliance with both this income test and the limitation on the percentage of our total assets represented by taxable REIT subsidiary securities, and intend to conduct our affairs so as to comply with both, the two may at times be in conflict with one another. For example, it is possible that we may wish to distribute a dividend from a taxable REIT subsidiary in order to reduce the value of our taxable REIT subsidiaries below 25% of our assets, but we may be unable to do so without violating the 75% REIT gross income test.

Although there are other measures we can take in such circumstances in order to remain in compliance with the requirements for REIT qualification, there can be no assurance that we will be able to comply with both of these tests in all market conditions.

Dividends payable by REITs do not qualify for the reduced tax rates on dividend income from regular corporations, which could adversely affect the value of our Common Stock.

The maximum U.S. federal income tax rate for certain qualified dividends payable to U.S. shareholders that are individuals, trusts and estates is 20%. Dividends payable by REITs, however, are generally not eligible for the reduced rates and therefore may be subject to a 39.6% maximum U.S. federal income tax rate on ordinary income when paid to

such shareholders. Although the reduced U.S. federal income tax rate applicable to dividend income from regular corporate dividends does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our Common Stock.

## Table of Contents

Legislative or regulatory tax changes related to REITs could materially and adversely affect our business. At any time, the U.S. federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be changed, possibly with retroactive effect. We cannot predict if or when any new U.S. federal income tax law, regulation or administrative interpretation, or any amendment to any existing U.S. federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective or whether any such law, regulation or interpretation may take effect retroactively. We and our shareholders could be adversely affected by any such change in, or any new, U.S. federal income tax law, regulation or administrative interpretation.

Our Investment Company Act exemption limits our investment discretion and loss of the exemption would adversely affect us.

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

We will need to monitor our assets to ensure that we continue to satisfy the percentage tests. Maintaining our exemption from regulation as an investment company under the Investment Company Act limits our ability to invest in assets that otherwise would meet our investment strategies. If we fail to qualify for this exemption, we could not operate our business efficiently under the regulatory scheme imposed on investment companies under the Investment Company Act, and we could be required to restructure our activities. This would have a material adverse effect on our financial performance and the market price of our securities.

Actions of the U.S. government, including the U.S. Congress, Federal Reserve, U.S. Treasury and other governmental and regulatory bodies, to stabilize or reform the financial markets, or market responses to those actions, may not achieve the intended effect and may adversely affect our business.

The Obama Administration, Congress and regulators have increased their focus on the regulation of the financial industry. New or modified regulations and related regulatory guidance, including under the Dodd-Frank Wall Street Reform Act, or the Dodd-Frank Act, may have unforeseen or unintended adverse effects on the financial industry. Laws, regulations or policies, including accounting standards and interpretations, currently affecting us may change at any time. Regulatory authorities may also change their interpretation of these statutes and regulations. Therefore, our business may also be adversely affected by future changes in laws, regulations, policies or interpretations or regulatory approaches to compliance and enforcement.

In addition to the enactment of the Dodd-Frank Act, various legislative bodies have also considered altering the existing framework governing creditors' rights and mortgage products including legislation that would result in or allow loan modifications of various sorts. Such legislation may change the operating environment in substantial and unpredictable ways. We cannot predict whether new legislation will be enacted, and if enacted, the effect that it or any regulations would have on our activities, financial condition, or results of operations.

### Item 1b. Unresolved Staff Comments

None.

### Item 2. Properties

The Company's principal executive and administrative offices are located at 1114 Avenue of the Americas, New York, NY 10036. Its telephone number and web address are (212) 930-9400 and [www.istarfinancial.com](http://www.istarfinancial.com), respectively. The lease for the Company's principal executive and administrative offices expires in February 2021. The Company's principal regional offices are located in Atlanta, Georgia; Dallas, Texas; Hartford, Connecticut; San Francisco, California and two offices in the Los Angeles, California metropolitan area.

See Item 1—"Net Lease," "Operating Properties" and "Land" for a discussion of properties held by the Company for investment purposes and Item 8—"Financial Statements and Supplemental Data—Schedule III," for a detailed listing of such facilities.



Table of Contents

## Item 3. Legal Proceedings

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

## Item 4. Mine Safety Disclosures

Not applicable.

## PART II

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

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

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

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

At December 31, 2013, the Company had six series of preferred stock outstanding: 8.000% Series D Preferred Stock, 7.875% Series E Preferred Stock, 7.8% Series F Preferred Stock, 7.65% Series G Preferred Stock, 7.50% Series I Preferred Stock and 4.50% Series J Preferred Stock. Each of the Series D, E, F, G and I preferred stock is listed on the NYSE. The Series J Preferred Stock is not listed on an exchange.

## Dividends

The Board of Directors has not established any minimum distribution level. In order to maintain its qualification as a REIT, the Company intends to pay dividends to its shareholders that, on an annual basis, will represent at least 90% of its taxable income (which may not necessarily equal net income as calculated in accordance with GAAP), determined without regard to the deduction for dividends paid and excluding any net capital gains. The Company has recorded net operating losses and may record net operating losses in the future, which may reduce its taxable income in future periods and lower or eliminate entirely the Company's obligation to pay dividends for such periods in order to maintain its REIT qualification.

Holders of Common Stock, vested High Performance Units and certain unvested restricted stock units and common share equivalents will be entitled to receive distributions if, as and when the Board of Directors authorizes and declares distributions. However, rights to distributions may be subordinated to the rights of holders of preferred stock, when preferred stock is issued and outstanding. In addition, the Company's Secured Credit Facilities (see Item 8—"Financial Statements and Supplemental Data—Note 8") permit the Company to distribute 100% of its REIT taxable income on an annual basis, for so long as the Company maintains its qualification as a REIT. The Secured Credit Facilities generally restrict the Company from paying any common dividends if it ceases to qualify as a REIT. In any liquidation, dissolution or winding up of the Company, each outstanding share of Common Stock and HPU share equivalent will entitle its holder to a proportionate share of the assets that remain after the Company pays its liabilities and any preferential distributions owed to preferred shareholders.

The Company did not declare or pay dividends on its Common Stock for the years ended December 31, 2013 and 2012. The Company declared and paid dividends of \$8.0 million, \$11.0 million, \$7.8 million, \$6.1 million, and \$9.4 million on its Series D, E, F, G, and I preferred stock, respectively, during each of the years ended December 31, 2013 and 2012. During the year ended December 31, 2013, the Company also declared and paid dividends of \$6.7 million on its Series J preferred stock, which was issued in March 2013. All of the dividends qualified as return of capital for tax reporting purposes. There are no dividend arrearages on any of the preferred shares currently outstanding.

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

No assurance can be given as to the amounts or timing of future distributions, as such distributions are subject to the Company's taxable income after giving effect to its net operating loss carryforwards, financial condition, capital requirements, debt covenants, any change in the Company's intention to maintain its REIT qualification and such other factors as the Company's Board of Directors deems relevant. The Company may elect to satisfy some of its REIT distribution requirements, if any, through qualifying stock dividends.

Disclosure of Equity Compensation Plan Information

Plans Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders-restricted stock awards(1)	3,146,302	N/A	3,984,373

Explanatory Note:

---

Restricted Stock—The amount shown in column (a) includes 2,779,168 unvested restricted stock units which may vest in the future based on the employees' continued service to the Company. None of these unvested units are included in the Company's outstanding share balance (see Item 8—"Financial Statements and Supplementary Data—Note 12" for a more detailed description of the Company's restricted stock grants). Substantially all of the restricted stock units included in column (a) are required to be settled on a net, after-tax basis (after deducting shares for minimum required statutory withholdings); therefore, the actual number of shares issued will be less than the gross amount of the awards. The amounts shown in column (a) also includes 367,134 of common stock (1)equivalents and restricted stock awarded to our non-employee directors in consideration of their service to the Company as directors. Common stock equivalents represent rights to receive shares of Common Stock at the date the common stock equivalents are settled. Common stock equivalents have dividend equivalent rights beginning on the date of grant. The amount in column (c) represents the aggregate amount of stock options, shares of restricted stock awards or other performance awards that could be granted under compensation plans approved by the Company's security holders after giving effect to previously issued awards of stock options, shares of restricted stock and other performance awards (see Item 8—"Financial Statements and Supplementary Data—Note 12" for a more detailed description of the Company's Long-Term Incentive Plans).

Table of Contents

## Item 6. Selected Financial Data

The following table sets forth selected financial data on a consolidated historical basis for the Company. This information should be read in conjunction with the discussions set forth in Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations." Certain prior year amounts have been reclassified to conform to the 2013 presentation as set forth in Item 8—"Financial Statements and Supplementary Data—Note 2."

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

Edgar Filing: ISTAR FINANCIAL INC - Form 10-K

Net income (loss) allocable to common shareholders	\$(155,769 )	\$(272,997 )	\$(62,387 )	\$36,279	\$(788,570 )
Per common share data(2):					
Income (loss) attributable to iStar Financial Inc. from continuing operations:					
Basic and diluted	\$(2.09 )	\$(3.37 )	\$(0.91 )	\$(2.62 )	\$(8.02 )
Net income (loss) attributable to iStar Financial Inc.:					
Basic and diluted	\$(1.83 )	\$(3.26 )	\$(0.70 )	\$0.39	\$(7.88 )
Per HPU share data(2):					
Income (loss) attributable to iStar Financial Inc. from continuing operations:					
Basic and diluted	\$(396.07 )	\$(638.27 )	\$(173.66 )	\$(497.13 )	\$(1,528.67 )
Net income (loss) attributable to iStar Financial Inc.:					
Basic and diluted	\$(346.80 )	\$(616.87 )	\$(133.13 )	\$72.27	\$(1,501.73 )
Dividends declared per common share	\$—	\$—	\$—	\$—	\$—

Table of Contents

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

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

## Explanatory Notes:

HPU holders are current and former Company employees who purchased high performance common stock units under the Company's High Performance Unit Program. Participating Security holders are Company employees and (1) directors who hold unvested restricted stock units, restricted stock awards and common stock equivalents granted under the Company's Long Term Incentive Plans.

(2) See Item 8—"Financial Statements and Supplementary Data—Note 13."

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

computation of Adjusted income and Adjusted EBITDA on pages 32 and 33.

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

Table of Contents

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

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements are included with respect to, among other things, the Company's current business plan, business strategy, portfolio management, prospects and liquidity. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results or outcomes to differ materially from those contained in the forward-looking statements. Important factors that the Company believes might cause such differences are discussed in the section entitled, "Risk Factors" in Part I, Item 1a of this Form 10-K or otherwise accompany the forward-looking statements contained in this Form 10-K. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In assessing all forward-looking statements, readers are urged to read carefully all cautionary statements contained in this Form 10-K. For purposes of this Management's Discussion and Analysis of Financial Condition and Results of Operations, the terms "we," "our" and "us" refer to iStar Financial Inc. and its consolidated subsidiaries, unless the context indicates otherwise.

This discussion summarizes the significant factors affecting our consolidated operating results, financial condition and liquidity during the three-year period ended December 31, 2013. This discussion should be read in conjunction with our consolidated financial statements and related notes for the three-year period ended December 31, 2013 included elsewhere in this Annual Report on Form 10-K. These historical financial statements may not be indicative of our future performance. We have reclassified certain items in our consolidated financial statements from prior years in order to conform to our current year presentation (see Item 8—"Financial Statements and Supplemental Data —Note 2").

Introduction

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

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

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

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

Our land portfolio primarily consists of 11 master planned community projects, 10 urban infill land parcels and 6 waterfront land parcels located throughout the United States. Master planned communities represent large-scale residential projects that we will entitle, plan and/or develop and may sell through retail channels to home builders or in bulk. We currently have entitlements at these projects for more than 25,000 lots. The remainder of the Company's

land includes infill and waterfront parcels located in and around major cities that the Company will develop, sell to or partner with commercial real estate developers. Waterfront parcels are generally entitled for residential projects and urban infill parcels are generally entitled for mixed-use projects. These projects are currently entitled for approximately 6,000 residential units, and select projects include commercial, retail and office uses. As of December 31, 2013, we had 5 land projects in production, 11 in development and 11 in the pre-development phase.

Table of Contents

Executive Overview

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

As conditions in the economy and financing markets have improved, we have been increasing our originations of new lending and net lease investments, repositioning or redeveloping our operating properties and progressing on the entitlement and development of our land assets. We intend to continue these efforts, with the objective of having these assets contribute positively to earnings in the future. During the year, we resolved a number of non-performing loans including loans that were repaid, sold, returned to performing status and foreclosed on. Non-performing loans, net of specific reserves, declined 60% from \$503.1 million at December 31, 2012 to \$203.6 million at December 31, 2013. During the year ended December 31, 2013, our performing loans, net lease assets and sales of our residential operating properties contributed positively to our earnings. However, the performance of nonperforming loans, transitional commercial operating properties and the sizable carrying costs associated with our land assets continued to negatively impact our earnings. In addition, we realized less earnings from equity method investments as a result of the sale of our investment in LNR Property Corporation ("LNR") during 2013. For the year ended December 31, 2013, we recorded a net loss allocable to common shareholders of \$(155.8) million, compared to a loss of \$(273.0) million during 2012. Adjusted income (loss) allocable to common shareholders for 2013 was \$(21.7) million, compared to \$(53.8) million for 2012.

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

Table of Contents

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

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

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

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

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

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

7.5% in 2012.

Other income increased to \$48.2 million in 2013 as compared to \$47.8 million in 2012. The increase was due to \$4.0 million received for the settlement of a property-related lawsuit and \$3.5 million recognized for the termination of certain leases. Other income includes revenue related to hotel properties included in the operating property portfolio, which decreased to \$29.3 million in 2013 from \$32.6 million in 2012 due to a reduction in ancillary revenue related to a hotel property and the conversion of some

26

---

Table of Contents

hotel rooms to condo units within one property. In addition, there was a decline of \$3.9 million in loan related income due primarily to the sale of a loan in 2012.

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

Real estate expenses increased to \$157.4 million in 2013 as compared to \$151.5 million in 2012. Expenses for commercial operating properties increased to \$81.1 million in 2013 from \$73.7 million in 2012, primarily driven by a property to which we took title at the end of 2012, offset by a reduction in ancillary expenses related to a hotel property. Carrying costs and other expenses on our land assets increased to \$33.8 million in 2013 from \$27.3 million in 2012, primarily related to increased pre-development activities. The increases were offset by a decrease in costs associated with residential units to \$19.8 million in 2013 from \$26.6 million in 2012 due to continued unit sales, which reduced our homeowners' association fees and other related expenses. Additionally, operating expenses for net lease assets decreased to \$22.7 million in 2013 from \$23.9 million in 2012 due primarily to improvements in collectability of receivables in 2013.

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

General and administrative expenses increased to \$92.1 million in 2013 as compared to \$80.9 million in 2012 primarily due to an increase in compensation related costs pertaining to annual performance based bonuses. Provisions for loan losses declined by \$76.3 million to \$5.5 million in 2013 as compared to \$81.7 million in 2012 as less specific reserves were required on a lower balance of non-performing loans. Included in the provision for the year ended December 31, 2013 were specific reserves totaling \$72.5 million which were established on non-performing loans offset by recoveries of previously recorded loan loss reserves of \$63.1 million.

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

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

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

During 2012, net losses on the early extinguishment of debt included a \$14.9 million prepayment fee on the early redemption of our 8.625% Senior Unsecured Notes due in June 2013 as well as \$12.1 million related to the

accelerated amortization of discounts and fees in connection with the refinancing of our 2011 Secured Credit Facilities in October 2012 (see Liquidity and Capital Resources below). We also recorded \$13.8 million of losses in 2012 related to the accelerated amortization of discounts and fees in connection with amortization payments that we made on our 2011 and 2012 Secured Credit Facilities. These losses were partially offset by gains on the repurchases of unsecured notes during 2012.

Earnings from equity method investments—Earnings from equity method investments decreased to \$41.5 million in 2013 as compared to \$103.0 million in 2012. For one of our real estate equity investments, our equity in earnings decreased to \$4.3 million in 2013 from \$25.2 million in 2012 due to lower income from sales of residential property units for a building that is approaching complete sell-out. Our equity in earnings from LNR decreased to \$47.3 million in 2013 from \$60.7 million in 2012

Table of Contents

due to the sale of our interest in LNR in April 2013. Our equity in earnings in 2013 was offset by an other than temporary impairment of \$30.9 million arising from the terms of the sale of the Company's investment in LNR. The Company and other owners of LNR entered into negotiations with potential purchasers of LNR beginning in September 2012. After an extensive due diligence and negotiation process, the LNR owners entered into a definitive contract to sell LNR in January 2013 at a fixed sale price which, from the Company's perspective, reflected in part the Company's then-current expectations about the future results of LNR and potential volatility in its business. The definitive sale contract provided that LNR would not make cash distributions to its owners during the fourth quarter of 2012 through the closing of the sale. Notwithstanding the fixed terms of the contract, our investment balance in LNR increased due to equity in earnings recorded which resulted in our recognition of other than temporary impairment on our investment during 2013.

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

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

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

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

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

Table of Contents

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

	For the Years Ended December 31,				
	2012	2011	\$ Change	% Change	
	(in thousands)				
Operating lease income	\$216,291	\$195,872	\$20,419	10	%
Interest income	133,410	226,871	(93,461)	(41)	)%
Other income	47,838	39,722	8,116	20	%
Total revenue	\$397,539	\$462,465	\$(64,926)	(14)	)%
Interest expense	\$355,097	\$342,186	\$12,911	4	%
Real estate expenses	151,458	138,714	12,744	9	%
Depreciation and amortization	68,770	58,091	10,679	18	%
General and administrative	80,856	105,039	(24,183)	(23)	)%
Provision for loan losses	81,740	46,412	35,328	76	%
Impairment of assets	13,778	13,239	539	4	%
Other expense	17,266	11,070	6,196	56	%
Total costs and expenses	\$768,965	\$714,751	\$54,214	8	%
Gain (loss) on early extinguishment of debt, net	\$(37,816)	\$101,466	\$(139,282)	>100%	)
Earnings from equity method investments	103,009	95,091	7,918	8	%
Income tax (expense) benefit	(8,445)	4,719	(13,164)	>100%	)
Income (loss) from discontinued operations	(17,481)	(5,514)	(11,967)	>100%	)
Gain from discontinued operations	27,257	25,110	2,147	9	%
Income from sales of residential property	63,472	5,721	57,751	>100%	)
Net income (loss)	\$(241,430)	\$(25,693)	\$(215,737)	>100%	)

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

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

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

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

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

loan income related to the prepayment and sales of loans as compared to \$2.9 million for the year ended December 31, 2011.

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

Table of Contents

Real estate expenses increased to \$151.5 million in 2012 as compared to \$138.7 million in 2011 primarily driven by additional properties to which we took title in 2012 and late 2011 through resolution of non-performing loans. Expenses for operating properties were \$100.2 million in 2012 as compared to \$92.0 million in 2011, which includes carrying costs on our residential operating properties totaling \$26.6 million in 2012 and \$24.4 million in 2011. Operating expenses for net lease assets declined slightly to \$23.9 million in 2012 from \$25.1 million in 2011. Carrying costs and other expenses on our land assets increased to \$27.3 million in 2012 from \$21.6 million in 2011, primarily related to acquiring title to assets in resolution of non-performing loans as well as increased legal and consulting expenses.

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

## Adjusted income and Adjusted EBITDA

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

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

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

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

Edgar Filing: ISTAR FINANCIAL INC - Form 10-K

Adjusted income (loss) allocable to common shareholders                      \$(21,677 ) \$(53,847 ) \$(3,316 ) \$360,525    \$155,324

Explanatory Notes:

---

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

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

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

Table of Contents

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

## Explanatory Notes:

(1) For the years ended December 31, 2013, 2012, 2011, 2010 and 2009, interest expense includes \$0, \$1,064, \$3,728, \$32,734 and \$69,326, respectively, of interest expense reclassified to discontinued operations.

Interest expense also includes our proportionate share of interest for equity method investments.

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

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

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

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

## Risk Management

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

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

Explanatory Note:

---

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

Non-Performing Loans—We designate loans as non-performing at such time as: (1) the loan becomes 90 days delinquent; (2) the loan has a maturity default; or (3) management determines it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan. All non-performing loans are placed on non-accrual status and income is only recognized in certain cases upon actual cash receipt. As of December 31, 2013, we had non-performing loans with an aggregate carrying value of \$203.6 million compared to non-performing loans of \$503.1 million at December 31, 2012. Our non-performing

## Table of Contents

loans significantly decreased during year ended December 31, 2013, primarily due to paydowns received on non-performing loans, reclassification of certain non-performing loans to performing status and receiving title to properties serving as collateral in full or partial satisfaction of such loans. We expect that our level of non-performing loans will fluctuate from period to period.

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

The reserve for loan losses includes an asset-specific component and a formula-based component. An asset-specific reserve is established for an impaired loan when the estimated fair value of the loan's collateral less costs to sell is lower than the carrying value of the loan. As of December 31, 2013, asset-specific reserves decreased to \$348.0 million compared to \$491.4 million at December 31, 2012, primarily due to charge-offs on loans where we took title to properties serving as collateral in full or partial satisfaction of such loans or loans that were sold. The decrease was partially offset by additional reserves established on new non-performing loans.

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

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

**Risk concentrations**—Concentrations of credit risks arise when a number of borrowers or tenants related to our investments are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to us, to be similarly affected by changes in economic conditions.

Substantially all of our real estate as well as assets collateralizing our loans receivable are located in the United States. As of December 31, 2013, the only state with a concentration greater than 10.0% was California with 15.1%. As of that date, we also had approximately 21.4% of the carrying value of our assets related to properties located in the

northeastern U.S., 21.4% related to properties located in the western U.S., 15.8% related to properties located in the southeastern U.S., 13.4% related to properties located in the southwestern U.S. and 13.4% related to properties located in the mid-Atlantic region of the U.S. In addition, as of December 31, 2013, we had \$118.8 million of European assets. As of December 31, 2013, our portfolio contains concentrations in the following asset types: land 21.6%, office 15.2%, industrial/R&D 13.5% and entertainment/leisure 10.7%. Additional information regarding property/collateral type and geographical region for each segment is in Item 1—"Business."

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

Table of Contents

## Liquidity and Capital Resources

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

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

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

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

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

## Explanatory Notes:

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

We also have issued letters of credit totaling \$3.7 million in connection with four of our investments. See

(2) Unfunded Commitments below, for a discussion of certain unfunded commitments related to our lending and net lease businesses.

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

Borrowings under the February 2013 Secured Credit Facility are collateralized by a first lien on a fixed pool of assets, with required minimum collateral coverage of not less than 125% of outstanding borrowings. If collateral coverage is less than 137.5% of outstanding borrowings, 100% of the proceeds from principal repayments and sales of collateral will be applied to repay

Table of Contents

outstanding borrowings under the February 2013 Secured Credit Facility. For so long as collateral coverage is between 137.5% and 150% of outstanding borrowings, 50% of proceeds from principal repayments and sales of collateral will be applied to repay outstanding borrowings under the February 2013 Secured Credit Facility and for so long as collateral coverage is greater than 150% of outstanding borrowings, we may retain all proceeds from principal repayments and sales of collateral. We retain proceeds from interest, rent, lease payments and fee income in all cases. In connection with the February 2013 Secured Credit Facility transaction, we incurred \$17.1 million of lender fees, of which \$14.4 million was capitalized in "Debt Obligations, net" on our Consolidated Balance Sheets and \$2.7 million was recorded as a loss in "Gain (loss) on early extinguishment of debt, net" on our Consolidated Statements of Operations as it related to the lenders who did not participate in the new facility. We also incurred \$3.8 million in third party fees, of which \$3.6 million was recognized in "Other expense" on our Consolidated Statements of Operations, as it related primarily to those lenders from the original facility that modified their debt under the new facility, and \$0.2 million was recorded in "Deferred expenses and other assets, net" on our Consolidated Balance Sheets, as it related to the new lenders.

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

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

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

During the year ended December 31, 2012, in connection with the October 2012 Secured Credit Facility transaction, we incurred \$14.8 million in third party fees, of which \$8.1 million was recognized in "Other expense" on our Consolidated Statements of Operations as it related to the portion of lenders from the original facility that modified their debt under the new facility. The remaining \$6.6 million of fees were recorded in "Deferred expenses and other assets, net" on our Consolidated Balance Sheets, as they related to the portion of lenders that were new to the facility. The October 2012 Secured Credit Facility was refinanced by the February 2013 Secured Credit Facility. Prior to refinancing, we made cumulative amortization repayments of \$113.0 million on the October 2012 Secured Credit Facility, which resulted in losses on early extinguishment of debt of \$0.8 million and \$1.2 million during the year ended December 31, 2013 and 2012, respectively, related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid.

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

March 2012 Secured Credit Facilities—In March 2012, we entered into an \$880.0 million senior secured credit agreement providing for two tranches of term loans: a \$410.0 million 2012 A-1 tranche due March 2016, which bears interest at a rate of LIBOR + 4.00% (the "2012 Tranche A-1 Facility"), and a \$470.0 million 2012 A-2 tranche due March 2017, which bears interest at a rate of LIBOR + 5.75% (the "2012 Tranche A-2 Facility," together the "March

2012 Secured Credit Facilities"). The 2012 A-1 and A-2 tranches were issued at 98.0% of par and 98.5% of par, respectively, and both tranches include a LIBOR floor of 1.25%. Proceeds from the March 2012 Secured Credit Facilities, together with cash on hand, were used to repurchase and repay at maturity \$606.7 million aggregate principal amount of our convertible notes due October 2012, to fully repay the \$244.0 million balance on our unsecured credit facility due June 2012, and to repay, upon maturity, \$90.3 million outstanding principal balance of our 5.50% senior unsecured notes.

## Table of Contents

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Explanatory Note:

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

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

Table of Contents

we will continue to be permitted to incur indebtedness for the purpose of refinancing existing indebtedness and for other permitted purposes under the indentures.

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

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

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

Off-Balance Sheet Arrangements—We are not dependent on the use of any off-balance sheet financing arrangements for liquidity. We have made investments in various unconsolidated ventures. See Item 8—"Financial Statements and Supplemental Data—Note 6" for further details of our unconsolidated investments. Our maximum exposure to loss from these investments is limited to the carrying value of our investments and any unfunded commitments (see below).

Unfunded Commitments—We generally fund construction and development loans and build-outs of space in net lease assets over a period of time if and when the borrowers and tenants meet established milestones and other performance criteria. We refer to these arrangements as Performance-Based Commitments. In addition, we sometimes establish a maximum amount of additional funding which we will make available to a borrower or tenant for an expansion or addition to a project if we approve of the expansion or addition in our sole discretion. We refer to these arrangements as Discretionary Fundings. Finally, we have committed to invest capital in several real estate funds and other ventures. These arrangements are referred to as Strategic Investments. As of December 31, 2013, the maximum amounts of the fundings we may make under each category, assuming all performance hurdles and milestones are met under the Performance-Based Commitments, that we approve all Discretionary Fundings and that 100% of our capital committed to Strategic Investments is drawn down, are as follows (in thousands):

	Loans and Other Lending Investments	Real Estate	Strategic Investments	Total
Performance-Based Commitments	\$ 19,436	\$ 53,164	\$ —	\$ 72,600
Discretionary Fundings	—	—	—	—

Edgar Filing: ISTAR FINANCIAL INC - Form 10-K

Strategic Investments	—	—	46,591	46,591
Total	\$19,436	\$53,164	\$46,591	\$119,191

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

Stock Repurchase Programs—Our Board of Directors has approved a stock repurchase program that authorizes repurchases of our Common Stock from time to time in open market and privately negotiated purchases, including pursuant to one or more trading plans.

## Table of Contents

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

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

### Critical Accounting Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and judgments in certain circumstances that affect amounts reported as assets, liabilities, revenues and expenses. We have established detailed policies and control procedures intended to ensure that valuation methods, including any judgments made as part of such methods, are well controlled, reviewed and applied consistently from period to period. We base our estimates on historical corporate and industry experience and various other assumptions that we believe to be appropriate under the circumstances. For all of these estimates, we caution that future events rarely develop exactly as forecasted, and, therefore, routinely require adjustment.

During 2013, management reviewed and evaluated these critical accounting estimates and believes they are appropriate. Our significant accounting policies are described in Item 8—"Financial Statements and Supplemental Data—Note 3." The following is a summary of accounting policies that require more significant management estimates and judgments:

**Reserve for loan losses**—The reserve for loan losses reflects management's estimate of loan losses inherent in the loan portfolio as of the balance sheet date. The reserve is increased through the "Provision for loan losses" on our Consolidated Statements of Operations and is decreased by charge-offs when losses are confirmed through the receipt of assets such as cash in a pre-foreclosure sale or via ownership control of the underlying collateral in full satisfaction of the loan upon foreclosure or when significant collection efforts have ceased. We have one portfolio segment, represented by commercial real estate lending, whereby we utilize a uniform process for determining our reserves for loan losses. The reserve for loan losses includes a general, formula-based component and an asset-specific component. The general reserve component covers performing loans and reserves for loan losses are recorded when (i) available information as of each balance sheet date indicates that it is probable a loss has occurred in the portfolio and (ii) the amount of the loss can be reasonably estimated. The formula-based general reserve is derived from estimated principal default probabilities and loss severities applied to groups of loans based upon risk ratings assigned to loans with similar risk characteristics during our quarterly loan portfolio assessment. During this assessment, we perform a comprehensive analysis of our loan portfolio and assign risk ratings to loans that incorporate management's current judgments about their credit quality based on all known and relevant internal and external factors that may affect collectability. We consider, among other things, payment status, lien position, borrower financial resources and investment in collateral, collateral type, project economics and geographical location as well as national and regional economic factors. This methodology results in loans being segmented by risk classification into risk rating categories that are associated with estimated probabilities of default and principal loss. Ratings range from "1" to "5" with "1" representing the lowest risk of loss and "5" representing the highest risk of loss. We estimate loss rates based on historical realized losses experienced within our portfolio and take into account current economic conditions affecting the commercial real estate market when establishing appropriate time frames to evaluate loss experience.

The asset-specific reserve component relates to reserves for losses on impaired loans. We consider a loan to be impaired when, based upon current information and events, we believe that it is probable that we will be unable to collect all amounts due under the contractual terms of the loan agreement. This assessment is made on a loan-by-loan basis each quarter based on such factors as payment status, lien position, borrower financial resources and investment in collateral, collateral type, project economics and geographical location as well as national and regional economic

factors. A reserve is established for an impaired loan when the present value of payments expected to be received, observable market prices, or the estimated fair value of the collateral (for loans that are dependent on the collateral for repayment) is lower than the carrying value of that loan.

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

Table of Contents

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

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

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

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

Impairment or disposal of long-lived assets—Real estate assets to be disposed of are reported at the lower of their carrying amount or estimated fair value less costs to sell and are included in "Real estate held for sale" on our Consolidated Balance Sheets. The difference between the estimated fair value less costs to sell and the carrying value will be recorded as an impairment charge and included in "Income (loss) from discontinued operations" on the Consolidated Statements of Operations. Once the asset is classified as held for sale, depreciation expense is no longer recorded and historical operating results are reclassified to "Income (loss) from discontinued operations" on the Consolidated Statements of Operations.

We periodically review long-lived assets to be held and used for impairment in value whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. A held for use long-lived asset's value is impaired only if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the asset (taking into account the anticipated holding period of the asset) is less than the carrying value. Such estimate of cash flows considers factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other economic factors. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount of the property over the fair value of the asset and reflected as an adjustment to the basis of the asset. Impairments of real estate assets are recorded in "Impairment of assets," on our Consolidated Statements of Operations.

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

Identified intangible assets and liabilities—We record intangible assets and liabilities acquired at their estimated fair values separate and apart from goodwill. We determine whether such intangible assets and liabilities have finite or indefinite lives. As of December 31, 2013, all such acquired intangible assets and liabilities have finite lives. We amortize finite lived intangible assets and liabilities based on the period over which the assets and liabilities are expected to contribute directly or indirectly to the future cash flows of the business acquired. We review finite lived intangible assets for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If we determine the carrying value of an intangible asset is not recoverable we will record an

impairment charge to the extent its carrying value exceeds its estimated fair value. Impairments of intangibles are recorded in "Impairment of assets" on our Consolidated Statements of Operations.

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

Table of Contents

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

Variable interest entities—We evaluate our investments and other contractual arrangements to determine if our interests constitute variable interests in a variable interest entity ("VIE") and if we are the primary beneficiary. There is a significant amount of judgment required to determine if an entity is considered a VIE and if we are the primary beneficiary. We first perform a qualitative analysis, which requires certain subjective decisions regarding our assessment, including, but not limited to, which interests create or absorb variability, the contractual terms, the key decision making powers, impact on the VIE's economic performance and related party relationships. An iterative quantitative analysis is required if our qualitative analysis proves inconclusive as to whether the entity is a VIE or we are the primary beneficiary and consolidation is required.

Fair value of assets and liabilities—The degree of management judgment involved in determining the fair value of assets and liabilities is dependent upon the availability of quoted market prices or observable market parameters. For financial and nonfinancial assets and liabilities that trade actively and have quoted market prices or observable market parameters, there is minimal subjectivity involved in measuring fair value. When observable market prices and parameters are not fully available, management judgment is necessary to estimate fair value. In addition, changes in market conditions may reduce the availability of quoted prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. Therefore, when market data is not available, we would use valuation techniques requiring more management judgment to estimate the appropriate fair value measurement.

See Item 8—"Financial Statements and Supplementary Data—Note 14" for a complete discussion on how we determine fair value of financial and non-financial assets and financial liabilities and the related measurement techniques and estimates involved.

Table of Contents

## Item 7a. Quantitative and Qualitative Disclosures about Market Risk

## Market Risks

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

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

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond our control. We monitor the spreads between our interest-earning assets and interest-bearing liabilities and may implement hedging strategies to limit the effects of changes in interest rates on our operations, including engaging in interest rate swaps, interest rate caps and other interest rate-related derivative contracts. Such strategies are designed to reduce our exposure, on specific transactions or on a portfolio basis, to changes in cash flows as a result of interest rate movements in the market. We do not enter into derivative contracts for speculative purposes or as a hedge against changes in our credit risk or the credit risk of our borrowers.

While a REIT may utilize derivative instruments to hedge interest rate risk on its liabilities incurred to acquire or carry real estate assets without generating non-qualifying income, use of derivatives for other purposes will generate non-qualified income for REIT income test purposes. This includes hedging asset related risks such as credit, foreign exchange and prepayment or interest rate exposure on our loan assets. As a result our ability to hedge these types of risks is limited. There can be no assurance that our profitability will not be adversely affected during any period as a result of changing interest rates.

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

## Estimated Percentage Change In Net Income

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

## Explanatory Note:

---

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

weighted average interest rate floor of 3.24% and \$1.81 billion of our floating rate debt has a cumulative weighted average interest rate floor of 1.06%.

Table of Contents

## Item 8. Financial Statements and Supplemental Data

## Index to Financial Statements

	Page
Financial Statements:	
<u>Report of Independent Registered Public Accounting Firm</u>	<u>44</u>
<u>Consolidated Balance Sheets as of December 31, 2013 and 2012</u>	<u>45</u>
<u>Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011</u>	<u>46</u>
<u>Consolidated Statements of Comprehensive Income (Loss) For the years ended December 31, 2013, 2012 and 2011</u>	<u>47</u>
<u>Consolidated Statements of Changes in Equity for the years ended December 31, 2013, 2012 and 2011</u>	<u>48</u>
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011</u>	<u>50</u>
<u>Notes to Consolidated Financial Statements</u>	<u>51</u>
Financial Statement Schedules:	<u>94</u>
<u>Schedule II—Valuation and Qualifying Accounts and Reserves</u>	<u>94</u>
<u>Schedule III—Real Estate and Accumulated Depreciation</u>	<u>95</u>
<u>Schedule IV—Mortgage Loans on Real Estate</u>	<u>106</u>

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

Table of Contents

Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of iStar Financial Inc. and its subsidiaries (collectively, the “Company”) at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

New York, New York  
February 28, 2014



Table of Contents

iStar Financial Inc.

Consolidated Balance Sheets

(In thousands, except per share data)

	As of December 31,	
	2013	2012
<b>ASSETS</b>		
Real estate		
Real estate, at cost	\$3,220,634	\$3,117,405
Less: accumulated depreciation	(424,453)	(378,306)
Real estate, net	\$2,796,181	\$2,739,099
Real estate available and held for sale	360,517	635,865
	\$3,156,698	\$3,374,964
Loans receivable and other lending investments, net	1,370,109	1,829,985
Other investments	207,209	398,843
Cash and cash equivalents	513,568	256,344
Restricted cash	48,769	36,778
Accrued interest and operating lease income receivable, net	14,941	15,226
Deferred operating lease income receivable	92,737	84,735
Deferred expenses and other assets, net	237,980	163,124
Total assets	\$5,642,011	\$6,159,999
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$170,831	\$141,670
Debt obligations, net	4,158,125	4,691,494
Total liabilities	\$4,328,956	\$4,833,164
Commitments and contingencies	—	—
Redeemable noncontrolling interests	11,590	13,681
Equity:		
iStar Financial Inc. shareholders' equity:		
Preferred Stock Series D, E, F, G, and I, liquidation preference \$25.00 per share (see Note 11)	22	22
Convertible Preferred Stock Series J, liquidation preference \$50.00 per share (see Note 11)	4	—
High Performance Units	9,800	9,800
Common Stock, \$0.001 par value, 200,000 shares authorized, 144,334 issued and 83,717 outstanding at December 31, 2013 and 142,699 issued and 83,782 outstanding at December 31, 2012	144	143
Additional paid-in capital	4,022,138	3,832,780
Retained earnings (deficit)	(2,521,618)	(2,360,647)
Accumulated other comprehensive income (loss) (see Note 11)	(4,276)	(1,185)
Treasury stock, at cost, \$0.001 par value, 60,617 shares at December 31, 2013 and 58,917 shares at December 31, 2012	(262,954)	(241,969)
Total iStar Financial Inc. shareholders' equity	\$1,243,260	\$1,238,944
Noncontrolling interests	58,205	74,210
Total equity	\$1,301,465	\$1,313,154
Total liabilities and equity	\$5,642,011	\$6,159,999

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



Table of Contents

iStar Financial Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

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

Edgar Filing: ISTAR FINANCIAL INC - Form 10-K

Basic and diluted	\$ (346.80	)	\$ (616.87	)	\$ (133.13	)
Weighted average number of HPU shares—basic and diluted	15		15		15	

Explanatory Notes:

---

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

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

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

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

Table of Contents

iStar Financial Inc.  
Consolidated Statements of Comprehensive Income (Loss)  
(In thousands)  
(unaudited)

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

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

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

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

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

Table of Contents

iStar Financial Inc.  
Consolidated Statements of Changes in Equity  
For the Years Ended December 31, 2013, 2012 and 2011  
(In thousands)

	iStar Financial Inc. Shareholders' Equity									
	Preferred Stock Series J(1)	Preferred Stock HPU's	Common Stock at Par	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock at Cost	Noncontrolling Interests	Total Equity	
Balance at December 31, 2010	\$22	\$—	\$9,800	\$138	\$3,809,071	\$(2,014,013)	\$1,609	\$(158,492)	\$46,524	\$1,694,659
Dividends declared—preferred	—	—	—	—	(42,320)	—	—	—	(42,320)	(42,320)
Issuance of stock/restricted stock	—	—	2	25,389	—	—	—	—	25,391	25,391
amortization, net	—	—	—	—	—	—	—	—	—	—
Net loss for the period(2)	—	—	—	—	(22,064)	—	—	(3,603)	(25,667)	(25,667)
Change in accumulated other comprehensive income (loss)	—	—	—	—	—	(1,937)	—	—	(1,937)	(1,937)
Repurchase of stock	—	—	—	—	—	—	(78,849)	—	(78,849)	(78,849)
Contributions from noncontrolling interests	—	—	—	—	—	—	—	3,917	3,917	3,917
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(1,590)	(1,590)	(1,590)
Balance at December 31, 2011	\$22	\$—	\$9,800	\$140	\$3,834,460	\$(2,078,397)	\$(328)	\$(237,341)	\$45,248	\$1,573,604
Dividends declared—preferred	—	—	—	—	(42,320)	—	—	—	(42,320)	(42,320)
Repurchase of stock	—	—	—	—	—	—	(4,628)	—	(4,628)	(4,628)
Issuance of stock/restricted stock unit	—	—	3	2,705	—	—	—	—	2,708	2,708
amortization, net	—	—	—	—	—	—	—	—	—	—
Net loss for the period(2)	—	—	—	—	(239,930)	—	—	(688)	(240,618)	(240,618)
Change in accumulated other	—	—	—	—	—	(857)	—	—	(857)	(857)

comprehensive income (loss)											
Repurchase of convertible notes	—	—	—	(2,728	)	—	—	—	(2,728	)	
Additional paid in capital attributable to redeemable noncontrolling interest	—	—	—	(1,657	)	—	—	—	(1,657	)	
Contributions from noncontrolling interests(3)	—	—	—	—	—	—	—	32,654	32,654		
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(3,004	)	(3,004	)
Balance at December 31, 2012	\$22	\$—	\$9,800	\$143	\$3,832,780	\$(2,360,647)	\$(1,185)	\$(241,969)	\$74,210	\$1,313,154	

Table of Contents

iStar Financial Inc.  
 Consolidated Statements of Changes in Equity (Continued)  
 For the Years Ended December 31, 2013, 2012 and 2011  
 (In thousands)

	iStar Financial Inc. Shareholders' Equity									
	Preferred Stock Series J(1)	Preferred Stock HPU's	Common Stock at Par	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock at Cost	Noncontrolling Interests	Total Equity	
Balance at December 31, 2012	\$22	\$—	\$9,800	\$143	\$3,832,780	\$(2,360,647)	\$(1,185)	\$(241,969)	\$74,210	\$1,313,154
Issuance of Preferred Stock	—	4	—	—	193,506	—	—	—	—	193,510
Dividends declared—preferred	—	—	—	—	—	(49,020)	—	—	—	(49,020)
Repurchase of stock	—	—	—	—	—	—	—	(20,985)	—	(20,985)
Issuance of stock/restricted stock unit amortization, net	—	—	—	1	(1,376)	—	—	—	—	(1,375)
Net loss for the period(2)	—	—	—	—	—	(111,951)	—	—	3,837	(108,114)
Change in accumulated other comprehensive income (loss)	—	—	—	—	—	—	(3,091)	—	—	(3,091)
Additional paid in capital attributable to redeemable noncontrolling interest(5)	—	—	—	—	(2,772)	—	—	—	—	(2,772)
Contributions from noncontrolling interests(4)	—	—	—	—	—	—	—	—	10,264	10,264
Distributions to noncontrolling interests(5)	—	—	—	—	—	—	—	—	(30,106)	(30,106)
Balance at December 31, 2013	\$22	\$4	\$9,800	\$144	\$4,022,138	\$(2,521,618)	\$(4,276)	\$(262,954)	\$58,205	\$1,301,465

Explanatory Notes:

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

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

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

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

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

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

Table of Contents

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

	For the Years Ended December 31,		
	2013	2012	2011
Cash flows from operating activities:			
Net income (loss)	\$(111,233	) \$(241,430	) \$(25,693
Adjustments to reconcile net income (loss) to cash flows from operating activities:			
Provision for loan losses	5,489	81,740	46,412
Impairment of assets	14,507	38,077	22,386
Loss on transfer of interest to unconsolidated subsidiary	7,373	—	—
Depreciation and amortization	71,530	70,786	63,928
Payments for withholding taxes upon vesting of stock-based compensation	(14,098	) (12,589	) (6,273
Non-cash expense for stock-based compensation	19,261	15,293	29,702
Amortization of discounts/premiums and deferred financing costs on debt	20,915	31,981	32,345
Amortization of discounts/premiums and deferred interest on loans	(36,787	) (47,279	) (62,194
Earnings from equity method investments	(41,520	) (103,009	) (95,091
Distributions from operations of equity method investments	17,252	105,586	85,766
Deferred operating lease income	(12,077	) (11,812	) (9,390
Deferred income taxes	—	—	(13,729
Income from sales of residential property	(86,658	) (63,472	) (5,721
Gain from discontinued operations	(22,233	) (27,257	) (25,110
(Gain) loss on early extinguishment of debt, net	19,655	22,405	(97,742
Repayments and repurchases of debt—debt discount and prepayment penalty	(24,001	) (74,712	) (5,748
Other operating activities, net	6,917	9,427	6,492
Changes in assets and liabilities:			
Changes in accrued interest and operating lease income receivable, net	2,310	1,337	4,793
Changes in deferred expenses and other assets, net	(23,012	) 1,271	20,580
Changes in accounts payable, accrued expenses and other liabilities	5,945	11,725	5,710
Cash flows from operating activities	\$(180,465	) \$(191,932	) \$(28,577
Cash flows from investing activities:			
Investment originations and fundings	\$(257,600	) \$(47,603	) \$(120,333
Acquisitions of and capital expenditures on real estate assets	(211,767	) (92,820	)