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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

OR

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

FOR THE TRANSITION PERIOD FROM ______________ TO ______________

COMMISSION FILE NO. 1-15371

ISTAR FINANCIAL INC.
(Exact name of registrant as specified in its charter)

MARYLAND (State or other jurisdiction of incorporation or organization)	95-6881527 (I.R.S. Employer Identification Number)
1114 AVENUE OF THE AMERICAS, 27TH 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:

NAME OF EXCHANGE ON WHICH REGISTERED: COMMON STOCK, $0.001 PAR VALUE NEW YORK STOCK EXCHANGE 9.375% SERIES B CUMULATIVE REDEEMABLE NEW YORK STOCK EXCHANGE PREFERRED STOCK, $0.001 PAR VALUE 9.200% SERIES C CUMULATIVE REDEEMABLE

NEW YORK
STOCK
EXCHANGE
PREFERRED
STOCK,
$0.001 PAR
VALUE
8.000%
SERIES D
CUMULATIVE
REDEEMABLE
NEW YORK
STOCK
EXCHANGE
PREFERRED
STOCK,
$0.001 PAR
VALUE

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

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 12 months (or for such shorter period that the registrant was required to file such reports); and (ii) has been subject to such filing requirements for the past 90 days. Yes /X/ No / /

As of November 4, 2002, there were 89,993,704 shares of common stock of iStar Financial Inc., $0.001 par value per share outstanding ("Common Stock").

ISTAR FINANCIAL INC.
INDEX TO FORM 10-Q

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PART I. CONSOLIDATED FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ISTAR FINANCIAL INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

AS OF AS OF SEPTEMBER 30, DECEMBER 31, 2002 2001* ------- ------ ------------ ASSETS Loans and other lending investments, net.................... $2,939,769 $2,377,763 Corporate tenant lease assets,

net	2,174,555	1,781,565
Investments in joint ventures and unconsolidated subsidiaries	24,362	58,226
Assets held for sale	24,800	--
Cash and cash equivalents	20,144	15,670
Restricted cash	36,949	17,852
Accrued interest and operating lease income receivable	18,055	26,688
Deferred operating lease income receivable	33,311	21,195
Deferred expenses and other assets	95,538	79,601
Total assets	$5,367,483	$4,378,560
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 94,572	$ 87,538
Dividends payable	5,225	5,225
Debt obligations	3,387,560	2,495,369
Total liabilities	3,487,357	2,588,132
Commitments and contingencies	--	--
Minority interest in consolidated entities	2,581	2,650
Shareholders' equity:		
Series A Preferred Stock, $0.001 par value, liquidation preference $50.00 per share, 4,400 shares issued and outstanding at September 30, 2002 and December 31, 2001, respectively	4	4
Series B Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 2,000 shares issued and outstanding at September 30, 2002 and December 31, 2001, respectively	2	2
Series C Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 1,300 shares issued and outstanding at September 30, 2002 and December 31, 2001, respectively	1	1
Series D Preferred Stock, $0.001 par value, liquidation preference $25.00 per share, 4,000 shares issued and outstanding at September 30, 2002 and December 31, 2001, respectively	4	4
Common Stock, $0.001 par value, 200,000 shares authorized, 89,937 and 87,387 shares issued and outstanding at September 30, 2002 and December 31, 2001, respectively	90	87
Warrants and options	20,332	20,456
High Performance Units	1,359	--
Additional paid-in capital	2,071,104	1,997,931
Retained earnings (deficit)	(162,852)	(174,874)
Accumulated other comprehensive income (losses) (See Note 12)	(4,540)	(15,092)
Treasury stock (at cost)	(47,959)	(40,741)
Total shareholders' equity	1,877,545	1,787,778
Total liabilities and shareholders' equity	$5,367,483	$4,378,560

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* RECLASSIFIED TO CONFORM TO 2002 PRESENTATION.

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

ISTAR FINANCIAL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

FOR THE FOR THE THREE MONTHS ENDED NINE MONTHS ENDED SEPTEMBER 30, SEPTEMBER 30, ------------------- ------------------- 2002 2001* 2002 2001* -------- -------- -------- -------- REVENUE: Interest income.................................. $ 66,786 $ 62,389 $187,057 $193,205 Operating lease income........................... 63,561 45,984 177,483 137,605 Other income...................................... 4,822 9,187 21,263 23,893 -------- -------- -------- -------- Total revenue.................................. 135,169 117,560 385,803 354,703 -------- -------- -------- -------- COSTS AND EXPENSES: Interest expense................................ 47,471 41,141 135,935 128,796 Operating costs--corporate tenant lease assets.... 3,656 3,206 9,662 9,713 Depreciation and amortization.................... 12,729 8,646 35,013 26,191 General and administrative....................... 8,088 6,131 22,849 18,731 General and administrative-- stock-based compensation................................... 9,546 520 17,365 2,580 Provision for loan losses........................ 2,000 1,750 5,750 5,250 -------- -------- -------- -------- Total costs and expenses....................... 83,490 61,394 226,574 191,261 -------- -------- -------- -------- Net income before equity in earnings from joint ventures and unconsolidated subsidiaries, minority interest and other items......................... 51,679 56,166 159,229 163,442 Equity in earnings from joint ventures and unconsolidated subsidiaries..................... 85 1,961 1,301 5,645 Minority interest in consolidated entities.......... (40) (41) (122) (177) Income from discontinued operations................ 823 1,246 3,333 3,744 Gain (loss) from discontinued operations........... 123 (1,196) 717 403 Extraordinary loss on early extinguishment of debt... -- (583) (12,166) (1,620) Cumulative effect of change in accounting principle (See Note 3)..................................... -- -- -- (282) -------- -------- -------- -------- Net income... $ 52,670 $ 57,553 $152,292 $171,155 Preferred dividend requirements.................... (9,227) (9,227) (27,681) (27,681) -------- -------- -------- -------- Net income allocable to common shareholders......... $ 43,443 $ 48,326 $124,611 $143,474 ======== ======== ======== ======== Basic earnings per common share..................... $ 0.49 $ 0.56 $ 1.41 $ 1.67 ======== ======== ======== ======== Diluted earnings per common share................... $ 0.47 $ 0.54 $ 1.36 $ 1.63 ======== ======== ======== ========

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ISTAR FINANCIAL INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(IN THOUSANDS)
(UNAUDITED)

SERIES A SERIES B SERIES C SERIES D COMMON WARRANTS HIGH

ADDITIONAL PREFERRED PREFERRED PREFERRED PREFERRED STOCK AND PERFORMACE PAID-IN STOCK STOCK STOCK STOCK AT PAR OPTIONS UNITS CAPITAL --------- --------- --------- --------- -------- ---------- ----------

Balance at December 31, 2001...... $4 $2 $1 $4 $87 $20,456 $ -- $1,997,931 Exercise of options.............. -- -- -- -- 3 (435) -- 12,739 Dividends declared--preferred stock.......................... -- -- -- -- -- -- -- 248 Dividends declared--common stock.......................... -- -- -- -- -- -- -- -- Restricted stock units issued to employees...................... -- -- -- -- -- -- -- 16,283 Options granted to employees...... -- -- -- -- -- 311 -- -- High performance units sold to employees...................... -- -- -- -- -- -- 1,359 -- Issuance of stock--DRIP........... -- -- -- -- -- -- -- 43,903 Purchase of treasury shares....... -- -- -- -- -- -- -- -- Net income for the period......... -- -- -- -- -- -- -- -- Change in accumulated other comprehensive income........... -- -- -- -- -- -- -- -- -- -- -- -- --- ------- ------ ---------- Balance at September 30, 2002..... $4 $2 $1 $4 $90 $20,332 $1,359 $2,071,104 == == == == === ======= ====== ==========

RETAINED ACCUMULATED EARNINGS OTHER COMPREHENSIVE TREASURY (DEFICIT) INCOME (LOSSES) STOCK TOTAL --------- ------------------ --------- ----------

Balance at December 31, 2001...... $(174,874) $(15,092) $(40,741) $1,787,778 Exercise of options.............. -- -- -- 12,307 Dividends declared--preferred stock.......................... (27,681) -- -- (27,433) Dividends declared--common stock.......................... (112,589) -- -- (112,589) Restricted stock units issued to employees...................... -- -- -- 16,283 Options granted to employees...... -- -- -- 311 High performance units sold to employees...................... -- -- -- 1,359 Issuance of stock--DRIP.......... -- -- -- 43,903 Purchase of treasury shares....... -- -- (7,218) (7,218) Net income for the period........ 152,292 -- -- 152,292 Change in accumulated other comprehensive income........... -- 10,552 -- 10,552 --------- -------- -------- ---------- Balance at September 30, 2002..... $(162,852) $ (4,540) $(47,959)

$1,877,545 ========= ========
======== ==========

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

ISTAR FINANCIAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

FOR THE FOR THE THREE MONTHS ENDED NINE MONTHS ENDED SEPTEMBER 30, SEPTEMBER 30, --------------------- ----- -------------------- 2002 2001* 2002 2001* --------- -- ------- ----------- ----------- Cash flows from operating activities: Net income.. $ 52,670 $ 57,553 $ 152,292 $ 171,155 Adjustments to reconcile net income to cash flows provided by operating activities: Minority interest in consolidated entities................ 40 41 122 177 Non-cash expense for stock-based compensation............ 9,568 520 17,409 2,580 Depreciation and amortization........................... 18,180 11,960 52,224 36,529 Depreciation and amortization from discontinued operations... -- 1,656 40 4,883 Amortization of discounts/premiums, deferred interest and costs on lending investments.......................... (9,612) (11,742) (22,232) (31,043) Equity in earnings from joint ventures and unconsolidated subsidiaries.. (85) (1,961) (1,301) (5,645) Distributions from operations of joint ventures........... 985 983 5,533 3,899 Deferred operating lease income receivable................ (3,525) (2,320) (11,710) (7,303) (Gain) loss from discontinued operations................. (123) 1,196 (717) (403) Extraordinary loss on early extinguishment of debt........ -- 583 12,166 1,620 Cumulative effect of change in accounting principle....... -- -- -- 282 Provision for loan losses............................... 2,000 1,750 5,750 5,250 Changes in assets and liabilities: Decrease (increase) in accrued interest and operating lease income receivable.............................. 11,236 (3,582) 8,633 (430) Decrease (increase) in deferred expenses and other assets... 798 2,179 (315) (50) (Decrease) increase in accounts payable, accrued expenses and other liabilities....................... (5,668) 5,644 4,943 2,896 --------- --------- ----------- ----------- Cash flows provided by operating activities.............. 76,464 64,460 222,837 184,397 --------- --------- ----------- ----------- Cash flows from investing activities: New investment originations............................. (283,250) (154,038) (1,374,546) (701,509) Add-on fundings under existing loan commitments.......... (2,483) (20,739) (17,987) (45,181) Net proceeds from sale of corporate tenant lease assets... -- 12,452 3,702 20,286 Net proceeds from discontinued operations................ 12,500 -- 17,500 -- Repayments of and principal collections on loans and other lending investments................................... 223,047 10,206 499,464 567,185 Investments in and advances to unconsolidated joint ventures... -- (169) (127) (656) Distributions from unconsolidated joint ventures......... -- -- -- 24,265 Capital improvements for build-to-suit projects.......... (86) (4,098) (1,039) (10,517) Capital improvement projects on corporate tenant lease assets... (714) (2,146) (1,802) (4,229) Other capital expenditures on corporate tenant lease assets...

(1,604) (987) (3,799) (2,559) --------- --------- ----- ------ ----------- Cash flows used in investing activities.................. (52,590) (159,519) (878,634) (152,915) --------- --------- ----------- --- -------- Cash flows from financing activities: Borrowings under revolving credit facilities............. 242,043 400,272 2,001,250 1,920,766 Repayments under revolving credit facilities............. (201,429) (656,529) (1,643,369) (1,993,970) Borrowings under term loans............................. -- 67,624 53,562 277,664 Repayments under term loans............................. (1,621) (1,055) (16,588) (117,270) Borrowings under secured bond offerings.................. -- -- 885,079 -- Repayments under secured bond offerings.................. (5,531) (22,011) (469,784) (123,909) Borrowings under unsecured bond offerings................ -- 350,000 -- 350,000 Repayments under unsecured notes........................ -- -- -- (100,000) Borrowings under other debt obligations.................. 1,000 65 1,048 432 Repayments under other debt obligations.................. -- -- (1,301) (56,008) Common dividends paid.................................... (56,525) (53,264) (112,589) (157,351) Preferred dividends paid................................ (9,145) (9,145) (27,433) (27,433) (Increase) decrease in restricted cash held in connection with debt obligations................................ (5,705) 16,946 (19,097) 9,588 Distributions to minority interest in consolidated entities... (40) (41) (190) (3,752) Payments on early extinguishment of debt................. -- -- (3,950) (1,037) Payments for deferred financing costs.................... (4,138) (12,624) (40,541) (29,083) Purchase of treasury stock.............................. (7,218) -- (7,218) -- Proceeds from exercise of options and issuance of DRIP shares... 24,882 3,675 60,033 12,284 High performance units issued to employees............... 1,359 -- 1,359 -- - --------- --------- ----------- ----------- Cash flows (used in) provided by financing activities..... (22,068) 83,913 660,271 (39,079) --------- --------- -- --------- ----------- Increase (decrease) in cash and cash equivalents........... 1,806 (11,146) 4,474 (7,597) Cash and cash equivalents, at beginning of period.......... 18,338 26,301 15,670 22,752 --------- --------- ----------- ----------- Cash and cash equivalents, at end of period................ $ 20,144 $ 15,155 $ 20,144 $ 15,155 ========= ========= =========== =========== Supplemental disclosure of cash flow information: Cash paid during the period for interest, net of capitalized interest.................................. $ 53,388 $ 33,824 $ 129,420 $ 111,790 ========= ========= =========== ===========

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

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--BUSINESS AND ORGANIZATION

BUSINESS--iStar Financial Inc. (the "Company") is the leading publicly-traded finance company focused on the commercial real estate industry. The Company provides structured financing to private and corporate owners of real estate nationwide, including senior and junior mortgage debt, corporate mezzanine and subordinated capital, and corporate net lease financing. The Company, which is taxed as a real estate investment trust ("REIT"), seeks to deliver superior risk-adjusted returns on equity to shareholders by providing innovative and value-added financing solutions to its customers.

The Company's primary product lines include:

- STRUCTURED FINANCE. The Company provides senior and subordinated loans that typically range in size from $20 million to $100 million to borrowers holding high-quality real estate. These loans may be either fixed or variable rate and are structured to meet the specific financing needs of the borrowers, including the acquisition or financing of large, high-quality real estate. The Company offers borrowers a wide range of structured finance options, including first mortgages, second mortgages, partnership loans, participating debt and interim facilities. The Company's structured finance transactions have maturities generally ranging from three to ten years. As of September 30, 2002, based on gross carrying values, the Company's structured finance assets represented 25.08% of its assets.

- PORTFOLIO FINANCE. The Company provides funding to regional and national borrowers who own multiple facilities in geographically diverse portfolios. Loans are cross-collateralized to give the Company the benefit of all available collateral and underwritten to recognize inherent portfolio diversification. Property types include multifamily, suburban office, hotels and other property types where individual property values are less than $20 million on average. Loan terms are structured to meet the specific requirements of the borrower and typically range in size from $25 million to $150 million. The Company's portfolio finance transactions have maturities generally ranging from three to ten years. As of September 30, 2002, based on gross carrying values, the Company's portfolio finance assets represented 6.33% of its assets.

- CORPORATE FINANCE. The Company provides senior and subordinated capital to corporations engaged in real estate or real estate-related businesses. Financings may be either secured or unsecured and typically range in size from $20 million to $150 million. The Company's corporate finance transactions have maturities generally ranging from five to ten years. As of September 30, 2002, based on gross carrying values, the Company's corporate finance assets represented 12.80% of its assets.

- LOAN ACQUISITION. The Company acquires whole loans and loan participations which present attractive risk-reward opportunities. Loans are generally acquired at a small discount to the principal balance outstanding. Loan acquisitions typically range in size from $5 million to $100 million and are collateralized by all major property types. The Company's loan acquisition transactions have maturities generally ranging from three to ten years. As of September 30, 2002, based on gross carrying values, the Company's loan acquisition assets represented 9.62% of its assets.

- CORPORATE TENANT LEASING. The Company provides capital to corporations and borrowers who control facilities leased to single creditworthy tenants. The Company's net leased assets are generally mission-critical headquarters or distribution facilities that are subject to long-term leases with rated corporate credit tenants, and which provide for all expenses at the property to

be paid by the corporate tenant on a triple net lease basis. Corporate tenant lease transactions have terms generally ranging from ten to 20 years and typically range in size from $20 million to $150 million. As of September 30, 2002, based on gross carrying values, the Company's corporate tenant lease assets represented 41.57% of its assets.

- SERVICING. Through its iStar Asset Services division, the Company provides rated loan servicing to third-party institutional loan portfolios, as well as to the Company's own assets. The servicing business did not represent a meaningful percentage of the gross carrying value of the Company's assets as of September 30, 2002.

The Company's investment strategy targets specific sectors of the real estate credit markets in which it believes it can deliver value-added, 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.

- Avoiding commodity businesses in which there is significant direct competition from other providers of capital such as conduit lending and investment 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 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.

ORGANIZATION--The Company began its business in 1993 through private investment funds formed to capitalize on inefficiencies in the real estate finance market. In March 1998, these funds contributed their approximately $1.1 billion of assets to the Company's predecessor in exchange for a controlling interest in that company. Since that time, the Company has grown by originating new lending and leasing transactions, as well as through corporate acquisitions.

Specifically, in September 1998, the Company acquired the loan origination and servicing business of a major insurance company, and in December 1998, the Company acquired the mortgage and mezzanine loan portfolio of its largest private competitor. Additionally, in November 1999, the Company acquired TriNet Corporate Realty Trust, Inc. ("TriNet" or the "Leasing Subsidiary"), then the largest publicly-traded company specializing in corporate sale/leaseback transactions for office and industrial facilities (the "TriNet Acquisition"). The TriNet Acquisition was structured as a stock-for-stock merger of TriNet with a subsidiary of the Company.

Concurrent with the TriNet Acquisition, the Company also acquired its former external advisor in exchange for shares of the Company's common stock ("Common Stock") and converted its organizational form to a Maryland corporation. As part of the conversion to a Maryland corporation,

the Company replaced its former dual class common share structure with a single class of Common Stock. The Company's Common Stock began trading on the New York Stock Exchange on November 4, 1999. Prior to this date, the Company's common shares were traded on the American Stock Exchange.

NOTE 2--BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements have been prepared in conformity with the instructions to Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements. The Consolidated Financial Statements include the accounts of the Company, its qualified REIT subsidiaries, and its majority-owned and controlled partnerships.

In the opinion of management, the accompanying Consolidated Financial Statements contain all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the Company's consolidated financial position at September 30, 2002 and December 31, 2001 and the results of its operations, changes in shareholders' equity and its cash flows for the three- and nine-month periods ended September 30, 2002 and 2001, respectively. Such operating results are not necessarily indicative of the results that may be expected for any other interim periods or the entire year.

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CORPORATE TENANT LEASE ASSETS AND DEPRECIATION--Corporate tenant lease assets are generally recorded at cost less accumulated depreciation. Certain improvements and replacements are capitalized when they extend the useful life, increase capacity or improve the efficiency of the asset. Repairs and maintenance items are expensed as incurred. Depreciation is computed using the straight-line method of cost recovery over estimated useful lives of 40.0 years for facilities, five years for furniture and equipment, the shorter of the remaining lease term or expected life for tenant improvements and the remaining life of the facility for facility improvements.

Corporate tenant lease assets to be disposed of are reported at the lower of their carrying amount or fair value less costs to sell. The Company also periodically reviews long-lived assets to be held and used for an impairment in value whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. In management's opinion, corporate tenant lease assets to be held and used are not carried at amounts in excess of their estimated recoverable amounts.

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITALIZED INTEREST--The Company capitalizes interest costs incurred during the construction period on qualified build-to-suit projects for corporate tenants, including investments in joint ventures accounted for under the equity method. Interest capitalized was approximately $0 and $365,000 during the three-month periods ended September 30, 2002 and 2001, respectively, and was approximately $70,000 and $852,000 during the nine-month periods ended September 30, 2002 and 2001, respectively.

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

RESTRICTED CASH--Restricted cash represents amounts required to be maintained in escrow under certain of the Company's debt obligations and leasing transactions.

REVENUE RECOGNITION--The Company's revenue recognition policies are as follows:

LOANS AND OTHER LENDING INVESTMENTS: Management considers nearly all of its loans and other lending investments to be held-to-maturity, although a small number of investments may be classified as available-for-sale. The Company reflects held-to-maturity investments at amortized cost less allowance for loan losses, acquisition premiums or discounts, deferred loan fees and undisbursed loan funds. Unrealized gains and losses on available-for-sale investments are included in "Accumulated other comprehensive income" on the Company's Consolidated Balance Sheets and are not included in the Company's net income. On occasion, the Company may acquire loans at small premiums or discounts based on the credit characteristics of such loans. These premiums or discounts are recognized as yield adjustments over the lives of the related loans. If loans that were acquired at a premium or discount are prepaid, the Company immediately recognizes the unamortized premium or discount as a decrease or increase in the prepayment gain or loss, respectively. Loan origination or exit fees, as well as direct loan origination costs, are also deferred and recognized over the lives of the related loans as a yield adjustment. Interest income is recognized using the effective interest method applied on a loan-by-loan basis.

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

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

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

PROVISION FOR LOAN LOSSES--The Company's accounting policies require that an allowance for estimated loan losses be maintained at a level that management, based upon an evaluation of known and inherent risks in the portfolio, considers adequate to provide for loan losses. In establishing loan

loss provisions, management periodically evaluates and analyzes the Company's assets, historical and industry loss experience, economic conditions and trends, collateral values and quality, and other relevant factors. Specific valuation allowances are established for impaired loans in the amount by which the carrying value, before allowance for estimated losses, exceeds the fair value of collateral less disposition costs on an individual loan basis. Management considers a loan to be impaired when, based upon current information and events, it believes that it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement on a timely basis. Management measures these impaired loans at the fair value of the loans' underlying collateral less estimated disposition costs. Impaired loans may be left on accrual status during the period the Company is pursuing repayment of the loan; however, these loans are placed on non-accrual status at such time as: (1) management believes that the potential risk exists that scheduled debt service payments will not be met within the coming 12 months; (2) the loans become 90 days delinquent; (3) management determines the borrower is incapable of, or has ceased efforts toward, curing the cause of the impairment; or (4) the net realizable value of the loan's underlying collateral approximates the Company's carrying value of such loan. While on non-accrual status, interest income is recognized only upon actual receipt. Impairment losses are recognized as direct write-downs of the related loan with a corresponding charge to the provision for loan losses. Charge-offs occur when loans, or a portion thereof, are considered uncollectible and of such little value that further pursuit of collection is not warranted. Management also provides a loan portfolio reserve based upon its periodic evaluation and analysis of the portfolio, historical and industry loss experience, economic conditions and trends, collateral values and quality, and other relevant factors.

The Company's loans are generally secured by real estate assets or are corporate lending arrangements to entities with significant rental real estate operations (e.g., an unsecured loan to a company which operates residential apartments or retail, industrial or office facilities as rental real estate). While the underlying real estate assets for the corporate lending instruments may not serve as collateral for the Company's investments in all cases, the Company evaluates the underlying real estate assets when estimating loan loss exposure because the Company's loans generally have preclusions as to how much senior and/or secured debt the customer may borrow ahead of the Company's position.

INCOME TAXES--The Company is subject to federal income taxation at corporate rates on its "REIT taxable income"; however, the Company is allowed a deduction for the amount of dividends paid to its shareholders, thereby subjecting the distributed net income of the Company to taxation at the shareholder level only. In addition, the Company is allowed several other deductions in computing its "REIT taxable income," including non-cash items such as depreciation expense. These deductions allow the Company to shelter a portion of its operating cash flow from its dividend payout requirement under federal tax laws. The Company intends to operate in a manner consistent with and to elect to be treated as a REIT for tax purposes. iStar Operating Inc. ("iStar Operating") and TriNet Management Operating Company, Inc. ("TMOC"), the Company's taxable subsidiaries, are not consolidated for federal income tax purposes and are taxed as corporations. For financial reporting purposes, current and deferred taxes are provided for in the portion of earnings recognized by the Company with respect to its interest in iStar Operating and TMOC. Accordingly, except for the Company's taxable subsidiaries, no current or deferred taxes are provided for in the Consolidated Financial Statements. See Note 6 for a detailed discussion on the ownership structure and operations of iStar Operating and TMOC.

EARNINGS (LOSS) PER COMMON SHARE--In accordance with the Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"), the Company presents both basic and diluted earnings per share ("EPS"). Basic earnings per share ("Basic EPS") excludes dilution and is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding for the period. Diluted earnings per share ("Diluted EPS") reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower earnings per share amount.

RECLASSIFICATIONS--Certain prior year amounts have been reclassified in the Consolidated Financial Statements and the related notes to conform to the 2002 presentation.

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

CHANGE IN ACCOUNTING PRINCIPLE--In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as: (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (2) a hedge of the exposure to variable cash flows of a forecasted transaction; or (3) in certain circumstances, a hedge of a foreign currency exposure. On January 1, 2001, the Company adopted this pronouncement, as amended by Statement of Financial Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133" and Statement of Financial Accounting Standards No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities--an Amendment of FASB Statement No. 133." Because the Company has primarily used derivatives as cash flow hedges of interest rate risk only, the adoption of SFAS No. 133 did not have a material financial impact on the financial position and results of operations of the Company. However, should the Company change its current use of such derivatives, the adoption of SFAS No. 133 could have a more significant effect on the Company prospectively.

Upon adoption, the Company recognized a charge to net income of approximately $282,000 and an additional charge of $9.4 million to other comprehensive income, representing the cumulative effect of the change in accounting principle.

OTHER NEW ACCOUNTING STANDARDS--In September 2000, the FASB issued Statement of Financial Accounting Standards No. 140 ("SFAS No. 140"), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement is applicable for transfers of assets and extinguishments of liabilities occurring after June 30, 2001. The Company adopted the provisions of this statement as required for all transactions entered into on or after April 1, 2001. The adoption of SFAS No. 140 did not have a significant impact on the Company.

In July 2001, the SEC released Staff Accounting Bulletin No. 102 ("SAB 102"), "Selected Loan Loss Allowance and Documentation Issues." SAB 102 summarizes certain of the SEC's views on the

development, documentation and application of a systematic methodology for determining allowances for loan and lease losses. Adoption of SAB 102 by the Company did not have a significant impact on the Company.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141 ("SFAS No. 141"), "Business Combinations" and Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets." SFAS No. 141 requires the purchase method of accounting to be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also addresses the initial recognition and measurement of goodwill and other intangible assets acquired in business combinations and requires intangible assets to be recognized apart from goodwill if certain tests are met. SFAS No. 142 requires that goodwill not be amortized but instead be measured for impairment at least annually, or when events indicate that there may be an impairment. The Company adopted the provisions of both statements on January 1, 2002, as required, and the adoption did not have a significant impact on the Company.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS No. 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of, and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 requires that current operations prior to the disposition of corporate tenant lease assets and prior period results of such operations be presented in discontinued operations in the Company's Consolidated Statements of Operations. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and must be applied at the beginning of a fiscal year. The Company adopted the provisions of this statement on January 1, 2002, as required, and it did not have a significant financial impact on the Company.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS No. 145"), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds both FASB Statements No. 4 ("SFAS No. 4"), "Reporting Gains and Losses from Extinguishment of Debt," and the amendment to SFAS No. 4, FASB Statement No. 64 ("SFAS No. 64"), "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." Through this rescission, SFAS No. 145 eliminates the requirement (in both SFAS No. 4 and SFAS No. 64) that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. An entity is not prohibited from classifying such gains and losses as extraordinary items, so long as they meet the criteria in paragraph 20 of Accounting Principles Board Opinion No. 30 ("APB 30"), "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions"; however, due to the nature of the Company's operations, such treatment may not be available to the Company. Any gains or losses on extinguishments of debt that were previously classified as extraordinary items in prior periods presented that do not meet the criteria in APB 30 for classification as an extraordinary item will be reclassified to income from continuing operations. The provisions of SFAS No. 145 are effective for financial statements issued for fiscal years beginning after May 15, 2002. The Company will adopt the provisions of this statement, as required, on January 1, 2003.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146 ("SFAS No. 146"), "Accounting for Exit or Disposal Activities," to address significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force ("EITF") has set forth in EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The scope of SFAS No. 146 also includes: (1) costs related to terminating a contract that is not a capital lease; and (2) termination benefits that employees who are involuntarily terminated receive under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect SFAS No. 146 to have a material effect on the Company's Consolidated Financial Statements.

In September 2002, the FASB issued Statement of Financial Accounting Standards No. 147 ("SFAS No. 147"), "Acquisitions of Certain Financial Institutions," an amendment of FASB Statements No. 72 and 144 and FASB

Interpretation No. 9. SFAS No. 147 provides guidance on the accounting for the acquisitions of financial institutions, except those acquisitions between two or more mutual enterprises. SFAS No. 147 removes acquisitions of financial institutions from the scope of both FASB No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," and FASB Interpretation No. 9, Applying APB Opinions No. 16 and 17, "When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method," and requires that those transactions be accounted for in accordance with SFAS No. 141 and SFAS No. 142. SFAS No. 147 also amends SFAS No. 144, to include in its scope long-term, customer-relationship intangible assets of financial institutions such as depositor-relationship and borrower-relationship intangible assets and credit cardholder intangible assets. The Company will adopt the provisions of this statement, as required, on October 1, 2002. The Company does not expect SFAS No. 147 to have a material effect on the Company's Consolidated Financial Statements.

NOTE 4--LOANS AND OTHER LENDING INVESTMENTS

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

TYPE OF INVESTMENT	UNDERLYING PROPERTY TYPE	# OF BORROWERS IN CLASS	PRINCIPAL BALANCES OUTSTANDING	CARRYING VALUE AS OF SEPTEMBER 30, 2002	CARRYING VALUE AS OF DECEMBER 31, 2001	EFFECTIVE MATURITY DATES
Senior Mortgages(3)....	Office/Residential/Retail/ Conference Center/ Mixed Use/Hotel/ Entertainment	29	$1,846,489	$1,808,376	$1,158,669	2002 to 2019
Subordinate Mortgages(5).........	Office/Residential/Mixed Use/Hotel	18	505,115	504,081	585,698	2002 to 2011
Corporate/Partnership Loans................	Office/Residential/Retail/ Mixed Use/Hotel/ Entertainment	16	364,198	342,347	395,083	2002 to 2011
Other Lending Investments-- Loans(7)..	Office/Industrial/Mixed Use	5	28,134	21,505	10,818	2004 to 2008
Other Lending Investments-- Securities(8)........	Office/Residential/Retail/ Industrial/Mixed Use/ Entertainment	9	302,522	290,210	248,495	2003 to 2013
Gross Carrying Value...				$2,966,519	$2,398,763	
Provision for Loan Losses..............				(26,750)	(21,000)	
Total, Net.............				$2,939,769	$2,377,763	

CONTRACTUAL INTEREST

CONTRACTUAL INTEREST
PRINCIPAL PARTICIPATION
TYPE OF INVESTMENT
PAYMENT RATES(2) ACCRUAL
RATES(2) AMORTIZATION
FEATURES ----------------
-- ----------------------
- ----------------------
------------ ------------
- Senior Mortgages(3)....
Fixed: 7.03% to 15.00%
Fixed: 7.03% to 15.00%
Yes (4) No Variable:
LIBOR + 1.50% Variable:
LIBOR + 1.50% to 6.50% to
6.50% Subordinate
Mortgages(5).........
Fixed: 7.00% to 15.00%
Fixed: 7.32% to 17.00%
Yes (4) No Variable:
LIBOR + 2.78% Variable:
LIBOR + 2.78% to 6.00% to
6.00%
Corporate/Partnership
Loans................
Fixed: 7.33% to 15.00%
Fixed: 7.33% to 17.50%
Yes (4) Yes (6) Variable:
LIBOR + 3.50% Variable:
LIBOR + 3.50% to 6.00% to
6.00% Other Lending
Investments--Loans(7)..
Fixed: 10.00% Fixed:
10.00% No Yes (6)
Variable: LIBOR + 4.75%
Variable: LIBOR + 4.75%
Other Lending
Investments--
Securities(8)........
Fixed: 6.75% to 12.50%
Fixed: 6.75% to 12.50%
Yes (4) No Gross Carrying
Value... Provision for
Loan
Losses...............
Total, Net.............

EXPLANATORY NOTES:
- ----------------------------------

(1) Amounts and details are for loans outstanding as of September 30, 2002.

(2) Substantially all variable-rate loans are based on 30-day LIBOR and reprice monthly. The 30-day LIBOR on September 30, 2002 was 1.81%.

(3) Includes a senior interest in a private REMIC whose sole asset is a single first mortgage loan.

(4) The loans require fixed payments of principal and interest resulting in partial principal amortization over the term of the loan with the remaining principal due at maturity.

(5) Includes a participation interest in a second mortgage and a subordinate interest in a private REMIC whose sole asset is a single first mortgage loan.

(6) Under some of these loans, the lender receives additional payments representing additional interest from participation in available cash flow from operations of the property.

(7) Includes one unsecured loan with a carrying value of approximately $313 as of September 30, 2002 and approximately $403 as of December 31, 2001.

(8) Generally consists of term preferred stock or debt interests that are specifically originated or structured to meet customer financing requirements and the Company's investment criteria. These investments do not typically consist of securities purchased in the open market or as part of broadly-distributed offerings.

NOTE 4--LOANS AND OTHER LENDING INVESTMENTS (CONTINUED)

During the nine-month periods ended September 30, 2002 and 2001, respectively, the Company originated or acquired an aggregate of approximately $1,097.8 million and $663.1 million in loans and other lending investments, funded $18.0 million and $45.2 million under existing loan commitments, and received principal repayments of $499.5 million and $567.2 million.

As of September 30, 2002, the Company had nine loans with unfunded commitments. The total unfunded commitment amount was approximately $63.8 million, of which $32.9 million was discretionary and $30.8 million was non-discretionary.

The Company's loans and other lending investments are predominantly pledged as collateral under either the iStar Asset Receivables secured notes, the secured revolving facilities or secured term loans (see Note 7).

The Company has reflected provisions for loan losses of approximately $2.0 million and $1.8 million in its results of operations during the three-month periods ended September 30, 2002 and 2001, respectively, and $5.8 million and $5.3 million during the nine-month periods ended September 30, 2002 and 2001, respectively. These provisions represent loan portfolio reserves based on management's evaluation of general market conditions, the Company's internal risk management policies and credit risk ratings system, industry loss experience, the likelihood of delinquencies or defaults, and the credit quality of the underlying collateral. No direct impairment reserves on specific loans were considered necessary.

NOTE 5--CORPORATE TENANT LEASE ASSETS

During the nine-month periods ended September 30, 2002 and 2001, respectively, the Company acquired an aggregate of approximately $276.8 million and $38.4 million in corporate tenant lease assets and disposed of approximately $3.7 million and $20.3 million in in corporate tenant lease assets.

The Company's investments in corporate tenant lease assets, at cost, were as follows (in thousands):

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
Facilities and improvements........................	$1,870,267	$1,504,956
Land and land improvements.........................	420,672	356,830
Less: accumulated depreciation.....................	(116,384)	(80,221)
Corporate tenant lease assets, net................	$2,174,555	$1,781,565

Under certain leases, the Company receives additional participating lease payments to the extent gross revenues of the corporate tenant exceed a base amount. The Company earned no such additional participating lease payments in the three- or nine-month periods ended September 30, 2002 and 2001. In addition, the Company also receives reimbursements from customers for certain facility operating expenses including common area costs, insurance and real estate taxes. Customer expense reimbursements for the three months ended September 30, 2002 and 2001 were approximately $7.5 million and $5.8 million, respectively, and $22.2 million and $18.4 million for the nine months ended September 30, 2002 and 2001, respectively, and are included as a reduction of "Operating costs--corporate tenant lease assets" on the Company's Consolidated Statements of Operations.

The Company is subject to expansion option agreements with two existing customers which could require the Company to fund and to construct up to 161,000 square feet of additional adjacent space

NOTE 5--CORPORATE TENANT LEASE ASSETS (CONTINUED)

on which the Company would receive additional operating lease income under the terms of the option agreements. In addition, upon exercise of such expansion option agreements, the corporate tenants would be required to simultaneously extend their existing lease terms for additional periods ranging from six to ten years.

On September 30, 2002, one of the Company's customers exercised an option to terminate its lease on 50% of the land leased from the Company. In connection with this termination, the Company realized $17.5 million in cash lease termination payments, offset by a $17.4 million impairment charge in connection with the termination, resulting in a net gain of approximately $123,000. As of September 30, 2002, the terminated parcel is classified as held for sale on the Company's Consolidated Balance Sheets. On May 30, 2002, the Company sold one corporate tenant lease asset for net proceeds of $3.7 million, and a realized gain of approximately $595,000. The results of operations from corporate tenant lease assets sold or held for sale in the current period are classified as discontinued operations even though such income was actually received by the Company prior to the asset sale. Gains on sale from corporate tenant lease assets are also classified as discontinued operations.

NOTE 6--JOINT VENTURES AND UNCONSOLIDATED SUBSIDIARIES

The Company's ownership percentages, its investments in and advances to unconsolidated joint ventures and subsidiaries, its respective income and the Company's pro rata share of its ventures' third-party, non-recourse debt as of September 30, 2002 are presented below (in thousands):

UNCONSOLIDATED JOINT VENTURES AND SUBSIDIARIES	OWNERSHIP %	EQUITY INVESTMENT	JV INCOME (LOSS) FOR THREE MONTHS ENDED SEPTEMBER 30, 2002	PRO RATA SHARE OF THIRD-PARTY NON-RECOURSE DEBT(1)	THIRD-PARTY DEBT INTEREST RATE	SCHEDULED MATURITY DATE
UNCONSOLIDATED JOINT VENTURES:						
Sunnyvale.................	44.70%	$11,957	$ 542	$10,728	LIBOR + 1.25%	November 2004(2)
CTC I.....................	50.00%	12,080	394	60,246	7.66% - 7.87%	Various through 2011
ACRE Simon................	20.00%	5,208	34	6,529	7.61% - 8.43%	Various through 2011
UNCONSOLIDATED SUBSIDIARIES:						
iStar Operating...........	95.00%	(5,018)	(885)	--	N/A	N/A
TMOC......................	95.00%	135	--	--	N/A	N/A
Total.....................		$24,362	$ 85	$77,503		

EXPLANATORY NOTES:

(1) The Company reflects its pro rata share of third-party, non-recourse debt, rather than the total amount of the joint venture debt, because the third-party, non-recourse debt held by the joint ventures is not guaranteed by the Company nor does the Company have any additional commitment to fund the debt.

(2) Maturity date reflects a one-year extension at the venture's option.

NOTE 6--JOINT VENTURES AND UNCONSOLIDATED SUBSIDIARIES (CONTINUED)

INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED JOINT VENTURES: At September 30, 2002, the Company had investments in three joint ventures: (1) TriNet Sunnyvale Partners L.P. ("Sunnyvale"), whose external partners are John D. O'Donnell, Trustee, John W. Hopkins, and Donald S. Grant, Trustee; (2) Corporate Technology Centre Associates, LLC ("CTC I"), whose external member is Corporate Technology Centre Partners, LLC; and (3) ACRE Simon, LLC ("ACRE"), whose external partner is William E. Simon & Sons Realty Investments, LLC. These ventures were formed for the purpose of operating, acquiring and, in certain cases, developing corporate tenant lease facilities.

At September 30, 2002, the ventures comprised 12 net leased facilities. The Company's combined investment in these joint ventures at September 30, 2002 was $29.2 million. The joint ventures' carrying value for the 12 facilities owned at September 30, 2002 was $197.6 million. In aggregate, the joint ventures had total assets of $234.8 million and total liabilities of $185.8 million as of September 30, 2002, and net income of $1.8 million and $5.3 million for the three and nine months ended September 30, 2002. The Company accounts for these investments under the equity method because the Company's joint venture partners have certain participating rights giving them shared control over the ventures.

Effective September 29, 2000, iStar Sunnyvale Partners, LP entered into an interest rate cap agreement limiting the venture's exposure to interest rate movements on its $24.0 million LIBOR-based mortgage loan to an interest rate of 9.00% through November 9, 2003. Currently, the limited partners of Sunnyvale have the option to convert their partnership interest into cash; however, the Company may elect to deliver 297,728 shares of Common Stock in lieu of cash.

On April 1, 2002, the former Sierra Land Ventures ("Sierra") joint venture partner assigned its 50.00% ownership interest in Sierra to a wholly owned subsidiary of the Company. There was no cash or shares exchanged in this transaction. As of April 1, 2002, the Company owns 100.00% of the corporate tenant lease asset previously held by Sierra and therefore consolidates this asset for accounting purposes.

On July 2, 2002, the Company paid approximately $30.5 million in cash to the former member of TriNet Milpitas Associates ("Milpitas") joint venture in exchange for its 50.00% ownership interest. Pursuant to the terms of the joint venture agreement, the former external member had the right to convert its interest into 984,476 shares of Common Stock of the Company at any time during the period February 1, 2002 through January 31, 2003. On May 2, 2002, the former Milpitas external member exercised this right. Upon the external member's exercise of its conversion right, the Company had the option to acquire the partner's interest for cash, instead of shares, for a payment equal to the value of 984,476 shares of Common Stock multiplied by the ten-day average closing stock price as of the transaction date. The Company made such election and, as of July 2, 2002, owns 100.00% of Milpitas, and therefore consolidates these assets for accounting purposes. The Company accounted for the acquisition of the external interest using the purchase method.

Income generated from the Company's joint venture investments and unconsolidated subsidiaries is included in "Equity in earnings from joint ventures and unconsolidated subsidiaries" on the Company's Consolidated Statements of Operations.

NOTE 6--JOINT VENTURES AND UNCONSOLIDATED SUBSIDIARIES (CONTINUED)

INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES: The Company has an investment in iStar Operating, a taxable subsidiary that, through a wholly-owned subsidiary, services the Company's loans and certain loan portfolios owned by third parties. The Company owns all of the non-voting preferred stock and a 95.00% economic interest in iStar Operating. An affiliate of the Company's largest shareholder is the owner of all the voting common stock and a 5.00% economic interest in iStar Operating. As of September 30, 2002, there have never been any distributions to the common shareholder, nor does the Company expect to make any in the future. At any time, the Company has the right to acquire all of the common stock of iStar Operating at fair market value, which the Company believes to be nominal. In addition to the direct general and administrative costs of iStar Operating, the Company allocates a portion of its general overhead expenses to iStar Operating based on the number of employees at iStar Operating as a percentage of the Company's total employees.

In addition, the Company has an investment in TMOC, a taxable noncontrolled subsidiary that has a $2.0 million investment in a real estate company based in Mexico. The Company owns 95.00% of the outstanding voting and non-voting common stock (representing 1.00% voting power and 95.00% of the economic interest) in TMOC. The other two owners of TMOC stock are executives of the Company, who own a combined 5.00% of the outstanding voting and non-voting common stock (representing 99.00% voting power and 5.00% economic interest) in TMOC. As of September 30, 2002, there have never been any distributions to the common shareholders, nor does the Company expect to make any in the future. At any time, the Company has the right to acquire all of the common stock of TMOC at fair market value, which the Company believes to be nominal.

Both iStar Operating and TMOC were formed as taxable corporations for purposes of maintaining compliance with the REIT provisions of the Code and are accounted for under the equity method for financial statement reporting purposes and are presented in "Investments in joint ventures and unconsolidated subsidiaries" on the Company's Consolidated Balance Sheets. If they were consolidated with the Company for financial statement purposes, they would not have a material impact on the Company's operations. As of September 30, 2002, iStar Operating and TMOC have no debt obligations.

NOTE 7--DEBT OBLIGATIONS

As of September 30, 2002 and December 31, 2001, the Company has debt obligations under various arrangements with financial institutions as follows (in thousands):

	MAXIMUM AMOUNT AVAILABLE	CARRYING VALUE AS OF SEPTEMBER 30, 2002	CARRYING VALUE AS OF DECEMBER 31, 2001	STATED INTEREST RATES(1)	SCHEDULED MATURITY DATE
SECURED REVOLVING CREDIT FACILITIES:					
Line of credit...............	$ 700,000	$ 447,551	$ 312,300	LIBOR + 1.75% - 2.25%	March 2005(2)
Line of credit..............	700,000	579,566	439,309	LIBOR + 1.40% - 2.15%	January 2005(2)
Line of credit..............	500,000	231,311	148,937	LIBOR + 1.50% - 1.75%	August 2005(2)
Line of credit..............	500,000	--	--	LIBOR + 1.50% - 2.25%	September 2005(3)
UNSECURED REVOLVING CREDIT FACILITIES:					
Line of credit..............	300,000	--	--	LIBOR + 2.125%	July 2004(4)
Total revolving credit facilities................	$2,700,000	1,258,428	900,546		
SECURED TERM LOANS:					
Secured by corporate tenant lease assets..............		193,000	193,000	LIBOR + 1.85%	July 2006(5)
Secured by corporate tenant lease assets..............		144,997	147,520	7.44%	March 2009
Secured by					

corporate lending
investments................
60,000 60,000 LIBOR +
2.50% June 2004(4) Secured
by corporate tenant lease
assets...............
175,008 55,819 6.00% -
11.38% Various through
2022 Secured by corporate
lending
investments................
50,000 50,000 LIBOR +
2.50% July 2006(4) -------
--- ---------- Total term
loans............. 623,005
506,339 Less: debt
(discount)
premium....................
(262) 274 ---------- -----
----- Total secured term
loans..... 622,743 506,613
ISTAR ASSET RECEIVABLES
SECURED NOTES: STARs
Series 2000-1: Class
A.................... --
81,152 LIBOR + 0.30%
August 2003 Class
B.................... --
94,055 LIBOR + 0.50%
October 2003 Class
C.................... --
105,813 LIBOR + 1.00%
January 2004 Class
D.................... --
52,906 LIBOR + 1.45% June
2004 Class
E.................... --
123,447 LIBOR + 2.75%
January 2005 Class
F.................... --
5,000 LIBOR + 3.15%
January 2005 STARs Series
2002-1: Class
A1...................
242,589 -- LIBOR + 0.26%
June 2004(6) Class
A2...................
381,296 -- LIBOR + 0.38%
December 2009(6) Class
B....................
39,955 -- LIBOR + 0.65%
April 2011(6) Class
C....................
26,637 -- LIBOR + 0.75%
May 2011(6) Class
D....................
21,310 -- LIBOR + 0.85%
January 2012(6) Class
E....................
42,619 -- LIBOR + 1.235%
January 2012(6) Class
F....................
26,637 -- LIBOR + 1.335%
January 2012(6) Class
G....................
21,309 -- LIBOR + 1.435%
January 2012(6) Class
H....................
26,637 -- 6.35% January
2012(6) Class
J....................
26,637 -- 6.35% May
2012(6) Class
K....................
26,637 -- 6.35% May
2012(6) ---------- -------
--- Total iStar Asset
Receivables secured
notes..............
882,263 462,373 Less: debt
discount.......... (4,493)

-- ---------- ----------
Total iStar Asset
Receivables secured
notes.............
877,770 462,373 UNSECURED
NOTES: 6.75% Dealer
Remarketable Securities(7)
(8)(9)....... 125,000
125,000 6.75% March 2013
7.70% Notes(7)
(9)........... 100,000
100,000 7.70% July 2017
7.95% Notes(7)
(9)........... 50,000
50,000 7.95% May 2006
8.75%
Notes..................
350,000 350,000 8.75%
August 2008 ---------- ---
------- Total unsecured
notes........ 625,000
625,000 Less: debt
discount..........
(12,663) (15,698) --------
-- ---------- Total
unsecured notes........
612,337 609,302 OTHER DEBT
OBLIGATIONS.........
16,282 16,535 Various
Various ---------- -------
--- TOTAL DEBT
OBLIGATIONS.........
$3,387,560 $2,495,369
========== ==========

NOTE 7--DEBT OBLIGATIONS (CONTINUED)

EXPLANATORY NOTES:
- ------------------------------

(1) Substantially all variable-rate debt obligations are based on 30-day LIBOR and reprice monthly. The 30-day LIBOR on September 30, 2002 was 1.81%.

(2) Maturity date reflects a one-year "term-out" extension at the Company's option.

(3) On September 30, 2002, the Company closed a $500.0 million secured revolving credit facility with a leading financial institution. The facility has a final maturity date of September 2005 and bears interest at LIBOR + 1.50% to 2.25%.

(4) Maturity date reflects a one-year extension at the Company's option.

(5) Maturity date reflects two one-year extensions at the Company's option.

(6) Principal payments on these bonds are a function of the principal repayments on loan or corporate tenant lease assets which collateralize these obligations. The dates indicated above represent the expected date on which the final payment would occur for such class based on the assumptions that the loans which collateralize the obligations are not voluntarily prepaid, the loans are paid on their effective maturity dates and no extensions of the effective maturity dates of any of the loans are granted. The final maturity date for the underlying indenture on class A1 is May 28, 2017 and the final maturity date for classes A2, B, C, D, E, F, G, H, J and K is May 28, 2020.

(7) The notes are callable by the Company at any time for an amount equal to the total of principal outstanding, accrued interest and the applicable make-whole prepayment premium.

(8) Subject to mandatory tender on March 1, 2003, to either the dealer or the Company. The initial coupon of 6.75% applies to the first five-year term through the mandatory tender date. If tendered to the dealer, the notes must be remarketed. The rates reset to then-prevailing market rates upon

remarketing.

(9) These obligations were assumed as part of the acquisition of TriNet. As part of the accounting for the purchase, these fixed-rate obligations were considered to have stated interest rates which were below the then-prevailing market rates at which the Leasing Subsidiary could issue new debt obligations and, accordingly, the Company ascribed a market discount to each obligation. Such discounts are amortized as an adjustment to interest expense using the effective interest method over the related term of the obligations. As adjusted, the effective annual interest rates on these obligations were 8.81%, 9.51% and 9.04% for the 6.75% Dealer Remarketable Securities, 7.70% Notes and 7.95% Notes, respectively.

Availability of amounts under the secured revolving credit facilities are based on percentage borrowing base calculations. In addition, certain of the Company's debt obligations contain covenants. These covenants are both financial and non-financial in nature. Significant financial covenants include limitations on the Company's ability to incur indebtedness beyond specified levels, restrictions on the Company's ability to incur liens on assets and limitations on the amount and type of restricted payments, such as repurchases of its own equity securities, that the Company makes. Significant non-financial covenants include a requirement in its publicly-held debt securities that the Company offer to repurchase those securities at a premium if the Company undergoes a change of control. As of September 30, 2002, the Company believes it is in compliance with both financial and non-financial covenants on its debt obligations.

On May 17, 2000, the Company closed the inaugural offering under its proprietary matched funding program, STARs, Series 2000-1. In the initial transaction, a wholly-owned subsidiary of the Company issued $896.5 million of investment-grade bonds secured by the subsidiary's assets, which had an aggregate outstanding principal balance of approximately $1.2 billion at inception. Principal payments received on the assets were utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funded the maturity of the underlying assets financed under the program. Of the assets of the subsidiary secured by this financing, 73.96% (by gross carrying value) consisted of first mortgages and subsequent lien positions and the remaining 26.04% consisted of junior loans. For accounting purposes, this transaction was treated as a secured financing: the underlying assets and STARs liabilities remained on the Company's Consolidated Balance Sheets and no gain on sale was recognized. On May 28, 2002, the Company fully repaid these bonds.

On January 11, 2001, the Company closed a new $700.0 million secured revolving credit facility which is led by a major commercial bank. The new facility has a three-year primary term and one-year "term-out" extension option, and bears interest at LIBOR + 1.40% to 2.15%, depending upon the collateral contributed to the borrowing base. The new facility accepts a broad range of structured finance assets and has a final maturity of January 2005.

On February 22, 2001, the Company extended the maturity of its $350.0 million unsecured revolving credit facility to May 2002. On July 27, 2001, the Company repaid this facility and replaced it with a new $300.0 million unsecured revolving credit facility.

On May 15, 2001, the Company repaid its $100.0 million 7.30% unsecured notes. These notes were senior unsecured obligations of the Leasing Subsidiary and ranked equally with the Leasing Subsidiary's other senior unsecured and unsubordinated indebtedness.

On June 14, 2001, the Company closed $193.0 million of term loan financing secured by 15 corporate tenant lease assets. The variable-rate loan bears interest at LIBOR + 1.85% (not to exceed 10.00% in aggregate) and has two one-year extensions at the Company's option. The Company used these proceeds to repay a $77.8 million secured term loan maturing in June 2001 and to pay down a portion of its revolving credit facilities. In addition, the Company extended the maturity of its $500.0 million secured revolving credit facility to August 2003. On March 29, 2002, the Company again extended the final maturity of this facility to August 2005, which includes a one-year "term-out" extension at the Company's option.

On July 6, 2001, the Company financed a $75.0 million structured finance asset with a $50.0 million term loan bearing interest at LIBOR + 2.50%. The loan has a maturity of July 2006, including a one-year extension at the Company's option. This investment is a $75.0 million term preferred investment in a publicly-traded real estate customer. The Company's investment carries an initial current yield of 10.50%, with annual increases of 0.50% in each of the next two years. In addition, the Company's investment is convertible into the customer's common stock at a strike price of $25.00 per share. The investment is callable by the customer between months 13 and 30 of the term at a yield maintenance premium, and after month 30, at a premium sufficient to generate a 14.62% internal rate of return on the Company's investment. The investment is putable by the Company to the customer for cash after five years.

On July 27, 2001, the Company completed a $300.0 million unsecured revolving credit facility with a group of leading financial institutions. The new facility has an initial maturity of July 2003, with a one-year extension at the Company's option and another one-year extension at the lenders' option. The new facility replaces two prior credit facilities maturing in 2002 and 2003, and bears interest at LIBOR + 2.125%.

On August 9, 2001, the Company issued $350.0 million of 8.75% senior notes due in 2008. The notes are unsecured senior obligations of the Company. The Company used the net proceeds to repay outstanding borrowings under its secured credit facilities.

On March 29, 2002, the Company extended the maturity of its $500.0 million secured facility to August 2005, which includes a one-year "term-out" extension at the Company's option.

On May 28, 2002, the Company fully repaid the then remaining $446.2 million of bonds outstanding under its STARs, Series 2000-1 financing. Simultaneously, a wholly-owned subsidiary of the Company issued STARs, Series 2002-1, consisting of $885.1 million of investment-grade bonds secured

by the subsidiary's structured finance and corporate tenant lease assets, which had an aggregate outstanding principal balance of approximately $1.1 billion at inception. Principal payments received on the assets will be utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funds the maturity of the underlying assets financed under the program. The weighted average interest rate on the bonds, on an all-floating rate basis, was approximately LIBOR + 0.56% at inception. For accounting purposes, this transaction was treated as a secured financing: the underlying assets and STARs liabilities remained on the Company's Consolidated Balance Sheets, and no gain on sale was recognized.

On July 2, 2002, the Company purchased the remaining interest in the Milpitas joint venture from the former Milpitas external member. Upon purchase of the interest, the Milpitas joint venture became fully consolidated for accounting purposes and approximately $79.2 million of secured term debt was transferred to the Company's Consolidated Balance Sheets.

On September 30, 2002, the Company closed a new $500.0 million secured revolving credit facility with a leading financial institution. The new facility has a three-year term and bears interest at LIBOR + 1.50% to 2.25%, depending upon the collateral contributed to the borrowing base. The new facility accepts a broad range of structured finance and corporate tenant assets and has a final maturity date of September 2005.

As of September 30, 2002, future expected/scheduled maturities of outstanding long-term debt obligations are as follows (in thousands)(1):

2002 (remaining three months)	$ 16,282
2003	--
2004	302,589
2005	1,341,158
2006	293,000
Thereafter	1,451,949
Total principal maturities	3,404,978
Net unamortized debt discounts	(17,418)
Total debt obligations	$3,387,560

EXPLANATORY NOTE:

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

NOTE 8--SHAREHOLDERS' EQUITY

The Company's charter provides for the issuance of up to 200.0 million shares of Common Stock, par value $0.001 per share, and 30.0 million shares of preferred stock. The Company has 4.4 million shares of 9.50% Series A Cumulative Redeemable Preferred Stock, 2.3 million shares of 9.375% Series B Cumulative Redeemable Preferred Stock, 1.5 million shares of 9.20% Series C Cumulative Redeemable Preferred Stock, and 4.6 million shares of 8.00% Series D Cumulative Redeemable Preferred Stock. The Series A, B, C and D Cumulative Redeemable Preferred Stock are redeemable without premium at the option of the Company at their respective liquidation preferences beginning on December 15, 2003, June 15, 2001, August 15, 2001 and October 8, 2002, respectively.

On December 15, 1998, the Company issued warrants to acquire 6.1 million shares of Common Stock, as adjusted for dilution, at $34.35 per share. The warrants are exercisable on or after December 15, 1999 at a price of $34.35 per share and expire on December 15, 2005.

NOTE 8--SHAREHOLDERS' EQUITY (CONTINUED)

CONCENTRATION OF SHAREHOLDER OWNERSHIP--On October 30, 2001, SOF IV SMT Holdings, L.P. ("SOF IV") and certain of its affiliates sold 18.975 million shares of Common Stock (including the subsequently exercised 2.475 million share over-allotment option granted to the underwriters) owned by them. In addition, on May 15, 2002, SOF IV sold 10.808 million shares of Common Stock (including the subsequently exercised 808,200 share over-allotment option granted to the underwriters) owned by them. The Company did not sell any shares in these offerings. As a result of the secondary offerings, SOF IV currently owns approximately 25.47% of the Company's Common Stock (based on the diluted sharecount as of September 30, 2002).

STOCK REPURCHASE PROGRAM--The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets or loan repayments and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. The only repurchase the Company has made under this program since November 2000, has been 250,000 shares during the three months ended September 30, 2002. As of September 30, 2002 and December 31, 2001, the Company had repurchased approximately 2.6 million shares and 2.3 million shares, respectively, at an aggregate cost of approximately $48.0 million and $40.7 million, respectively.

DRIP PROGRAM--The Company maintains a dividend reinvestment and direct stock purchase plan. Under the dividend reinvestment component of the plan, the Company's shareholders may purchase additional shares of Common Stock without payment of brokerage commissions or service charges by automatically reinvesting all or a portion of their Common Stock cash dividends. Under the direct stock purchase component of the plan, the Company's shareholders and new investors may purchase shares of Common Stock directly from the Company without payment of brokerage commissions or service charges. All purchases of shares in excess of $10,000 per month pursuant to the direct purchase component are at the Company's sole discretion. Shares issued under the plan may reflect a discount of up to 3.00% from the prevailing market price of the Company's Common Stock. The Company is authorized to issue up to 8.0 million shares of Common Stock pursuant to the dividend reinvestment and direct stock purchase plan. During the three-month periods ended September 30, 2002 and 2001, the Company issued a total of 369,609 and 11,239 shares of its Common Stock, respectively, and during the nine-month periods ended September 30, 2002 and 2001, the Company issued a total of 1,597,429 and 24,008 shares of its Common Stock, respectively, through the direct stock purchase component of the plan. Net proceeds during the three-month periods ended September 30, 2002 and 2001 were approximately $10.4 million and $297,088, respectively, and $43.9 million and $624,149 during the nine-month periods ended September 30, 2002 and 2001, respectively.

NOTE 9--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS

RISK MANAGEMENT--In the normal course of its on-going business operations, the Company encounters economic risk. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's lending investments that results from a property's, borrower's or corporate tenant's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of loans due to changes in interest rates or other market

NOTE 9--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS (CONTINUED)

factors, including the rate of prepayments of principal and the value of the collateral underlying loans and the valuation of corporate tenant lease facilities held by the Company.

USE OF DERIVATIVE FINANCIAL INSTRUMENTS--The Company's use of derivative financial instruments is primarily limited to the utilization of interest rate agreements or other instruments to manage interest rate risk exposure. The principal objective of such arrangements is to minimize the risks and/or costs associated with the Company's operating and financial structure as well as to hedge specific anticipated transactions. The counterparties to these contractual arrangements are major financial institutions with which the Company and its affiliates may also have other financial relationships. The Company is potentially exposed to credit loss in the event of nonperformance by these counterparties. However, because of their high credit ratings, the Company does not anticipate that any of the counterparties will fail to meet their obligations.

The Company has entered into the following cash flow hedges that are outstanding as of September 30, 2002. The net value (liability) associated with these hedges is reflected on the Company's Consolidated Balance Sheets (in thousands).

TYPE OF HEDGE	NOTIONAL AMOUNT	STRIKE PRICE OR SWAP RATE	TRADE DATE	MATURITY DATE	ESTIMATED VALUE AT SEPTEMBER 30, 2002
Pay-Fixed Swap	$125,000	7.058%	6/15/00	6/25/03	$(5,166)
Pay-Fixed Swap	125,000	7.055%	6/15/00	6/25/03	(5,163)
Pay-Fixed Swap	75,000	5.580%	11/4/99(1)	12/1/04	(5,890)
LIBOR Cap	345,000	8.000%	5/22/02	5/28/14	13,622
LIBOR Cap	75,000	7.750%	11/4/99(1)	12/1/04	35
LIBOR Cap	35,000	7.750%	11/4/99(1)	12/1/04	15
Total Estimated Asset (Liability) Value					$(2,547)

EXPLANATORY NOTE:

(1) Acquired in connection with the TriNet Acquisition.

Between January 1, 2001 and September 30, 2002, the Company had outstanding the following cash flow hedges that have expired or been settled (in thousands):

TYPE OF HEDGE	NOTIONAL AMOUNT	STRIKE PRICE OR SWAP RATE	TRADE DATE	MATURITY DATE
LIBOR Cap	$300,000	9.000%	3/16/98	3/16/01
Pay-Fixed Swap	92,000	5.714%	8/10/98	3/1/01

LIBOR Cap..............................	75,000	7.500%	7/16/98	6/19/01
LIBOR Cap..............................	38,336	7.500%	4/30/98	6/1/01

In connection with STARs, Series 2002-1 in May 2002, the Company entered into a LIBOR interest rate cap struck at 8.00% in the notional amount of $345.0 million. The Company utilizes 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 should 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 (as part of interest expense) in the affected period.

On May 28, 2002, in connection with the STARs, Series 2002-1 transaction, the Company paid a premium of $13.7 million for an interest rate cap. Using the "caplet" methodology discussed above, amortization of the cap premium is dependent upon the actual value of the cap over time.

In connection with STARs, Series 2000-1 in May 2000, the Company entered into a LIBOR interest rate cap struck at 10.00% in the notional amount of $312.0 million, and simultaneously sold a LIBOR interest rate cap with the same terms. Since these instruments did not change the Company's net interest rate risk exposure, they did not qualify as hedges and changes in their respective values were charged to earnings. As the terms of these arrangements were substantially the same, the effects of a revaluation of these two instruments substantially offset one another. On May 28, 2002, these instruments were settled and are no longer outstanding.

During the year ended December 31, 1999, the Company refinanced its $125.0 million term loan maturing March 15, 1999 with a $155.4 million term loan maturing March 5, 2009. The new term loan bears interest at 7.44% per annum, payable monthly, and amortizes over an approximately 22-year schedule. The new term loan represented forecasted transactions for which the Company had previously entered into U.S. Treasury-based hedging transactions. The net $3.4 million cost of the settlement of such hedges has been deferred and is being amortized as an increase to the effective financing cost of the new term loan over its effective ten-year term.

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

Substantially all of the Company's corporate tenant lease assets (including those held by joint ventures) and loans and other lending investments are collateralized by facilities located in the United States, with significant concentrations (i.e., greater than 10.00%) as of September 30, 2002 in California (23.19%), New York (11.33%) and Texas (11.06%). As of September 30, 2002, the Company's investments also contain greater than 10.00% concentrations in the following asset types: office (46.56%), industrial (14.30%) and hotel lending (11.58%).

The Company underwrites the credit of prospective borrowers and customers and often requires them to provide some form of credit support such as corporate guarantees, letters of credit and/or cash security deposits. Although the Company's loans and other lending investments and corporate customer lease assets are geographically diverse and the borrowers and customers operate in a variety of industries, to the extent the Company has a significant concentration of interest or operating lease revenues from any single borrower or customer, the inability of that borrower or customer to make its payment could have an adverse effect on the Company.

NOTE 10--STOCK-BASED COMPENSATION PLANS AND EMPLOYEE BENEFITS

The Company's 1996 Long-Term Incentive Plan (the "Plan") is designed to provide incentive compensation for officers, other key employees and directors of the Company. The Plan provides for awards of stock options and shares of restricted stock and other performance awards. The maximum number of shares of Common Stock available for awards under the Plan is 9.00% of the outstanding shares of Common Stock, calculated on a fully diluted basis, from time to time; provided that the

NOTE 10--STOCK-BASED COMPENSATION PLANS AND EMPLOYEE BENEFITS (CONTINUED)
number of shares of Common Stock reserved for grants of options designated as incentive stock options is 5.0 million, subject to certain antidilution provisions in the Plan. All awards under the Plan, other than automatic awards to non-employee directors, are at the discretion of the Board or a committee of the Board. At September 30, 2002, a total of approximately 8.2 million shares of Common Stock were available for awards under the Plan, of which options to purchase approximately 4.5 million shares of Common Stock were outstanding and approximately 63,400 shares of restricted stock were outstanding.

In March 1998, the Company issued approximately 2.5 million (as adjusted) fully vested and immediately exercisable options to purchase shares of Common Stock at $14.72 per share (as adjusted) to its former advisor with a term of ten years. The former advisor granted a portion of these options to its employees and the remainder was allocated to an affiliate. Upon the acquisition of its former advisor, these individuals became employees of the Company. In general, the grants to these employees provided for scheduled vesting over a predefined service period of three to five years and, under certain conditions, provide for accelerated vesting. These options expire on March 15, 2008.

Changes in options outstanding during the nine months ended September 30, 2002 are as follows:

	NUMBER OF SHARES			AVERAGE
	EMPLOYEES	NON-EMPLOYEE DIRECTORS	OTHER	STRIKE PRICE
OPTIONS OUTSTANDING, DECEMBER 31, 2001	3,783,222	296,379	1,036,163	$18.98
Granted in 2002	--	90,000	--	$29.82
Exercised in 2002	(407,048)	(104,400)	(163,727)	$18.33
Forfeited in 2002	(10,401)	(4,600)	--	$22.12
OPTIONS OUTSTANDING, SEPTEMBER 30, 2002	3,365,773	277,379	872,436	

NOTE 10--STOCK-BASED COMPENSATION PLANS AND EMPLOYEE BENEFITS (CONTINUED)
The following table summarizes information concerning outstanding and exercisable options as of September 30, 2002:

OPTIONS
OPTIONS
OUTSTANDING
EXERCISABLE

WEIGHTED
AVERAGE

WEIGHTED
WEIGHTED
REMAINING
AVERAGE
AVERAGE
OPTIONS
CONTRACTUAL
EXERCISE
CURRENTLY
EXERCISE
EXERCISE
PRICE
RANGE
OUTSTANDING
LIFE PRICE
EXERCISABLE
PRICE - --

-------- -

- --------

- --------
$14.72 -
$15.00(1)
1,003,775
5.87
$14.72
755,180
$14.72
$16.69 -
$16.88
733,240
7.27
$16.86
367,453
$16.87
$17.38 -
$17.56
434,000
7.47
$17.39
251,501
$17.39
$19.50 -
$19.69
1,593,144
8.33
$19.69
476,924
$19.69
$20.33 -
$21.44
219,716
4.84
$21.00
164,417
$21.03
$22.44
13,333
8.01
$22.44 --
$ --
$23.32 -
$23.64
44,073
1.62
$23.53
31,402
$23.52
$24.13 -
$24.94
183,700
5.19
$24.54
183,034
$24.54
$25.10 -
$26.09
14,800

3.99
$26.02
14,134
$26.06
$26.30 -
$26.97
77,900
1.85
$26.80
76,567
$26.80
$27.00
25,000
8.73
$27.00
8,334
$27.00
$28.54 -
$29.82
90,188
9.21
$29.68
90,188
$29.68
$30.33
67,275
0.91
$30.33
67,275
$30.33
$33.15 -
$33.70
10,350
0.22
$33.39
10,350
$33.39
$55.39
5,094 6.67
$55.39
5,094
$55.39 ---
------ ---
- ------ -
-------- -

4,515,588
6.93
$18.83
2,501,853
$19.09
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=========
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EXPLANATORY NOTE:
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(1) Includes approximately 764,000 options which were granted, on a fully exercisable basis, in March 1998, and which are now held by an affiliate of SOF IV. Beneficial interests in these options were subsequently regranted by that affiliate to employees of it and its affiliates, subject to vesting requirements. In the event that these employees forfeit such options, they revert to an affiliate of SOF IV, which may regrant them at its discretion. As of September 30, 2002, approximately 416,000 of these options have become exercisable by the beneficial owners. Of this total, approximately 286,000 have been exercised as of September 30, 2002.

In the third quarter 2002, the Company adopted the fair value method for accounting for options issued to employees or directors, as allowed under Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation." Accordingly, the Company recognizes a charge equal to the fair value of these options at the date of grant multiplied by the number of options issued. This charge will be amortized over the related remaining vesting terms to individual employees as additional compensation. The impact for options issued since January 1, 2002 is approximately $110,000, which is reflected under "General and administrative--stock-based compensation" on the Company's Consolidated Statements of Operations.

Prior to the third quarter 2002, the Company had elected to use the intrinsic method for accounting for options issued to employees or directors, as allowed under SFAS No. 123 and, accordingly, recognized no expense in connection with these options to the extent that the options' exercise prices equaled or exceeded the quoted prices of the Company's shares of Common Stock on the grant or investment dates. However, in connection with the acquisition of the Company's former external advisor, the Company recognized a deferred stock-based compensation charge of approximately $5.1 million. This deferred charge represents the difference between the Company's

closing stock price on the date it acquired its former external advisor (which was $20.25), and the strike price of $14.72 per share (as adjusted) for the unvested portion of the options granted to the former external advisor's employees, who are now employees of the Company. This deferred charge is being amortized over the related remaining vesting terms to the individual employees as an additional expense under "General and administrative--stock-based compensation" on the Company's Consolidated Statements of Operations.

In addition, in connection with the original grant of options in March 1998 to its former external advisor, the Company utilized the fair value method as required by SFAS No. 123. An independent financial advisory firm estimated the value of these options at the date of grant to be approximately $2.40 per share using a Black-Scholes valuation model. In the absence of comparable historical market information for the Company, the advisory firm utilized assumptions consistent with activity of a comparable peer group of companies, including an estimated option life of five years, a 27.50% volatility rate and an estimated annual dividend rate of 8.50%. The resulting $6.0 million charge to earnings was calculated as the number of options allocated to the former external advisor multiplied by their then estimated value, and was reflected in the Company's first quarter 1998 financial results.

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

During the nine months ended September 30, 2002, the Company granted 36,660 restricted shares to employees that vest proportionately over three years on the anniversary date of the initial grant. In addition, during the three months ended September 30, 2002, the Company agreed to grant an aggregate of 155,000 restricted shares to certain employees. The restricted shares will vest on March 31, 2004 if: (1) the employee remains employed until that date; and (2) the sixty-day average closing price of the Company's Common Stock equals or exceeds $23.00 as of such date. These restricted shares will not be issued until there are sufficient shares of Common Stock available under the Plan. Dividends will be paid on the restricted shares once they are issued, as dividends are paid on shares of the Company's Common Stock.

During the year ended December 31, 2001, the Company granted 95,109 restricted shares to employees in lieu of cash bonuses for the year ended December 31, 2000 at the employees' election. These restricted shares were immediately vested on the date of grant and were not transferable for a period of one year following vesting.

During the year ended December 31, 2000, the Company granted 143,646 restricted shares to employees. Of this total, 74,996 restricted shares were granted in lieu of cash bonuses at the employees' election, were immediately vested on the date of grant, and were not transferable for a period of one year following vesting. An additional 68,650 of such restricted shares vest over periods ranging from one to three years following the date of grant and are transferable upon vesting.

For accounting purposes, the Company measures compensation costs for these 275,415 shares, not including the 155,000 contingently issuable shares, as of the date of the grant and expenses such amounts against earnings, either at the grant date (if no vesting period exists) or ratably over the respective vesting period. Such amounts appear on the Company's Consolidated Statements of Operations under "General and administrative--stock-based compensation expense."

During the year ended December 31, 2001, the Company entered into a new three-year employment agreement with its Chief Executive Officer. Under the agreement, the Chief Executive Officer receives an annual base salary of $1.0 million. He may also receive a bonus, which is targeted to be an amount equal to his base salary, if the Company achieves certain performance targets set by

NOTE 10--STOCK-BASED COMPENSATION PLANS AND EMPLOYEE BENEFITS (CONTINUED)
the Compensation Committee. The bonus award may be increased or reduced from the target depending upon the degree to which the performance goals are exceeded or are not met, and may not exceed 200.00% of his base salary. The bonus is reduced by the amount of any dividends paid to the Chief Executive Officer in respect of phantom shares (described below) which are awarded to him and have contingently vested. As part of this agreement, the Company confirmed a prior grant of 750,000 stock options made to the executive on March 2, 2001 with an exercise price of $19.69, which represented the market price at the date of the original contingent grant. However, because the grant required further approval by the Compensation Committee and the Board of Directors, no measurement date occurred for accounting purposes until such approvals were made, at which point the market price of the Company's Common Stock was $24.90. Accordingly, an aggregate charge of approximately $3.9 million is being recognized with respect to these options over the term of this agreement and is reflected on the Company's Consolidated Statements of Operations under "General and administrative--stock-based compensation." These options will vest in three equal installments of 250,000 shares in each January beginning in January 2002.

The Company also granted the executive 2.0 million unvested phantom shares, each of which represents one share of the Company's Common Stock. These shares will vest in installments of 350,000 shares, 650,000 shares, 600,000 shares and 400,000 shares on a contingent basis if the 60-day average closing price of the Company's Common Stock achieves thresholds of $25.00, $30.00, $34.00 and $37.00, respectively. As of September 30, 2002, the $25.00 and $30.00 thresholds have been attained, and a total of 1,000,000 of these shares have contingently vested. Shares that have contingently vested generally will not become fully vested until the end of the three-year term of the agreement, except upon certain termination or change of control events. Further, if the average stock price drops below certain specified levels for a 60-day period prior to such date, such phantom shares would not fully vest and would be forfeited. If the Company is not authorized to issue shares to the executive upon full vesting of the phantom shares, then the vesting will be settled through a cash payment based upon the market price of the Common Stock during a recent trading period. The executive will receive dividends on shares that have contingently or fully vested and have not been forfeited under the terms of the agreement, if and when the Company declares and pays dividends on its Common Stock. Because no shares have been issued, dividends received on these phantom shares, if any, will be reflected as compensation expense by the Company. For accounting purposes, this arrangement will be treated as a contingent, variable plan and no additional compensation expense will be recognized until the shares, in whole or in part, become irrevocably vested, whereupon the Company will reflect a charge equal to the then fair value of the phantom shares irrevocably vested.

In addition, during the year ended December 31, 2001, the Company entered into a three-year employment agreement, subject to a one-year extension option, with its President. Under the agreement, in lieu of salary and bonus, the Company granted the executive 500,000 restricted shares which vest in whole or in part if the Company's shareholders realize total rates of shareholder return of between 0.00% and 60.00%, as measured by cumulative dividends paid on the Company's Common Stock from and after January 1, 2001 and the market price of the Company's Common Stock. Vested shares would be subject to forfeiture if the executive's employment with the Company terminated under certain circumstances. The agreement further provides that if the maximum total shareholder return of 60.00% is achieved for 60 consecutive calendar days on or prior to September 30, 2002, the full 500,000 share grant automatically becomes fully vested and not subject to forfeiture as of September 30, 2002, so long as the executive does not voluntarily resign from the Company without good reason before that date. The maximum shareholder return of 60.00% was achieved for 60 consecutive calendar days as of April 29, 2002 and the executive remained an employee of the Company; therefore, the full 500,000

NOTE 10--STOCK-BASED COMPENSATION PLANS AND EMPLOYEE BENEFITS (CONTINUED)
share award became fully vested as of September 30, 2002. For accounting purposes, the employment arrangement described above was treated as a contingent, variable plan until April 29, 2002. The Company incurred a total non-cash charge of approximately $15.0 million related to the vesting of the shares, recognized ratably over the period from April 29, 2002 through

September 30, 2002. Accordingly, the non-cash charge recognized for the three and nine months ended September 30, 2002 was approximately $8.9 million and $15.0 million, respectively.

The executive received dividends on the share grant from the commencement of the agreement as and when the Company declared and paid dividends on its Common Stock. For financial statement purposes, such dividends were accounted for in a manner consistent with the Company's normal Common Stock dividends as a reduction to retained earnings.

Certain affiliates of SOF IV and the Company's Chief Executive Officer have agreed to reimburse the Company for the value of restricted shares awarded to the President in excess of 350,000 shares, net of tax benefits realized by the Company or its shareholders on account of compensation expense deductions. The reimbursement obligation arose once the full restricted share award became fully vested on September 30, 2002. In the case of the SOFI IV affiliates, the reimbursement payment must be made through the delivery of approximately $2.4 million in cash or 131,250 shares of Common Stock on or before June 30, 2003. In the case of the Chief Executive Officer, the reimbursement payment must be made through the delivery of 18,750 currently vested shares or the forfeiture of 18,750 contingently vested phantom shares awarded to him under his employment agreement with the Company. The reimbursement payments will be reflected as "Additional Paid-In Capital" on the Company's Consolidated Balance Sheets at the time the payment is received, and not as an offset to the non-cash charge referenced above.

HIGH PERFORMANCE UNIT PROGRAM

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

Initially, there are three plans within the program: the 2002 plan, the 2003 plan, and the 2004 plan. Each plan has 5,000 shares of High Performance Common Stock associated with it. Each share of High Performance Common Stock carries 0.25 votes per share.

The Company's performance is measured over a one-, two-, or three-year valuation period, beginning on January 1, 2002 and ending on December 31, 2002, December 31, 2003 and December 31, 2004, respectively. The end of the valuation period (i.e., the "valuation date") will be accelerated if there is a change in control of the Company. The High Performance Common Stock has a nominal value unless the total rate of shareholder return for the relevant valuation period exceeds the greater of: (1) 10.00%, 20.00%, or 30.00% for the 2002 plan, the 2003 plan and the 2004 plan, respectively; and (2) a weighted industry index total rate of return consisting of equal weightings of the Russell 1000 Financial Index and the Morgan Stanley REIT Index for the relevant period.

If the total rate of return on the Company's Common Stock exceeds the threshold performance levels for a particular plan, then distributions will be paid on the shares of High Performance Common

Stock related to that plan in the same amounts and at the same times as distributions are paid on a number of shares of the Company's Common Stock equal to the following: 7.50% of the Company's excess total rate of return (over the higher of the two threshold performance levels) multiplied by the weighted average market value of the Company's common equity capitalization during the measurement period, all as divided by the average closing price of a share of the Company's Common Stock for the 20 trading days immediately preceding the applicable valuation date.

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

Regardless of how much the Company's total rate of return exceeds the threshold performance levels, the dilutive impact to the Company's shareholders resulting from distributions on High Performance Common Stock in each plan is limited to 1.00% of the number of shares of the Company's Common Stock outstanding, on a fully diluted basis, on the valuation date for each plan.

The employee participants have purchased their interests in High Performance Common Stock through a limited liability company at purchase prices approved by the Company's Board of Directors. The Company's Board has established the prices of the High Performance Common Stock based upon, among other things, an independent valuation from a major securities firm. The aggregate initial purchase prices were set on June 25, 2002 and were approximately $2.8 million, $1.8 million and $1.3 million for the 2002, 2003 and 2004 plans, respectively. No employee is permitted to exchange his or her interest in the LLC for shares of High Performance Common Stock prior to the applicable valuation date.

The additional equity from the issuance of the High Performance Common Stock is recorded as a separate class of stock and disclosed within shareholders' equity. Future distributions, if any, will be deducted from net income available for common shareholders.

401(K) PLAN

Effective November 4, 1999, the Company implemented a savings and retirement plan (the "401(k) Plan"), which is a voluntary, defined contribution plan. All employees are eligible to participate in the 401(k) Plan following completion of three months of continuous service with the Company. Each participant may contribute on a pretax basis between 2.00% and 15.00% of such participant's compensation. At the discretion of the Board of Directors, the Company may make matching contributions on the participant's behalf of up to 50.00% of the first 10.00% of the participant's annual compensation. The Company made gross contributions of approximately $65,000 and $61,000 to the 401(k) Plan for the three months ended September 30, 2002 and 2001, respectively, and approximately $310,000 and $246,000 for the nine months ended September 30, 2002 and 2001, respectively.

NOTE 11--EARNINGS PER SHARE

The following table presents a reconciliation of the numerators and denominators of the basic and diluted EPS calculations (in thousands, except per share data):

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001
Numerator:				
Net income before income from discontinued operations, gain (loss) from discontinued operations, extraordinary loss and cumulative effect of change in accounting principle..........	$51,724	$58,086	$160,408	$168,910
Preferred dividend requirements....................	(9,227)	(9,227)	(27,681)	(27,681)
Net income allocable to common shareholders before income from discontinued operations, gain (loss) from discontinued operations, extraordinary loss and cumulative effect of change in accounting principle..	42,497	48,859	132,727	141,229
Income from discontinued operations.................	823	1,246	3,333	3,744
Gain (loss) from discontinued operations...........	123	(1,196)	717	403
Extraordinary loss on early extinguishment of debt...	--	(583)	(12,166)	(1,620)
Cumulative effect of change in accounting principle..	--	--	--	(282)
Net income allocable to common shareholders.........	$43,443	$48,326	$124,611	$143,474
Denominator:				
Weighted average common shares outstanding for basic earnings per common share.................	89,431	86,470	88,610	86,130
Add: effect of assumed shares issued under				

treasury stock method for stock options and
restricted
shares...
1,640 2,004 1,720 1,713 Add: effect of contingent
shares.................... 1,495 350 1,119 156 --
----- ------- -------- -------- Weighted average
common shares outstanding for diluted earnings
per common share................. 92,566 88,824
91,449 87,999 ======= ======= ======== ========
Basic earnings per common share: Net income
allocable to common shareholders before income
from discontinued operations, gain (loss) from
discontinued operations, extraordinary loss and
cumulative effect of change in accounting
principle..
$ 0.48 $ 0.57 $ 1.50 $ 1.64 Income from
discontinued operations................. 0.01
0.01 0.04 0.04 Gain (loss) from discontinued
operations............ 0.00 (0.01) 0.01 0.01
Extraordinary loss on early extinguishment of
debt...
-- (0.01) (0.14) (0.02) Cumulative effect of
change in accounting
principle..
-- -- -- (0.00) ------- ------- -------- --------
Net income allocable to common
shareholders......... $ 0.49 $ 0.56 $ 1.41 $ 1.67
======= ======= ======== ========

NOTE 11--EARNINGS PER SHARE (CONTINUED)

FOR THE FOR THE THREE MONTHS ENDED NINE MONTHS
ENDED SEPTEMBER 30, SEPTEMBER 30, ---------------
---- ------------------- 2002 2001 2002 2001 ----
---- -------- -------- -------- Diluted earnings
per common share: Net income allocable to common
shareholders before income from discontinued
operations, gain (loss) from discontinued
operations, extraordinary loss and cumulative
effect of change in accounting
principle..
$ 0.46 $ 0.55 $ 1.45 $ 1.60 Income from
discontinued operations................. 0.01
0.01 0.03 0.04 Gain (loss) from discontinued
operations............ 0.00 (0.01) 0.01 0.01
Extraordinary loss on early extinguishment of
debt...
-- (0.01) (0.13) (0.02) Cumulative effect of
change in accounting
principle..
-- -- -- (0.00) ------- ------- -------- --------
Net income allocable to common
shareholders......... $ 0.47 $ 0.54 $ 1.36 $ 1.63
======= ======= ======== ========

In addition, there were approximately 173,000 stock options, 6.1 million warrants and 371,000 joint venture shares that were antidilutive for the three- and nine-month periods ended September 30, 2002. For the three- and nine-month periods ended September 30, 2001, there were approximately 167,000 and 277,000 stock options, 6.1 million warrants and 1.4 million joint venture shares that were antidilutive, respectively.

NOTE 12--COMPREHENSIVE INCOME

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130 ("SFAS No. 130"), "Reporting Comprehensive Income" effective for fiscal years beginning after December 15, 1997. The statement changes the reporting of certain items currently reported as changes in the shareholders' equity section of the balance sheet and establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. SFAS No. 130 requires that all components of comprehensive income shall be reported in the financial statements in the period in which they are recognized. Furthermore, a total amount for comprehensive income shall be displayed in the financial statements. The Company has adopted this standard effective January 1, 1998. Total comprehensive income was $56.7 million and $49.0 million for the three-month periods ended September 30, 2002 and 2001, respectively, and $162.8 million and $148.1 million for the nine-month periods ended September 30, 2002 and 2001, respectively. The primary components of comprehensive income other than net income consist of amounts attributable to the adoption and continued application of SFAS No. 133 to the Company's cash flow hedges and changes in the fair value of the Company's available-for-sale investments.

For the three and nine months ended September 30, 2002, the change in fair market value of the Company's cash flow hedges was a decrease of $723,000 and an increase of $3.3 million, respectively,

and was recorded as adjustments to other comprehensive income. The reconciliation to other comprehensive income is as follows (in thousands):

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001
Net income	$52,670	$57,553	$152,292	$171,155
Other comprehensive income:				
Unrealized gains on available-for-sale investments	4,711	--	7,281	--
Cumulative effect of change in accounting principle (SFAS No. 133) on other comprehensive income	--	--	--	(9,445)
Unrealized gains (losses) on cash flow hedges	(723)	(8,515)	3,271	(13,589)
Comprehensive income	$56,658	$49,038	$162,844	$148,121

Unrealized gains on available-for-sale investments are recorded as adjustments to shareholders' equity (through accumulated other comprehensive income) and are not included in adjusted earnings or net income unless realized.

As of September 30, 2002 and December 31, 2001, accumulated other comprehensive income reflected in the Company's equity on the balance sheet is comprised of the following (in thousands):

	AS OF SEPTEMBER 30, 2002	AS OF DECEMBER 31, 2001
Unrealized gains on available-for-sale investments	$ 12,970	$ 5,689
Unrealized losses on cash flow hedges	(17,510)	(20,781)
Accumulated other comprehensive income (loss)	$ (4,540)	$(15,092)

NOTE 13--DIVIDENDS

In order to maintain its election to qualify as a REIT, the Company must currently distribute, at a minimum, an amount equal to 90.00% of its taxable income and must distribute 100.00% of its taxable income to avoid paying corporate federal income taxes. The Company anticipates it will distribute all of its taxable income to its shareholders. Because taxable income differs from cash flow from operations due to non-cash revenues or expenses (such as depreciation), in certain circumstances, the Company may generate operating cash flow in excess of its dividends or, alternatively, may be required to borrow to make sufficient dividend payments.

Total dividends attributable to the nine months ended September 30, 2002 were $112.6 million, or $1.26 per share of Common Stock consisting of quarterly dividends of $0.63 per share which were declared on April 1, 2002 and July 1, 2002. On October 1, 2002, the Company declared a dividend of $0.63 per share of Common Stock, applicable to the third quarter and payable to shareholders of record on October 15, 2002. The Company also declared dividends aggregating

$15.7 million, $3.5 million, $2.2 million and $6.0 million, respectively, on its Series A, B, C and D preferred stock, respectively, for the nine-month period ended September 30, 2002 and $5.2 million, $1.2 million,

NOTE 13--DIVIDENDS (CONTINUED)

$0.7 million and $2.0 million, respectively, on its Series A, B, C and D preferred stock, respectively, for the three-month period ended September 30, 2001. There are no divided arrearages on any of the preferred shares currently outstanding.

The Series A preferred stock has a liquidation preference of $50.00 per share and carries an initial dividend yield of 9.50% per annum. The dividend rate on the preferred shares will increase to 9.75% on December 15, 2005, to 10.00% on December 15, 2006 and to 10.25% on December 15, 2007 and thereafter. Dividends on the Series A preferred shares are payable quarterly in arrears and are cumulative.

Holders of shares of the Series B preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 9.375% per annum of the $25.00 liquidation preference, equivalent to a fixed annual rate of $2.34 per share. Dividends are cumulative from the date of original issue and are payable quarterly in arrears on or before the 15th day of each March, June, September and December or, if not a business day, the next succeeding business day. Any dividend payable on the Series B preferred stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as of the close of business on the first day of the calendar month in which the applicable dividend payment date falls or on another date designated by the Board of Directors of the Company for the payment of dividends that is not more than 30 nor less than ten days prior to the dividend payment date.

Holders of shares of the Series C preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 9.20% per annum of the $25.00 liquidation preference, equivalent to a fixed annual rate of $2.30 per share. The remaining terms relating to dividends of the Series C preferred stock are substantially identical to the terms of the Series B preferred stock described above.

Holders of shares of the Series D preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 8.00% per annum of the $25.00 liquidation preference, equivalent to a fixed annual rate of $2.00 per share. The remaining terms relating to dividends of the Series D preferred stock are substantially identical to the terms of the Series B preferred stock described above.

The High Performance Common Stock has not yet reached its first valuation date and currently has only a nominal dividend component.

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

NOTE 14--SEGMENT REPORTING

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

NOTE 14--SEGMENT REPORTING (CONTINUED)

The Company has two reportable segments: Real Estate Lending and Corporate Tenant Leasing. The Company does not have substantial foreign operations. The accounting policies of the segments are the same as those described in Note 3. The Company has no single customer that accounts for 4.20% or more of revenues (see Note 9 for other information regarding concentrations of credit risk).

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

	REAL ESTATE LENDING	CORPORATE TENANT LEASING	CORPORATE/ COMPANY OTHER(1)	TOTAL
(UNAUDITED)				
TOTAL REVENUES(2):				
Three months ended: September 30, 2002	$ 70,916	$ 64,103	$ 150	$ 135,169
September 30, 2001	71,342	46,097	121	117,560
Nine months ended: September 30, 2002	$ 206,633	$ 179,247	$ (77)	$ 385,803
September 30, 2001	216,265	137,933	505	354,703
TOTAL OPERATING AND INTEREST EXPENSES(3):				
Three months ended: September 30, 2002	$ 19,943	$ 32,181	$ 31,366	$ 83,490
September 30, 2001	29,799	19,541	12,054	61,394
Nine months ended: September 30, 2002	$ 69,034	$ 76,285	$ 81,255	$ 226,574
September 30, 2001	91,470	58,577	41,214	191,261
NET OPERATING INCOME(4):				
Three months ended: September 30, 2002	$ 50,973	$ 31,922	$(31,216)	$ 51,679
September 30, 2001	41,543	26,556	(11,933)	56,166
Nine months ended: September 30, 2002	$ 137,599	$ 102,962	$(81,332)	$ 159,229
September 30, 2001	124,795	79,356	(40,709)	163,442
TOTAL LONG-LIVED ASSETS(5):				
September 30, 2002	$2,939,769	$2,174,555	N/A	$5,114,324
December 31, 2001	2,377,763	1,781,565	N/A	4,159,328
TOTAL ASSETS:				
September 30, 2002	$2,956,574	$2,263,295	$147,614	$5,367,483
December 31, 2001	$2,402,758	$1,864,687	$111,115	4,378,560

EXPLANATORY NOTES:

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

NOTE 14--SEGMENT REPORTING (CONTINUED)

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

(3) Total operating and interest expense represents provision for loan losses for the Real Estate Lending business and operating costs on corporate tenant lease assets for the Corporate Tenant Leasing business, as well as interest expense specifically related to each segment. Interest expense on unsecured notes, general and administrative expense and general and administrative--stock-based compensation is included in Corporate and Other for all periods. Depreciation and amortization of $12.7 million and $8.6 million for the three-month periods ended September 30, 2002 and 2001, respectively, and $35.0 million and $26.2 million for the nine-month periods ended September 30, 2002 and 2001, respectively, are included in the amounts presented above.

(4) Net operating income represents net operating income before minority interest, equity in earnings from joint ventures and unconsolidated subsidiaries, income from discontinued operations, gain (loss) from discontinued operations, extraordinary loss on early extinguishment of debt and cumulative effect of change in accounting principle.

(5) Total long-lived assets is comprised of Loans and Other Lending Investments, net and Corporate Tenant Lease Assets, net, for each respective segment.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The Company began its business in 1993 through private investment funds formed to take advantage of the lack of well-capitalized lenders capable of servicing the needs of high-end customers in its markets. In March 1998, the private investment funds contributed their approximately $1.1 billion of assets to the Company's predecessor in exchange for a controlling interest in that public company. In November 1999, the Company acquired its leasing subsidiary, TriNet Corporate Realty Trust, Inc. ("TriNet" or the "Leasing Subsidiary"), which was then the largest publicly-traded company specializing in corporate sale/leaseback for office and industrial facilities (the "TriNet Acquisition"). Concurrent with the TriNet Acquisition, the Company also acquired its former external advisor in exchange for shares of its Common Stock and converted its organizational form to a Maryland corporation. The Company's Common Stock began trading on the New York Stock Exchange under the symbol "SFI" in November 1999.

RESULTS OF OPERATIONS

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2002 COMPARED TO THE THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2001

INTEREST INCOME--Interest income increased by $4.4 million to $66.8 million for the three months ended September 30, 2002 from $62.4 million for the same period in 2001. This increase was primarily due to $16.7 million of interest income on new originations or additional fundings, net of a $10.9 million decrease from the repayment of loans and other lending investments. This increase was partially offset by a decrease in interest income on the Company's variable-rate lending investments as the result of lower average one-month LIBOR rates of 1.82% in 2002 compared to 3.55% in 2001.

OPERATING LEASE INCOME--Operating lease income increased by $17.6 million to $63.6 million for the three months ended September 30, 2002 from $46.0 million for the same period in 2001. Of this increase, $19.0 million was attributable to new corporate tenant lease investments. This increase was partially offset by corporate tenant lease dispositions and lower operating lease income on certain corporate tenant lease assets.

OTHER INCOME--Other income generally consists of prepayment penalties and realized gains from the early repayment of loans and other lending investments, financial advisory and asset management fees, lease termination fees, mortgage servicing fees, loan participation payments and dividends on certain investments. During the three months ended September 30, 2002, other income included prepayment penalties and realized gains on loan repayments of $3.2 million, asset management, mortgage servicing and other fees of approximately $966,000, and other miscellaneous fees such as dividend payments and insurance claims of $581,000.

During the three months ended September 30, 2001, other income primarily included prepayment penalties on loan repayments of $8.7 million, financial advisory and mortgage servicing fees of approximately $700,000, and loan participation payments of $680,000.

INTEREST EXPENSE--For the three months ended September 30, 2002, interest expense increased by $6.4 million to $47.5 million from $41.1 million for the same period in 2001. This increase was primarily due to the higher average borrowings on the Company's debt obligations, term loans and secured notes, and by approximately $492,000 due to additional amortization of deferred financing costs on the Company's debt obligations in 2002 compared to the same period in 2001. This increase was partially offset by lower average one-month LIBOR rates of 1.82% in 2002 compared to 3.55% in 2001 on the Company's variable-rate debt obligations.

OPERATING COSTS--CORPORATE TENANT LEASE ASSETS--For the three months ended September 30, 2002, operating costs increased by approximately $450,000 to $3.7 million from $3.2 million for the same

period in 2001. This increase is primarily related to additional corporate tenant lease investments and an increase in operating costs for certain corporate tenant lease assets, partially offset by corporate tenant lease dispositions.

DEPRECIATION AND AMORTIZATION--Depreciation and amortization increased by $4.1 million to $12.7 million for the three months ended September 30, 2002 from $8.6 million for the same period in 2001. This increase is due to additional corporate tenant lease investments acquired subsequent to September 30, 2001, partially offset by corporate tenant lease dispositions completed in 2001.

GENERAL AND ADMINISTRATIVE--For the three months ended September 30, 2002, general and administrative expenses increased by approximately $2.0 million to $8.1 million, compared to $6.1 million for the same period in 2001. This increase is primarily the result of an increase in personnel and related costs.

GENERAL AND ADMINISTRATIVE--STOCK-BASED COMPENSATION--General and administrative--stock-based compensation increased by approximately $9.0 million primarily due to a non-cash charge related to the performance-based vesting of 500,000 restricted shares granted under the Company's long-term incentive plan and tied to overall shareholder performance (see Note 10 to the Company's Consolidated Financial Statements).

PROVISION FOR LOAN LOSSES--The Company's charge for provision for loan losses increased to $2.0 million for the three months ended September 30, 2002 as compared to $1.8 million for the same period in 2001. As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, the Company has not realized any actual losses on any of its loan investments to date. The Company considers it prudent to reflect provisions for loan losses on a portfolio basis based upon the Company's assessment of general market conditions, the Company's internal risk management policies and credit risk rating system, industry loss experience, the Company's assessment of the likelihood of delinquencies or defaults, and the value of the collateral underlying its investments. Accordingly, since its first full quarter operating its current business as a public company (the quarter ended June 30, 1998), management has reflected quarterly provisions for loan losses in its operating results.

EQUITY IN EARNINGS FROM JOINT VENTURES AND UNCONSOLIDATED SUBSIDIARIES--During the three months ended September 30, 2002, equity in earnings from joint ventures and unconsolidated subsidiaries decreased by approximately $1.9 million to $85,000 from $2.0 million for the same period in 2001. This decrease is primarily due to the consolidation of one of the Company's corporate tenant lease joint venture investments (see Note 6 to the Company Consolidated Financial Statements).

INCOME FROM DISCONTINUED OPERATIONS--For the three-month periods ended September 30, 2002 and 2001, operating income earned by the Company on corporate tenant lease assets sold (prior to their sale) and assets held for sale of approximately $823,000 and $1.2 million, respectively, is classified as "discontinued operations," even though such income was earned by the Company prior to the assets' disposition or its classification as "held for sale."

GAIN (LOSS) FROM DISCONTINUED OPERATIONS--During the three months ended September 30, 2002, one of the Company's customers exercised an option to terminate its lease on 50% of the land leased from the Company. In connection with this termination, the Company realized $17.5 million in cash lease termination payments, offset by a $17.4 million impairment charge in connection with the termination, resulting in a net gain of approximately $123,000.

During the third quarter of 2001, the Company disposed of one corporate tenant lease asset for net proceeds of $12.5 million, and recognized a loss of approximately $1.2 million.

EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT--During the three months ended September 30, 2002, the Company did not incur any losses on the early extinguishment of debt.

During the three months ended September 30, 2001, the Company prepaid an unsecured revolving credit facility, which had an original maturity date of May 2002. In connection with this prepayment, the Company expensed the remaining unamortized deferred financing costs, which resulted in an extraordinary loss on early extinguishment of debt of approximately $583,000.

NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2002 COMPARED TO THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2001

INTEREST INCOME--Interest income decreased $6.1 million to $187.1 million for the nine months ended September 30, 2002 from $193.2 million for the same period in 2001. Approximately $15.2 million of this decrease is the result of lower average one-month LIBOR rates of 1.84% in 2002 compared to 4.45% in 2001 on the Company's variable-rate lending investments. This decrease was partially offset by $52.9 million of interest income on new originations or additional fundings, net of a $40.0 million decrease in interest income due to the repayment of loans and other lending investments.

OPERATING LEASE INCOME--Operating lease income increased by $39.9 million to $177.5 million for the nine months ended September 30, 2002 from $137.6 million for the same period in 2001. Of this increase, $42.2 million was attributable to new corporate tenant lease investments. This increase was partially offset by corporate tenant lease dispositions and lower operating lease income on certain corporate tenant lease assets.

OTHER INCOME--Other income consists primarily of prepayment penalties and realized gains from the early repayment of loans and other lending investments, financial advisory and asset management fees, lease termination fees, mortgage servicing fees, loan participation payments and dividends on certain investments. During the nine months ended September 30, 2002, other income primarily included prepayment penalties and realized gains on loan repayments of $9.1 million, financial advisory, asset management, mortgage servicing and other fees of $8.5 million, and loan participation payments of $3.3 million.

During the nine months ended September 30, 2001, other income primarily included prepayment penalties and gains on loan repayments of $18.9 million, loan participations of $3.7 million, and financial advisory and mortgage servicing fees of approximately $1.8 million.

INTEREST EXPENSE--For the nine months ended September 30, 2002, interest expense increased by approximately by $7.1 million to $135.9 million from $128.8 million for the same period in 2001. This increase was primarily due to the higher average borrowings on the Company's debt obligations, term loans and secured notes, and by approximately $1.8 million due to additional amortization of deferred financing costs on the Company's debt obligations in 2002 compared to the same period in 2001. This increase was partially offset by lower average one-month LIBOR rates of 1.84% in 2002 compared to 4.45% in 2001 on the Company's variable-rate debt obligations.

OPERATING COSTS--CORPORATE TENANT LEASE ASSETS--For the nine months ended September 30, 2002, operating costs decreased by $51,000 to $9.7 million from the same period in 2001. This decrease is primarily related to corporate tenant lease dispositions, partially offset by new corporate tenant lease investments.

DEPRECIATION AND AMORTIZATION--Depreciation and amortization increased by $8.8 million to $35.0 million for the nine months ended September 30, 2002 from $26.2 million for the same period in 2001. This increase is due to additional corporate tenant lease investments acquired subsequent to September 30, 2001, partially offset by corporate tenant lease dispositions completed in 2001.

GENERAL AND ADMINISTRATIVE--For the nine months ended September 30, 2002, general and administrative expenses increased by $4.1 million to $22.8 million, compared to $18.7 million for the same period in 2001. This increase is primarily the result of an increase in personnel and related costs.

GENERAL ADMINISTRATIVE--STOCK-BASED COMPENSATION--General and administrative stock-based compensation increased by approximately $14.8 million primarily due to a non-cash charge related to the performance-based vesting of 500,000 restricted shares granted under the Company's long-term incentive plan and tied to overall shareholder performance (see Note 10 to the Company's Consolidated Financial Statements).

PROVISION FOR LOAN LOSSES--The Company's charge for provision for loan losses increased to $5.8 million for the nine months ended September 30, 2002 as compared to $5.3 million for the same period in 2001. As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, the Company has not realized any actual losses on any of its loan investments to date. The Company considers it prudent to reflect provisions for loan losses on a portfolio basis based upon the Company's assessment of general market conditions, the Company's internal risk management policies and credit risk rating system, industry loss experience, the Company's assessment of the likelihood of delinquencies or defaults, and the value of the collateral underlying its investments. Accordingly, since its first full quarter operating its current business as a public company (the quarter ended June 30, 1998), management has reflected quarterly provisions for loan losses in its operating results.

EQUITY IN EARNINGS FROM JOINT VENTURES AND UNCONSOLIDATED SUBSIDIARIES--During the nine months ended September 30, 2002, equity in earnings from joint ventures and unconsolidated subsidiaries decreased by $4.3 million to $1.3 million from $5.6 million for the same period in 2001. This decrease is primarily due to the consolidation of one of the Company's corporate tenant lease joint venture investments (see Note 6 to the Company's Consolidated Financial Statements).

INCOME FROM DISCONTINUED OPERATIONS--For the nine-month periods ended September 30, 2002 and 2001, operating income earned by the Company on corporate tenant lease assets sold (prior to their sale) and assets held for sale of approximately $3.3 million and $3.7 million, respectively, is classified as "discontinued operations," even though such income was earned by the Company prior to the assets' disposition or its classification as "held for sale."

GAIN (LOSS) FROM DISCONTINUED OPERATIONS--During the nine months ended September 30, 2002, one of the Company's customers exercised an option to terminate its lease on 50% of the land leased from the Company. In connection with this termination, the Company realized $17.5 million in cash lease termination payments, offset by a $17.4 million impairment charge in connection with the termination, resulting in a net gain of approximately $123,000. In addition, the Company disposed of one corporate tenant lease asset for net proceeds of $3.7 million, and realized a gain of approximately $595,000.

During the nine months ended September 30, 2001, the Company disposed of three corporate tenant lease assets for net proceeds of $20.3 million, and recognized gains of approximately $403,000.

EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT--During the nine months ended September 30, 2002, the Company fully repaid the then remaining $446.2 million of bonds outstanding under its STARs, Series 2000-1 financing. This prepayment resulted in an extraordinary loss of $12.2 million, which represented approximately $8.2 million in unamortized deferred financing costs and approximately $4.0 million in prepayment penalties.

During the nine months ended September 30, 2001, the Company repaid a secured term loan, which had an original maturity date of December 2004. In connection with this early repayment, the Company incurred certain prepayment penalties, which resulted in an extraordinary loss on early extinguishment of debt of approximately $1.0 million during the first quarter of 2001. In addition, in the third quarter of 2001, the Company prepaid an unsecured revolving credit facility, which had an original maturity date of May 2002. In connection with this prepayment, the Company expensed the remaining unamortized deferred financing costs, which resulted in an extraordinary loss on early extinguishment of debt of approximately $583,000.

ADJUSTED EARNINGS

Adjusted earnings represents net income computed in accordance with GAAP, before gain (loss) from discontinued operations, extraordinary items and cumulative effect of change in accounting principle, plus depreciation and amortization, less preferred stock dividends, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures reflect the Company's share of adjusted earnings calculated on the same basis.

The Company believes that to facilitate a clear understanding of the historical operating results of the Company, adjusted earnings should be examined in conjunction with net income as shown in the Company's Consolidated Statements of Operations. Adjusted earnings should not 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 it indicative of funds available to fund the Company's cash needs or available for distribution to the Company's shareholders. The Company's management believes that adjusted earnings more closely approximates operating cash flow and is a useful measure for investors to consider, in conjunction with net income and other GAAP measures, in evaluating the Company's financial performance. This is primarily because the Company is a commercial finance company that focuses on real estate lending and corporate tenant leasing; therefore, the Company's net income (determined in accordance with GAAP) reflects significant non-cash depreciation expense on corporate tenant lease assets. It should be noted that the Company's manner of calculating adjusted earnings may differ from the calculation of similarly-titled measures by other companies.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001
Adjusted earnings:				
Net income	$52,670	$57,553	$152,292	$171,155
Add: Joint venture income	--	235	621	709
Add: Depreciation	12,730	8,669	35,053	26,255
Add: Joint venture depreciation and amortization	960	960	3,391	2,828
Add: Amortization of deferred financing costs	5,451	4,959	17,202	15,391
Less: Preferred dividends	(9,227)	(9,227)	(27,681)	(27,681)
Less: (Gains)/losses from discontinued operations	(123)	1,196	(717)	(403)
Add: Extraordinary loss early extinguishments of debt	--	583	12,166	1,620
Add: Cumulative effect of change in accounting principle(1)	--	--	--	282
Adjusted diluted earnings allocable to common shareholders:				
Before non-cash incentive compensation charge(2)	$71,355	$64,928	$207,277	$190,156
After non-cash incentive compensation charge	$62,461	$64,928	$192,327	$190,156
Weighted average diluted common shares outstanding	92,566	89,197	91,746	88,372

EXPLANATORY NOTES:

(1) Represents one-time effect of adoption of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" as of January 1, 2001.

(2) Excludes an $8.9 million and $15.0 million non-cash charge related to performance-based vesting of restricted shares granted under the Company's long-term incentive plan for the three and nine months ended September 30, 2002, respectively.

RISK MANAGEMENT

NON-ACCRUAL LOANS--The Company transfers loans to non-accrual status at such time as: (1) management believes that the potential risk exists that scheduled debt service payments will not be met within the coming 12 months; (2) the loans become 90 days delinquent; (3) management determines the borrower is incapable of, or ceased efforts toward, curing the cause of an impairment; or (4) the net realizable value of the loan's underlying collateral approximates the Company's carrying value of such loan. Interest income is recognized only upon actual cash receipt for loans on non-accrual status. As of September 30, 2002, the Company had two assets on non-accrual status with an aggregate gross book value of $5.5 million, or 0.10% of the gross book value of the Company's investments.

One of the two non-accrual loans is a $3.6 million partnership loan on two shopping malls located in the suburbs of Washington, D.C. This investment was part of a larger loan originally made by affiliates of Lazard Freres prior to the Company's acquisition of Lazard's structured finance portfolio in 1998. The loan matures in September 2003 and bears interest at 12.00%. The Company received cash payments equal to the interest due on the loan during the nine months ended September 30, 2002, and the borrower remains current on its obligations to the Company. However, the Company anticipates that this loan will remain on non-accrual status for the foreseeable future.

Additionally, the Company, through its investment in TriNet Management Operating Company, has a $1.9 million investment in debt securities that are convertible into shares of a real estate company which trades on the Mexican Stock Exchange. This investment was made by TriNet prior to its acquisition by the Company in 1999. The securities bear interest at 12.00% per annum and is payable in arrears on December 4th of each year. The Company received cash payments equal to the interest due on the investment through December 31, 2001, and the Company expects to be paid its interest for the year ended 2002 in December 2002. However, the Company anticipates that this investment will remain on non-accrual status for the foreseeable future.

LOANS IN DEFAULT--As of September 30, 2002, one of the Company's loans is in technical default because, since July 2002, the borrower has been paying debt service one month in arrears. This loan is a $15.3 million second mortgage on a Class A office building in Washington, D.C. which matures in October 2005. On August 5, 2002, the five-day grace period for the borrower's July 2002 debt service payment expired, and the Company sent a default notice to the borrower. The July debt service payment was received by the Company on August 22, 2002 and, since that time, the Company continues to be paid one month in arrears. Inclusive of the senior debt on the property, the Company's last-dollar risk exposure on this asset is approximately $269 per square foot. As a result, the Company currently believes that the fair value of the collateral supports the book value of this asset.

FIRST DOLLAR AND LAST DOLLAR EXPOSURE--One component of the Company's risk management assessment is an analysis of the Company's first and last dollar loan-to-value percentage with respect to the properties or companies the Company finances. First dollar loan-to-value represents the average beginning point for the Company's lending exposure in the aggregate capitalization of the underlying properties or companies it finances. Last dollar loan-to-value represents the average ending point for the Company's lending exposure in the aggregate capitalization of the underlying properties or companies it finances.

LIQUIDITY AND CAPITAL RESOURCES

The Company requires capital to fund its investment activities and operating expenses. The Company has significant access to capital resources to fund its existing business plan, which includes the expansion of its real estate lending and corporate tenant leasing businesses. The Company's capital sources include cash flow from operations, borrowings under lines of credit, additional term borrowings, long-term financing secured by the Company's assets, unsecured financing and the issuance of common,

convertible and /or preferred equity securities. Further, the Company may acquire other businesses or assets using its capital stock, cash or a combination thereof.

The distribution requirements under the REIT provisions of the Code limit the Company's ability to retain earnings and thereby replenish or increase capital committed to its operations. However, the Company believes that its significant capital resources and access to financing will provide it with financial flexibility and market responsiveness at levels sufficient to meet current and anticipated capital requirements, including expected new lending and corporate tenant leasing transactions.

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

The Company's longstanding policy is to limit its book debt-to-equity ratio to approximately 2.0x. As the Company's leverage approaches this level, the Company will consider equity and other alternatives to reduce leverage. The exact timing and nature of any equity issuance would be subject to market conditions.

The Company has four LIBOR-based secured revolving credit facilities with an aggregate maximum availability of $2.7 billion, of which $1.3 billion was drawn as of September 30, 2002 (see Note 7 to the Company's Consolidated Financial Statements). Availability under these facilities is based on collateral provided under a borrowing base calculation. At September 30, 2002, the Company also had an unsecured credit facility totaling $300.0 million which bears interest at LIBOR + 2.125% and matures in July 2004, including a one-year extension at the Company's option. At September 30, 2002, the Company had not drawn any amounts under this facility.

RECENT FINANCING ACTIVITIES--On May 17, 2000, the Company closed the inaugural offering under its proprietary matched funding program, STARs, Series 2000-1. In the initial transaction, a wholly-owned subsidiary of the Company issued $896.5 million of investment-grade bonds secured by the subsidiary's assets, which had an aggregate outstanding principal balance of approximately $1.2 billion at inception. Principal payments received on the assets were utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funded the maturity of the underlying assets financed under the program. Of the assets of the subsidiary secured by this financing, 73.96% (by gross carrying value) consisted of first mortgages and subsequent lien positions and the remaining 26.04% consisted of junior loans. For accounting purposes, this transaction was treated as a secured financing: the underlying assets and STARs liabilities remained on the Company's Consolidated Balance Sheets and no gain on sale was recognized. On May 28, 2002, the Company fully repaid these bonds.

On January 11, 2001, the Company closed a new $700.0 million secured revolving credit facility which is led by a major commercial bank. The new facility has a three-year primary term and one-year "term-out" extension option, and bears interest at LIBOR + 1.40% to 2.15%, depending upon the collateral contributed to the borrowing base. The new facility accepts a broad range of structured finance assets and has a final maturity of January 2005.

On February 22, 2001, the Company extended the maturity of its $350.0 million unsecured revolving credit facility to May 2002. On July 27, 2001, the Company repaid this facility and replaced it with a new $300.0 million unsecured revolving credit facility.

On May 15, 2001, the Company repaid its $100.0 million 7.30% unsecured notes. These notes were senior unsecured obligations of the Leasing Subsidiary and ranked equally with the Leasing Subsidiary's other senior unsecured and unsubordinated indebtedness.

On June 14, 2001, the Company closed $193.0 million of term loan financing secured by 15 corporate tenant lease assets. The variable-rate loan bears interest at LIBOR + 1.85% (not to exceed 10.00% in aggregate) and has two one-year extensions at the Company's option. The Company used these proceeds to repay a $77.8 million secured term loan maturing in June 2001 and to pay down a portion of its revolving credit facilities. In addition, the Company extended the maturity of its $500.0 million secured revolving credit facility to August 2003. On March 29, 2002, the Company again extended the final maturity of this facility to August 2005, which includes a one-year "term-out" extension at the Company's option.

On July 6, 2001, the Company financed a $75.0 million structured finance asset with a $50.0 million term loan bearing interest at LIBOR + 2.50%. The loan has a maturity of July 2006, including a one-year extension at the Company's option. This investment is a $75.0 million term preferred investment in a publicly-traded real estate customer. The Company's investment carries an initial current yield of 10.50%, with annual increases of 0.50% in each of the next two years. In addition, the Company's investment is convertible into the customer's common stock at a strike price of $25.00 per share. The investment is callable by the customer between months 13 and 30 of the term at a yield maintenance premium, and after month 30, at a premium sufficient to generate a 14.62% internal rate of return on the Company's investment. The investment is putable by the Company to the customer for cash after five years.

On July 27, 2001, the Company completed a $300.0 million unsecured revolving credit facility with a group of leading financial institutions. The new facility has an initial maturity of July 2003, with a one-year extension at the Company's option and another one-year extension at the lenders' option. The new facility replaces two prior credit facilities maturing in 2002 and 2003, and bears interest at LIBOR + 2.125%.

On August 9, 2001, the Company issued $350.0 million of 8.75% senior notes due in 2008. The notes are unsecured senior obligations of the Company. The

Company used the net proceeds to partially repay outstanding borrowings under its secured credit facilities.

On March 29, 2002, the Company extended the maturity of its $500.0 million secured facility to August 2005, which includes a one-year "term-out" extension at the Company's option.

On May 28, 2002, the Company repaid the then remaining $446.2 million of bonds outstanding under its STARs, Series 2000-1 financing. Simultaneously, a wholly-owned subsidiary of the Company issued STARs, Series 2002-1, consisting of $885.1 million of investment-grade bonds secured by the subsidiary's structured finance and corporate tenant lease assets, which had an aggregate outstanding principal balance of approximately $1.1 billion at inception. Principal payments received on the assets will be utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funds the maturity of the underlying assets financed under the program. The weighted average interest rate on the bonds, on an all-floating rate basis, is approximately LIBOR + 0.56% at inception. For accounting purposes, this transaction was treated as a secured financing: the underlying assets and STARs liabilities remained on the Company's Consolidated Balance Sheets, and no gain on sale was recognized.

On July 2, 2002, the Company purchased the remaining interest in the Milpitas joint venture from the former Milpitas external member. Upon purchase of the interest, the Milpitas joint venture became fully consolidated for accounting purposes and approximately $79.2 million of secured term debt was transferred to the Company's Consolidated Balance Sheets.

On September 30, 2002, the Company closed a new $500.0 million secured revolving credit facility with a leading financial institution. The new facility has a three-year term and bears interest at LIBOR + 1.50% to 2.25%, depending upon the collateral contributed to the borrowing base. The new facility accepts a broad range of structured finance and corporate tenant assets and has a final maturity date of September 2005.

HEDGING ACTIVITIES--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 amount of the Company's variable-rate debt obligations exceeds the amount of its variable-rate lending assets, the Company utilizes derivative instruments to limit the impact of changing interest rates on its net income. The Company does not use derivative instruments to hedge assets or for speculative purposes. The derivatives instruments the Company uses are typically in the form of interest rate swaps and interest rate caps. Interest rate swaps effectively change variable-rate debt obligations to fixed-rate debt obligations. Interest rate caps effectively limit the maximum interest rate on variable-rate debt obligations.

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 Company. As a matter of policy, the Company enters into hedging arrangements with counterparties that are large, creditworthy financial institutions typically rated at least "A" by Standard & Poor's ("S&P") and "A2" by Moody's Investors Service ("Moody's"). The Company's hedging strategy is approved and monitored by the Company's Audit Committee on behalf of its Board of Directors and may be changed by the Board of Directors without stockholder approval.

The Company has entered into the following cash flow hedges that are outstanding as of September 30, 2002. The net value (liability) associated with these hedges is reflected on the Company's Consolidated Balance Sheets (in thousands).

TYPE OF HEDGE	NOTIONAL AMOUNT	STRIKE PRICE OR SWAP RATE	TRADE DATE	MATURITY DATE	ESTIMATED VALUE AT SEPTEMBER 30, 2002
Pay-Fixed Swap...........	$125,000	7.058%	6/15/00	6/25/03	$(5,166)
Pay-Fixed Swap...........	125,000	7.055%	6/15/00	6/25/03	(5,163)
Pay-Fixed Swap...........	75,000	5.580%	11/4/99(1)	12/1/04	(5,890)
LIBOR					

Cap	345,000	8.000%	5/22/02	5/28/14	13,622
LIBOR Cap	75,000	7.750%	11/4/99(1)	12/1/04	35
LIBOR Cap	35,000	7.750%	11/4/99(1)	12/1/04	15

Total Estimated Asset (Liability) Value					$(2,547)
					=======

EXPLANATORY NOTE:
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(1) Acquired in connection with the TriNet Acquisition. (See Note 1 to the Company's Consolidated Financial Statements).

Between January 1, 2001 and September 30, 2002, the Company had outstanding the following cash flow hedges that have expired or been settled (in thousands):

TYPE OF HEDGE	NOTIONAL AMOUNT	STRIKE PRICE OR SWAP RATE	TRADE DATE	MATURITY DATE
LIBOR Cap	$300,000	9.000%	3/16/98	3/16/01
Pay-Fixed Swap	92,000	5.714%	8/10/98	3/1/01
LIBOR Cap	75,000	7.500%	7/16/98	6/19/01
LIBOR Cap	38,336	7.500%	4/30/98	6/1/01

In connection with STARs, Series 2002-1 in May 2002, the Company entered into a LIBOR interest rate cap struck at 8.00% in the notional amount of $345.0 million. The Company utilizes the provisions of Statement of Financial Accounting Standards No. 133 ("SFAS No. 133), "Accounting for Derivative Instruments and Hedging Activities," with respect to such instruments. SFAS No. 133 provides that the up-front fees paid on option-based products such as caps should 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 (as part of interest expense) in the affected period.

On May 28, 2002, in connection with the STARs, Series 2002-1 transaction, the Company paid a premium of $13.7 million for an interest rate cap. Using the "caplet" methodology discussed above, amortization of the cap premium is dependent upon the actual value of the cap over time.

In connection with STARs, Series 2000-1 in May 2000, the Company entered into a LIBOR interest rate cap struck at 10.00% in the notional amount of $312.0 million, and simultaneously sold a LIBOR interest rate cap with the same terms. Since these instruments did not change the Company's net interest rate risk exposure, they did not qualify as hedges and changes in their respective values were charged to earnings. As the terms of these arrangements were substantially the same, the effects of a revaluation of these two instruments substantially offset one another. On May 28, 2002, these instruments were settled and are no longer outstanding.

Certain of the Company's corporate tenant lease joint ventures have hedging activities which are more fully described in Note 6 to the Company's Consolidated Financial Statements.

OFF-BALANCE SHEET TRANSACTIONS--The Company is not dependent on the use of any off-balance sheet financing arrangements for liquidity. As of September 30, 2002, the Company had investments in three corporate tenant lease joint ventures that are accounted for under the equity method which had total debt obligations outstanding of approximately $177.1 million. The Company's pro rata share of the ventures' third-party debt was approximately $77.5 million (see Note 6 to the Company's Consolidated Financial Statements). These ventures were formed for the purpose of operating, acquiring and in certain cases, developing corporate tenant lease facilities. The debt obligations of these joint ventures are non-recourse to the ventures and the Company and mature between fiscal years 2004 and 2011. As of September 30, 2002, they consisted of six term loans bearing fixed rates per annum ranging from 7.61% to 8.43% and one variable-rate term loan with a rate of LIBOR + 1.25% per annum.

RATINGS TRIGGERS--On July 27, 2001, the Company completed a $300.0 million unsecured revolving credit facility with a group of leading financial institutions. The new facility has an initial maturity of July 2003 with a one-year extension at the Company's option and another one-year extension at the lenders' option. The new facility replaces two prior credit facilities maturing in 2002 and 2003, and bears interest at LIBOR + 2.125% based on the Company's senior unsecured credit ratings of BB+ from S&P, Ba1 from Moody's and BBB- from Fitch Ratings. If the Company achieves a higher rating from either S&P or Moody's, the facility's interest rate will improve to LIBOR + 2.00%. If the Company's credit rating is downgraded by any of the rating agencies (regardless of how far), the facility's interest rate will increase to LIBOR + 2.25%. In the event the Company receives two credit ratings that are not equivalent, the spread over LIBOR shall be determined by the lower of the two

such ratings. As of September 30, 2002, no amounts have yet been drawn on this facility. Accordingly, management does not believe any rating changes would have a material adverse impact on the Company's results of operations. There are no other ratings triggers in any of the Company's debt instruments or other operating or financial agreements.

During the three months ended September 30, 2002, the Company's senior unsecured credit rating was upgraded to an investment grade rating of BBB- from BB+ by Fitch Ratings. In addition, Moody's and S&P raised their ratings outlook for the Company's senior unsecured credit rating to "positive."

DRIP PROGRAM--The Company maintains a dividend reinvestment and direct stock purchase plan. Under the dividend reinvestment component of the plan, the Company's shareholders may purchase additional shares of Common Stock without payment of brokerage commissions or service charges by automatically reinvesting all or a portion of their Common Stock cash dividends. Under the direct stock purchase component of the plan, the Company's shareholders and new investors may purchase shares of Common Stock directly from the Company without payment of brokerage commissions or service charges. All purchases of shares in excess of $10,000 per month pursuant to the direct purchase component are at the Company's sole discretion. Shares issued under the plan may reflect a discount of up to 3.00% from the prevailing market price of the Company's Common Stock. The Company is authorized to issue up to 8.0 million shares of Common Stock pursuant to the dividend reinvestment and direct stock purchase plan. During the three-month periods ended September 30, 2002 and 2001, the Company issued a total of 369,609 and 11,239 shares of its Common Stock, respectively, and during the nine-month periods ended September 30, 2002 and 2001, the Company issued a total of 1,597,429 and 24,008 shares of its Common Stock, respectively, through the direct stock purchase component of the plan. Net proceeds during the three-month periods ended September 30, 2002 and 2001 were approximately $10.4 million and $297,088, respectively, and $43.9 million and $624,149 during the nine-month periods ended September 30, 2002 and 2001, respectively.

STOCK REPURCHASE PROGRAM--The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets or loan repayments and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. The only repurchase the Company has made under this program since November 2000, has been 250,000 shares during the three months ended September 30, 2002. As of September 30, 2002 and December 31, 2001, the Company had repurchased approximately 2.6 million shares and 2.3 million shares, respectively, at an aggregate cost of approximately $48.0 million and $40.7 million, respectively.

CRITICAL ACCOUNTING POLICIES

The Company's Consolidated Financial Statements include the accounts of the Company and all majority-owned and controlled subsidiaries. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Company does not believe that there is a great likelihood that materially different amounts would be reported related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

Management has the obligation to ensure that its policies and methodologies are in accordance with GAAP. During the nine months ended September 30, 2002, management reviewed and evaluated its critical accounting policies, as further disclosed in the Company's December 31, 2001 Form 10-K, and believes them to be appropriate. The Company's accounting policies are described in Note 3 to the

Company's Consolidated Financial Statements. The following are significant events relating to critical accounting policies during the nine months ended September 30, 2002:

EXECUTIVE COMPENSATION--The Company's accounting policies generally provide cash compensation to be estimated and recognized over the period of service. With respect to stock-based compensation arrangements, as of July 1, 2002 (with retroactive application to the beginning of the calendar year), the Company has adopted the fair value method allowed under SFAS No. 123, which values options on the date of grant and recognizes an expense equal to the fair value of the option multiplied by the number of options granted over the related service period. Prior to the third quarter 2002, the Company elected to use APB 25 accounting, which measured the compensation charges based on the intrinsic value of such securities when they become fixed and determinable, and recognized such expense over the related service period. These arrangements are often complex and generally structured to align the interests of management with those of the Company's shareholders. See Note 10 to the Company's Consolidated Financial Statements for a detailed discussion of such arrangements and the related accounting effects.

During 2001, the Company entered into new three-year employment agreements with its Chief Executive Officer and its President. See Note 10 to the Company's Consolidated Financial Statements for a more detailed description of both employment agreements.

The following is a hypothetical illustration of the effects on the Company's net income and adjusted earnings of the full vesting of phantom units under the employment agreement with the Chief Executive Officer. During the nine months ended September 30, 2002, 1,000,000 of the phantom shares awarded to the Chief Executive Officer were contingently vested. Absent an earlier change of control or termination of employment, these 1,000,000 shares will not become fully vested until March 31, 2004. Assuming that the market price of the Common Stock on March 31, 2004 is $27.92 (which was the market price of the Common Stock on September 30, 2002), the Company would incur a one-time charge to both net income and adjusted earnings at that time equal to $27.9 million (the fair market value of the 1,000,000 shares at $27.92 per share).

On April 29, 2002, the 500,000 unvested restricted shares awarded to the President became contingently vested as the total shareholder return exceeded 60.00% and became fully vested on September 30, 2002 as all employment contingencies were met. The Company incurred a non-cash charge of approximately $15.0 million related to these vested shares, recognized ratably over the service period from the date of contingent vesting through September 30, 2002. Accordingly, the non-cash charge recognized for the three and nine months ended September 30, 2002 was approximately $8.9 million and $15.0 million, respectively.

NEW ACCOUNTING STANDARDS

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as: (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (2) a hedge of the exposure to variable cash flows of a forecasted transaction; or (3) in certain circumstances a hedge of a foreign currency exposure. On January 1, 2001, the Company adopted this pronouncement, as amended by Statement of Financial Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133" and Statement of Financial Accounting Standards No. 138 "Accounting for Certain Hedging Activities--an Amendment of FASB No. 133." Because the Company has primarily used derivatives as cash flow hedges of interest rate risk only, the adoption of SFAS No. 133 did not have a material financial impact on the financial position and results of operations of the Company. However, should the Company change its current use of such

derivatives, the adoption of SFAS No. 133 could have a more significant effect on the Company prospectively.

In September 2000, the FASB issued Statement of Financial Accounting Standards No. 140 ("SFAS No. 140"), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement is applicable for transfers of assets and extinguishments of liabilities occurring after June 30, 2001. The Company adopted the provisions of this statement as required for all transactions entered into on or after April 1, 2001. The adoption of SFAS No. 140 did not have a significant impact on the Company.

In July 2001, the SEC released Staff Accounting Bulletin No. 102 ("SAB 102"), "Selected Loan Loss Allowance and Documentation Issues." SAB 102 summarizes certain of the SEC's views on the development, documentation and application of a systematic methodology for determining allowances for loan and lease losses. Adoption of SAB 102 by the Company did not have a significant impact on the Company.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141 ("SFAS No. 141"), "Business Combinations" and Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets." SFAS No. 141 requires the purchase method of accounting to be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also addresses the initial recognition and measurement of goodwill and other intangible assets acquired in business combinations and requires intangible assets to be recognized apart from goodwill if certain tests are met. SFAS No. 142 requires that goodwill not be amortized but instead be measured for impairment at least annually, or when events indicate that there may be an impairment. The Company adopted the provisions of both statements, as required, on January 1, 2002 and the adoption did not have a significant impact on the Company.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS No. 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of, and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 requires that current operations prior to the disposition of corporate tenant lease assets and prior period results of such operations be presented in discontinued operations in the Company's Consolidated Statements of Operations. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and must be applied at the beginning of a fiscal year. The Company adopted the provisions of this statement on January 1, 2002, as required, and it did not have a significant financial impact on the Company.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS No. 145"), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds both FASB Statements No. 4 ("SFAS No. 4"), "Reporting Gains and Losses from Extinguishment of Debt," and the amendment to SFAS No. 4, FASB Statement No. 64 ("SFAS No. 64"), "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." Through this rescission, SFAS No. 145 eliminates the requirement (in both SFAS No. 4 and SFAS No. 64) that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. An entity is not prohibited from classifying such gains and losses as extraordinary items, so long as they meet the criteria in paragraph 20 of Accounting Principles Board Opinion No. 30 ("APB 30"), "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions"; however, due to the nature of the Company's operations, such treatment may not be available to the Company. Any gains or losses on extinguishments of debt that were previously classified as extraordinary items in prior periods presented that do not meet the criteria in APB 30 for classification as an extraordinary item will be reclassified to income from continuing operations. The provisions of SFAS No. 145 are effective for financial

statements issued for fiscal years beginning after May 15, 2002. The Company will adopt the provisions of this statement, as required, on January 1, 2003.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146 ("SFAS No. 146"), "Accounting for Exit or Disposal Activities," to address significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force ("EITF") has set forth in EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a

Restructuring)." The scope of SFAS No. 146 also includes: (1) costs related to terminating a contract that is not a capital lease; and (2) termination benefits that employees who are involuntarily terminated receive under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect SFAS No. 146 to have a material effect on the Company's Consolidated Financial Statements.

In September 2002, the FASB issued Statement of Financial Accounting Standards No. 147 ("SFAS No. 147"), "Acquisitions of Certain Financial Institutions," an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9. SFAS No. 147 provides guidance on the accounting for the acquisitions of financial institutions, except those acquisitions between two or more mutual enterprises. SFAS No. 147 removes acquisitions of financial institutions from the scope of both FASB No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," and FASB Interpretation No. 9, Applying APB Opinions No. 16 and 17, "When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method," and requires that those transactions be accounted for in accordance with SFAS No. 141 and SFAS No. 142. SFAS No. 147 also amends SFAS No. 144, to include in its scope long-term, customer-relationship intangible assets of financial institutions such as depositor-relationship and borrower-relationship intangible assets and credit cardholder intangible assets. The Company will adopt the provisions of this statement, as required, on October 1, 2002. The Company does not expect SFAS No. 147 to have a material effect on the Company's Consolidated Financial Statements.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Securities and Exchange Act of 1934 (the "Exchange Act") reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company has formed a Disclosure Committee that is responsible for considering the materiality of information and determining the disclosure obligations of the Company on a timely basis. The Disclosure Committee reports directly to the Company's Chief Executive Officer and Chief Financial Officer. The Chief Financial Officer is currently a member of the Disclosure Committee.

Within the 90-day period prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Disclosure Committee and other members of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to timely alert them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's Exchange Act filings.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date that the Company carried out its evaluation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. EXHIBITS

3.3 Articles Supplementary for the High Performance Common Stock-Series 1.

3.4 Articles Supplementary for the High Performance Common Stock-Series 2.

3.5 Articles Supplementary for the High Performance Common Stock-Series 3.

B. REPORTS ON FORM 8-K

On August 14, 2002, a Current Report on Form 8-K was filed which included the certification of the Company's chief executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

iSTAR FINANCIAL INC.

REGISTRANT

Date: November 14, 2002

Jay Sugarman
CHAIRMAN OF THE BOARD OF DIRECTORS AND
CHIEF EXECUTIVE OFFICER

Date: November 14, 2002

Spencer B. Haber
PRESIDENT, CHIEF FINANCIAL OFFICER, DIRECTOR AND
SECRETARY

CERTIFICATIONS

I, Jay Sugarman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of iStar Financial Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared; b.evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

Name: Jay Sugarman
Title: Chief Executive Officer

I, Spencer B. Haber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of iStar Financial Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

Name: Spencer B. Haber

Title: Chief Financial Officer

EXHIBIT 3.3

iSTAR FINANCIAL INC.

Articles Supplementary

iStar Financial Inc., a Maryland corporation, (the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: Under a power contained in Article V of the Charter of the Corporation (the "Charter"), the Board by duly adopted resolutions classified and designated 5,000 shares of authorized but unissued shares of Common Stock (as defined in the Charter) as shares of High Performance Common Stock-Series-1, with the following preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, and terms and conditions of redemption, which, upon any restatement of the Charter, shall become part of Article V of the Charter, with any necessary or appropriate renumbering or relettering of the sections or subsections hereof.

HIGH PERFORMANCE COMMON STOCK- SERIES 1

1. DESIGNATION AND NUMBER. A series of Common Stock, designated High Performance Common Stock-Series 1 ("HP Series 1 Stock"), is hereby established. The number of shares of HP Series 1 Stock shall be 5,000. The number of shares of HP Series 1 Stock may be increased or decreased (but not below the number of shares of HP Series 1 Stock then issued and outstanding) from time to time by resolution of the Board. HP Series 1 Stock repurchased by the Corporation shall be canceled and shall revert to authorized but unissued shares of Common Stock, undesignated as to class or series, subject to reclassification and reissuance by the Corporation in accordance with the Charter.

2. RANK. The HP Series 1 Stock shall, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Corporation, rank (a) on a parity with the Common Stock; and (b) junior to the Corporation's 9.5% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock"), 9-3/8% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred Stock"), 9.2% Series C Cumulative Redeemable Preferred Stock (the "Series C Preferred Stock") and 8% Series D Cumulative Redeemable Preferred Stock (the "Series D Preferred Stock"), and all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank senior to the HP Series 1 Stock.

3. VOTING RIGHTS. Each share of HP Series 1 Stock (voting together as a single class with all Common Stock (including any High Performance Common Stock-Series 2, High Performance Common Stock-Series 3, High Performance Common Stock-Series 4 and High Performance Common Stock-Series 5) and all Preferred Stock entitled to vote) will be entitled to cast twenty-five one-hundredths of one vote with respect to all matters on which the holders of Common Stock are entitled to vote. Shares of HP Series 1 Stock shall not have cumulative voting rights.

4. DIVIDENDS

(a) Each share of HP Series 1 Stock shall be entitled to receive dividends in the same amount and at the same times as regular quarterly cash dividends are paid on a number of shares of Common Stock equal to the Common Stock Equivalent, as defined below. For the avoidance of doubt, shares of HP Series 1 Stock shall not be entitled to receive dividends in respect of any dividend or other distribution paid on the Common Stock other than regular quarterly cash dividends.

(b) Each dividend will be payable to holders of record of the HP Series 1 Stock on a date (a "Record Date") selected by the Board which is the same date as the Record Date for the payment of the related dividend or other distribution on the Common Stock.

(c) Except as otherwise provided in paragraph (d), the Common Stock Equivalent shall be 0.01 shares of Common Stock.

(d) If the Cumulative Total Return of the Common Stock during the Measurement Period exceeds the Threshold Return, then with respect to each dividend declared after the Valuation Date, the Common Stock Equivalent shall be deemed to equal: (1) the product of (w) 7.5% of the amount by which the Cumulative Total Return of the Common Stock during the Measurement Period exceeds the Threshold Return multiplied by (x) the Average Market Capitalization of the Common Stock for the Measurement Period; divided by (2) the product of (y) the Security Price of one share of Common Stock as of the Valuation Date and (z) the number of shares of HP Series 1 Stock Outstanding at the close of business, New York time, on the Valuation Date; PROVIDED, HOWEVER, that in no event shall the Common Stock Equivalent exceed the quotient of (A) 1.0% of the average number of shares of Common Stock outstanding on the last day of each full calendar month during the Measurement Period, on a fully diluted basis, divided by (B) the number of shares of HP Series 1 Stock outstanding on the Valuation Date.

5. RIGHTS UPON LIQUIDATION, DISSOLUTION OR WINDING UP. In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, each share of HP Series 1 Stock shall be entitled, on the same basis as the Common Stock Equivalent and any other class of stock hereafter classified or reclassified that does not have a preference on distributions in the liquidation, dissolution or winding up of the Company, to share ratably in the net assets of the Company remaining, after payment or provision for payment of the debts and other liabilities of the Company and the amount to which the holders of any class of stock of the Company that has a preference on distributions in the liquidation, dissolution or winding up of the Company shall be entitled. The consolidation or merger of the Corporation with or into any other corporation, trust or entity or of any other corporation with or into the Corporation, or the sale, lease or conveyance of all or substantially all of the property or business of the Corporation, shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation.

6. REDEMPTION. The HP Series 1 Stock is not redeemable, except in the following instances:

(a) In order to ensure that the Corporation remains a qualified real estate investment trust for Federal income tax purposes, the HP Series 1 Stock will be subject to the provisions of Article IX of the Charter. Without limiting the generality of the foregoing, pursuant to Article IX, HP Series 1 Stock, together with other equity stock of the Corporation, owned by a stockholder in excess of the Ownership Limit will automatically be transferred to a Charitable Trust for the benefit of a Charitable Beneficiary and the Corporation will have the right to purchase such transferred shares from the Charitable Trust.

(b) The Corporation shall have the right, but not the obligation, to redeem shares of HP Series 1 Stock held by iStar HPU 2002, L.L.C. (the "LLC") upon receipt of a written notice (an "LLC Redemption Notice") from the managing member of the LLC of a proposed redemption by the LLC of units of interest in the LLC pursuant to the LLC's operating agreement. The LLC Redemption Notice shall specify the number of units of LLC interest to be redeemed, the redemption price and the date on which the redemption shall take place. The number of shares of HP Series 1 Stock that may be redeemed by the Corporation and the redemption price to be paid by the Corporation shall be the same as the number of units of LLC interest proposed to be redeemed and the redemption price to be paid for such units, in each case as set forth in the LLC Redemption Notice. In order for the Corporation to exercise its right of redemption hereunder, the Corporation shall advise the LLC in writing, as promptly as practicable

and in
any event within 10 business days after receipt of the LLC Redemption Notice, of its intent to redeem HP Series 1 Stock in response to the LLC Redemption Notice and shall specify a date for such redemption, which date shall be no later than 10:00 a.m., New York time, on the redemption date specified in the LLC Redemption Notice.

(c) Notice of redemption of HP Series 1 Stock having been given in accordance with the previous paragraph, on or before the redemption date, the LLC shall surrender the certificates representing the shares of HP Series 1 Stock to be redeemed to the Corporation. Promptly after the certificates representing HP Series 1 Stock are surrendered to the Corporation, the Corporation will deliver to the LLC the consideration for such shares.

(d) The Corporation shall redeem for cash all outstanding shares of HP Series 1 Stock at a redemption price per share equal to the Security Price of the Common Stock as of the first date on which the Corporation is no longer treated as a real estate investment trust for U.S. federal income tax purposes. Such redemption shall take place no later than 60 days after the first date on which the Corporation is no longer treated as a real estate investment trust for U.S. federal income tax purposes.

(e) At the close of business on the redemption date for shares of HP Series 1 Stock, the holders of the shares called for redemption will cease to be stockholders with respect to those shares, will have no interest in or claims against the Corporation by virtue of the shares and will have no voting or other rights with respect to the shares (except the right to receive the redemption price, and except the right to receive dividends or distributions payable thereafter to the holder of the HP Series 1 Stock as of a Record Date preceding such redemption date) and, from and after the close of business on the redemption date the shares of HP Series 1 Stock to be redeemed or exchanged will no longer be deemed outstanding.

(f) If a Record Date occurs prior to a redemption date for shares of HP Series 1 Stock but the corresponding dividend payment date occurs after the redemption date, the dividend payable on such dividend payment date will be payable on the dividend payment date to the holder of record of the shares of HP Series 1 Stock on the Record Date notwithstanding the redemption of the shares of HP Series 1 Stock on the redemption date.

7. CONVERSION. If the Corporation consolidates or merges with or into any person, or sells, assigns, transfers, leases or otherwise disposes of all or substantially all of its consolidated assets to another person, in a single transaction or a series of related transactions in which (1) the Corporation is not the surviving or continuing person and (2) the common stock of the Corporation is converted or exchanged into cash or other property or securities of the surviving or continuing person (a "Change of Control"), then at the effective time of the completion of such Change of Control transaction, each share of HP Series 1 Common Stock shall automatically be converted into the same type and amount of consideration as a number of shares of common stock equal to the Common Stock Equivalent in effect at the effective time of the completion of the transaction.

8. DEFINITIONS. As used herein, the following terms shall have the following meanings:

"AVERAGE MARKET CAPITALIZATION" means the weighted average of the common equity market capitalization of the Corporation for each calendar month of the Measurement Period, as calculated by multiplying the number of basic shares of Common Stock outstanding on the last day of each calendar month by the average daily closing price of the Common Stock for each such month.

"CHANGE OF CONTROL" means, a transaction of the type contemplated by paragraph 7 "Conversion" of these Articles.

"CHANGE OF CONTROL PRICE" means, if the Common Stock is publicly traded on a U.S. national securities exchange or automated quotation system prior to the occurrence of a Change of Control, then the closing price of the Common Stock at the end of regular trading on the last trading day prior to the occurrence of the Change of Control, and otherwise shall mean the fair market value of the Common Stock on the day prior to the occurrence of the Change of Control as determined by the Board.

"CUMULATIVE TOTAL RETURN" means, for any security and for any period, the cumulative total return for such security over such period, as measured by (1) the sum of (a) the cumulative amount of dividends paid in respect of such security for such period (assuming that all cash dividends are reinvested in such security as of the payment date for such dividend based on the Security Price as of the dividend payment date), and (b) an amount equal to (x) the Change of Control Price or, if no Change of Control has occurred, the Security Price as of the last day of the Measurement Period, minus (y) the closing price of the security, as reported by the principal stock exchange or automated quotation system on which the security is then traded, on the last trading day prior to the first day of the Measurement Period, divided by (2) the closing price of the security, as reported by the principal stock exchange or automated quotation system on which the security is then traded, on the last trading day prior to the first day of the Measurement Period; provided, however, that if the foregoing calculation results in a negative number, the "Cumulative Total Return" shall be equal to zero.

"INDEX RETURN" means the Cumulative Total Return, expressed as a percentage, achieved by the Peer Group Index during the Measurement Period.

"SECURITY PRICE" means, for any security, the average of the closing prices for such security on the principal securities exchange or automated quotation system on which the security is traded or listed for the 20 trading days ended on the trading date immediately preceding the date as of which the Security Price is being determined; provided, however, that if the security is not publicly-traded, then the Security Price shall be equal to the fair market value of the security as determined by the Board.

"MEASUREMENT PERIOD" means the period from and including January 1, 2002 to and including the Valuation Date.

"PEER GROUP INDEX" means, initially, a combination of The Morgan Stanley Dean Witter REIT Index and the Russell 1000 Financial Index, with each such index being accorded equal weighting. The Board may select one or more different indices to serve as the Peer Group Index from time to time if the Board determines that the applicable indices no longer serve as an appropriate comparison for the Company, or if they are not maintained throughout the Measurement Period or for any other reason the Board may determine.

"THRESHOLD RETURN" means the greater of (1) 10% and (2) the Index Return.

"VALUATION DATE" means the earlier of (1) December 31, 2002, (2) the date of the occurrence of a Change of Control of the Company and (3) the date of any liquidation, dissolution or winding up of the Company.

SECOND: The shares of High Performance Common Stock-Series 1 have been classified and designated by the Board of Directors under the authority contained in the Charter.

THIRD: These Articles Supplementary have been approved by the Board of Directors in the manner and by the vote required by law.

FOURTH: The undersigned President of the Corporation acknowledges these Articles Supplementary to be the corporate act of the Corporation and, as to all matters or facts required to be verified under oath, the undersigned President acknowledges that, to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Corporation has caused these Articles Supplementary to be signed in its name and on its behalf by its Chief Executive Officer and attested to by its Secretary on this 31st day of July, 2002.

ATTEST:	iSTAR FINANCIAL INC.
By: /s/ SPENCER B. HABER	By: /S/ JAY S. SUGARMAN (SEAL)
Name: Spencer B. Haber	Name: Jay S. Sugarman
Secretary: President & Chief Financial Officer	Title: Chairman & CEO

EXHIBIT 3.4

iSTAR FINANCIAL INC.

Articles Supplementary

iStar Financial Inc., a Maryland corporation, (the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: Under a power contained in Article V of the Charter of the Corporation (the "Charter"), the Board by duly adopted resolutions classified and designated 5,000 shares of authorized but unissued shares of Common Stock (as defined in the Charter) as shares of High Performance Common Stock-Series-2, with the following preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, and terms and conditions of redemption, which, upon any restatement of the Charter, shall become part of Article V of the Charter, with any necessary or appropriate renumbering or relettering of the sections or subsections hereof.

HIGH PERFORMANCE COMMON STOCK- SERIES 2

1. DESIGNATION AND NUMBER. A series of Common Stock, designated High Performance Common Stock-Series 2 ("HP Series 2 Stock"), is hereby established. The number of shares of HP Series 2 Stock shall be 5,000. The number of shares of HP Series 2 Stock may be increased or decreased (but not below the number of shares of HP Series 2 Stock then issued and outstanding) from time to time by resolution of the Board. HP Series 2 Stock repurchased by the Corporation shall be canceled and shall revert to authorized but unissued shares of Common Stock, undesignated as to class or series, subject to reclassification and reissuance by the Corporation in accordance with the Charter.

2. RANK. The HP Series 2 Stock shall, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Corporation, rank (a) on a parity with the Common Stock; and (b) junior to the Corporation's 9.5% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock"), 9-3/8% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred Stock"), 9.2% Series C Cumulative Redeemable Preferred Stock (the "Series C Preferred Stock") and 8% Series D Cumulative Redeemable Preferred Stock (the "Series D Preferred Stock"), and all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank senior to the HP Series 2 Stock.

3. VOTING RIGHTS. Each share of HP Series 2 Stock (voting together as a single class with all Common Stock (including any High Performance Common Stock-Series 1, High Performance Common Stock-Series 3, High Performance Common Stock-Series 4 and High Performance Common Stock-Series 5) and all Preferred Stock entitled to vote) will be entitled to cast twenty-five one-hundredths of one vote with respect to all matters on which the holders of Common Stock are entitled to vote. Shares of HP Series 2 Stock shall not have cumulative voting rights.

4. DIVIDENDS

(a) Each share of HP Series 2 Stock shall be entitled to receive dividends in the same amount and at the same times as regular quarterly cash dividends are paid on a number of shares of Common Stock equal to the Common Stock Equivalent, as defined below. For the avoidance of doubt, shares of HP Series 2 Stock shall not be entitled to receive dividends in respect of any dividend or other distribution paid on the Common Stock other than regular quarterly cash dividends.

(b) Each dividend will be payable to holders of record of the HP Series 2 Stock on a date (a "Record Date") selected by the Board which is the same date as the Record Date for the payment of the related dividend or other distribution on the Common Stock.

(c) Except as otherwise provided in paragraph (d), the Common Stock Equivalent shall be 0.01 shares of Common Stock.

(d) If the Cumulative Total Return of the Common Stock during the Measurement Period exceeds the Threshold Return, then with respect to each dividend declared after the Valuation Date, the Common Stock Equivalent shall be deemed to equal: (1) the product of (w) 7.5% of the amount by which the Cumulative Total Return of the Common Stock during the Measurement Period exceeds the Threshold Return multiplied by (x) the Average Market Capitalization of the Common Stock for the Measurement Period; divided by (2) the product of (y) the Security Price of one share of Common Stock as of the Valuation Date and (z) the number of shares of HP Series 2 Stock Outstanding at the close of business, New York time, on the Valuation Date; PROVIDED, HOWEVER, that in no event shall the Common Stock Equivalent exceed the quotient of (A) 1.0% of the average number of shares of Common Stock outstanding on the last day of each full calendar month during the Measurement Period, on a fully diluted basis, divided by (B) the number of shares of HP Series 2 Stock outstanding on the Valuation Date.

5. RIGHTS UPON LIQUIDATION, DISSOLUTION OR WINDING UP. In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, each share of HP Series 2 Stock shall be entitled, on the same basis as the Common Stock Equivalent and any other class of stock hereafter classified or reclassified that does not have a preference on distributions in the liquidation, dissolution or winding up of the Company, to share ratably in the net assets of the Company remaining, after payment or provision for payment of the debts and other liabilities of the Company and the amount to which the holders of any class of stock of the Company that has a preference on distributions in the liquidation, dissolution or winding up of the Company shall be entitled. The consolidation or merger of the Corporation with or into any other corporation, trust or entity or of any other corporation with or into the Corporation, or the sale, lease or conveyance of all or substantially all of the property or business of the Corporation, shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation.

6. REDEMPTION. The HP Series 2 Stock is not redeemable, except in the following instances:

(a) In order to ensure that the Corporation remains a qualified real estate investment trust for Federal income tax purposes, the HP Series 2 Stock will be subject to the provisions of Article IX of the Charter. Without limiting the generality of the foregoing, pursuant to Article IX, HP Series 2 Stock, together with other equity stock of the Corporation, owned by a stockholder in excess of the Ownership Limit will automatically be transferred to a Charitable Trust for the benefit of a Charitable Beneficiary and the Corporation will have the right to purchase such transferred shares from the Charitable Trust.

(b) The Corporation shall have the right, but not the obligation, to redeem shares of HP Series 2 Stock held by iStar HPU 2003, L.L.C. (the "LLC") upon receipt of a written notice (an "LLC Redemption Notice") from the managing member of the LLC of a proposed redemption by the LLC of units of interest in the LLC pursuant to the LLC's operating agreement. The LLC Redemption Notice shall specify the number of units of LLC interest to be redeemed, the redemption price and the date on which the redemption shall take place. The number of shares of HP Series 2 Stock that may be redeemed by the Corporation and the redemption price to be paid by the Corporation shall be the same as the number of units of LLC interest proposed to be redeemed and the redemption price to be paid for such units, in each case as set forth in the LLC Redemption Notice. In order for the Corporation to exercise its right of redemption hereunder, the Corporation shall advise the LLC in writing, as promptly as practicable

and in any event within 10 business days after receipt of the LLC Redemption Notice, of its intent to redeem HP Series 2 Stock in response to the LLC Redemption Notice and shall specify a date for such redemption, which date shall be no later than 10:00 a.m., New York time, on the redemption date specified in the LLC Redemption Notice.

(c) Notice of redemption of HP Series 2 Stock having been given in accordance with the previous paragraph, on or before the redemption date, the LLC shall surrender the certificates representing the shares of HP Series 2 Stock to be redeemed to the Corporation. Promptly after the certificates representing HP Series 2 Stock are surrendered to the Corporation, the Corporation will deliver to the LLC the consideration for such shares.

(d) The Corporation shall redeem for cash all outstanding shares of HP Series 2 Stock at a redemption price per share equal to the Security Price of the Common Stock as of the first date on which the Corporation is no longer treated as a real estate investment trust for U.S. federal income tax purposes. Such redemption shall take place no later than 60 days after the first date on which the Corporation is no longer treated as a real estate investment trust for U.S. federal income tax purposes.

(e) At the close of business on the redemption date for shares of HP Series 2 Stock, the holders of the shares called for redemption will cease to be stockholders with respect to those shares, will have no interest in or claims against the Corporation by virtue of the shares and will have no voting or other rights with respect to the shares (except the right to receive the redemption price, and except the right to receive dividends or distributions payable thereafter to the holder of the HP Series 2 Stock as of a Record Date preceding such redemption date) and, from and after the close of business on the redemption date the shares of HP Series 2 Stock to be redeemed or exchanged will no longer be deemed outstanding.

(f) If a Record Date occurs prior to a redemption date for shares of HP Series 2 Stock but the corresponding dividend payment date occurs after the redemption date, the dividend payable on such dividend payment date will be payable on the dividend payment date to the holder of record of the shares of HP Series 2 Stock on the Record Date notwithstanding the redemption of the shares of HP Series 2 Stock on the redemption date.

7. CONVERSION. If the Corporation consolidates or merges with or into any person, or sells, assigns, transfers, leases or otherwise disposes of all or substantially all of its consolidated assets to another person, in a single transaction or a series of related transactions in which (1) the Corporation is not the surviving or continuing person and (2) the common stock of the Corporation is converted or exchanged into cash or other property or securities of the surviving or continuing person (a "Change of Control"), then at the effective time of the completion of such Change of Control transaction, each share of HP Series 2 Common Stock shall automatically be converted into the same type and amount of consideration as a number of shares of common stock equal to the Common Stock Equivalent in effect at the effective time of the completion of the transaction.

8. DEFINITIONS. As used herein, the following terms shall have the following meanings:

"AVERAGE MARKET CAPITALIZATION" means the weighted average of the common equity market capitalization of the Corporation for each calendar month of the Measurement Period, as calculated by multiplying the number of basic shares of Common Stock outstanding on the last day of each calendar month by the average daily closing price of the Common Stock for each such month.

"CHANGE OF CONTROL" means, a transaction of the type contemplated by paragraph 7 "Conversion" of these Articles.

"CHANGE OF CONTROL PRICE" means, if the Common Stock is publicly traded on a U.S. national securities exchange or automated quotation system prior to the occurrence of a Change of Control, then the closing price of the Common Stock at the end of regular trading on the last trading day prior to the occurrence of the Change of Control, and otherwise shall mean the fair market value of the Common Stock on the day prior to the occurrence of the Change of Control as determined by the Board.

"CUMULATIVE TOTAL RETURN" means, for any security and for any period, the cumulative total return for such security over such period, as measured by (1) the sum of (a) the cumulative amount of dividends paid in respect of such security for such period (assuming that all cash dividends are reinvested in such security as of the payment date for such dividend based on the Security Price as of the dividend payment date), and (b) an amount equal to (x) the Change of Control Price or, if no Change of Control has occurred, the Security Price as of the last day of the Measurement Period, minus (y) the closing price of the security, as reported by the principal stock exchange or automated quotation system on which the security is then traded, on the last trading day prior to the first day of the Measurement Period, divided by (2) the closing price of the security, as reported by the principal stock exchange or automated quotation system on which the security is then traded, on the last trading day prior to the first day of the Measurement Period; provided, however, that if the foregoing calculation results in a negative number, the "Cumulative Total Return" shall be equal to zero.

"INDEX RETURN" means the Cumulative Total Return, expressed as a percentage, achieved by the Peer Group Index during the Measurement Period.

"SECURITY PRICE" means, for any security, the average of the closing prices for such security on the principal securities exchange or automated quotation system on which the security is traded or listed for the 20 trading days ended on the trading date immediately preceding the date as of which the Security Price is being determined; provided, however, that if the security is not publicly-traded, then the Security Price shall be equal to the fair market value of the security as determined by the Board.

"MEASUREMENT PERIOD" means the period from and including January 1, 2002 to and including the Valuation Date.

"PEER GROUP INDEX" means, initially, a combination of The Morgan Stanley Dean Witter REIT Index and the Russell 1000 Financial Index, with each such index being accorded equal weighting. The Board may select one or more different indices to serve as the Peer Group Index from time to time if the Board determines that the applicable indices no longer serve as an appropriate comparison for the Company, or if they are not maintained throughout the Measurement Period or for any other reason the Board may determine.

"THRESHOLD RETURN" means the greater of (1) 20% and (2) the Index Return.

"VALUATION DATE" means the earlier of (1) December 31, 2003, (2) the date of the occurrence of a Change of Control of the Company and (3) the date of any liquidation, dissolution or winding up of the Company.

SECOND: The shares of High Performance Common Stock-Series 2 have been classified and designated by the Board of Directors under the authority contained in the Charter.

THIRD: These Articles Supplementary have been approved by the Board of Directors in the manner and by the vote required by law.

FOURTH: The undersigned President of the Corporation acknowledges these Articles Supplementary to be the corporate act of the Corporation and, as to all matters or facts required to be verified under oath, the undersigned President acknowledges that, to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Corporation has caused these Articles Supplementary to be signed in its name and on its behalf by its Chief Executive Officer and attested to by its Secretary on this 31st day of July, 2002.

ATTEST:	iSTAR FINANCIAL INC.
By: /s/ SPENCER B. HABER	By: /S/ JAY S. SUGARMAN (SEAL)
Name: Spencer B. Haber	Name: Jay S. Sugarman
Secretary: President & Chief Financial Officer	Title: Chairman &CEO

EXHIBIT 3.5

iSTAR FINANCIAL INC.

Articles Supplementary

iStar Financial Inc., a Maryland corporation, (the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: Under a power contained in Article V of the Charter of the Corporation (the "Charter"), the Board by duly adopted resolutions classified and designated 5,000 shares of authorized but unissued shares of Common Stock (as defined in the Charter) as shares of High Performance Common Stock-Series-3, with the following preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, and terms and conditions of redemption, which, upon any restatement of the Charter, shall become part of Article V of the Charter, with any necessary or appropriate renumbering or relettering of the sections or subsections hereof.

HIGH PERFORMANCE COMMON STOCK- SERIES 3

1. DESIGNATION AND NUMBER. A series of Common Stock, designated High Performance Common Stock-Series 3 ("HP Series 3 Stock"), is hereby established. The number of shares of HP Series 3 Stock shall be 5,000. The number of shares of HP Series 3 Stock may be increased or decreased (but not below the number of shares of HP Series 3 Stock then issued and outstanding) from time to time by resolution of the Board. HP Series 3 Stock repurchased by the Corporation shall be canceled and shall revert to authorized but unissued shares of Common Stock, undesignated as to class or series, subject to reclassification and reissuance by the Corporation in accordance with the Charter.

2. RANK. The HP Series 3 Stock shall, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Corporation, rank (a) on a parity with the Common Stock; and (b) junior to the Corporation's 9.5% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock"), 9-3/8% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred Stock"), 9.2% Series C Cumulative Redeemable Preferred Stock (the "Series C Preferred Stock") and 8% Series D Cumulative Redeemable Preferred Stock (the "Series D Preferred Stock"), and all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank senior to the HP Series 3 Stock.

3. VOTING RIGHTS. Each share of HP Series 3 Stock (voting together as a single class with all Common Stock (including any High Performance Common Stock-Series 1, High Performance Common Stock-Series 2, High Performance Common Stock-Series 4 and High Performance Common Stock-Series 5)and all Preferred Stock entitled to vote) will be entitled to cast twenty-five one-hundredths of one vote with respect to all matters on which the holders of Common Stock are entitled to vote. Shares of HP Series 3 Stock shall not have cumulative voting rights.

4. DIVIDENDS

(a) Each share of HP Series 3 Stock shall be entitled to receive dividends in the same amount and at the same times as regular quarterly cash dividends are paid on a number of shares of Common Stock equal to the Common Stock Equivalent, as defined below. For the avoidance of doubt, shares of HP Series 3 Stock shall not be entitled to receive dividends in respect of any dividend or other distribution paid on the Common Stock other than regular quarterly cash dividends.

(b) Each dividend will be payable to holders of record of the HP Series 3 Stock on a date (a "Record Date") selected by the Board which is the same date as the Record Date for the payment of the related dividend or other distribution on the Common Stock.

(c) Except as otherwise provided in paragraph (d), the Common Stock Equivalent shall be 0.01 shares of Common Stock.

(d) If the Cumulative Total Return of the Common Stock during the Measurement Period exceeds the Threshold Return, then with respect to each dividend declared after the Valuation Date, the Common Stock Equivalent shall be deemed to equal: (1) the product of (w) 7.5% of the amount by which the Cumulative Total Return of the Common Stock during the Measurement Period exceeds the Threshold Return multiplied by (x) the Average Market Capitalization of the Common Stock for the Measurement Period; divided by (2) the product of (y) the Security Price of one share of Common Stock as of the Valuation Date and (z) the number of shares of HP Series 3 Stock Outstanding at the close of business, New York time, on the Valuation Date; PROVIDED, HOWEVER, that in no event shall the Common Stock Equivalent exceed the quotient of (A) 1.0% of the average number of shares of Common Stock outstanding on the last day of each full calendar month during the Measurement Period, on a fully diluted basis, divided by (B) the number of shares of HP Series 3 Stock outstanding on the Valuation Date.

5. RIGHTS UPON LIQUIDATION, DISSOLUTION OR WINDING UP. In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, each share of HP Series 3 Stock shall be entitled, on the same basis as the Common Stock Equivalent and any other class of stock hereafter classified or reclassified that does not have a preference on distributions in the liquidation, dissolution or winding up of the Company, to share ratably in the net assets of the Company remaining, after payment or provision for payment of the debts and other liabilities of the Company and the amount to which the holders of any class of stock of the Company that has a preference on distributions in the liquidation, dissolution or winding up of the Company shall be entitled. The consolidation or merger of the Corporation with or into any other corporation, trust or entity or of any other corporation with or into the Corporation, or the sale, lease or conveyance of all or substantially all of the property or business of the Corporation, shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation.

6. REDEMPTION. The HP Series 3 Stock is not redeemable, except in the following instances:

(a) In order to ensure that the Corporation remains a qualified real estate investment trust for Federal income tax purposes, the HP Series 3 Stock will be subject to the provisions of Article IX of the Charter. Without limiting the generality of the foregoing, pursuant to Article IX, HP Series 3 Stock, together with other equity stock of the Corporation, owned by a stockholder in excess of the Ownership Limit will automatically be transferred to a Charitable Trust for the benefit of a Charitable Beneficiary and the Corporation will have the right to purchase such transferred shares from the Charitable Trust.

(b) The Corporation shall have the right, but not the obligation, to redeem shares of HP Series 3 Stock held by iStar HPU 2004, L.L.C. (the "LLC") upon receipt of a written notice (an "LLC Redemption Notice") from the managing member of the LLC of a proposed redemption by the LLC of units of interest in the LLC pursuant to the LLC's operating agreement. The LLC Redemption Notice shall specify the number of units of LLC interest to be redeemed, the redemption price and the date on which the redemption shall take place. The number of shares of HP Series 3 Stock that may be redeemed by the Corporation and the redemption price to be paid by the Corporation shall be the same as the number of units of LLC interest proposed to be redeemed and the redemption price to be paid for such units, in each case as set forth in the LLC Redemption Notice. In order for the Corporation to exercise its right of redemption hereunder, the Corporation shall advise the LLC in writing, as promptly as practicable

and in any event within 10 business days after receipt of the LLC Redemption Notice, of its intent to redeem HP Series 3 Stock in response to the LLC Redemption Notice and shall specify a date for such redemption, which date shall be no later than 10:00 a.m., New York time, on the redemption date specified in the LLC Redemption Notice.

(c) Notice of redemption of HP Series 3 Stock having been given in accordance with the previous paragraph, on or before the redemption date, the LLC shall surrender the certificates representing the shares of HP Series 3 Stock to be redeemed to the Corporation. Promptly after the certificates representing HP Series 3 Stock are surrendered to the Corporation, the Corporation will deliver to the LLC the consideration for such shares.

(d) The Corporation shall redeem for cash all outstanding shares of HP Series 3 Stock at a redemption price per share equal to the Security Price of the Common Stock as of the first date on which the Corporation is no longer treated as a real estate investment trust for U.S. federal income tax purposes. Such redemption shall take place no later than 60 days after the first date on which the Corporation is no longer treated as a real estate investment trust for U.S. federal income tax purposes.

(e) At the close of business on the redemption date for shares of HP Series 3 Stock, the holders of the shares called for redemption will cease to be stockholders with respect to those shares, will have no interest in or claims against the Corporation by virtue of the shares and will have no voting or other rights with respect to the shares (except the right to receive the redemption price, and except the right to receive dividends or distributions payable thereafter to the holder of the HP Series 3 Stock as of a Record Date preceding such redemption date) and, from and after the close of business on the redemption date the shares of HP Series 3 Stock to be redeemed or exchanged will no longer be deemed outstanding.

(f) If a Record Date occurs prior to a redemption date for shares of HP Series 3 Stock but the corresponding dividend payment date occurs after the redemption date, the dividend payable on such dividend payment date will be payable on the dividend payment date to the holder of record of the shares of HP Series 3 Stock on the Record Date notwithstanding the redemption of the shares of HP Series 3 Stock on the redemption date.

7. CONVERSION. If the Corporation consolidates or merges with or into any person, or sells, assigns, transfers, leases or otherwise disposes of all or substantially all of its consolidated assets to another person, in a single transaction or a series of related transactions in which (1) the Corporation is not the surviving or continuing person and (2) the common stock of the Corporation is converted or exchanged into cash or other property or securities of the surviving or continuing person (a "Change of Control"), then at the effective time of the completion of such Change of Control transaction, each share of HP Series 3 Common Stock shall automatically be converted into the same type and amount of consideration as a number of shares of common stock equal to the Common Stock Equivalent in effect at the effective time of the completion of the transaction.

8. DEFINITIONS. As used herein, the following terms shall have the following meanings:

"AVERAGE MARKET CAPITALIZATION" means the weighted average of the common equity market capitalization of the Corporation for each calendar month of the Measurement Period, as calculated by multiplying the number of basic shares of Common Stock outstanding on the last day of each calendar month by the average daily closing price of the Common Stock for each such month.

"CHANGE OF CONTROL" means, a transaction of the type contemplated by paragraph 7 "Conversion" of these Articles.

"CHANGE OF CONTROL PRICE" means, if the Common Stock is publicly traded on a U.S. national securities exchange or automated quotation system prior to the occurrence of a Change of Control, then the closing price of the Common Stock at the end of regular trading on the last trading day prior to the occurrence of the Change of Control, and otherwise shall mean the fair market value of the Common Stock on the day prior to the occurrence of the Change of Control as determined by the Board.

"CUMULATIVE TOTAL RETURN" means, for any security and for any period, the cumulative total return for such security over such period, as measured by (1) the sum of (a) the cumulative amount of dividends paid in respect of such security for such period (assuming that all cash dividends are reinvested in such security as of the payment date for such dividend based on the Security Price as of the dividend payment date), and (b) an amount equal to (x) the Change of Control Price or, if no Change of Control has occurred, the Security Price as of the last day of the Measurement Period, minus (y) the closing price of the security, as reported by the principal stock exchange or automated quotation system on which the security is then traded, on the last trading day prior to the first day of the Measurement Period, divided by (2) the closing price of the security, as reported by the principal stock exchange or automated quotation system on which the security is then traded, on the last trading day prior to the first day of the Measurement Period; provided, however, that if the foregoing calculation results in a negative number, the "Cumulative Total Return" shall be equal to zero.

"INDEX RETURN" means the Cumulative Total Return, expressed as a percentage, achieved by the Peer Group Index during the Measurement Period.

"SECURITY PRICE" means, for any security, the average of the closing prices for such security on the principal securities exchange or automated quotation system on which the security is traded or listed for the 20 trading days ended on the trading date immediately preceding the date as of which the Security Price is being determined; provided, however, that if the security is not publicly-traded, then the Security Price shall be equal to the fair market value of the security as determined by the Board.

"MEASUREMENT PERIOD" means the period from and including January 1, 2002 to and including the Valuation Date.

"PEER GROUP INDEX" means, initially, a combination of The Morgan Stanley Dean Witter REIT Index and the Russell 1000 Financial Index, with each such index being accorded equal weighting. The Board may select one or more different indices to serve as the Peer Group Index from time to time if the Board determines that the applicable indices no longer serve as an appropriate comparison for the Company, or if they are not maintained throughout the Measurement Period or for any other reason the Board may determine.

"THRESHOLD RETURN" means the greater of (1) 30% and (2) the Index Return.

"VALUATION DATE" means the earlier of (1) December 31, 2004, (2) the date of the occurrence of a Change of Control of the Company and (3) the date of any liquidation, dissolution or winding up of the Company.

SECOND: The shares of High Performance Common Stock-Series 3 have been classified and designated by the Board of Directors under the authority contained in the Charter.

THIRD: These Articles Supplementary have been approved by the Board of Directors in the manner and by the vote required by law.

FOURTH: The undersigned President of the Corporation acknowledges these Articles Supplementary to be the corporate act of the Corporation and, as to all matters or facts required to be verified under oath, the undersigned President acknowledges that, to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Corporation has caused these Articles Supplementary to be signed in its name and on its behalf by its Chief Executive Officer and attested to by its Secretary on this 31st day of July, 2002.

ATTEST:	iSTAR FINANCIAL INC.
By: /s/ SPENCER B. HABER	By: JAY S. SUGARMAN (SEAL)
Name: Spencer B. Haber	Name: Jay S. Sugarman
Secretary: President & Chief Financial Officer	Title: Chairman & CEO