ISTAR FINANCIAL INC
Form 10-K
February 29, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

(Mark One)

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from _____________ to _____________

Commission File No. 1-15371

iSTAR FINANCIAL INC.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**95-6881527** (I.R.S. Employer Identification Number)
1114 Avenue of the Americas, 39th Floor **New York, NY** (Address of principal executive offices)	**10036** (Zip code)

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

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

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

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

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

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

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

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

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 ý	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of June 30, 2007 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 $5.41 billion, based upon the closing price of $44.33 on the New York Stock Exchange composite tape on such date.

As of January 31, 2008, there were 136,566,333 shares of Common Stock outstanding.

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

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the registrant's definitive proxy statement for the registrant's 2008 Annual Meeting, to be filed within 120 days after the close of the registrant's fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

Item 1. Business

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

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

Overview

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

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

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

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

The Company began its business in 1993 through private investment funds. In 1998, the Company converted its organizational form to a Maryland corporation and replaced its former dual class common share structure with a single class of common stock. The Company's common stock ("Common Stock") began trading on the New York Stock Exchange on November 4, 1999. Prior to this date, the Company's Common Stock was traded on the American Stock Exchange. Since that time, the Company has grown through the origination of new lending and leasing transactions, as well as through corporate acquisitions, including the acquisition of TriNet Corporate Realty Trust, Inc. in 1999, the acquisition of Falcon Financial Investment Trust, the acquisition of a significant non-controlling interest in Oak Hill Advisors, L.P. and affiliates in 2005, and the acquisition of the commercial real estate lending business of Fremont Investment and Loan, a division of Fremont General Corporation, in 2007.

Investment Strategy

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

The Company has implemented its investment strategy by:

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

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

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

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

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

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

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

- Financing commercial real estate assets in major metropolitan markets.

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

- Evaluating relative risk adjusted returns across multiple investment markets.

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

The Company seeks to maintain an investment portfolio which is diversified by asset type, underlying property type and geography. As of December 31, 2007, based on current gross carrying values, the Company's total investment portfolio has the following characteristics:

Asset Type

Property Type

Geography

Since the Company's inception, substantially all of its investments have been in assets and with customers based in the United States and the Company has conducted its operations exclusively from the United States. In the first quarter of 2006, the Company opened a subsidiary in London, England. As of December 31, 2007, the Company had eight employees working in London. The Company uses its London office to source investment opportunities abroad, primarily in Europe; however, non-U.S. investments do not currently represent a material portion of its assets.

The Company's Underwriting Process

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

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

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

Financing Strategy

The Company has access to a wide range of debt and equity capital resources to finance its investment and growth strategies. At December 31, 2007, the Company had over $2.86 billion of tangible book equity capital and a total capitalization of approximately $16.39 billion, consisting of market equity, book debt and preferred equity. The Company believes that its size and track record are competitive advantages in obtaining attractive financing for its businesses.

The Company seeks to maximize risk-adjusted returns on equity and financial flexibility by accessing a variety of public and private debt and equity capital sources. The Company's current sources of debt capital include:

- Long-term, unsecured corporate debt.
- A combined $5.21 billion of maximum committed capacity under its unsecured and secured credit facilities at year end.
- Individual mortgages secured by certain of the Company's assets.

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

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

Maintain a large tangible equity base and conservative credit statistics.

Match fund assets and liabilities.

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

In recent years, the Company has primarily used unsecured corporate level debt to finance its business. In light of the constrained liquidity environment that developed beginning in August 2007 and continues to exist on the date of this report, the Company may pursue alternatives to unsecured corporate level funding, such as secured financings, sales of assets and raising third party capital at certain of its business units.

Hedging Strategy

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

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

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

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

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

Business

Real Estate and Corporate Lending

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

As of December 31, 2007, the Company's loan portfolio is comprised of:

	Carrying Value	% of Total
	(In thousands)	
First mortgages/Senior loans	$ 9,459,514	85%
Mezzanine/Subordinated debt	1,259,937	11%
Total loans	$ 10,719,451	
Reserve for loan losses	(217,910)	
Total loans, net	$ 10,501,541	
Other lending investments-securities	447,813	4%
Total carrying value, net	$ 10,949,354	100%

As more fully discussed in Note 3 to the Company's Consolidated Financial Statements, the Company continually monitors borrower performance and completes a detailed, loan-by-loan formal credit review on a quarterly basis. The results of this review are incorporated into the Company's quarterly assessment of the adequacy of loan loss reserves.

As of December 31, 2007, the Company's loan portfolio has the following characteristics:

Investment Class	Collateral Types	# of Loans In Class	Carrying Value(1)	Principal Balance Outstanding	Weighted Average Accrual Rate(2)	Weighted Average First Dollar Current Loan-to-Value(3)	Weighted Average Last Dollar Current Loan-to-Value(3)
			(In thousands)				
First mortgages/Senior loans	Office/Residential/Retail/Industrial, R&D/Mixed Use/Hotel/Land/Entertainment, Leisure/Other	446	$ 9,459,514	$ 9,665,939	8.30%	5%	68%
Mezzanine/Subordinated debt	Office/Residential/Retail/Mixed Use/Hotel/Land/Other	45	1,259,937	1,270,303	10.79%	47%	70%
Other lending investments-securities	Retail/Industrial, R&D/Entertainment, Leisure/Other	16	447,813	481,765	8.69%	25%	68%
Total/Weighted average		507	$ 11,167,264	$ 11,418,007	8.59%	11%	68%

Explanatory Notes:

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

(2)

Substantially all variable-rate loans assume either a 30-day LIBOR rate of 4.6% (the 30-day LIBOR rate at December 31, 2007) or a six-month LIBOR rate of 4.6% (the six-month LIBOR rate at December 31, 2007). As of December 31, 2007, 10 loans with a combined carrying value of $399.2 million have a stated accrual rate that exceeds the stated pay rate. The weighted average stated pay rate for First mortgages/Senior loans, Mezzanine/Subordinated debt, Securities and the total loan portfolio is 8.27%, 7.98%, 8.69% and 8.25%, respectively.

(3)

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

Summary of Interest Characteristics

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

As of December 31, 2007, the Company's loan portfolio has the following interest rate characteristics:

	Carrying Value	% of Total
	(In thousands)	
Fixed-rate loans	$ 2,407,245	22%
Variable-rate loans	8,760,019	78%
Gross carrying value	$ 11,167,264	100%

Summary of Prepayment Terms

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

As of December 31, 2007, the Company's loan portfolio has the following call protection characteristics:

	Carrying Value	% of Total
	(In thousands)	
Fixed prepayment penalties or minimum whole-dollar profit	$ 1,316,853	12%
Substantial lock-out for original term(1)	1,897,051	17%
Yield maintenance	97,185	1%
Total loans with call protection	3,311,089	30%
Currently open to prepayment with no penalty	7,856,175	70%
Gross carrying value	$ 11,167,264	100%

Explanatory Note:

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

Summary of Lending Business Maturities

As of December 31, 2007, the Company's loan portfolio has the following maturity characteristics:

Year of Maturity	Number of Transactions Maturing	Carrying Value	% of Total
		(In thousands)	
2008	201	$ 3,700,769	32%
2009	99	2,672,025	24%
2010	50	1,356,107	12%
2011	24	743,938	7%
2012	20	662,913	6%
2013	27	528,990	5%
2014	17	463,995	4%
2015	6	175,675	2%
2016	11	204,108	2%
2017	14	168,517	2%
2018 and thereafter	38	490,227	4%
Total	507	$ 11,167,264	100%
Weighted average maturity		3.0 years	

Corporate Tenant Leasing

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

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

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

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

The Company generally seeks corporate customers with the following characteristics:

- Established companies with stable core businesses or market leaders in growing industries.
- Investment-grade credit strength or appropriate credit enhancements if corporate credit strength is not sufficient on a stand-alone basis.
- Commitments to the facilities that are mission-critical to their on-going businesses.

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As of December 31, 2007, the Company had 121 customers operating in more than 25 major industry sectors, including automotive, finance, healthcare, recreation, technology and communications. The majority of these customers are well-recognized national and international organizations, such as Federal Express, IBM, Nike, Nokia and the U.S. Government.

As of December 31, 2007, the Company's CTL portfolio has the following tenant credit characteristics:

	Annualized In-Place Operating Lease Income(3)	% of In-Place Operating Lease Income
	(In thousands)	
Investment grade(1)	$ 99,139	27%
Implied investment grade(2)	15,754	4%
Non-investment grade	137,367	37%
Unrated	117,904	32%
Total	$ 370,164	100%

Explanatory Notes:

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

(2) A customer's credit rating is considered "Implied Investment Grade" if it is 100% owned by an investment-grade parent or it has no published ratings, but has credit characteristics that the Company believes warrant an investment grade senior unsecured credit rating. Examples at December 31, 2007 include Volkswagen of America, Inc. and Google, Inc.

(3) Reflects annualized GAAP operating lease income for leases in-place at December 31, 2007.

As of December 31, 2007, the Company owned 407 office and industrial, entertainment, hotel and retail facilities principally subject to net leases to 121 customers, comprising 41.3 million square feet in 40 states. Information regarding the Company's CTL assets as of December 31, 2007 is set forth below:

SIC Code		# of Leases	% of In-Place Operating Lease Income(1)	% of Total Revenue(2)
48	Communications	6	9.0%	2.0%
79	Amusement & Recreation Services	3	8.7%	1.9%
55	Automotive Dealers & Gasoline Service Stations	33	8.6%	1.9%
73	Business Services	13	7.7%	1.7%
62	Security & Commodity Brokers	4	6.0%	1.3%
42	Motor Freight Transp. & Warehousing	5	5.9%	1.3%
78	Motion Pictures	4	5.3%	1.2%
37	Transportation Equipment	5	5.2%	1.2%
36	Electronic & Other Elec. Equipment	13	4.6%	1.0%
30	Rubber & Misc. Plastics Products	2	4.6%	1.0%
35	Indus./Commercial Machinery, incl. Computers	9	4.3%	1.0%
70	Hotels, Rooming, Housing & Lodging	3	4.2%	0.9%
50	Wholesale Trade-Durable Goods	10	2.7%	0.6%
26	Paper and Allied Products	2	2.7%	0.6%
61	Non-Depository Institutions	1	1.9%	0.4%
64	Insurance Agents, Brokers & Service	4	1.8%	0.4%
63	Insurance Carriers	5	1.6%	0.4%
91	Executive, Legislative, & General Gov't.	3	1.5%	0.3%
81	Legal Services	5	1.3%	0.3%
60	Depository Institutions	4	1.2%	0.3%
75	Automotive Repair, Services, & Parking	2	1.1%	0.2%
38	Measuring & Analyzing Instruments	3	1.1%	0.3%
45	Airports, Flying Fields & Terminal Services	1	1.0%	0.2%
67	Holding and Other Investment Offices	2	1.0%	0.2%
58	Eating & Drinking Places	9	1.0%	0.2%
	Various	20	6.0%	1.3%
	Total	171	100.0%	

Explanatory Notes:

(1) Reflects annualized GAAP operating lease income for leases in-place at December 31, 2007.

(2) Reflects annualized GAAP operating lease income for leases in-place at December 31, 2007 as a percentage of annualized total revenue for the quarter ended December 31, 2007.

As of December 31, 2007, lease expirations on the Company's CTL assets, including facilities owned by the Company's joint ventures, are as follows:

Year of Lease Expiration	Number of Leases Expiring	Annualized In-Place Operating Lease Income(1)	% of In-Place Operating Lease Income	% of Total Revenue(2)
		(In thousands)		
2008	6	$ 29,880	8.0%	1.8%
2009	8	10,251	2.8%	0.6%
2010	12	14,092	3.8%	0.9%
2011	11	8,081	2.2%	0.5%
2012	23	23,021	6.2%	1.4%
2013	10	10,794	2.9%	0.7%
2014	27	21,290	5.8%	1.3%
2015	7	10,656	2.9%	0.6%
2016	6	22,607	6.1%	1.4%
2017	8	40,172	10.9%	2.4%
2018 and thereafter	53	179,320	48.4%	10.8%
Total	171	$ 370,164	100.0%	
Weighted average remaining lease term		11.2 years		

Explanatory Notes:

(1) Reflects annualized GAAP operating lease income for leases in-place at December 31, 2007.

(2) Reflects annualized GAAP operating lease income for leases in-place at December 31, 2007 as a percentage of annualized total revenue for the quarter ended December 31, 2007.

Policies with Respect to Other Activities

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

Investment Restrictions or Limitations

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

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

other entities engaged in real estate activities or other issuers, including for the purpose of exercising control over such entities.

Competition

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

Regulation

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

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

The Company has elected and expects to continue to 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 stockholders 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 business conduct for all of its employees and directors, including the Company's chief executive officer, chief financial officer, other executive officers and personnel. A copy of the Company's code of conduct has been previously filed with the SEC and is incorporated by reference in this Annual Report on Form 10-K as Exhibit 14.0. The code of conduct is also available on the Company's website at *www.istarfinancial.com.* The Company intends to post on its website material changes to, or waivers from, its code of conduct, if any, within two days of any such event. The Company's code of conduct was originally adopted in February 2000 and was amended in October 2002 to reflect changes in the NYSE's corporate governance guidelines. As of December 31, 2007, there were no waivers or further changes since adoption of the current code of conduct in October 2002.

Employees

As of January 31, 2008, the Company had 326 employees and believes its relationships with its employees to be good. The Company's employees are not represented by a collective bargaining agreement.

Other

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

Item 1a. Risk Factors

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

We Are Subject to Risks Relating to Our Lending Business.

We may suffer a loss if a borrower defaults on a non-recourse loan or on a loan that is not secured by underlying real estate.

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

In cases described above, we may lack control over the underlying asset collateralizing our loan or the underlying assets of the borrower prior to a default, and as a result, their value may be reduced by acts or omissions by owners or managers of the assets.

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

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

We may suffer a loss in the event of a default or bankruptcy of a borrower, particularly in cases where the borrower has incurred debt that is senior to our loan.

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

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

We maintain and regularly evaluate financial reserves to protect against potential future losses. Our reserves reflect management's judgement of the probability and severity of losses. We cannot be certain that our judgement will prove to be correct and that reserves will be adequate over time to protect against potential future losses because of unanticipated adverse changes in the economy or events adversely affecting specific assets, borrowers, industries in which our borrowers operate or markets in which our borrowers or their properties are located. If our reserves for credit losses prove inadequate we could suffer losses which would have a material adverse affect on our financial performance, the market prices of our securities and our ability to pay dividends.

We are subject to the risk that provisions of our loan agreements may be unenforceable.

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

We are subject to the risks associated with loan participations, such as less than full control rights.

Some of our assets are participation interests in loans 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 risks associated with construction lending, such as cost over-runs and delays in completion.

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

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

If interest rates increase during the term of our loan, a borrower may not be able to obtain the necessary funds to repay our loan at maturity through refinancing. 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 or because the value of the property has decreased. If a borrower is unable to repay our loan at maturity, we could suffer a loss and we will not be able to reinvest proceeds in assets with higher interest rates. As a result, our financial performance, the market prices of our securities and our ability to pay dividends could be materially adversely affected.

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

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

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

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

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

As of December 31, 2007, the percentage of our revenues (based on annualized GAAP operating lease income for leases in place at December 31, 2007, as a percentage of annualized total revenue for the quarter ended December 31, 2007) that are subject to expiring leases during each year from 2008 through 2012 is as follows:

2008	1.8%
2009	0.6%
2010	0.9%
2011	0.5%
2012	1.4%

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

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

We may need to make significant capital improvements to our corporate facilities in order to remain competitive.

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

Our ownership interests in corporate facilities are illiquid, hindering our ability to mitigate a loss.

Since our ownership interests in corporate facilities are illiquid, we may lack the necessary flexibility to vary our investment strategy promptly to respond to changes in market conditions.

Limitations on Our Liquidity and Ability to Raise Capital May Adversely Affect Us.

Liquidity management is critical to the management of our balance sheet and our ability to grow our business and meet our financing commitments. Our primary sources of liquidity are our bank credit facilities, issuances of debt and equity securities in capital markets transactions, prepayments and repayments of our loan assets and, to a lesser extent, sales of assets.

Our general practice in recent years has been to fund loan originations and CTL acquisitions with borrowings under our bank facilities. We then repay borrowings on our bank facilities with proceeds from securities issuances, prepayments and repayments and asset sales. Our ability to access capital to repay borrowings under our bank facilities is subject to variability based upon a number of factors, including volatility in the capital markets, our credit rating, the relative interest rates that we are prepared to pay for our liabilities, the ability of our customers to access capital to repay or prepay their obligations to us and our ability to execute asset sales. Any occurrence that disrupts our ability to access capital from these sources may have a material adverse effect on our ability to grow our business, meet our commitments and pay distributions.

As part of our acquisition of the Fremont commercial real estate portfolio in July 2007, we assumed commitments to fund approximately $3.74 billion of loans, of which approximately $2.54 billion remained outstanding to fund as of December 31, 2007. We are obligated to fund a substantial portion of these commitments prior to June 30, 2008. Thus we will need access to substantial capital during the first half of 2008 at times and in amounts that may not match with the timing and amounts of repayments and prepayments that we expect to receive on our underlying assets. While we believe that we have sufficient access to capital under our bank facilities to meet these commitments, our access to liquidity to make new investments will be limited unless and until we can repay or refinance the borrowings under our bank facilities.

Recently, liquidity in the capital markets has been constrained and interest rate spreads available to us have widened in comparison to similar term treasury securities. As a result, we are seeking alternative funding sources to unsecured debt securities, such as secured, asset-based financing. Prolonged disruption in the global credit markets or further deterioration in those markets may have a material adverse effect on our ability to repay or refinance our borrowings.

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

We generally must distribute at least 90% of our net taxable income to our stockholders to maintain our REIT status. As a result, those earnings will not be available to fund investment activities. We have historically funded our investments by borrowing from financial institutions and raising capital in the public and private capital markets. We expect to continue to fund our investments this way. If we fail to obtain funds from these sources, it could limit our ability to grow, which could have a material adverse effect on the value of our common stock. Our taxable income has historically been lower than the cash flow generated by our business activities, primarily because our taxable income is reduced by non-cash expenses, such as depreciation, depletion and amortization. As a result, our dividend payout ratio as a percentage of our adjusted earnings (see Item 7: "Adjusted Earnings") has generally been lower than our payout ratio as a percentage of net taxable income.

We Would Suffer Adverse Consequences if Our Credit Ratings Are Downgraded.

Our borrowing costs and our access to the debt capital markets depend significantly on our credit ratings. A reduction in our credit ratings could increase our borrowing costs, limit our access to the capital markets and cause restrictive covenants in our public debt instruments to become operative. Therefore, a substantial reduction in our credit ratings would reduce our earnings and adversely affect our liquidity and competitive positions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Ratings Triggers" for additional information concerning our credit ratings.

We Are Subject to Risks Relating to Our Asset Concentration.

No single loan or CTL investment represents more than 3% of our annualized revenues for the fiscal quarter ended December 31, 2007. While our asset base is diversified by product line, asset type, obligor, property type and geographic location, it is possible that if we suffer losses on a portion of our larger assets, our financial performance, the market prices of our securities and our ability to pay dividends could be materially adversely affected.

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

Our success is dependent upon economic conditions in the U.S. generally, and in the geographic areas in which a substantial number of our investments are located. Adverse changes in national economic conditions or in the economic conditions of the regions in which we conduct substantial business likely would have an adverse effect on real estate values and, accordingly, our financial performance, the market prices of our securities and our ability to pay dividends business.

As of December 31, 2007, approximately 21% of the gross carrying value of our assets related to apartment/residential assets, 14% related to land, 11% related to office properties and 10% related to retail properties. All of these types of collateral are vulnerable to economic slowdowns. In addition, as of December 31, 2007, approximately 21% of the gross carrying value of our assets related to properties located in the western U.S. and 16% related to properties located in the southeastern U.S. These regions include areas such as Florida and California that have been particularly hard hit by the downturn in the residential real estate markets.

In addition, our AutoStar business unit focuses on customers in the automotive industry. To the extent these customers are adversely affected by the current downturn in the U.S. automotive markets, our investments in the automotive industry may also be adversely affected.

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

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

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

Material estimates that are particularly susceptible to significant change relate to the determination of the reserve for loan losses, the effectiveness of derivatives and other hedging activities, the fair value of certain financial instruments (debt obligations, loan assets, securities, derivatives, and privately held investments), CTL assets, deferred income tax assets or liabilities, share-based compensation, and accounting for acquisitions, including the fair value determinations and the analysis of goodwill impairment. 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 result in material changes to our reports of financial condition and results of operations.

Declines in the Market Values of Some of Our Investments May Adversely Affect Periodic Reported Results and Our Ability to Pay Distributions.

Changes in the market values of our equity investments and our investments in securities will be directly charged or credited to stockholders' equity. As a result, a decline in values may reduce the book value of our assets. Moreover, if the decline in value of an available-for-sale security is other than temporary, such decline will reduce earnings. Any such charges may result in volatility in our reported earnings and may adversely affect the market price of our common stock.

Most of our equity investments and many of our investments in debt securities will be in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. We will value these investments quarterly at fair value, based upon available information and management's judgment. Because such valuations are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. 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 adversely affect the market price of our common stock and our ability to pay distributions.

We Are Subject to Risks Associated With the Leveraged Finance Industry.

We make investments in leveraged finance directly through our portfolio of corporate loans and debt securities, which had a carrying value of approximately $1.9 billion at December 31, 2007, and indirectly through our interest in Oak Hill Advisors, L.P. and its affiliates. The stress in the mortgage and overall markets has extended to the leveraged finance market, causing the market prices of bank debt and bonds to trade lower. Significant prolonged reductions in the trading prices of debt securities we hold may cause us to reduce the carrying value of our assets by taking a charge to earnings as we did in the fourth quarter of 2007. In addition, the value of our investment in Oak Hill Advisors and its ability to earn performance fees are subject to the risks of a material deterioration in the leveraged finance market.

We Compete With a Variety of Financing Sources For Our Customers.

Our markets are highly competitive. Our competitors include finance companies, other REITs, commercial banks and thrift institutions, investment banks and hedge funds. Competition from traditional competitors and new market entrants intensified in recent years due to a strong economy, substantial marketplace liquidity, increased recognition of the attractiveness of the commercial real estate finance markets and the rapid expansion of the securitization markets, particularly through collateralized debt obligations or CDOs, which dramatically reduced the difficulty of obtaining access to capital through the first half of 2007. While disruptions in the global credit markets have significantly curtailed the execution of new securitizations and have generally reduced competition in our markets, there can be no assurance that these competitors will not return when the credit markets stabilize. Our competitors seek to compete aggressively on the basis of transaction pricing, terms and structure and we may lose market share to the extent we are unwilling to match our competitors' pricing, terms and structure in order to maintain our interest margins and/or credit standards. To the extent that we match competitors' pricing, terms or structure, we may experience decreased interest margins and/or increased risk of credit losses, which could have a material adverse effect on our financial performance, the market prices of our securities and our ability to pay dividends.

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

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

An Earthquake or Terrorist Act Could Adversely Affect Our Business.

Approximately 22% of the gross carrying value of our assets as of December 31, 2007, were located in the West and Northwest United States, which are high risk geographical areas for earthquakes. In addition, a significant number of our properties are located in New York City and other major urban areas which have, in recent years, been high risk geographical areas for terrorism and threats of terrorism. Future earthquakes or acts of terrorism could adversely impact the demand for, and value of, our assets and could also directly impact the value of our assets through damage, destruction or loss, and could thereafter materially impact the availability or cost of insurance to protect against these events. Any earthquake or terrorist attack, whether or not insured, could have a material adverse effect on our financial performance, the market prices of our securities and our ability to pay dividends.

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

Although we believe our CTL assets and the properties collateralizing our loan assets are adequately covered by insurance, we cannot predict at this time if we or our borrowers will be able to obtain appropriate coverage at a reasonable cost in the future, or if we will be able to continue to pass along all of the costs of insurance to our tenants. In response to the uncertainty in the insurance market following the terrorist attacks of September 11, 2001, the Terrorism Risk Insurance Act of 2002 ("TRIA") was enacted in November 2002, which established the Terrorism Risk Insurance Program to mandate that insurance carriers offer insurance covering physical damage from terrorist incidents certified by the U.S. government as foreign terrorist acts. Under the Terrorism Risk Insurance Program, the federal government shares in the risk of loss associated with certain future terrorist acts. The Terrorism Risk Insurance Program was scheduled to expire on December 31, 2005. However, on December 22, 2005, the Terrorism Risk Insurance Extension Act of 2005 (the "Extension Act") was enacted, which extended the duration of the Terrorism Risk Insurance Program until December 31, 2007, while expanding the private sector role and reducing the amount of coverage that the U.S. government is required to provide for insured losses under the program. The federal share in the aggregate in any program year may not exceed $100 billion (the insurers will not be liable for any amount that exceeds this cap). Under the Extension Act, losses incurred as a result of an act of terrorism are required to exceed $5.0 million before the program is triggered. Prior to the expiration of the Extension Act, Congress approved another extension of TRIA until December 31, 2014. Changes in the Act include a broadening of the definition of an Act of Terrorism to include domestic terrorism. Also, if there is a terrorist act certified under TRIA, Treasury must recoup 133% of the amounts paid under the program through policyholder surcharge.

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

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

We Face a Risk of Liability Under Environmental Laws.

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

Recent Strategic Investments Involve Risks.

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

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

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

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

Our success is dependent, in part, upon our ability to grow assets through leverage. Our charter does not limit the amount of indebtedness which we may incur. Our Board of Directors has overall responsibility for our financing strategy. Stockholder approval is not required for changes to our financing strategy. If our Board of Directors decided to increase our leverage, it could lead to reduced or negative cash flow and reduced liquidity.

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

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

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

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

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

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

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

We have investments in the timber industry through our interest in TimberStar Operating Partnership LP. Our total investment in TimberStar represented approximately 2% of our total assets as of December 31, 2007. TimberStar is subject to risks associated with the timber industry, including that:

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

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

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

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

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

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

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

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

Our charter authorizes our Board of Directors:

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

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

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

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

Our charter provides that our primary purpose is to invest in a diversified portfolio of debt and debt like interests in real estate and real estate related assets, although it does not set forth specific percentages of the types of investments we may make. Our Board of Directors determines our investment policies, as well as our financing and conflicts of interest policies. Although the Board of Directors has no present intention to do so, it can amend, revise or eliminate these policies at any time and from time to time at its discretion without a vote of the stockholders. A change in these policies could adversely affect our financial condition or results of operations or the market price of our common stock.

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

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

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

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

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

We intend to operate so as to qualify as a REIT for U.S. federal income tax purposes. Our qualification as a REIT will depend on our continuing ability to meet various requirements concerning, among other things, the ownership of our outstanding stock, the nature of our assets, the sources of our income and the amount of our distributions to our stockholders.

If we were to fail to qualify as a REIT for any taxable year, we would not be allowed a deduction for distributions to our stockholders in computing our taxable income and we would be subject to U.S. federal income tax, including any applicable minimum tax, on our taxable income with respect to any such taxable year at regular corporate rates. Unless entitled to relief under certain Code provisions, we also would be disqualified from treatment as a REIT for the four subsequent taxable years following the year during which qualification was lost. As a result, cash available for distribution would be reduced for each of the years involved. Furthermore, it is possible that future economic, market, legal, tax or other considerations may cause the Board of Directors to revoke our REIT election. Because we intend to make investments in foreign real property, we are subject to foreign currency gains and losses. Foreign currency gains are not qualifying income for purposes of the REIT income requirements. To reduce the risk of foreign currency gains adversely affecting our REIT qualification, we may be required to defer the repatriation of cash from foreign jurisdictions or to employ other structures that could affect the timing, character or amount of income we receive from our foreign investments.

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

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

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

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

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

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

We Will Pay Some Taxes.

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

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

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

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

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

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

The amount of dividends we distribute to our common stockholders in a given quarter may not correspond to our taxable income for such quarter. Consequently, a portion of the dividends we distribute may be deemed a return of capital for U.S. federal income tax purposes, and will not be taxable but will reduce stockholders' basis in its common stock. For the year ended December 31, 2007, none of our dividend payments made to common stockholders were treated as a return of capital.

Item 1b. Unresolved Staff Comments

None.

Item 2. Properties

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

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

Item 3. Legal Proceedings

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

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

There were no matters submitted to a vote of security holders during the fourth quarter of 2007.

PART II

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

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

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

Quarter Ended	High	Low
2006		
March 31, 2006	$ 39.64	$ 35.55
June 30, 2006	$ 39.17	$ 36.24
September 30, 2006	$ 42.35	$ 38.10
December 31, 2006	$ 48.59	$ 42.19
2007		
March 31, 2007	$ 52.54	$ 44.16
June 30, 2007	$ 49.00	$ 44.10
September 30, 2007	$ 46.14	$ 31.43
December 31, 2007	$ 36.19	$ 25.45

On January 31, 2008, the closing sale price of the Common Stock as reported by the NYSE was $26.73. The Company had 1,243 holders of record of Common Stock as of January 31, 2008.

At December 31, 2007, the Company had five series of preferred stock outstanding: 8.000% Series D Preferred Stock, 7.875% Series E Preferred Stock, 7.800% Series F Preferred Stock, 7.650% Series G Preferred Stock and 7.500% Series I Preferred Stock. Each of the Series D, E, F, G and I preferred stock is publicly traded.

Dividends

The Company's management expects that any taxable income remaining after the distribution of preferred dividends and the regular quarterly or other dividends on its Common Stock will be distributed annually to the holders of the Common Stock on or prior to the date of the first regular quarterly dividend payment date of the following taxable year. The dividend policy with respect to the Common Stock is subject to revision by the Board of Directors. All distributions in excess of dividends on preferred stock or those required for the Company to maintain its REIT status will be made by the Company at the sole discretion of the Board of Directors and will depend on the taxable earnings of the Company, the financial condition of the Company, and such other factors as the Board of Directors deems relevant. The Board of Directors has not established any minimum distribution level. In order to maintain its qualifications as a REIT, the Company intends to pay regular quarterly dividends to its shareholders that, on an annual basis, will represent at least 90% of its taxable income (which may not necessarily equal net income as calculated in accordance with GAAP), determined without regard to the deduction for dividends paid and excluding any net capital gains.

Holders of Common Stock, vested High Performance Units and certain unvested RSUs will be entitled to receive distributions if, as and when the Board of Directors authorizes and declares distributions. However, rights to distributions may be subordinated to the rights of holders of preferred stock, when preferred stock is issued and outstanding. In addition, the Company's unsecured credit facilities contain a covenant that limits the Company's ability to pay distributions on its capital stock based upon the Company's adjusted earnings provided however, that it generally permits the Company to pay the minimum amount of distributions necessary to maintain the Company's REIT status. In any liquidation, dissolution or winding up of the Company, each outstanding share of Common Stock and HPU share equivalents will entitle its holder to a proportionate share of the assets that remain after the Company pays its liabilities and any preferential distributions owed to preferred shareholders.

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

Quarter Ended	Shareholder Record Date	Dividend/ Share
2006(1)		
March 31, 2006	April 14, 2006	$ 0.7700
June 30, 2006	July 17, 2006	$ 0.7700
September 30, 2006	October 16, 2006	$ 0.7700
December 31, 2006	December 15, 2006	$ 0.7700
2007(2)		
March 31, 2007	April 16, 2007	$ 0.8250
June 30, 2007	July 16, 2007	$ 0.8250
September 30, 2007	October 15, 2007	$ 0.8250
December 31, 2007	December 17, 2007	$ 0.8700
December 31, 2007(3)	December 31, 2007	$ 0.2500

Explanatory Notes:

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

(2) For tax reporting purposes, the 2007 dividends were classified as 90.7% ($3.2622) ordinary dividend, 8.0% ($0.2875) 15% capital gain, 1.30% ($0.0453) 25% Section 1250 capital gain. Of the ordinary dividend, 0.02% ($0.0850) qualifies as a qualifying dividend for those shareholders who held shares of the Company for the entire year.

(3) The special dividend was primarily due to higher taxable income generated as a result of the Company's acquisition of the commercial lending business of Fremont General.

The Company declared and paid dividends aggregating $8.0 million, $11.0 million, $7.8 million, $6.1 million and $9.4 million on its Series D, E, F, G, and I preferred stock, respectively, for the year ended December 31, 2007. There are no dividend arrearages on any of the preferred shares currently outstanding.

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

The Company intends to continue to declare quarterly distributions on its Common Stock. No assurance, however, can be given as to the amounts or timing of future distributions, as such distributions are subject to the Company's earnings, financial condition, capital requirements, debt covenants and such other factors as the Company's Board of Directors deems relevant. In December of 2007, the Company announced that its Board of Directors approved an increase in the regular quarterly dividend on its Common Stock to $0.87 per share, representing $3.48 per share on an annualized basis, beginning with the regular quarterly dividend paid December 31, 2007.

Issuer Purchases of Equity Securities

	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs(1)
August 1 August 31, 2007	612,600	$ 32.95	612,600	2,086,900
November 1 November 30, 2007	400,000	26.83	400,000	1,686,900
Total	1,012,600	$ 30.53	1,012,600	1,686,900

Explanatory Note:

(1) In 1999, the Company's Board of Directors authorized the repurchase, from time to time, on the open market or otherwise, of up to 5.0 million shares of its Common Stock at prevailing market prices or at negotiated prices. There is no fixed expiration date to this plan.

Disclosure of Equity Compensation Plan Information

Plan 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))
	(In thousands)		(In thousands)
Equity compensation plans approved by security holders-stock options(1)	948	$ 17.43	3,790
Equity compensation plans approved by security holders-restricted stock awards(2)	1,048	N/A	N/A
Equity compensation plans approved by security holders-high performance units(3)		N/A	N/A
Equity compensation plans not approved by security holders			
Total	1,996		3,790

Explanatory Notes:

(1) Stock Options As more fully discussed in Note 12 to the Company's Consolidated Financial Statements, there were approximately 947,932 stock options outstanding as of December 31, 2007. These 947,932 options, together with their weighted-average exercise price, have been included in columns (a) and (b), above. The 3.8 million figure in column (c) represents the aggregate amount of stock options, shares of restricted stock awards or other performance awards that could be granted under compensation plans approved by the Company's security holders after giving effect to previously issued awards of stock options, shares of restricted stock and other performance awards (see Note 12 to the Company's Consolidated Financial Statements for a more detailed description of the Company's Long-Term Incentive Plan).

(2)

Restricted Stock As of December 31, 2007 the Company has issued 2.1 million shares of restricted stock. The restrictions on 964,514 of such shares relate to the passage of time for vesting periods which have not lapsed, and are thus not included in the Company's outstanding share balance. These shares have been included in column (a), above. The amounts shown in column (a) also include 83,827 common stock equivalents awarded to our non-employee directors in consideration of their service to us as directors. The Company awards 2,500 common stock equivalents to each non-employee director on the date of each annual meeting of shareholders pursuant to the Company's Non-Employee Directors' Deferral Plan, which was approved by the Company's shareholders in May 2004. Common stock equivalents represent rights to receive shares of Common Stock, or cash in amount equal to the fair market value of the Common Stock, at the date the Common Stock Equivalents are settled based upon individual elections made by each director. Common stock equivalents have dividend equivalent rights beginning on the date of grant.

(3)

High Performance Unit Program In May 2002, the Company's shareholders approved the iStar Financial High Performance Unit Program. The Program is more fully described in Note 12 to the Company's Consolidated Financial Statements. The program entitles the employee participants to receive distributions in the nature of common stock dividends if the total rate of return on the Company's Common Stock exceeds certain performance levels. The first, second and third tranches of the program were completed on December 31, 2002, 2003 and 2004, respectively. As a result of the Company's superior performance during the valuation period for all three tranches, the program participants are entitled to share in distributions equivalent to dividends payable on 819,254 shares, 987,149 shares and 1,031,875 shares of the Company's Common Stock, in the aggregate, as and when such dividends are paid by the Company for the 2002, 2003 and 2004 plans, respectively. Such dividend payments for the first tranche began with the first quarter 2003 dividend, for the second tranche began with the first quarter 2004 dividend and those for the third tranche began with the first quarter 2005 dividend and reduced net income allocable to common stockholders when paid. The valuation period for the fourth, fifth and sixth tranches of the plan were completed on December 31, 2005, 2006 and 2007, respectively, and they did not meet the performance thresholds. As a result, the participants in the 2005, 2006 and 2007 plans are not entitled to any future dividend payments and no shares of the Company's Common Stock will be issued in connection with these programs (see Note 12 to the Company's Consolidated Financial Statements for a more detailed description of the Company's High Performance Unit Program).

Item 6. Selected Financial Data

The following table sets forth selected financial data on a consolidated historical basis for the Company. This information should be read in conjunction with the discussions set forth in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations." Certain prior year amounts have been reclassified to conform to the 2007 presentation.

	For the Years Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands, except per share data and ratios)				
OPERATING DATA:					
Interest income	$ 998,008	$ 575,598	$ 406,668	$ 351,972	$ 302,915
Operating lease income	324,210	305,583	293,821	265,132	210,267
Other income	103,360	78,709	81,440	56,063	38,153
Total revenue	1,425,578	959,890	781,929	673,167	551,335
Interest expense	627,720	429,613	312,806	232,460	194,373
Operating costs-corporate tenant lease assets	29,727	28,848	21,032	20,836	10,278
Depreciation and amortization	93,944	76,226	69,986	61,345	47,597
General and administrative	165,176	96,432	63,987	157,588	41,786
Provision for loan losses	185,000	14,000	2,250	9,000	7,500
Loss on early extinguishment of debt			46,004	13,091	
Other expense(1)	144,166				
Total costs and expenses	1,245,733	645,119	516,065	494,320	301,534
Income before earnings (loss) from equity method investments, minority interest and other items	179,845	314,771	265,864	178,847	249,801
Earnings (loss) from equity method investments	29,626	12,391	3,016	2,909	(4,284)
Minority interest in consolidated entities	816	(1,207)	(980)	(716)	(249)
Income from continuing operations	210,287	325,955	267,900	181,040	245,268
Income from discontinued operations	20,839	24,645	13,659	36,032	41,722
Gain from discontinued operations, net	7,832	24,227	6,354	43,375	5,167
Net income	$ 238,958	$ 374,827	$ 287,913	$ 260,447	$ 292,157
Preferred dividend requirements	(42,320)	(42,320)	(42,320)	(51,340)	(36,908)
Net income allocable to common shareholders and HPU holders(2)	$ 196,638	$ 332,507	$ 245,593	$ 209,107	$ 255,249
Per common share data(3):					
Income from continuing operations per common share:					
Basic	$ 1.30	$ 2.40	$ 1.95	$ 1.16	$ 2.06
Diluted(4)	$ 1.29	$ 2.38	$ 1.94	$ 1.13	$ 1.98
Net income per common share:					
Basic	$ 1.52	$ 2.82	$ 2.13	$ 1.87	$ 2.52
Diluted(4)	$ 1.51	$ 2.79	$ 2.11	$ 1.83	$ 2.43
Per HPU share data(3):					
Income from continuing operations per HPU share:					

	For the Years Ended December 31,									
Basic	$	246.13	$	455.40	$	370.07	$	209.20	$	337.20
Diluted(4)	$	243.47	$	450.94	$	366.34	$	205.00	$	325.80
Net income per HPU share:										
Basic	$	287.93	$	533.80	$	402.87	$	337.30	$	413.20
Diluted(4)	$	285.00	$	528.67	$	398.87	$	330.60	$	399.00
Dividends declared per common share(4)	$	3.60	$	3.08	$	2.93	$	2.79	$	2.65

SUPPLEMENTAL DATA:										
Adjusted diluted earnings allocable to common shareholders and HPU holders(1)(6)(8)	$	355,707	$	429,922	$	391,884	$	270,946	$	341,177
EBITDA(1)(7)(8)	$	1,006,496	$	899,646	$	681,246	$	556,708	$	540,744
Ratio of EBITDA to interest expense(1)		1.6x		2.1x		2.2x		2.4x		2.8x
Ratio of EBITDA to combined fixed charges(1)(9)		1.5x		1.9x		1.9x		2.0x		2.4x
Ratio of earnings to fixed charges(1)(10)		1.4x		1.7x		1.9x		1.8x		2.3x
Ratio of earnings to fixed charges and preferred stock dividends(1)(10)		1.3x		1.6x		1.6x		1.5x		1.9x
Weighted average common shares outstanding basic		126,801		115,023		112,513		110,205		100,314
Weighted average common shares outstanding diluted		127,792		116,219		113,703		112,464		104,101
Weighted average HPU shares outstanding basic		15		15		15		10		5
Weighted average HPU shares outstanding diluted		15		15		15		10		5
Cash flows from:										
Operating activities	$	561,337	$	431,224	$	515,919	$	353,566	$	334,673
Investing activities		(4,745,080)		(2,529,260)		(1,406,121)		(465,636)		(970,765)
Financing activities		4,182,299		2,088,617		917,150		120,402		700,248
BALANCE SHEET DATA:										
Loans and other lending investments, net	$	10,949,354	$	6,799,850	$	4,661,915	$	3,938,427	$	3,694,709
Corporate tenant lease assets, net		3,309,866		3,084,794		3,115,361		2,877,042		2,535,885
Total assets		15,848,298		11,059,995		8,532,296		7,220,237		6,660,590
Debt obligations		12,399,558		7,833,437		5,859,592		4,605,674		4,113,732
Minority interest in consolidated entities		53,948		38,738		33,511		19,246		5,106
Total shareholders' equity		2,899,481		2,986,863		2,446,671		2,455,242		2,415,228
SUPPLEMENTAL DATA:										
Total debt to shareholders' equity		4.3x		2.6x		2.4x		1.9x		1.7x

Explanatory Notes:

(1)
Included in other expense, adjusted diluted earnings and EBITDA for the year ended December 31, 2007 is a $134.9 million non-cash charge associated with the impairment of two credits accounted for as held-to-maturity securities (see Note 5 to the Consolidated Financial Statements for further detail).

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

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

(4)
For the years ended December 31, 2007, 2006, 2005, 2004 and 2003 net income used to calculate earnings per diluted common share includes joint venture income of $85, $115, $28, $3 and $167, respectively.

(5)
The Company generally declares common and preferred dividends in the month subsequent to the end of the quarter. In December of 2007, the Company declared a special $0.25 dividend due to higher taxable income generated as a result of the Company's acquisition of Fremont CRE.

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

(7)

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

	For the Years Ended December 31,				
	2007	2006	2005	2004	2003
Net income	$ 238,958	$ 374,827	$ 287,913	$ 260,447	$ 292,157
Add: Interest expense(1)	627,732	429,807	313,053	232,918	194,999
Add: Depreciation, depletion and amortization(2)	99,427	83,058	75,574	67,853	55,905
Add: Joint venture depreciation, depletion and amortization	40,826	14,941	8,284	3,544	7,417
EBITDA	$ 1,006,943	$ 902,633	$ 684,824	$ 564,762	$ 550,478

Explanatory Notes:

(1)

For the years ended December 31, 2007, 2006, 2005, 2004 and 2003, interest expense includes $12, $194, $247, $458 and $626, respectively, of interest expense reclassified to discontinued operations.

(2)

For the years ended December 31, 2007, 2006, 2005, 2004 and 2003, depreciation, depletion and amortization includes $423, $2,599, $3,084, $7,138 and $8,482, respectively, of depreciation and amortization reclassified to discontinued operations.

(8)

Both adjusted earnings and EBITDA should be examined in conjunction with net income as shown in the Company's Consolidated Statements of Operations. Neither adjusted earnings nor EBITDA should be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of the Company's performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is either measure indicative of funds available to fund the Company's cash needs or available for distribution to shareholders. Rather, adjusted earnings and EBITDA are additional measures the Company uses to analyze how its business is performing. As a commercial finance company that focuses on real estate and corporate lending and corporate tenant leasing, the Company records significant depreciation on its real estate assets and amortization of deferred financing costs associated with its borrowings. The Company also records depletion on its timber assets, although depletion amounts are currently not material. It should be noted that the Company's manner of calculating adjusted earnings and EBITDA may differ from the calculations of similarly-titled measures by other companies.

(9)

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

(10)

For the purposes of calculating the ratio of earnings to fixed charges, "earnings" consist of income from continuing operations before adjustment for minority interest in consolidated subsidiaries, or income or loss from equity investees, and cumulative effect of change in accounting principle plus "fixed charges" and certain other adjustments. "Fixed charges" consist of interest incurred on all indebtedness related to continuing and discontinued operations (including amortization of original issue discount) and the implied interest component of the Company's rent obligations in the years presented.

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

This discussion summarizes the significant factors affecting our consolidated operating results, financial condition and liquidity during the three-year period ended December 31, 2007. This discussion should be read in conjunction with our consolidated financial statements and related notes for the three-year period ended December 31, 2007 included elsewhere in this annual report on Form 10-K. These historical financial statements may not be indicative of our future performance. We reclassified certain items in our consolidated financial statements of prior years to conform to our current year's presentation. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains a number of forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risks described throughout this filing, particularly in *Item 1a. "Risk Factors."*

Introduction

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

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

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

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

We began our business in 1993 through private investment funds. In 1998, we converted our organizational form to a Maryland corporation and replaced our former dual class common share structure with a single class of common stock. Our common stock ("Common Stock") began trading on the New York Stock Exchange on November 4, 1999. Prior to this date, our Common Stock was traded on the

American Stock Exchange. Since that time, we have grown through the origination of new lending and leasing transactions, as well as through corporate acquisitions, including the acquisition of TriNet Corporate Realty Trust, Inc. in 1999, the acquisition of Falcon Financial Investment Trust, the acquisition of a significant non-controlling interest in Oak Hill Advisors, L.P. and affiliates in 2005 and the acquisition of the commercial real estate lending business of Fremont Investment and Loan, a division of Fremont General Corporation, in 2007.

Economic Trends

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

During the second half of 2007, the global economy was impacted by the deterioration of the U.S. subprime residential mortgage market and the weakening of the U.S housing markets, both of which have become worse than many economists had predicted. The decline in home sales that began in 2006 continued into 2007 and represented the first year-over-year decline in nationwide house prices since 1991. The subprime mortgage industry began to collapse in early 2007, as borrowers became unable or unwilling to make payments. The significant increase in foreclosure activity and rising interest rates in mid-2007 depressed housing prices further as problems in the subprime markets spread to the near-prime and prime mortgage markets.

The well-publicized problems in the residential markets spread to other financial markets, causing corporate credit spreads (or cost of funds) to widen dramatically. Banks and other lending institutions started to tighten lending standards and restrict credit. The structured credit markets, including the CMBS and CDO markets, have seized up as investors have shunned the asset class owing to subprime and transparency worries. In particular, the short-term, three to five year floating rate debt market has effectively shut down and as the turmoil continues to spread, almost all fixed income capital markets have been negatively impacted and liquidity in these markets remains severely limited. While delinquencies in the commercial real estate markets remain quite low, the lack of liquidity in the CMBS and other commercial mortgage markets is negatively impacting sales and financing activity. It is widely believed that if the credit crisis continues for several more quarters, commercial real estate values will be negatively impacted, as the higher cost or lack of availability of debt financing become a reality for real estate owners.

Looking forward, the current high levels of U.S. home inventories suggest that new construction activity will continue to decline. Lower housing prices combined with tighter credit conditions and increasing oil prices may slow consumer spending. We believe these conditions will continue to strain the global capital markets, and will ultimately stress other components of the capital markets, such as commercial real estate. In addition, the continuation of these conditions will most likely decrease the U.S. growth rate in 2008.

Executive Overview

iStar Financial experienced significant growth in 2007, primarily as a result of the discounted acquisition of the Fremont Commercial Real Estate portfolio, which we completed in early July. At the end of 2007, our total assets were $15.8 billion, a 43% increase over last year; we generated more than $1.4 billion of revenue this year or 49% more than in 2006; and we now have over 300 employees in 12 offices throughout the country and a subsidiary in Europe. At the close of the year, we had substantially completed the integration of the Fremont Commercial Real Estate business. In addition to the Fremont acquisition, we closed 137 separate financing commitments and funded $4.95 billion on new and previously committed transactions. Including amounts on acquired Fremont loans, repayments and prepayments for the year totaled $2.61 billion.

The credit crisis, which began in earnest in mid-2007, has significantly impacted corporate credit spreads, increasing our cost of funds and limiting our access to the unsecured debt markets our primary source of debt financing. The current financial turmoil has also started to impact our borrowers' ability to service their debt and refinance their loans as they mature. In addition, a large percentage of the Fremont portfolio is residential condominium construction loans. Some of these borrowers are experiencing a slow down in residential sales due to falling home prices and reduced availability in the single family mortgage market. The proceeds from residential condominium sales are generally used to repay principal on our loans.

Our results of operations for 2007 were impacted by the credit crisis, with net income allocable to common shareholders of $192.3 million and diluted earnings per common share of $1.51 both lower than we anticipated. It has also had a negative impact on the value of several of our investments. During the fourth quarter, we took a $134.9 million non-cash impairment charge on two of our credits accounted for as held-to-maturity debt securities that have traded well below our carrying value. In addition, based on increased risks in our loan portfolio including those associated with the Fremont acquired loans, as well as the deterioration in economic and financial conditions, we had provisions for loan losses of $185.0 million during the year, versus $14.0 million in 2006 and $2.3 million in 2005. With the addition of the Fremont portfolio, we had material increases in our watch list and non-performing loans. Our total loss coverage, defined as the combination of loan loss reserves and the remaining purchase discount on the acquisition, was $384.8 million or 3.6% of total loans, at the end of the year. The impairments and additional loan loss reserves negatively impacted our return on common book equity and our adjusted return on common book equity this year.

Key Performance Measures

We use the following metrics to measure our profitability:

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

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

- Return on Average Common Book Equity, calculated as net income allocable to common shareholders and HPU holders divided by average common book equity.

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

The following table summarizes these key metrics:

	For the Years Ended December 31,		
	2007	2006	2005
Adjusted Diluted EPS(1)	$ 2.72	$ 3.61	$ 3.36
Net Finance Margin(2)(3)(4)	4.2%	3.2%	3.2%
Return on Average Common Book Equity(1)	8.1%	15.0%	12.6%
Adjusted Return on Average Common Book Equity(1)	14.6%	20.4%	19.6%

Explanatory Note:

(1) Included in adjusted diluted EPS and return and adjusted return on average common book equity for the year ended December 31, 2007 is a $134.9 million non-cash charge associated with the impairment of two held-to-maturity investment securities (see Note 5 to the Consolidated Financial Statements for further detail).

(2) For the years ended December 31, 2007, 2006 and 2005, operating lease income used to calculate the net finance margin includes amounts from discontinued operations of $22,423, $30,678 and $19,054. For the years ended December 31, 2007, 2006 and 2005, interest expense used to calculate the net finance margin includes amounts from discontinued operations of $12, $194 and $247. For the years ended December 31, 2007, 2006 and 2005, operating costs corporate tenant lease assets used to calculate the net finance margin includes amounts from discontinued operations of $1,108, $6,500 and $2,215.

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

(4) Net finance margin for 2007 includes the amortization of the Fremont loan purchase discount of $106.4 million. Excluding these charges, the net finance margin would have been 3.3% for the year ended December 31, 2007.

The following is an overview of the significant factors that impacted our key performance measures and profitability as well as how those items were affected by key trends.

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

During the year ended December 31, 2007, we generated $4.95 billion of transaction volume representing 137 financing commitments (not including the Fremont acquisition). The majority of this transaction volume occurred in the first half of the year, prior to the advent of the credit crisis. Transaction volume for the years ended December 31, 2006 and 2005 were $6.08 billion and $4.91 billion, respectively. We completed 121 and 95 financing commitments in 2006 and 2005, respectively. Based upon feedback from our customers, we believe that greater name recognition, our reputation for completing highly structured transactions in an efficient manner and the service level we provide to our customers have contributed to increases in transaction volume. We have also experienced significant growth during the last several years through a number of strategic acquisitions which complemented our organic growth and extended our business franchise. In mid-2007, we acquired the commercial real estate lending business of Fremont General (see more detailed description of the transaction below). The Fremont acquisition was a major component of our growth in 2007, in terms of both additional loan assets and new employees and offices.

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

During the later part of 2007, as the credit crisis took hold, the real estate financing markets came to a stand still, with little or no transaction volume. Most banks and other commercial real estate lenders had significant inventories of loans on their balance sheets that could not be sold or securitized, as mark-to-market values were difficult to obtain. While base interest rates remain very low, the margin, or spread on new debt transactions has widened dramatically, however there is still very little new transaction volume.

Over the past several years, while property-level fundamentals have been stable or improving, investment activity in direct real estate ownership has increased dramatically. In many cases, this has caused property valuations to increase disproportionately to any corresponding increase in fundamentals. Corporate tenant leases, or net leased properties, are one of the most stable real estate asset classes and have garnered significant interest from both institutional and retail investors who seek long-term, stable income streams. In many cases, we believe that CTL transactions in today's market do not represent compelling risk-adjusted returns. As a result, we have not invested as heavily in this asset class, acquiring only $314.9 million in 2007, $62.2 million in 2006 and $282.4 million in 2005. While we continue to monitor the CTL market and review certain transactions, we have shifted most of our origination resources to our lending business until we see compelling opportunities for CTL acquisitions in the market again.

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

As an on-balance sheet lender, we endeavor to manage our business to ensure that the overall credit quality of the portfolio remains strong. This year some of our businesses were negatively impacted by the credit crisis, including our loan and securities portfolio. In addition, as part of the discounted acquisition of the Fremont portfolio, we acquired a pool of loan assets that had a higher probability of default and loss. As a result of these factors, the credit statistics in our loan and securities portfolio have declined in 2007. At December 31, 2007 our non-performing loan assets represented 7.5% of total assets versus 0.6% in 2006. We charged-off $19.3 million against the reserve for loan losses in 2007 and provisioned $185.0 million of additional reserves of which $91.6 million was identified as asset-specific. At December 31, 2007 our total loss coverage, defined as the combination of total loan loss reserves and the remaining purchase discount associated with the Fremont acquisition, was $384.8 million, or 3.6% of total loans. We believe that we have established adequate loan loss reserves. In addition, we took a $134.9 million non-cash impairment on two credits accounted for as held-to-maturity debt securities in our loan and securities portfolio that were trading well below our carrying value. The weighted average duration of the loan portfolio is 3.0 years.

At December 31, 2007 the weighted-average risk rating on the CTL portfolio was down slightly from year-end 2006. We continue to focus on re-leasing space at our CTL facilities under longer-term leases in an effort to reduce the impact of lease expirations on our earnings. As of December 31, 2007, the weighted average lease term on our CTL portfolio was 11.2 years and the portfolio was 95.3% leased. We expect the average lease term of our portfolio to decline somewhat until such time that we begin to find new acquisition opportunities that meet our investment criteria.

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

In 2003, we began migrating our debt obligations from secured debt to unsecured debt. We believed that funding ourselves on an unsecured basis would enable us to better serve our customers, more effectively match-fund our assets and provide us with a competitive advantage in the marketplace.

In October of 2004, in part as a result of our shift to unsecured debt, our senior unsecured debt ratings were upgraded to investment grade (BBB-/Baa3) by S&P and Moody's. This resulted in a broader market for our bonds and a lower cost of debt.

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

In 2006, as a result of our continued strong operating performance and our low levels of secured debt, S&P, Moody's and Fitch upgraded our senior unsecured debt rating to BBB, Baa2, and BBB from BBB-, Baa3 and BBB-, respectively. During 2006, we completed $2.20 billion of bond offerings and completed an exchange offer on our highest rate corporate bonds. In addition, we upsized our unsecured credit facility to $2.20 billion and amended the facility to allow us to borrow British pounds, euros and Canadian dollars to better enable us to invest outside the United States. This capability enabled us to more effectively match fund our foreign investments.

Prior to the onset of the credit crisis in mid-2007, we continued to access the unsecured debt markets, raising $1.05 billion in new bond transactions. We also increased our unsecured revolving credit capacity through the addition of a new five-year facility with a maximum capacity of $1.20 billion, bringing our total unsecured revolving credit capacity to $3.42 billion as of December 31, 2007. Also on June 26, 2007, we closed on a $2.0 billion short-term interim financing facility in order to fund the Fremont acquisition. In the later half of the year, as the credit crisis took hold and became increasingly pervasive, our corporate spreads, or our cost of unsecured debt capital, increased dramatically and our access to the unsecured debt markets was limited. In October 2007, we successfully accessed the convertible bond market with a $800 million offering of notes priced with a coupon of LIBOR + 50 basis points and a conversion premium of 30% to our then current stock price. In December, we issued 8.0 million shares of common stock for approximately $217.9 million of net proceeds.

In addition, as the short term, three to five year floating rate markets remain virtually closed, we are less able to match fund our assets and liabilities from both a maturity and fixed/floating rate perspective. We expect our increased cost of funds to impact our returns in 2008. During the last quarter of the year, we began to put several secured financing initiatives in place to tap our largely unencumbered asset base. We expect the rates that we will achieve on these secured financings will be substantially more attractive than our unsecured financing alternatives for the forseeable future. We expect these secured financings to be completed in the second quarter of 2008.

We seek to match-fund our assets with either fixed or floating rate debt of a similar maturity so that rising interest rates or changes in the shape of the yield curve will have a minimal impact on our earnings. Our policy requires that we manage our fixed/floating rate exposure such that a 100 basis point increase in short term interest rates would have no more than a 2.5% impact on our quarterly adjusted earnings. At December 31, 2007, a 100 basis point increase in LIBOR would result in a 0.52% increase in our fourth quarter 2007 adjusted earnings. We have used fixed rate or floating rate hedges to manage our fixed and floating rate exposure.

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

In addition, funds are available from repayments and prepayments on existing loans and sales of select assets.

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

We measure the efficiency of our operations by tracking our expense ratio, which is the ratio of general and administrative expenses to total revenue. Our expense ratio was 11.6% and 9.8% for 2007 and 2006, respectively. The increase in 2007 reflects increases in payroll costs, expenses associated with employee growth including additional office space costs, expenses associated with the Fremont acquisition and ramp-up of one of our European ventures. Management talent is one of our most significant assets and our payroll costs are correspondingly our largest non-interest cash expense. We expect to monitor the size and depth of our employee base and make adjustments based upon market conditions and opportunities. We believe that our expense ratio remains low by industry standards.

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

We use an asset-based capital allocation model to derive our maximum targeted corporate leverage. We calculate our leverage as the ratio of book debt to the sum of book equity, accumulated depreciation, accumulated depletion and loan loss reserves. Our leverage was 3.4x, 2.3x and 2.1x in 2007, 2006 and 2005, respectively. In 1998, when we went public, our leverage levels were very low, around 1.1x. Since that time we have been slowly increasing our leverage to our targeted levels. We evaluate our capital model target leverage levels based upon leverage levels achieved for similar assets in other markets, market liquidity levels for underlying assets and default and severity experience.

We measure our capital management by the strength of our tangible capital base and the ratio of our tangible book equity to total book assets. Our tangible book equity was $2.86 billion, $2.97 billion and $2.44 billion as of December 31, 2007, 2006 and 2005, respectively. Our ratio of tangible book equity to total book assets was 18.0%, 26.8% and 28.6% as of December 31, 2007, 2006 and 2005, respectively. The decline in this ratio is attributable to a modest increase in financial leverage as we have moved towards our target capital level. We believe that relative to other finance companies, we are well capitalized for a company of our size and asset base.

Fremont Acquisition

On July 2, 2007, we acquired the commercial real estate lending business and $6.27 billion commercial real estate loan portfolio, which we refer to as Fremont CRE, from Fremont Investment & Loan, or Fremont, a subsidiary of Fremont General Corporation, pursuant to a definitive purchase agreement dated May 21, 2007. Concurrently, we completed the sale of a $4.20 billion participation interest in the same loan portfolio to Fremont, pursuant to a definitive loan participation agreement dated July 2, 2007. The net cash purchase price of $1.89 billion was funded with proceeds from borrowings under an interim financing facility obtained by us, which bears interest at LIBOR + 0.5%.

Fremont's commercial real estate business, which was one of its two primary reportable segments, originated commercial first mortgage loans, which are principally bridge and construction loan facilities, out of nine field offices.

Under the terms of the loan participation agreement, as of the date of acquisition, we were responsible for funding approximately $3.72 billion of existing unfunded loan commitments associated with the portfolio over the next several years. The balance of unfunded commitments required to be funded was $2.54 billion as of December 31, 2007. Fremont will receive 70% of all principal collected from the purchased loan portfolio, including the portions of loans funded solely by iStar, until the $4.20 billion principal amount of Fremont's loan participation interest is repaid. The participation interest pays floating interest at LIBOR + 1.50% and we accounted for the issuance of the participation as a sale.

We accounted for the business combination under the purchase method. Under the purchase method, the assets acquired and liabilities assumed were recorded at their fair values as of the acquisition date. Any excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. The following table shows the fair values, as of the date of the acquisition, of the assets purchased, liabilities assumed and participation interest sold in the transaction with Fremont (in thousands):

Loan principal	$ 6,270,667
Loan discount, net	(265,830)
Loan participation interest sold	(4,201,208)
Accrued interest	43,218
Other assets	1,589
Intangible assets	22,500
Goodwill	25,154
Other liabilities	(2,389)
Net assets acquired	$ 1,893,701

Subsequent Events

On February 19, 2008, we announced that one of our timber investments, TimberStar Southwest, has entered into an agreement to sell approximately 900,000 acres of timberland for approximately $1.7 billion. TimberStar Southwest is a joint venture between our subsidiary TimberStar and equity investors MSD Capital, York Capital Management and Perry Capital. TimberStar Southwest purchased the properties from International Paper for approximately $1.2 billion in October 2006. Once completed, we expect to receive approximately $400 million of net proceeds from the sale.

Results of Operations

Revenue

	For the Years Ended December 31,				
	2007	2006	2005	2007 v. 2006 % Change	2006 v. 2005 % Change
Interest income	$ 998,008	$ 575,598	$ 406,668	73%	42%
Operating lease income	324,210	305,583	293,821	6%	4%
Other income	103,360	78,709	81,440	31%	(3)%
Total Revenue	$ 1,425,578	$ 959,890	$ 781,929	49%	23%

The increase in total revenue during 2007 was primarily due to increased interest income. Interest income from the acquired Fremont portfolio contributed $206.1 million to the increase in 2007. This amount included $102.8 million from the amortization of purchase discount on the acquired loans. The remainder of the increase was primarily attributable to a $2.33 billion increase in the average outstanding balance of loans and other lending investments during 2007 (excluding the acquired loan portfolio). The average rate of return on our loans and lending investments increased to 10.8% in 2007 from 10.2% in 2006. This increase was primarily attributable to higher average yields on the acquired Fremont loans that resulted from purchasing the loans at a discount.

During 2007, our operating lease income grew by $22.0 million which was attributable to new CTL investments, offset by $3.4 million of lower operating lease income due to terminated leases, vacancies and lower rental rates on certain CTL assets.

Other income was $24.8 million higher in 2007 than in 2006, primarily resulting from an increase in prepayment penalties, partially offset by decreases in income from timber operations and income from other investments.

The increase in revenue from 2005 to 2006 was primarily due to increased interest income. Higher interest income during 2006 resulted primarily from a $1.26 billion increase in the average outstanding balance of loans and other lending investments. Interest income was also higher due to a higher average

rate of return on our loans and lending investments, which increased to 10.2% in 2006, from 9.3% in 2005. The increased rate of return was primarily attributable to our variable-rate lending investments which reset at higher rates during 2006 when the average one-month LIBOR rate was 5.09% compared to 3.39% in 2005.

During 2006, our operating lease income grew by $15.3 million which was attributable to new CTL investments, offset by $3.5 million of lower operating lease income due to vacancies and lower rental rates on certain CTL assets.

Other income was $2.7 million lower in 2006 than in 2005. This decline resulted from a decrease in prepayment penalties and gains on marketable securities, partially offset by increases in lease termination fees, income from timber operations, and income from other investments.

Interest Expense

	For the Years Ended December 31,			2007 v. 2006 % Change	2006 v. 2005 % Change
	2007	2006	2005		
Interest expense	$ 627,720	$ 429,613	$ 312,806	46%	37%

Interest expense increased 46% from 2006 to 2007 primarily due to higher average outstanding borrowings during 2007, partially offset by decreased interest rates on our borrowings. Our average outstanding debt balance increased to $10.0 billion in 2007 from $6.72 billion in 2006 through new bond issuances early in 2007, as well as, through increased borrowings on both our existing and our new unsecured revolving credit facilities. In addition, we financed the Fremont acquisition with proceeds from an interim financing facility and then subsequently repaid a portion of that balance with proceeds from a convertible bond issuance and equity issuance in the fourth quarter of 2007. Weighted average interest rates on our outstanding debt decreased to 5.85% in 2007 as compared to 5.90% in 2006. This decrease is attributable to increased borrowings on our unsecured revolving credit facilities and our interim financing facility in 2007 which bear interest at LIBOR + 0.525% and LIBOR + 0.50%, respectively.

Interest expense increased 37% from 2006 to 2005 due mostly to an increase in average outstanding borrowings during 2006 and an increase in our weighted average interest rates. Our average outstanding debt balance grew to $6.72 billion in 2006 as compared to $4.71 billion in 2005 mostly through $1.70 billion of new bond issuances and $201.8 million increased borrowings on our unsecured revolving credit facilities, specifically borrowings in foreign currencies. Weighted average interest rates increased to 5.90% in 2006 from 5.55% in 2005 primarily due to higher one-month LIBOR rates on our borrowings under the unsecured revolving credit facilities.

Other Costs and Expenses

	For the Years Ended December 31,			2007 v. 2006 % Change	2006 v. 2005 % Change
	2007	2006	2005		
Operating costs corporate tenant lease assets	$ 29,727	$ 28,848	$ 21,032	3%	37%
Depreciation and amortization	93,944	76,226	69,986	23%	9%
General and administrative	165,176	96,432	63,987	71%	51%
Provision for loan losses	185,000	14,000	2,250	>100%	>100%
Loss on early extinguishment of debt			46,004	0%	(100)%
Other expense	144,166			100%	0%
Total other costs and expenses	$ 618,013	$ 215,506	$ 203,259	>100%	6%

Total other costs and expenses increased by approximately $402.5 million from 2006 to 2007 due to significant increases in various line items including provision for loan losses, other expense, for which their were no comparable amounts in 2006, and general and administrative costs.

The $171.0 million increase in our provision for loan losses was attributed both to the addition of asset-specific reserves as well as negative trends in the overall economy, growth in our historical portfolio and our newly acquired loan portfolio, as further described in the "Risk Management" section.

Other expense includes a $134.9 million impairment recorded on two credits that are accounted for as held-to-maturity securities as determined based on our assessment that the decline in value for these securities was other than temporary, as further described in Note 5 to our Consolidated Financial Statements. Also included in other expense is a $9.3 million impairment recorded on a strategic equity investment and the net ineffectiveness of our interest rate swaps, as further described in the "Hedging" section.

General and administrative expenses increased by approximately $68.7 million from 2006 to 2007 due to a number of contributing factors. Our payroll and payroll related costs increased by approximately $28.3 million resulting from the overall headcount growth, including $18.6 million of payroll and payroll related costs attributed to the employees hired as part of the Fremont acquisition. Excluding payroll related costs, the Fremont acquisition added another $11.0 million to our general and administrative expense, of which $3.4 million represented one-time costs and integration expenses. Stock-based compensation also increased by approximately $6.2 million in 2007 as compared to 2006, primarily related to new restricted stock units granted in 2007, partially offset by the one-time HPU compensation charge taken in 2006 (see below for further details). Additionally, included in 2007 is $7.4 million of management and start-up fees associated with the ramp-up of one of our European ventures in 2007. Other factors contributing to the remaining increase in general and administrative costs include higher tax expense for TRS entities, primarily related to our Oak Hill joint venture income, abandoned pursuit costs and legal fees.

Depreciation and amortization increased by $17.7 million from 2006 to 2007, marginally contributing to the overall increase in total costs and expenses. This increase relates primarily to the acquisitions and improvements of CTL assets in 2007.

Total other costs and expenses increased by approximately $12.2 million, or 6%, from 2005 to 2006 due to various offsetting factors. Increases in general and administrative costs, provision for loan losses and operating costs-corporate tenant lease assets, were significantly offset by a loss on early extinguishment of debt recorded in 2005.

During 2006, general and administrative expenses increased by $32.4 million, primarily due to an increase in employee growth and ramp-up of new business initiatives. Also in 2006, we recorded a non-cash charge of approximately $4.5 million in connection with our High Performance Unit equity compensation program for senior management. The non-cash compensation charge was the result of a correction due to a change in assumptions for the liquidity, non-voting and forfeiture discounts used in valuing the HPU securities issued in the seven plans offered since the commencement of the program in 2002 (see Note 12 Stock Based Compensation Plans and Employee Benefits on our Consolidated Financial Statements for further discussion). The cumulative charge was recorded during 2006, rather than restating prior periods, because we concluded that the expense was not material to any of our previously issued financial statements for any period.

We increased our provision for loan losses to $14.0 million in 2006 from $2.3 million in 2005 primarily due to our risk rating process and the increase in the size of our loan portfolio.

Operating costs for corporate tenant lease assets increased by $7.8 million from 2005 to 2006 primarily related to new CTL investments and higher unrecoverable operating costs due to vacancies.

During 2005, we incurred losses on early extinguishment of debt related to the early repayment of our STARs, Series 2002-1 Notes and Series 2003-1 Notes and a $135.0 million term loan. There were no such losses in 2006.

Other Components of Net Income

Earnings from equity method investments Earnings from equity method investments increased to $29.6 million in 2007 from $12.4 million in 2006 primarily due to an increase of $8.2 million in income from our Oak Hill investments and an increase of $6.5 from our CTC investment. CTC sold its remaining investment property to a third party investor resulting in a net gain, of which our share was $1.5 million. We also realized a $4.5 million deferred gain that was carried as a basis difference in our investment in CTC which was the result of the capitalized interest from previous construction financing to the venture. Increases in income from other strategic investments totaling $12.2 million were mostly offset by $9.7 million of increased losses from TimberStar Southwest. Our $14.5 million share of losses from TimberStar Southwest in 2007 included our $33.8 million share of depreciation, depletion and amortization from the venture.

Earnings from equity method investments increased to $12.4 million in 2006 from $3.0 million in 2005 mostly due to an increase in income from our investments in Oak Hill.

Discontinued operations We sold eight, ten and five CTL assets and realized gains of approximately $7.8 million, $24.2 million and $6.4 million during the years ended December 31, 2007, 2006 and 2005, respectively.

Adjusted Earnings

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

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

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

	For the Years Ended December 31,				
	2007	2006	2005	2004	2003
			(In thousands) (Unaudited)		
Adjusted earnings:					
Net income allocable to common shareholders and HPU holders	$ 196,638	$ 332,507	$ 245,593	$ 209,107	$ 255,249
Add: Joint venture income	92	123	136	166	593
Add: Depreciation, depletion and amortization	99,427	83,058	75,574	67,853	55,905
Add: Joint venture depreciation, depletion and amortization	40,826	14,941	8,284	3,544	7,417
Add: Amortization of deferred financing costs	28,367	23,520	68,651	33,651	27,180
Less: Hedge ineffectiveness, net	(239)				
Less: Joint venture gain from discontinued operations	(1,572)				
Less: Gain from discontinued operations	(7,832)	(24,227)	(6,354)	(43,375)	(5,167)
Adjusted diluted earnings allocable to common shareholders and HPU holders(1)(2)(3)(4)	$ 355,707	$ 429,922	$ 391,884	$ 270,946	$ 341,177
Weighted average diluted common shares outstanding(5)	127,792	116,219	113,747	112,537	104,248

Explanatory Notes:

(1) HPU holders are Company employees who purchased high performance common stock units under the Company's High Performance Unit Program. For the years ended December 31, 2007, 2006, 2005, 2004, and 2003 adjusted diluted earnings allocable to common shareholders and HPU holders includes $7,730, $10,250, $9,538, $4,261 and $2,659 of adjusted earnings allocable to HPU holders, respectively.

(2) For the years ended December 31, 2007, 2006, 2005, 2004 and 2003, adjusted diluted earnings allocable to common shareholders and HPU holders includes approximately $0, $0, $7.5 million, $9.8 million, and $0, respectively, of cash paid for prepayment penalties associated with early extinguishment of debt.

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

(4) Included in adjusted diluted earnings allocable to common shareholders and HPU holders for the year ended December 31, 2007 is a $134.9 million non-cash charge associated with the impairment of two held-to-maturity securities (see Note 5 to the Consolidated Financial Statements for further detail).

(5) In addition to the GAAP defined weighted average diluted shares outstanding these balances include an additional 44,000 shares, 73,000 shares and 147,000 shares for the years ended December 31, 2005, 2004 and 2003, respectively, relating to the additional dilution of joint venture shares. There were no additional shares included for the years ended December 31, 2007 and 2006, relating to the dilution of joint venture shares.

The decrease in adjusted earnings from 2006 to 2007 is driven primarily by the decrease in our net income as explained in the Results of Operations section above. Offsetting that decrease are increases in certain non-cash charges that are added back to net income to arrive at adjusted earnings. Specifically, depreciation, depletion and amortization increased $16.4 million from 2006 to 2007 as described above in Results of Operations. Additionally, joint venture depreciation, depletion and amortization increased by $25.9 million primarily due to our share of depletion recorded by the Timberstar Southwest venture which was formed in the fourth quarter of 2006.

Risk Management

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

	As of December 31, 2007	As of December 31, 2006
Non-performing loans		
Carrying value	$ 719,366	$ 61,480
Participated portion	474,303	
Gross Loan Value	$ 1,193,669	$ 61,480
As a percentage of total assets	7.5%	0.6%
As a percentage of total loans	11.1%	1.0%
Watch list loans		
Carrying value	$ 1,240,228	$ 147,800
Participated portion	375,179	
Gross Loan Value	$ 1,615,407	$ 147,800
Reserve for loan losses	$ 217,910	$ 52,201
As a percentage of total loans	2.0%	0.9%
Other real estate owned		
Carrying value	$ 128,558	

Non-Performing Loans All non-performing loans are placed on non-accrual status and income is recognized only upon actual cash receipt. We designate loans as non-performing at such time as: (1) management determines the borrower is incapable of, or has ceased efforts towards, curing the cause of an impairment; (2) the loan becomes 90 days delinquent; (3) the loan has a maturity default; or (4) the net realizable value of the loan's underlying collateral approximates our carrying value of such loan. As of December 31, 2007, we had 31 non-performing loans with an aggregate carrying value of $719.4 million and an aggregate gross loan value of $1.19 billion, or 7.5% of total assets. Management believes there is adequate collateral and reserves to support the book values of the loans.

Included in non-performing loans are 13 acquired loans that were deemed to be impaired on the date of acquisition and recorded at fair value in accordance with SOP 03-3. These SOP 03-3 loans have a current book value $37.2 million below our share of unpaid principal. In addition, there are 10 other acquired loans included in non-performing loans that have a total of $19.4 million of unamortized purchase discount. Amortization of purchased discount is suspended when loans are placed on non-accrual status.

Watch List Assets We conduct a quarterly comprehensive credit review, resulting in an individual risk rating being assigned to each asset. This review is designed to enable management to evaluate and proactively manage asset-specific credit issues and identify credit trends on a portfolio-wide basis as an "early warning system." As of December 31, 2007, we had 40 assets on the credit watch list, excluding those assets included in non-performing loans above, with an aggregate carrying value of $1.24 billion and an aggregate gross loan value of $1.62 billion, or 10.2% of total assets.

Reserve For Loan Losses During the year ended December 31, 2007, we added $165.7 million to the reserve for loan losses, which was the result of $185.0 million of provisioning for loan losses reduced by $19.3 million of charge-offs. The reserve is generally increased through the provision for loan losses, which reduces income in the period recorded and reduced through actual charge-offs.

The reserve for loan losses includes an asset-specific component and a formula-based component. At the end of 2007, we had $91.6 million of asset-specific reserves related to 12 non-performing loans. A reserve is established for a non-performing loan when the estimated fair value of the loan is lower than the carrying value of the loan. All of our non-performing loans were tested for impairment as of December 31, 2007.

The formula-based general reserve was $126.3 million on December 31, 2007. During the year we have increased reserves on our historical portfolio to reflect the continued deterioration in the overall credit markets and its impact on our portfolio. Reserves have also been provisioned for growth in the portfolio and for newly funded commitments in the recently acquired loan portfolio. Adjustments to this reserve are based on management's evaluation of general market conditions, our internal risk management policies and credit risk ratings system, industry loss experience, the likelihood of delinquencies or defaults, the credit quality of the underlying collateral and changes in the size of the loan portfolio.

Other Real Estate Owned (OREO) During the year ended December 31, 2007, we acquired by foreclosure, or by deed in lieu of foreclosure, four properties valued at $128.6 million. The carrying value of the loans that these properties collateralized prior to our taking title was $147.9 million. The transfer of these assets from loans to OREO resulted in $19.3 million in charge-offs against the reserve for loan losses.

Gross Loan Value ("Gross Loan Value") is computed by adding iStar's carrying value of the loan and the portion of the loan that is owned by Fremont through the loan participation agreement. It represents what the carrying value of the loan would have been if the loan participation had not occurred. Under the terms of the participation, Fremont will receive 70% of all loan principal payments, including principal that iStar has funded. Therefore, iStar is in the first loss position. As such, management believes that presentation of the Gross Loan Value is more relevant than a presentation of iStar's carrying value when assuming iStar's risk of loss on the loans in the Fremont CRE Portfolio.

Liquidity and Capital Resources

We require significant capital to fund our investment activities and operating expenses. While the distribution requirements under the REIT provisions of the Code limit our ability to retain earnings and thereby replenish or increase capital committed to our operations, we believe we have sufficient access to capital resources to fund our existing business plan, which includes our real estate and corporate lending and corporate tenant leasing businesses. Our capital sources include cash flow from operations, borrowings under lines of credit, additional term borrowings, unsecured corporate debt financing, financings secured by our assets, trust preferred debt, and the issuance of common, convertible and/or preferred equity securities. Further, we may acquire other businesses or assets using our capital stock, cash or a combination thereof.

Over the next several years, we have unfunded commitments related to our loans totaling $5.97 billion. We expect to fund approximately $3 billion of this amount in 2008. In addition, we have debt maturities of $2.00 billion in 2008, including $1.29 billion outstanding on an interim facility which matures on June 30, 2008. Recently, liquidity in the capital markets has been constrained, increasing our cost of funds and limiting our access to the unsecured debt markets our primary source of debt financing. As a result, during the last quarter of the year, we began to put several secured financing initiatives in place to tap our largely unencumbered asset base. We expect the rates that we will achieve on these secured financings will be substantially more attractive than our unsecured financing alternatives for the foreseeable future. The Company expects to complete these secured financings in the second quarter of

2008. We expect these proceeds, as well as amounts available under our unsecured and secured credit facilities, amounts we receive from repayments of our existing loan assets and proceeds we receive from certain asset sales, including the sale of our TimberStar SouthWest venture, will be sufficient to meet our near-term liquidity needs. However, we will continue to assess the market and consider raising additional liquidity through the issuance of unsecured debt or equity, at a higher cost of funds than our secured financing alternatives, if necessary.

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

During the last quarter of the year, we began to put several secured financing initiatives in place to tap our largely unencumbered asset base. We expect these secured financings to be completed in 2008.

The following table outlines the contractual obligations related to our long-term debt agreements and operating lease obligations as of December 31, 2007. We have no other long-term liabilities that would constitute a contractual obligation.

	Principal And Interest Payments Due By Period					
	Total	**Less Than 1 Year**	**2-3 Years**	**4-5 Years**	**6-10 Years**	**After 10 Years**
			(In thousands)			
Long-Term Debt Obligations:						
Unsecured notes	$ 7,202,022	$ 620,331	$ 2,175,000	$ 2,000,000	$ 2,406,691	$
Convertible notes	800,000			800,000		
Unsecured revolving credit facilities	2,681,174			2,681,174		
Secured term loans	408,139	91,388	144,698	30,870	57,787	83,396
Trust preferred	100,000					100,000
Total	11,191,335	711,719	2,319,698	5,512,044	2,464,478	183,396
Interest Payable(1)	2,768,016	598,048	1,038,956	644,950	354,536	131,526
Operating Lease Obligations(2)	274,422	5,773	39,198	37,761	88,917	102,773
Total(3)	$ 14,233,773	$ 1,315,540	$ 3,397,852	$ 6,194,755	$ 2,907,931	$ 417,695

Explanatory Notes:

(1) All variable rate debt assumes a 30-day LIBOR rate of 4.60% (the 30-day LIBOR rate at December 31, 2007).

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

(3) We also have letters of credit outstanding totaling $39.3 million as additional collateral for three of our investments. See "Off-Balance Sheet Transactions" below, for a discussion of certain unfunded commitments related to our lending and CTL business.

Unsecured/Secured Credit Facilities Our primary source of short-term funds is an aggregate of $3.42 billion of available credit under our two committed unsecured revolving credit facilities, which includes the amended $2.22 billion facility, maturing in June 2011, as well as a $1.20 billion facility, maturing in June 2012, entered into during the second quarter of 2007, as described further below. As of December 31, 2007, there was approximately $694.4 million which was immediately available to draw under these facilities at our discretion. In addition, we have a $500.0 million secured revolving credit facility for which availability is based on percentage borrowing base calculations. There were no borrowings outstanding under the secured credit facility as of December 31, 2007.

On June 26, 2007, we completed an unsecured revolving credit facility with leading financial institutions having a maximum capacity of $1.20 billion. Commitments under this facility will mature in June 2012. Borrowings under this credit agreement, which may be made in multiple currencies, bear interest at a floating rate based upon one of several base rates which vary depending upon the currency of the borrowing, plus a margin which adjusts upward or downward based upon our corporate credit rating.

On June 26, 2007, we also amended and restated our $2.20 billion revolving credit agreement to conform various covenants and provisions to those in the new $1.20 billion revolving credit agreement and to increase the commitment to $2.22 billion, of which $750.0 million can be borrowed in multiple foreign currencies. This agreement had been previously amended and restated in June 2006 to increase the commitment from $1.50 billion to $2.20 billion. Also as part of this amendment, the interest rate decreased to LIBOR + 0.525%, the facility fee decreased to 12.5 basis points and the maturity was extended to June 2011.

Also on June 26, 2007, we closed on a $2.0 billion short-term interim financing facility in order to fund the Fremont acquisition (see Note 4 for further detail). On July 2, 2007, in connection with the closing of the Fremont transaction we drew $1.90 billion under this facility, of which $1.29 billion remained outstanding, bearing interest at three-month LIBOR + 0.5%, as of December 31, 2007.

Our $500.0 million secured credit facility was amended and restated on September 28, 2007 to extend the maturity from January 2008 to September 2008, and to remove the one-year term-out extension.

Capital Markets Activity During the year ended December 31, 2007, we issued $300 million and $250 million aggregate principal amounts of fixed-rate Senior Notes bearing interest at annual rates of 5.5% and 5.85% and maturing in 2012 and 2017, respectively, and $500 million of variable-rate Senior Notes bearing interest at three-month LIBOR + 0.35% maturing in 2010. We primarily used the proceeds from the issuance of these securities to repay outstanding indebtedness under our unsecured revolving credit facility. In connection with this issuance, we settled forward starting interest rate swap agreements with notional amounts totaling $200 million and ten-year terms matching that of the $250 million Senior Notes due in 2017. We also entered into interest rate swap agreements to swap the fixed interest rate on the $300 million Senior Notes due in 2012 for a variable interest rate (see Note 11 to the Consolidated Financial Statements for further detail on all hedging activity).

In addition, on October 15, 2007, we issued $800 million aggregate principal amount of convertible senior floating rate notes due 2012 ("Convertible Notes"). The Convertible Notes were issued at par, mature on October 1, 2012, and bear interest at a rate per annum equal to 3-month LIBOR plus 0.50%. The Convertible Notes are senior unsecured obligations and rank equally with all of our other senior unsecured indebtedness. We used $392.0 million of the net proceeds from the offering to repay outstanding indebtedness under the interim financing facility which we used to fund the Fremont acquisition. We used the balance of the net proceeds to repay other outstanding indebtedness.

The Convertible Notes are convertible at the option of the holders, into approximately 22.2 shares per $1,000 principal amount of Convertible Notes, on or after August 15, 2012, or prior to that date if (1) the price of our Common Stock trades above 130% for a specified duration, (2) the trading price of the Convertible Notes is below a certain threshold, subject to specified exceptions, (3) the Convertible Notes have been called for redemption, or (4) specified corporate transactions have occurred. None of the conversion triggers have been met as of December 31, 2007. The conversion rate is subject to certain adjustments. The conversion rate initially represents a conversion price of $45.05 per share. If the conditions for conversion are met, we may choose to pay in cash and/or common stock; however, if this occurs, we have the intent and ability to settle this debt in cash. Accordingly, there was no impact on our diluted earnings per share for any of the periods presented. We have evaluated the terms of the call feature, redemption feature, and the conversion feature under applicable accounting literature, including SFAS 133 and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," and concluded that none of these features should be separately accounted for as derivatives.

In November 2007, we repurchased $15 million of the original $400 million of LIBOR + 0.39% Senior Notes maturing in 2008. In addition, our $200 million of LIBOR + 1.25% Senior Notes matured in March 2007.

On January 9, 2007, in connection with a consent solicitation of the holders of the respective notes, we amended certain covenants in our 7% Senior Notes due 2008, 4.875% Senior Notes due 2009, 6% Senior Notes due 2010, 5.125% Senior Notes due 2011, 6.5% Senior Notes due 2013, and 5.7% Senior Notes due 2014 (collectively, the "Modified Notes"). Holders of approximately 95.43% of the aggregate principal amount of the Modified Notes consented to the solicitation. The purpose of the amendments was to conform most of the covenants to the covenants contained in the indentures governing the senior notes issued by us since we achieved an investment grade rating from S&P, Moody's and Fitch. In connection with the consent solicitation we paid an aggregate fee of $6.5 million to the consenting note holders, which will be amortized into interest expense over the remaining term of the Modified Notes. In addition, we incurred advisory and professional fees aggregating $2.4 million, which were recorded as expenses and included in "General and administrative" on our Consolidated Statement of Operations for the year ended December 31, 2007.

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

On October 18, 2006, we exchanged our 8.75% Senior Notes due 2008 for 5.95% Senior Notes due 2013 in accordance with the exchange offer and consent solicitation launched on September 19, 2006. For each $1,000 principal amount of 8.75% Senior Notes tendered, holders received approximately $1,000 principal amount of 5.95% Senior Notes and $56.75 of cash. A total of $189.7 million aggregate principal amount of 5.95% Senior Notes were issued as part of the exchange. We also amended certain covenants in the indenture relating to the remaining 8.75% Senior Notes due 2008 as a result of a consent solicitation of the holders of these notes.

Other Financing Activity Our term financing that is collateralized by corporate bonds matured on August 1, 2007 and has been extended consecutively, with varying interest rates, through December 31, 2007 and further through March 4, 2008. The carrying value of corporate bonds collateralizing the borrowing totaled $185.9 million and $358.3 million at December 31, 2007 and 2006, respectively.

In addition, on May 31, 2006, we began a loan participation program which serves as an alternative to borrowing funds from our revolving credit facilities. The loan participations are short-term bank loans funded in the secondary market with fixed maturity dates typically ranging from overnight to 90 days. There were no amounts outstanding under this program at December 31, 2007 or 2006.

We did not incur any loss on early extinguishment of debt during the years ended December 31, 2007 and 2006. During the year ended December 31, 2005, we incurred an aggregate net loss on early extinguishment of debt of approximately $46.0 million as a result of the early retirement of certain debt obligations.

Debt Covenants Our debt obligations and credit facilities contain covenants that are both financial and non-financial in nature. Significant financial covenants include limitations on our ability to incur indebtedness beyond specified levels and a requirement to maintain specified ratios of unsecured indebtedness compared to unencumbered assets and minimum net worth. Based on our current credit ratings, the financial covenants in some series of our publicly held debt securities are not operative. Significant non-financial covenants include a requirement in some series of our publicly-held debt securities that we offer to repurchase those securities at a premium if we undergo a change of control.

Our unsecured credit facility and interim financing facility agreements contain a covenant that limits us from paying common dividends in excess of the greater of 110% of adjusted earnings and such amounts as are necessary to maintain REIT status. Although to maintain REIT status, we are required to pay out 90% of ordinary taxable income, we paid out dividends equal to 100% of taxable income, as is the typical REIT practice (as corporate income taxes are required to be paid on undistributed taxable income). As a result of a non-cash impairment charge of $134.9 million and an increased provision for loan losses (see Note 5 for further details) that significantly reduced our adjusted earnings for the year ended December 31, 2007, but not our taxable income, we were not in compliance with this covenant. However, we received a waiver for this covenant covering the year ended December 31, 2007. We also amended our unsecured revolving credit facilities and interim financing facility to allow us to pay out 100% of taxable earnings.

Other than as noted above, as of December 31, 2007, we believe we are in compliance with all financial and non-financial covenants on our debt obligations.

Unencumbered Assets/Unsecured Debt The following table shows the ratio of our unencumbered assets to unsecured debt at December 31, 2007 and 2006 (in thousands):

	As of December 31,	
	2007	2006
Total Unencumbered Assets	$ 15,769,061	$ 10,392,861
Total Unsecured Debt(1)	$ 12,073,007	$ 7,390,089
Unencumbered Assets/Unsecured Debt	131%	141%

Explanatory Note:

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

During the last quarter of 2007, we began to put several secured financing initiatives in place to tap our largely unencumbered asset base. We expect the rates that we will achieve on these secured financings will be substantially more attractive than our unsecured financing alternatives for the foreseeable future.

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

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

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

	Notional Amount as of December 31, 2007	Notional Amount as of December 31, 2006	Fair Value as of December 31, 2007	Fair Value as of December 31, 2006
Cash flow hedges:				
Forward-starting interest rate swaps	$ 250,000	$ 450,000	$ (6,457)	$ 9,180
Fair value hedges:				
Interest rate swaps	1,250,000	950,000	17,237	(23,137)
Total interest rate swaps	$ 1,500,000	$ 1,400,000	$ 10,780	$ (13,957)

The following table presents the maturity, notional amount, and weighted average interest rates expected to be received or paid on USD interest rate swaps at December 31, 2007(in thousands)(1):

	Fixed to Floating-Rate		
Maturity for Years Ending December 31,	Notional Amount	Receive Rate	Pay Rate
2008	$	%	%
2009	350,000	3.69%	4.61%
2010	600,000	4.39%	4.78%
2011			%
2012	300,000	5.50%	5.48%
2013-Thereafter			%
Total/Weighted Average	$ 1,250,000	4.46%	%

Explanatory Note:

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

The following table presents our foreign currency derivatives outstanding as of December 31, 2007 (these derivatives outstanding as of December 31, 2007 do not use hedge accounting, but are marked to market under SFAS No. 133 through the Company's Consolidated Statements of Operations) (in thousands):

Derivative Type	Notional Amount	Notional Currency	Notional (USD Equivalent)	Maturity
Sell SEK forward	SEK 287,993	Swedish Krona	$ 44,545	January 2008
Buy USD/Sell INR forward	INR 394,000	Indian Rupee	$ 10,000	November 2009
Buy SEK/Sell USD forward	SEK 18,814	Swedish Krona	$ 2,910	January 2008
Buy SEK forward	SEK 107,539	Swedish Krona	$ 16,633	January 2008

At December 31, 2007, derivatives with a fair value of $17.9 million were included in other assets and derivatives with a fair value of $6.6 million were included in other liabilities. During 2007, we recorded a net gain of $0.2 million in "Other expense" on our Consolidated Statements of Operations, due to ineffectiveness on fair-value hedges.

During the year ended December 31, 2007, we recorded a cumulative non-cash out of period charge of $12.1 million to reflect a cumulative reduction in the fair value of three interest rate swaps which we determined did not qualify for hedge accounting within the meaning of SFAS No. 133. We recorded the charge in our Consolidated Statements of Operations during the year ended December 31, 2007, rather than restating prior periods. The charge reflects a cumulative loss in the fair value of the swaps from the time they were entered into through June 30, 2007 and is recorded as an increase to "Debt obligations" and "Other expense" on our Consolidated Balance Sheets and Statements of Operations, respectively.

The application of hedge accounting generally requires us to evaluate the effectiveness of our hedging relationships on an ongoing basis and to calculate the changes in fair value of our hedging instruments and related hedged items independently. This is known as the "long-haul" method of hedge accounting. Transactions that meet more stringent criteria may qualify for the "short-cut" method of hedge accounting in which an assumption can be made that the change in fair value of a hedged item exactly offsets the change in value of the related derivative.

We determined that we incorrectly applied the "short-cut" method of hedge accounting to three interest rate swaps which the we entered into in 2003 in connection with our issuance of fixed rate debt securities. Since the swaps were incorrectly designated as qualifying for short-cut hedge accounting, and we did not test the hedging relationships periodically for effectiveness, the provisions of SFAS No. 133 do not allow us to retroactively apply the "long-haul" method, although the swaps would have qualified for long-haul hedge accounting treatment if they had been documented that way at their inception.

We have concluded that the cumulative loss is not material to any of our previously issued financial statements for any period. Recording the cumulative charge in any year from 2003 through 2006, would have impacted net income by 2.5% or less. Further, we have concluded that the cumulative loss is not material to the current fiscal year. This charge was recorded in "Other expense" on our Consolidated Statements of Operations.

We redesignated all of our fair value swaps in September 2007 to qualify for hedge accounting treatment under the "long-haul" method as prescribed by SFAS No. 133. Any net ineffectiveness will be recorded in "Other expense" on our Consolidated Statements of Operations.

Off-Balance Sheet Transactions We are not dependent on the use of any off-balance sheet financing arrangements for liquidity. We have several investments in unconsolidated entities that have outstanding debt, all of which is non-recourse to us.

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

We have certain discretionary and non-discretionary unfunded commitments related to our loans and other lending investments that we may be required to, or choose to, fund in the future. Discretionary commitments are those under which we have sole discretion with respect to future funding. Non-discretionary commitments are those that we are generally obligated to fund at the request of the borrower or upon the occurrence of events outside of our direct control. As of December 31, 2007, we had 296 loans with unfunded commitments totaling $5.97 billion, of which $1.00 billion was discretionary and $4.97 billion was non-discretionary. In addition, $68.4 million of non-discretionary unfunded commitments related to ten CTL investments. These commitments generally fall into two categories: (1) pre-approved capital improvement projects; and (2) new or additional construction costs. Upon completion of the improvements or construction, we would receive additional operating lease income from the customers. In addition, we have $15.1 million of non-discretionary unfunded commitments related to 12 existing customers in the form of tenant improvements which were negotiated between the Company and the customers at the commencement of the leases. Further, we had 9 equity investments with unfunded non-discretionary commitments of $218.4 million.

Ratings Triggers The two commited unsecured revolving credit facilities aggregating $3.42 billion that we had in place at December 31, 2007, bear interest at LIBOR + 0.525% per annum based on our senior unsecured credit ratings of BBB from S&P, Baa2 from Moody's and BBB from Fitch Ratings. Our ability to borrow under our unsecured revolving credit facilities is not dependent on our credit ratings.

Based on our current senior unsecured debt ratings by S&P, Moody's and Fitch, the financial covenants in most series of our publicly held debt securities, including limitations on incurrence of indebtedness and maintenance of unencumbered assets compared to unsecured indebtedness, are not operative. If we were to be downgraded from our current ratings by two of these three rating agencies, these financial covenants would become operative again. However, as of December 31, 2007, we would be in full compliance with these covenants if they were operative.

Except as described above, there are no other ratings triggers in any of our debt instruments or other operating or financial agreements at December 31, 2007.

Transactions with Related Parties During 2005, we invested in a substantial minority interest of Oak Hill Advisors, L.P., Oak Hill Credit Alpha MGP, OHSF GP Partners II, LLC, Oak Hill Credit Opportunities MGP, LLC, in 2006, OHSF GP Partners, LLC and in 2007, OHA Finance MGP, LLC and OHA Capital Solutions MGP, LLC (see Note 7 to the Consolidated Financial Statements for more detail). In relation to our investment in these entities, we appointed to our Board of Directors a member that holds a substantial investment in these same seven entities. As of December 31, 2007, the carrying value in these ventures was $199.6 million. Earnings from these investments were $31.9 million for the year ended December 31, 2007. We have also invested in eight funds managed by Oak Hill Advisors, L.P., which have a carrying value of $9.9 million as of December 31, 2007. We recorded earnings of $0.1 million from these investments during 2007.

On November 13, 2007, iStar Acquisition Corp., or IAC filed a registration statement with the Securities and Exchange Commission relating to a $500 million initial public offering. IAC is a blank check company formed for the purpose of acquiring, through a business combination, one or more operating businesses, or a portion of such business or businesses. To date, this filing has not yet become effective and our efforts have been limited solely to organizational activities. There can be no assurance that the offering will be consummated.

On November 8, 2007 IAC issued 14,375,000 units, each unit consisting of one share of IAC's common stock and one IAC common stock purchase warrant, to us and to Mr. Sugarman, IAC's chairman and the chairman and chief executive officer of iStar. Each party purchased half of the outstanding units for an aggregate of $25,000 in cash, at an average purchase price of approximately $0.002 per unit. On December 19, 2007, iStar and Mr. Sugarman transferred units, at the original cost of $0.002 per unit, to Mr. Nydick, iStar's President, and a group of iStar's senior executives. After giving effect to these transfers and anticipated transfers of initial units to independent directors, iStar and Mr. Sugarman will maintain ownership of equal amounts of initial units.

IAC issued a $100,000 unsecured promissory note to us and a $100,000 unsecured promissory note to Mr. Sugarman on November 8, 2007. The notes are non-interest bearing and are payable on the earlier of the consummation of the public offering or November 30, 2008.

IAC's financial statements have been consolidated by iStar and are included in our Consolidated Financial Statements in this annual report on Form 10-K. As such, we have eliminated the inter-company debt, but have a $100,000 liability to Mr. Sugarman and have reflected minority interests in IAC related to units owned by Mr. Sugarman, Mr. Nydick and the group of iStar senior executives with ownership interests. We anticipate that if the public offering is completed, the financial statements of IAC will no longer be consolidated and our investment will be accounted for under the equity method.

DRIP/Stock Purchase Plans We maintain a dividend reinvestment and direct stock purchase plan. Under the dividend reinvestment component of the plan, our shareholders may purchase additional shares of Common Stock without payment of brokerage commissions or service charges by automatically reinvesting all or a portion of their Common Stock cash dividends. Under the direct stock purchase component of the plan, our shareholders and new investors may purchase shares of Common Stock directly from us without payment of brokerage commissions or service charges. All purchases of shares in excess of $10,000 per month pursuant to the direct purchase component are at our sole discretion. Shares issued under the plan may reflect a discount of up to 3% from the prevailing market price of our Common Stock. We are authorized to issue up to 8.0 million shares of Common Stock pursuant to the dividend reinvestment and direct stock purchase plans. During the years ended December 31, 2007, 2006 and 2005, we issued a total of approximately 71,000, 549,000 and 433,000 shares of Common Stock, respectively, through the plans. Net proceeds for the years ended December 31, 2007, 2006 and 2005 were approximately $2.5 million, $22.6 million and $17.4 million, respectively. There are approximately 2.1 million shares available for issuance under the plan as of December 31, 2007.

Stock Repurchase Program In November 1999, the Board of Directors approved, and we implemented, a stock repurchase program under which we are authorized to repurchase up to 5.0 million shares of Common Stock from time to time, primarily using proceeds from the disposition of assets or loan repayments and excess cash flow from operations, but also using borrowings under our credit facilities if we determine that it is advantageous to do so. There is no fixed expiration date to this plan. During the year ended December 31, 2007, we repurchased 1.0 million shares of our outstanding Common Stock for a cost of approximately $30.9 million at an average cost per share of $30.53. Prior to 2007, we had not repurchased any shares under the stock repurchase program since November 2000. As of December 31, 2007, we had repurchased a total of approximately 3.3 million shares at an aggregate cost of approximately $71.6 million. We have also issued approximately 1.2 million shares of treasury stock during 2005 (See Note 10 to our Consolidated Financial Statements).

Critical Accounting Estimates

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

During 2007, management reviewed and evaluated these critical accounting estimates and believes they are appropriate. Our significant accounting policies are described in Note 3 to the Company's Consolidated Financial Statements. The following is a summary of accounting policies that require more significant management estimates and judgments:

Reserve for Loan Losses The Company maintains a reserve for loan losses at a level that management believes to be adequate to absorb estimated probable credit losses inherent in the loan portfolio. The reserve is increased through the provision for credit losses, which impacts operating results, and decreased by the amount of charge-offs, net of recoveries. Our determination of the adequacy of the reserve is based on periodic evaluations of the loan portfolio and other relevant factors. This evaluation is inherently subjective as it requires material estimates, all of which may be susceptible to significant change, including, among others:

- Expected default probabilities;
- Loss given default;
- Exposure at default;
- Amounts and timing of expected future cash flows on impaired loans;
- Value of collateral;
- Changes in economic conditions; and
- Potential estimation or judgmental imprecision.

The reserve for loan losses includes a formula-based component and an asset-specific component. The formula-based reserve component covers performing loans and is the product of the probability of default and loss given default based primarily on internal loan risk ratings. Loss factors are based on industry and/or internal experience and may be adjusted for significant factors that, based on our judgment, impact the collectibility of the loans as of the balance sheet date.

The asset-specific reserve component relates to provisions for losses on loans considered impaired and measured pursuant to Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairments of a Loan," ("SFAS 114"). A reserve is established when the discounted cash flows (or collateral value or observable market price) of the loan is lower than the carrying value of that loan. All of our non-performing loans or NPLs are evaluated individually. We determine the fair value of the collateral using one or more valuation techniques, such as property appraisals, comparable sales, discounted cash flow analyses or replacement cost comparisons. Determination of the fair value of collateral, by any of these techniques, requires significant judgment and discretion by management. If we determine that a loan is impaired, either a specific reserve is created or the loan, or a portion thereof, is charged-off through the reserve for loan losses. Our loan impairment testing resulted in the recognition of specific reserves of $91.6 million during 2007 and charge-offs of $8.7 million during 2006. There were no loan impairments or specific reserves recognized during 2005.

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

Goodwill Impairment Test Goodwill is not amortized, instead it is tested for impairment at least annually or more frequently if events or circumstances indicate that there may be justification for conducting an interim test. There are two parts to the goodwill impairment analysis. The first part of the test is a comparison of the fair value of the reporting unit containing goodwill to its carrying amount including goodwill. If the fair value is less than the carrying value, then the second part of the test is needed to measure the amount of potential goodwill impairment. The second test requires the fair value of the reporting unit to be allocated to all the assets and liabilities of the reporting unit as if the reporting unit had been acquired in a business combination at the date of the impairment test. The excess of the fair value of the reporting unit over the fair value of assets less liabilities is the implied value of goodwill and is used to determine the amount of impairment. There were no impairment charges recognized during 2007, 2006 or 2005 related to goodwill.

Fair Value of Derivatives We have historically used derivatives to help manage our interest rate and foreign exchange risks. Derivatives are recorded on the balance sheet at fair value as assets or liabilities. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing unrelated parties, other than in a forced or liquidation sale. The degree of management judgment involved in determining the fair value of a financial instrument depends on the availability and reliability of relevant market data, such as quoted market prices. Financial instruments that are actively traded and have quoted market prices or readily available market data require minimal judgment in determining fair value. When observable market prices and data are not readily available or do not exist, we estimate the fair value using market data and model-based interpolations using standard models that are widely accepted within the industry. Market data includes prices of instruments with similar maturities and characteristics, duration, interest rate yield curves and measures of volatility. Derivative assets were $17.9 million and derivatives liabilities were $6.6 million on December 31, 2007, compared with derivative assets of $9.3 million and derivatives liabilities of $23.3 million on December 31, 2006.

Consolidation Variable Interest Entities We are a party to a number of off-balance sheet joint ventures and other unconsolidated arrangements with varying structures. We consolidate certain entities in which we own less than a 100% equity interest if we determine that we have a controlling interest or are the primary beneficiary of a variable interest entity ("VIE") as defined in FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities (an interpretation of ARB No. 51) ("FIN 46R"). There is a significant amount of judgment required in interpreting the provisions of FIN 46R and applying them to specific transactions. In order to determine if an entity is considered a VIE, we first perform a qualitative analysis, which requires certain subjective decisions regarding our assessment, including, but not limited to, the nature and structure of the entity, the variability of the economic interests that the entity passes along to its interest holders, the rights of the parties and the purpose of the arrangement. An iterative quantitative analysis is required if our qualitative analysis proves inconclusive as to whether the entity is a VIE or we are the primary beneficiary and consolidation is required.

New Accounting Standards

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) expands the definition of transactions and events that qualify as business combinations; requires that the acquired assets and liabilities, including contingencies, be recorded at the fair value determined on the acquisition date and changes thereafter reflected in revenue, not goodwill; changes the recognition timing for restructuring costs; and requires acquisition costs to be expensed as incurred. Adoption of SFAS 141(R) is required for combinations after December 15, 2008. Early adoption and retroactive application of SFAS 141(R) to fiscal years preceding the effective date are not permitted. We will adopt SFAS 141(R) as required, and we are still evaluating the impact on our Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interest in Consolidated Financial Statements" ("SFAS 160"). SFAS 160 re-characterizes minority interests in consolidated subsidiaries as non-controlling interests and requires the classification of minority interests as a component of equity. Under SFAS 160, a change in control will be measured at fair value, with any gain or loss recognized in earnings. The effective date for SFAS 160 is for annual periods beginning on or after December 15, 2008. Early adoption and retroactive application of SFAS 160 to fiscal years preceding the effective date are not permitted. We will adopt SFAS 160 on January 1, 2009, as required, and we are still evaluating the impact of adoption on our Consolidated Financial Statements.

In February 2007, the FASB released Statement of Financial Accounting Standards No. 159 ("SFAS No. 159"), "The Fair Value Option for Financial Assets and Liabilities Including an Amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure certain financial assets and liabilities at fair value and is effective for the first fiscal year beginning after November 15, 2007. We will adopt SFAS No. 159 on January 1, 2008, as required, and we do not expect it to have a significant impact on our Consolidated Financial Statements.

In September 2006, the FASB released Statement of Financial Accounting Standards No. 157 ("SFAS No. 157"), "Fair Value Measurements." This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 clarifies the exchange price notion in the fair value definition to mean the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). This statement also clarifies that market participant assumptions should include assumptions about risk, should include assumptions about the effect of a restriction on the sale or use of an asset and should reflect its nonperformance risk (the risk that the obligation will not be fulfilled). Nonperformance risk should include the reporting entity's credit risk. SFAS

No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We will adopt SFAS No. 157 on January 1, 2008, as required, and we do not expect it to have a significant impact on our Consolidated Financial Statements.

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

In March 2006, the FASB released Statement of Financial Accounting Standards No. 156 ("SFAS No. 156"), "Accounting for Servicing of Financial Assets." SFAS No. 156 was issued to simplify the accounting for servicing rights and to reduce the volatility that results from the use of different measurement attributes for servicing rights and the related financial instruments used to economically hedge risks associated with those servicing rights. SFAS No. 156 modifies the accounting for servicing rights by: (1) clarifying when a separate asset or servicing liability should be recognized; (2) requiring a separately recognized servicing asset or servicing liability to be measured at fair value; (3) allowing entities to subsequently measure servicing rights either at fair value or under the amortization method for each class of a separately recognized servicing asset or servicing liability; (4) permitting a one-time reclassification of available-for-sale securities to trading securities; and (5) requiring separate presentation of servicing assets and servicing liabilities subsequently measured at fair value. SFAS No. 156 is effective in annual periods beginning after September 15, 2006. We adopted SFAS No. 156 during 2007, as required, and it did not have a significant impact on our Consolidated Financial Statements.

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

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

Market Risks

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

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

Approximately 30% of our loan investments are subject to prepayment protection in the form of lock-outs, yield maintenance provisions or other prepayment premiums which provide substantial yield protection to us. Those assets generally not subject to prepayment penalties include: (1) variable-rate loans based on LIBOR, originated or acquired at par, which would not result in any gain or loss upon repayment; and (2) discount loans and loan participations acquired at discounts to face values, which would result in gains upon repayment. Further, while we generally seek to enter into loan investments which provide for substantial prepayment protection, in the event of declining interest rates, we could receive such prepayments and may not be able to reinvest such proceeds at favorable returns. Such prepayments could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

Interest Rate Risks

In the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to us which adversely affect our liquidity and operating results. Further, such delinquencies or defaults could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

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

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

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

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

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

The following table quantifies the potential changes in net investment income and net fair value of financial instruments should interest rates increase or decrease 100 or 200 basis points, assuming no change in the shape of the yield curve (i.e., relative interest rates). Net investment income is calculated as revenue from loans and other lending investments and operating leases and earnings from equity method investments, less interest expense, operating costs on CTL assets and loss on early extinguishment of debt, for the year ended December 31, 2007. Net fair value of financial instruments is calculated as the sum of the value of derivative instruments and the present value of cash in-flows generated from interest-earning assets, less cash out-flows in respect to interest-bearing liabilities as of December 31, 2007. The cash flows associated with our assets are calculated based on management's best estimate of expected payments for each loan based on loan characteristics such as loan-to-value ratio, interest rate, credit history, prepayment penalty, term and collateral type. Many of our loans are protected from prepayment as a result of prepayment penalties, yield maintenance fees or contractual terms which prohibit prepayments during specified periods. However, for those loans where prepayments are not currently precluded by contract, declines in interest rates may increase prepayment speeds. The base interest rate scenario assumes the one-month LIBOR rate of 4.6% as of December 31, 2007. Actual results could differ significantly from those estimated in the table.

Net fair value of financial instruments in the table below does not include CTL assets (approximately 21% of total assets) and certain forms of corporate finance investments but includes debt associated with the financing of these assets. Therefore, the table below is not a meaningful representation of the estimated percentage change in net fair value of financial instruments with change in interest rates.

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

Estimated Percentage Change In

Change in Interest Rates	Net Investment Income(1)	Net Fair Value of Financial Instruments(2)
-200 Basis Points	10.3%	(468.1)%
-100 Basis Points	3.4%	(227.6)%
Base Interest Rate	0.0%	0.0%
+100 Basis Points	0.3%	215.3%
+200 Basis Points	1.8%	419.1%

Explanatory Note:

(1) Net investment income increases with decreases in interest rates due interest rate floors on certain assets that become effective in the current low interest rate environment.

(2) The estimated net fair value of financial instruments under the base interest rate was $39.0 million. A 100 and 200 basis point increase in interest rates would increase the estimated net fair values of the financial instruments to $123.0 million and $202.6 million, respectively. A 100 and 200 basis point decrease in interest rates would decrease the estimated net fair values of the financial instruments to $(49.8) million and $(143.6) million, respectively.

Item 8. Financial Statements and Supplemental Data

Index to Financial Statements

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

Financial statements of 22 unconsolidated entities accounted for under the equity method have been omitted because the Company's proportionate share of the income from continuing operations before income taxes is less than 20% of the respective consolidated amount and the investments in and advances to each company are less than 20% of consolidated total assets.

Management's Report on Internal Control over Financial Reporting

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

Based on Management's assessment under the framework in *Internal Control Integrated Framework*, management has concluded that its internal control over financial reporting was effective as of December 31, 2007. Additionally, based upon management's assessment, the Company has determined that there were no material weaknesses in its internal control over financial reporting as of December 31, 2007.

The Company's internal control over financial reporting as of December 31, 2007, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

To 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, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 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, 2007, based on criteria established in *Internal Control Integrated Framework* 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 the accompanying Management's Report on Internal Control over Financial Reporting. 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.

PricewaterhouseCoopers LLP
New York, New York
February 29, 2008

iStar Financial Inc.

Consolidated Balance Sheets

(In thousands, except per share data)

	As of December 31, 2007	As of December 31, 2006
ASSETS		
Loans and other lending investments, net	$ 10,949,354	$ 6,799,850
Corporate tenant lease assets, net	3,309,866	3,084,794
Other investments	856,609	789,647
Other real estate owned	128,558	
Assets held for sale	74,335	9,398
Cash and cash equivalents	104,507	105,951
Restricted cash	32,977	28,986
Accrued interest and operating lease income receivable	141,405	72,954
Deferred operating lease income receivable	102,135	79,498
Deferred expenses and other assets	105,274	71,181
Goodwill	43,278	17,736
Total assets	$ 15,848,298	$ 11,059,995
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 495,311	$ 200,957
Debt obligations	12,399,558	7,833,437
Total liabilities	12,894,869	8,034,394
Commitments and contingencies		
Minority interest in consolidated entities	53,948	38,738
Shareholders' equity:		
Series D Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 4,000 shares issued and outstanding at December 31, 2007 and 2006	4	4
Series E Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 5,600 shares issued and outstanding at December 31, 2007 and 2006	6	6
Series F Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 4,000 shares issued and outstanding at December 31, 2007 and 2006	4	4
Series G Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 3,200 shares issued and outstanding at December 31, 2007 and 2006	3	3
Series I Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 5,000 shares issued and outstanding at December 31, 2007 and 2006	5	5
High Performance Units	9,800	9,800
Common Stock, $0.001 par value, 200,000 shares authorized, 136,340 issued and 133,929 outstanding at December 31, 2007 and 127,964 issued and 126,565 outstanding at December 31, 2006	135	127
Options	1,392	1,696
Additional paid-in capital	3,700,086	3,464,229
Retained earnings (deficit)	(752,440)	(479,695)
Accumulated other comprehensive income (losses) (see Note 14)	(2,295)	16,956
Treasury stock (at cost)	(57,219)	(26,272)
Total shareholders' equity	2,899,481	2,986,863

	As of December 31,	
Total liabilities and shareholders' equity	$ 15,848,298	$ 11,059,995

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

iStar Financial Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

	For the Years Ended December 31,		
	2007	**2006**	**2005**
Revenue:			
Interest income	$ 998,008	$ 575,598	$ 406,668
Operating lease income	324,210	305,583	293,821
Other income	103,360	78,709	81,440
Total revenue	1,425,578	959,890	781,929
Costs and expenses:			
Interest expense	627,720	429,613	312,806
Operating costs corporate tenant lease assets	29,727	28,848	21,032
Depreciation and amortization	93,944	76,226	69,986
General and administrative	165,176	96,432	63,987
Provision for loan losses	185,000	14,000	2,250
Loss on early extinguishment of debt			46,004
Other expense	144,166		
Total costs and expenses	1,245,733	645,119	516,065
Income before earnings from equity method investments, minority interest and other items	179,845	314,771	265,864
Earnings from equity method investments	29,626	12,391	3,016
Minority interest in consolidated entities	816	(1,207)	(980)
Income from continuing operations	210,287	325,955	267,900
Income from discontinued operations	20,839	24,645	13,659
Gain from discontinued operations, net	7,832	24,227	6,354
Net income	238,958	374,827	287,913
Preferred dividend requirements	(42,320)	(42,320)	(42,320)
Net income allocable to common shareholders and HPU holders(1)	$ 196,638	$ 332,507	$ 245,593
Per common share data(2):			
Income from continuing operations per common share:			
Basic	$ 1.30	$ 2.40	$ 1.95
Diluted	$ 1.29	$ 2.38	$ 1.94
Net income per common share:			
Basic	$ 1.52	$ 2.82	$ 2.13
Diluted	$ 1.51	$ 2.79	$ 2.11
Weighted average number of common shares basic	126,801	115,023	112,513
Weighted average number of common shares diluted	127,792	116,219	113,703
Per HPU share data(2):			
Income from continuing operations per HPU share:			
Basic	$ 246.13	$ 455.40	$ 370.07
Diluted	$ 243.47	$ 450.94	$ 366.34
Net income per HPU share:			

	For the Years Ended December 31,		
Basic	$ 287.93	$ 533.80	$ 402.87
Diluted	$ 285.00	$ 528.67	$ 398.87
Weighted average number of HPU shares basic	15	15	15
Weighted average number of HPU shares diluted	15	15	15

Explanatory Notes:

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

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

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

iStar Financial Inc.

Consolidated Statements of Changes in Shareholders' Equity

(In thousands)

	Series D Preferred Stock	Series E Preferred Stock	Series F Preferred Stock	Series G Preferred Stock	Series I Preferred Stock	HPU's	Common Stock at Par	Options	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (losses)	Treasury Stock	Total
Balance at December 31, 2004	$ 4	$ 6	$ 4	$ 3	$ 5	$ 7,828	$ 111	$ 6,458	$ 2,840,062	$ (349,097)	$ (2,086)	$ (48,056)	$ 2,455,242
Exercise of options and warrants							1	(8)	1,762				1,755
Issuance of treasury stock							1		26,169			21,784	47,954
Dividends declared preferred										(42,320)			(42,320)
Dividends declared common										(330,998)			(330,998)
Dividends declared HPU										(8,256)			(8,256)
HPU's sold to employees						969							969
Issuance of stock vested restricted stock units									1,022				1,022
Issuance of stock DRIP/stock purchase plan									17,419				17,419
Net income for the period										287,913			287,913
Change in accumulated other comprehensive income (losses)											15,971		15,971
Balance at December 31, 2005	$ 4	$ 6	$ 4	$ 3	$ 5	$ 8,797	$ 113	$ 6,450	$ 2,886,434	$ (442,758)	$ 13,885	$ (26,272)	$ 2,446,671
Exercise of options								(4,754)	7,332				2,578
Net proceeds from equity offering							13		541,419				541,432
Dividends declared preferred										(42,320)			(42,320)
Dividends declared common										(360,765)			(360,765)
Dividends declared HPU										(8,679)			(8,679)
Redemption of HPU's						(3,569)			2,339				(1,230)
HPU compensation expense						4,572							4,572
Issuance of stock vested restricted stock units									4,150				4,150
							1		22,555				22,556

	Series D Preferred Stock	Series E Preferred Stock	Series F Preferred Stock	Series G Preferred Stock	Series I Preferred Stock	HPU's	Common Stock at Par	Options	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (losses)	Treasury Stock	Total
Issuance of stock DRIP/stock purchase plan													
Net income for the period										374,827			374,827
Change in accumulated other comprehensive income (losses)											3,071		3,071
Balance at December 31, 2006	$ 4	$ 6	$ 4	$ 3	$ 5	$ 9,800	$ 127	$ 1,696	$ 3,464,229	$ (479,695)	$ 16,956	$ (26,272)	$ 2,986,863

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

iStar Financial Inc.

Consolidated Statements of Changes in Shareholders' Equity

(In thousands)

	Series D Preferred Stock	Series E Preferred Stock	Series F Preferred Stock	Series G Preferred Stock	Series I Preferred Stock	HPU's	Common Stock at Par	Options	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (losses)	Treasury Stock	Total
Balance at December 31, 2006	$ 4	$ 6	$ 4	$ 3	$ 5	$ 9,800	$ 127	$ 1,696	$ 3,464,229	$ (479,695)	$ 16,956	$ (26,272)	$ 2,986,863
Exercise of options								(304)	3,192				2,888
Net proceeds from equity offering							8		217,926				217,934
Dividends declared preferred										(42,320)			(42,320)
Dividends declared common										(459,253)			(459,253)
Dividends declared HPU										(10,130)			(10,130)
Repurchase of stock												(30,947)	(30,947)
Issuance of stock vested restricted stock units									11,116				11,116
Issuance of stock DRIP/stock purchase plan									2,518				2,518
Redemption of HPU's									1,105				1,105
Net income for the period										238,958			238,958
Change in accumulated other comprehensive income (losses)											(19,251)		(19,251)
Balance at December 31, 2007	$ 4	$ 6	$ 4	$ 3	$ 5	$ 9,800	$ 135	$ 1,392	$ 3,700,086	$ (752,440)	$ (2,295)	$ (57,219)	$ 2,899,481

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

iStar Financial Inc.

Consolidated Statements of Cash Flows

(In thousands)

	For the Years Ended December 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net income	$ 238,958	$ 374,827	$ 287,913
Adjustments to reconcile net income to cash flows from operating activities:			
Minority interest in consolidated entities	(816)	545	980
Non-cash expense for stock-based compensation	17,743	11,598	3,028
Shares withheld for employee taxes on stock based compensation arrangements	(3,800)	(710)	(2,148)
Depreciation, depletion and amortization	100,123	83,967	76,275
Amortization of deferred financing costs	26,833	22,444	30,148
Amortization of discounts/premiums, deferred interest and costs on lending investments	(234,944)	(72,635)	(67,343)
Discounts, loan fees and deferred interest received	66,991	65,861	119,477
Equity in earnings of unconsolidated entities	(29,468)	(12,391)	(3,016)
Distributions from operations of unconsolidated entities	41,796	16,048	6,672
Loss on early extinguishment of debt, net of cash paid			38,503
Deferred operating lease income receivable	(23,816)	(10,413)	(14,855)
Gain from discontinued operations, net	(7,832)	(14,565)	(6,354)
Impairments of securities	145,429		
Provision for loan losses	185,000	14,000	2,250
Provision for deferred taxes	1,318	(1,777)	
Other non-cash adjustments	(2,638)		
Changes in assets and liabilities:			
Changes in accrued interest and operating lease income receivable	(26,147)	(41,226)	(4,651)
Changes in deferred expenses and other assets	(1,151)	(40,313)	9,194
Changes in accounts payable, accrued expenses and other liabilities	67,758	35,964	39,846
Cash flows from operating activities	561,337	431,224	515,919
Cash flows from investing activities:			
New investment originations	(2,900,301)	(3,058,331)	(2,804,213)
Cash paid for acquisitions	(1,891,571)	(31,720)	(113,696)
Purchase of securities	(28,815)	(475,824)	(335,838)
Add-on fundings under existing loan commitments	(2,955,395)		