ISTAR FINANCIAL INC
Form 10-Q
November 04, 2014
Table of Contents

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2014
OR

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

For the transition period from to
Commission File No. 1-15371

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

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

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

Indicate by check mark whether the registrant: (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports); and (ii) has been subject to such filing requirements for the past 90 days.
Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No ý
As of October 28, 2014, there were 85,171,859 shares of common stock, $0.001 par value per share, of iStar Financial Inc. ("Common Stock") outstanding.

Table of Contents

TABLE OF CONTENTS

		Page
Part I.	Consolidated Financial Information	1
Item 1.	Financial Statements:	1
	Consolidated Balance Sheets (unaudited) as of September 30, 2014 and December 31, 2013	1
	Consolidated Statements of Operations (unaudited)—For the three and nine months ended September 30, 2014 and 2013	2
	Consolidated Statements of Comprehensive Income (Loss) (unaudited)—For the three and nine months ended September 30, 2014 and 2013	3
	Consolidated Statements of Changes in Equity (unaudited)—For the nine months ended September 30, 2014 and 2013	4
	Consolidated Statements of Cash Flows (unaudited)—For the nine months ended September 30, 2014 and 2013	6
	Notes to Consolidated Financial Statements (unaudited)	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	39
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	54
Item 4.	Controls and Procedures	54
Part II.	Other Information	55
Item 1.	Legal Proceedings	55
Item 1A.	Risk Factors	55
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	55
Item 3.	Defaults Upon Senior Securities	55
Item 4.	Mine Safety Disclosures	55
Item 5.	Other Information	55
Item 6.	Exhibits	56
SIGNATURES		57

Table of Contents

PART I. CONSOLIDATED FINANCIAL INFORMATION
Item 1. Financial Statements
iStar Financial Inc.
Consolidated Balance Sheets
(In thousands, except per share data)
(unaudited)

	As of September 30, 2014	December 31, 2013
ASSETS		
Real estate		
Real estate, at cost	$3,138,151	$3,220,634
Less: accumulated depreciation	(455,325)	(424,453)
Real estate, net	2,682,826	2,796,181
Real estate available and held for sale	317,964	360,517
Total real estate	3,000,790	3,156,698
Loans receivable and other lending investments, net	1,190,746	1,370,109
Other investments	314,275	207,209
Cash and cash equivalents	652,788	513,568
Restricted cash	21,774	48,769
Accrued interest and operating lease income receivable, net	13,752	14,941
Deferred operating lease income receivable	98,029	92,737
Deferred expenses and other assets, net	188,471	237,980
Total assets	$5,480,625	$5,642,011
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$159,979	$170,831
Debt obligations, net	4,047,016	4,158,125
Total liabilities	4,206,995	4,328,956
Commitments and contingencies	—	—
Redeemable noncontrolling interests	11,355	11,590
Equity:		
iStar Financial Inc. shareholders' equity:		
Preferred Stock Series D, E, F, G and I, liquidation preference $25.00 per share (see Note 11)	22	22
Convertible Preferred Stock Series J, liquidation preference $50.00 per share (see Note 11)	4	4
High Performance Units	9,800	9,800
Common Stock, $0.001 par value, 200,000 shares authorized, 145,788 issued and 85,172 outstanding at September 30, 2014 and 144,334 issued and 83,717 outstanding at December 31, 2013	146	144
Additional paid-in capital	4,009,660	4,022,138
Retained earnings (deficit)	(2,542,755)	(2,521,618)
Accumulated other comprehensive income (loss) (see Note 11)	(3,349)	(4,276)
Treasury stock, at cost, $0.001 par value, 60,617 shares at September 30, 2014 and December 31, 2013	(262,954)	(262,954)
Total iStar Financial Inc. shareholders' equity	1,210,574	1,243,260
Noncontrolling interests	51,701	58,205
Total equity	1,262,275	1,301,465

Total liabilities and equity	$5,480,625	$5,642,011

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

1

Table of Contents

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Operating lease income	$60,691	$60,227	$183,766	$175,354
Interest income	31,098	24,235	94,139	78,584
Other income	18,407	11,234	62,253	35,778
Land sales revenue	3,290	—	11,920	—
Total revenues	113,486	95,696	352,078	289,716
Costs and expenses:				
Interest expense	55,424	63,793	169,410	204,516
Real estate expense	41,285	37,546	124,452	112,362
Land cost of sales	2,763	—	10,028	—
Depreciation and amortization	17,722	18,962	55,157	53,615
General and administrative	23,377	24,285	69,788	67,008
Provision for (recovery of) loan losses	(673)	(9,834)	(6,865)	5,392
Impairment of assets	15,462	6,261	21,741	6,261
Other expense	(285)	1,495	4,626	7,266
Total costs and expenses	155,075	142,508	448,337	456,420
Income (loss) before earnings from equity method investments and other items	(41,589)	(46,812)	(96,259)	(166,704)
Loss on early extinguishment of debt, net	(186)	(3,498)	(24,953)	(28,282)
Earnings from equity method investments	49,578	4,345	76,848	34,346
Income (loss) from continuing operations before income taxes	7,803	(45,965)	(44,364)	(160,640)
Income tax (expense) benefit	(103)	3,879	619	(625)
Income (loss) from continuing operations(1)	7,700	(42,086)	(43,745)	(161,265)
Income (loss) from discontinued operations	—	255	—	1,441
Gain from discontinued operations	—	9,166	—	22,488
Income from sales of real estate	27,791	14,075	61,465	72,092
Net income (loss)	35,491	(18,590)	17,720	(65,244)
Net (income) loss attributable to noncontrolling interests	412	(167)	(367)	332
Net income (loss) attributable to iStar Financial Inc.	35,903	(18,757)	17,353	(64,912)
Preferred dividends	(12,830)	(12,830)	(38,490)	(36,190)
Net (income) loss allocable to HPU holders and Participating Security holders(2)(3)	(746)	1,016	683	3,263
Net income (loss) allocable to common shareholders	$22,327	$(30,571)	$(20,454)	$(97,839)
Per common share data(1):				
Income (loss) attributable to iStar Financial Inc. from continuing operations:				
Basic	$0.26	$(0.46)	$(0.24)	$(1.43)
Diluted	$0.21	$(0.46)	$(0.24)	$(1.43)
Net income (loss) attributable to iStar Financial Inc.:				
Basic	$0.26	$(0.36)	$(0.24)	$(1.15)
Diluted	$0.21	$(0.36)	$(0.24)	$(1.15)

Weighted average number of common shares:				
Basic	85,163	85,392	84,967	85,116
Diluted	130,160	85,392	84,967	85,116
Per HPU share data(1)(2):				
Income (loss) attributable to iStar Financial Inc. from continuing operations:				
Basic	$49.60	$(87.93)	$(45.53)	$(269.07)
Diluted	$40.13	$(87.93)	$(45.53)	$(269.07)
Net income (loss) attributable to iStar Financial Inc.:				
Basic	$49.60	$(67.73)	$(45.53)	$(217.54)
Diluted	$40.13	$(67.73)	$(45.53)	$(217.54)
Weighted average number of HPU shares:				
Basic	15	15	15	15
Diluted	15	15	15	15

Explanatory Notes:

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(1) Income (loss) from continuing operations attributable to iStar Financial Inc. was $8.1 million and $(44.1) million for the three and nine months ended September 30, 2014, respectively, and $(42.3) million and $(160.9) million for the three and nine months ended September 30, 2013, respectively. See Note 13 for details on the calculation of earnings per share.

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

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

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

2

Table of Contents

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$35,491	$(18,590)	$17,720	$(65,244)
Other comprehensive income (loss):				
Reclassification of (gains)/losses on available-for-sale securities into earnings upon realization(1)	—	(266)	—	(859)
Reclassification of (gains)/losses on cash flow hedges into earnings upon realization(2)	(32)	80	3,698	231
Realization of (gains)/losses on cumulative translation adjustment into earnings upon realization(3)	—	—	968	(1,310)
Unrealized gains/(losses) on available-for-sale securities	23	(2)	134	(283)
Unrealized gains/(losses) on cash flow hedges	411	(1,448)	(4,193)	(222)
Unrealized gains/(losses) on cumulative translation adjustment	(4)	(143)	320	(517)
Other comprehensive income (loss)	398	(1,779)	927	(2,960)
Comprehensive income (loss)	35,889	(20,369)	18,647	(68,204)
Comprehensive (income) loss attributable to noncontrolling interests	410	(166)	(364)	323
Comprehensive income (loss) attributable to iStar Financial Inc.	$36,299	$(20,535)	$18,283	$(67,881)

Explanatory Notes:

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(1) For the nine months ended September 30, 2013, $593 is included in "Earnings from equity method investments" on the Company's Consolidated Statements of Operations. For the three and nine months ended September 30, 2013, $266 is included in "Other income" on the Company's Consolidated Statements of Operations.

(2) For the nine months ended September 30, 2014, $3,634 is included in "Other expense" on the Company's Consolidated Statements of Operations (see Note 10). Included in "Interest expense" on the Company's Consolidated Statements of Operations are $(32) and $64 for the three and nine months ended September 30, 2014, respectively, and $80 and $231 for the three and nine months ended September 30, 2013, respectively.

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

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

Table of Contents

iStar Financial Inc.
Consolidated Statements of Changes in Equity
For the Nine Months Ended September 30, 2014 and 2013
(In thousands)
(unaudited)

	iStar Financial Inc. Shareholders' Equity									
	Preferred Stock(1)	Preferred Stock Series J(1)	HPU's	Common Stock at Par	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock at Cost	Noncontrolling Interests	Total Equity
Balance at December 31, 2013	$22	$4	$9,800	$144	$4,022,138	$(2,521,618)	$(4,276)	$(262,954)	$58,205	$1,301,465
Dividends declared—preferred	—	—	—	—	—	(38,490)	—	—	—	(38,490)
Issuance of stock/restricted stock unit amortization, net	—	—	—	2	(11,387)	—	—	—	—	(11,385)
Net income for the period(2)	—	—	—	—	—	17,353	—	—	1,693	19,046
Change in accumulated other comprehensive income (loss)	—	—	—	—	—	—	927	—	—	927
Additional paid in capital attributable to redeemable noncontrolling interest	—	—	—	—	(1,091)	—	—	—	—	(1,091)
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	505	505
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(4,787)	(4,787)
Change in noncontrolling interests(3)	—	—	—	—	—	—	—	—	(3,915)	(3,915)
Balance at September 30, 2014	$22	$4	$9,800	$146	$4,009,660	$(2,542,755)	$(3,349)	$(262,954)	$51,701	$1,262,275

Explanatory Notes:

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

(2) For the nine months ended September 30, 2014, net income shown above excludes $1,326 of net loss attributable to redeemable noncontrolling interests.

(3) During the nine months ended September 30, 2014, the Company sold its 72% interest in a previously consolidated entity to one of its unconsolidated ventures (see Note 4 and Note 6).

Table of Contents

iStar Financial Inc.
Consolidated Statements of Changes in Equity (Continued)
For the Nine Months Ended September 30, 2014 and 2013
(In thousands)
(unaudited)

	iStar Financial Inc. Shareholders' Equity									
	Preferred Stock(1)	Preferred Stock Series J(1)	HPU's	Common Stock at Par	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock at Cost	Noncontrolling Interests	Total Equity
Balance at December 31, 2012	$22	$—	$9,800	$143	$3,832,780	$(2,360,647)	$(1,185)	$(241,969)	$74,210	$1,313,154
Issuance of Preferred Stock	—	4	—	—	193,506	—	—	—	—	193,510
Dividends declared—preferred	—	—	—	—	—	(36,190)	—	—	—	(36,190)
Issuance of stock/restricted stock unit amortization, net	—	—	—	1	(2,876)	—	—	—	—	(2,875)
Net income (loss) for the period(2)	—	—	—	—	—	(64,912)	—	—	1,767	(63,145)
Change in accumulated other comprehensive income (loss)	—	—	—	—	—	—	(2,960)	—	—	(2,960)
Additional paid in capital attributable to redeemable noncontrolling interest(3)	—	—	—	—	(2,555)	—	—	—	—	(2,555)
Contributions from noncontrolling interests(4)	—	—	—	—	—	—	—	—	9,951	9,951
Distributions to noncontrolling interests(3)	—	—	—	—	—	—	—	—	(23,850)	(23,850)
Balance at September 30, 2013	$22	$4	$9,800	$144	$4,020,855	$(2,461,749)	$(4,145)	$(241,969)	$62,078	$1,385,040

Explanatory Notes:

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(1) See Note 11 for details on the Company's Cumulative Redeemable Preferred Stock.
(2) For the nine months ended September 30, 2013, net loss shown above excludes $2,099 of net loss attributable to redeemable noncontrolling interests.
(3) Includes an $8.8 million payment to redeem a noncontrolling member's interest (see Note 4).
(4) Includes $9.4 million of operating property assets contributed by a noncontrolling partner.

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

Table of Contents

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

	For the Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	$17,720	$(65,244)
Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Provision for (recovery of) loan losses	(6,865)	5,392
Impairment of assets	21,741	7,335
Depreciation and amortization	55,157	53,873
Land cost of sales	10,028	—
Payments for withholding taxes upon vesting of stock-based compensation	(18,482)	(13,985)
Non-cash expense for stock-based compensation	8,544	14,484
Amortization of discounts/premiums and deferred financing costs on debt	12,937	15,690
Amortization of discounts/premiums and deferred interest on loans	(44,953)	(26,356)
(Gain) loss from sales of loans	(19,067)	596
Earnings from equity method investments	(76,848)	(34,346)
Distributions from operations of equity method investments	76,719	12,825
Deferred operating lease income	(6,787)	(9,489)
Income from sales of real estate	(61,465)	(72,092)
Gain from discontinued operations	—	(22,488)
Loss on early extinguishment of debt, net	24,953	16,768
Repayments and repurchases of debt—debt discount and prepayment penalty	(14,532)	(22,218)
Other operating activities, net	33,732	3,385
Changes in assets and liabilities:		
Changes in accrued interest and operating lease income receivable, net	1,189	5,460
Changes in deferred expenses and other assets, net	(4,904)	(13,312)
Changes in accounts payable, accrued expenses and other liabilities	(7,247)	(6,573)
Cash flows from operating activities	1,570	(150,295)
Cash flows from investing activities:		
Investment originations and fundings	(361,858)	(170,762)
Capital expenditures on real estate assets	(103,511)	(76,970)
Acquisitions of real estate assets	(2,964)	(8,790)
Repayments of and principal collections on loans	454,951	536,170
Net proceeds from sales of loans	65,029	81,171
Net proceeds from sales of real estate	319,813	360,848
Net proceeds from sale of other investments	—	220,281
Distributions from other investments	55,567	27,011
Contributions to other investments	(157,431)	(7,411)
Changes in restricted cash held in connection with investing activities	27,187	(22,527)
Other investing activities, net	(998)	3,292
Cash flows from investing activities	295,785	942,313
Cash flows from financing activities:		
Borrowings from debt obligations	1,349,822	1,237,673
Repayments of debt obligations	(1,445,635)	(1,678,277)

Preferred dividends paid	(38,490)	(36,190)
Proceeds from issuance of preferred stock	—	193,510
Payments for deferred financing costs	(19,552)	(13,383)
Other financing activities, net	(4,280)	(16,243)
Cash flows from financing activities	(158,135)	(312,910)
Changes in cash and cash equivalents	139,220	479,108
Cash and cash equivalents at beginning of period	513,568	256,344
Cash and cash equivalents at end of period	$652,788	$735,452

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

Table of Contents

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

Note 1—Business and Organization

Business—iStar Financial Inc., or the "Company," is a fully-integrated finance and investment company focused on the commercial real estate industry. The Company provides custom-tailored investment capital to high-end private and corporate owners of real estate and invests directly across a range of real estate sectors. The Company, which is taxed as a real estate investment trust, or "REIT," has invested more than $35 billion over the past two decades. The Company's primary business segments are real estate finance, net lease, operating properties and land (see Note 15).

Organization—The Company began its business in 1993 through the management of private investment funds and became publicly traded in 1998. Since that time, the Company has grown through the origination of new investments, as well as through corporate acquisitions.

Note 2—Basis of Presentation and Principles of Consolidation

Basis of Presentation—The accompanying unaudited Consolidated Financial Statements have been prepared in conformity with the instructions to Form 10-Q and Article 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles in the United States of America ("GAAP") for complete financial statements. These unaudited Consolidated Financial Statements and related Notes should be read in conjunction with the Consolidated Financial Statements and related Notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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.

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 results for the interim periods presented. Such operating results may not be indicative of the expected results for any other interim periods or the entire year.

Certain prior year amounts have been reclassified in the Consolidated Financial Statements and the related Notes to conform to the 2014 presentation.

Principles of Consolidation—The Consolidated Financial Statements include the financial statements of the Company, its wholly owned subsidiaries, controlled partnerships and variable interest entities ("VIEs") for which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation. The Company's involvement with VIEs affects its financial performance and cash flows primarily through amounts recorded in "Operating lease income," "Earnings from equity method investments," "Real estate expense" and "Interest expense" in the Company's Consolidated Statements of Operations. The Company has not provided financial support to these VIEs that it was not previously contractually required to provide.

Consolidated VIEs—As of September 30, 2014, the Company consolidated 4 VIEs for which the Company is considered the primary beneficiary. At September 30, 2014, the total assets of these consolidated VIEs were $167.9 million and total liabilities were $16.8 million. The classifications of these assets are primarily within "Real estate, net" and "Other investments" on the Company's Consolidated Balance Sheets. The classifications of liabilities are primarily

within "Accounts payable, accrued expenses and other liabilities" on the Company's Consolidated Balance Sheets. The liabilities of these VIEs are non-recourse to the Company and can only be satisfied from each VIE's respective assets. The Company's total unfunded commitments related to consolidated VIEs was $38.8 million as of September 30, 2014.

Unconsolidated VIEs—As of September 30, 2014, 28 of the Company's investments were in VIEs where it is not the primary beneficiary and accordingly the VIEs have not been consolidated in the Company's Consolidated Financial Statements. As of September 30, 2014, the Company's maximum exposure to loss from these investments does not exceed the sum of the $168.0 million carrying value of the investments, which are classified in "Other investments" on the Company's Consolidated Balance Sheets, and $25.5 million of related unfunded commitments.

Table of Contents
iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)
(unaudited)

Note 3—Summary of Significant Accounting Policies

As of September 30, 2014, the Company's significant accounting policies, which are detailed in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, have not changed materially other than the policies described below.
Real Estate
Capitalization—For real estate projects, the Company begins to capitalize qualified development and construction costs, including interest, real estate taxes, compensation and certain other carrying costs incurred which are specifically identifiable to a development project once activities necessary to get the asset ready for its intended use have commenced. If specific allocation of costs is not practicable, the Company will allocate costs based on relative fair value prior to construction or relative sales value, relative size or other value methods as appropriate during construction. The Company ceases capitalization on the portions substantially completed and ready for their intended use.

Dispositions—Revenues from sales of land are recognized in accordance with Accounting Standards Codification ("ASC") 360-20, Real Estate Sales. Sales of land are recognized for full profit recognition upon closing of the sale transactions, when the profit is determinable, the earnings process is virtually complete, the parties are bound by the terms of the contract, all consideration has been exchanged, any permanent financing for which the seller is responsible has been arranged and all conditions for closing have been performed. Revenues from sales of land are included in "Land sales revenue" and costs of land sales are included in "Land cost of sales" on the Company’s Consolidated Statements of Operations.

Reserve for Loan Losses
The reserve for loan losses reflects management's estimate of loan losses inherent in the loan portfolio as of the balance sheet date. If the Company determines that the collateral value is less than the carrying value of a collateral-dependent loan, the Company will record a reserve. The reserve is increased through "Provision for (recovery of) loan losses" on the Company's Consolidated Statements of Operations and is decreased by charge-offs. During delinquency and the foreclosure process, there are typically numerous points of negotiation with the borrower as the Company works toward a settlement or other alternative resolution, which can impact the potential for loan repayment or receipt of collateral. The Company's policy is to charge off a loan when it determines, based on a variety of factors, that all commercially reasonable means of recovering the loan balance have been exhausted. This may occur at different times, including when the Company receives cash or other assets in a pre-foreclosure sale or takes control of the underlying collateral in full satisfaction of the loan upon foreclosure or deed-in-lieu, or when the Company has otherwise ceased significant collection efforts. The Company considers circumstances such as the foregoing to be indicators that the final steps in the loan collection process have occurred and that a loan is uncollectible. At this point, a loss is confirmed and the loan and related reserve will be charged off. The Company has one portfolio segment, represented by commercial real estate lending, whereby it utilizes a uniform process for determining its reserve for loan losses. The reserve for loan losses includes a general, formula-based component and an asset-specific component.
The general reserve component covers performing loans and reserves for loan losses are recorded when (i) available information as of each balance sheet date indicates that it is probable a loss has occurred in the portfolio and (ii) the amount of the loss can be reasonably estimated. The formula-based general reserve is derived from estimated principal default probabilities and loss severities applied to groups of loans based upon risk ratings assigned to loans with similar risk characteristics during the Company's quarterly loan portfolio assessment. During this assessment, the Company performs a comprehensive analysis of its loan portfolio and assigns risk ratings to loans that incorporate management's current judgments about their credit quality based on all known and relevant internal and external

factors that may affect collectability. The Company considers, among other things, payment status, lien position, borrower financial resources and investment in collateral, collateral type, project economics and geographical location as well as national and regional economic factors. This methodology results in loans being segmented by risk classification into risk rating categories that are associated with estimated probabilities of default and principal loss. Ratings range from "1" to "5" with "1" representing the lowest risk of loss and "5" representing the highest risk of loss. The Company estimates loss rates based on historical realized losses experienced within its portfolio and takes into account current economic conditions affecting the commercial real estate market when establishing appropriate time frames to evaluate loss experience.

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

project economics and geographical location as well as national and regional economic factors. A reserve is established for an impaired loan when the present value of payments expected to be received, observable market prices, or the estimated fair value of the collateral (for loans that are dependent on the collateral for repayment) is lower than the carrying value of that loan.

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

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

New Accounting Pronouncements

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08"). This guidance requires disposals of a component of an entity or group of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results to be reported as discontinued operations. Assets and liabilities of a disposal group that includes a discontinued operation must be presented separately in asset and liability sections, respectively, of the Company's Consolidated Balance Sheets for each comparative period. Expanded disclosures about the assets, liabilities, revenues and expenses of discontinued operations are also required. For individually significant disposals that do not qualify as discontinued operations, disclosure of pre-tax income is required. ASU 2014-08 is effective for interim and annual periods beginning on or after December 15, 2014. Early adoption is permitted for disposals (or classifications as held for sale) that have not been reported in previously-issued financial statements. The Company has elected to early adopt ASU 2014-08 beginning with disposals and classifications of assets as held for sale that occurred after December 31, 2013.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09") which supersedes existing industry-specific guidance, including ASC 360-20, Real Estate Sales. The new standard is principles-based and requires more estimates and judgment than current guidance. Certain contracts with customers, including lease contracts and financial instruments and other contractual rights, are not within the scope of the new guidance. ASU 2014-09 is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. Management is evaluating the impact of the guidance on the Company's Consolidated Financial Statements.

In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period ("ASU 2014-12") which requires a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition in accordance with Topic 718, Compensation—Stock Compensation. ASU 2014-12 is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. Management does not believe the guidance will have a significant impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern ("ASU 2014-15") which requires management to evaluate whether there is substantial doubt that the Company is able to continue operating as a going concern within one year after the date the financial statements are issued or available to be issued. If there is substantial doubt, additional disclosure is required, including the principal

condition or event that raised the substantial doubt, the Company's evaluation of the condition or event in relation to its ability to meet its obligations and the Company's plan to alleviate (or, which is intended to alleviate) the substantial doubt. ASU 2014-15 is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted. Management does not believe the guidance will have a significant impact on the Company's Consolidated Financial Statements.

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

Note 4—Real Estate
The Company's real estate assets were comprised of the following ($ in thousands):

	Net Lease	Operating Properties	Land	Total
As of September 30, 2014				
Land and land improvements	$321,668	$144,854	$845,614	$1,312,136
Buildings and improvements	1,254,182	571,833	—	1,826,015
Less: accumulated depreciation and amortization	(360,816)	(89,974)	(4,535)	(455,325)
Real estate, net	1,215,034	626,713	841,079	2,682,826
Real estate available and held for sale	—	196,597	121,367	317,964
Total real estate	$1,215,034	$823,310	$962,446	$3,000,790
As of December 31, 2013				
Land and land improvements	$350,817	$132,934	$803,238	$1,286,989
Buildings and improvements	1,346,071	587,574	—	1,933,645
Less: accumulated depreciation and amortization	(338,640)	(82,420)	(3,393)	(424,453)
Real estate, net	1,358,248	638,088	799,845	2,796,181
Real estate available and held for sale	—	228,328	132,189	360,517
Total real estate	$1,358,248	$866,416	$932,034	$3,156,698

Real Estate Available and Held for Sale—As of September 30, 2014 and December 31, 2013, the Company had $189.6 million and $221.0 million, respectively, of residential properties available for sale in its operating properties portfolio.

During the nine months ended September 30, 2014, the Company reclassified land with a carrying value of $6.5 million from held for sale to held for investment due to a change in the Company's strategy and its plan to re-entitle the property. The asset is included in "Real estate, net" on the Company's Consolidated Balance Sheets. There were no operations to reclassify on the Company's Consolidated Statements of Operations as a result of this change. During the same period, the Company reclassified units with a carrying value of $56.7 million to held for sale due to the conversion of hotel rooms to residential units to be sold.

Acquisitions—The following acquisitions of real estate were reflected in the Company's Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013 ($ in thousands):

	For the Nine Months Ended September 30,	
	2014	2013
Acquisitions of real estate assets	2,964 (1)	8,790 (2)

Explanatory Notes:

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(1) During the nine months ended September 30, 2014, the Company purchased two residential units for $3.0 million.
(2) During the nine months ended September 30, 2013, the Company paid $8.8 million to redeem a noncontrolling member's interest.

During the nine months ended September 30, 2014, the Company acquired, via deed-in-lieu, title to three commercial operating properties and a land asset, which had a total fair value of $77.9 million and previously served as collateral

for loans receivable held by the Company. No gain or loss was recorded in connection with this transaction. The following table summarizes the Company's pro forma revenues and net income for the three and nine months ended September 30, 2014, as if the acquisition of these properties acquired during the nine months ended September 30, 2014 was completed on January 1, 2013 ($ in thousands):

10

Table of Contents
iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Pro forma total revenues	113,486	98,740	356,378	298,811
Pro forma net income (loss)	35,491	(18,921)	17,306	(66,366)

From the date of acquisition in May 2014 through September 30, 2014, $5.3 million in total revenues and $1.7 million in net loss associated with the properties were included in the Company's Consolidated Statements of Operations. The pro forma revenues and net income are presented for informational purposes only and may not be indicative of what the actual results of operations of the Company would have been assuming the transaction occurred on January 1, 2013, nor do they purport to represent the Company's results of operations for future periods.
During the nine months ended September 30, 2013, the Company acquired, via foreclosure, title to a residential operating property, which previously served as collateral for a loan receivable held by the Company. The Company contributed the residential operating property which had a fair value of $25.5 million, to an entity of which it owns 63%. Based on the control provisions in the partnership agreement, the Company consolidates the entity and reflects its partner's 37% share of equity in "Noncontrolling interests" on the Company's Consolidated Balance Sheets. The acquisition was accounted for at fair value. No gain or loss was recorded in connection with this transaction.

Dispositions—During the nine months ended September 30, 2014 and 2013, the Company sold residential condominiums for total net proceeds of $165.6 million and $222.6 million, respectively, and recorded income from sales of real estate totaling $56.9 million and $68.7 million, respectively. During the nine months ended September 30, 2014, the Company sold residential lots from three of our master planned community properties for proceeds of $11.9 million which had associated cost of sales of $10.0 million. During the same period, the Company also sold properties with a carrying value of $6.8 million for proceeds that approximated carrying value.
During the nine months ended September 30, 2014, the Company sold a commercial operating property with a carrying value of $29.4 million resulting in a gain of $4.6 million. The gain was recorded as "Income from sales of real estate" in the Company's Consolidated Statements of Operations. Additionally, during the same period, the Company sold a net lease asset for net proceeds of $7.8 million. The Company recorded an impairment loss of $3.0 million in connection with the sale.
During the nine months ended September 30, 2014, the Company sold a net lease asset for net proceeds of $93.7 million which approximated carrying value to a newly formed unconsolidated entity. The Company also sold its 72% interest in a previously consolidated entity, which owns a net lease asset subject to a non-recourse mortgage of $26.0 million, for net proceeds of $10.1 million that approximated carrying value. During the same period, the Company contributed land with a carrying value of $9.5 million to a newly formed unconsolidated entity. See Note 6.
During the nine months ended September 30, 2013, the Company sold land for net proceeds of $21.4 million to a newly formed unconsolidated entity in which the Company also received a preferred partnership interest and a 47.5% equity interest. The Company recognized a gain of $3.4 million, reflecting the proportionate share of the sold interest, which was recorded as "Income from sales of real estate" in the Company's Consolidated Statements of Operations. Additionally, during the nine months ended September 30, 2013, the Company sold four net lease assets with a carrying value of $15.7 million resulting in a net gain of $2.9 million. During the same period, the Company sold five commercial operating properties with a carrying value of $70.5 million resulting in a net gain of $19.1 million. These gains were recorded as "Gain from discontinued operations" in the Company's Consolidated Statements of Operations. The Company also sold other land assets with a carrying value of $8.6 million for proceeds that approximated carrying value. During the nine months ended September 30, 2013, the Company transferred title of net lease assets with a carrying value of $8.7 million to its tenant for consideration that approximated our carrying value.
Discontinued Operations—The Company has elected to early adopt ASU 2014-08 beginning with disposals and classifications of assets as held for sale that occurred after December 31, 2013. During the nine months ended

September 30, 2014, there were no disposals or assets classified as held for sale which were individually significant or represented a strategic shift that has (or will have) a major effect on the Company's operations and financial results.

Table of Contents
iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)
(unaudited)

The following table summarizes income (loss) from discontinued operations for the three and nine months ended September 30, 2013 ($ in thousands):

	For the Three Months Ended September 30, 2013	For the Nine Months Ended September 30, 2013
Revenues	$1,562	$5,240
Total expenses	(783)	(2,879)
Impairment of assets	(524)	(920)
Income (loss) from discontinued operations	$255	$1,441

Impairments—During the nine months ended September 30, 2014, the Company recorded impairments on real estate assets totaling $21.7 million, of which $15.4 million resulted from continued unfavorable local market conditions for two real estate properties, $3.3 million resulting from changes in business strategy for a residential property and $3.0 million resulting from the sale of a net lease asset.

Tenant Reimbursements—The Company receives reimbursements from tenants for certain facility operating expenses including common area costs, insurance, utilities and real estate taxes. Tenant expense reimbursements were $7.6 million and $23.1 million for the three and nine months ended September 30, 2014, respectively, and $9.1 million and $24.8 million for the three and nine months ended September 30, 2013, respectively. These amounts are included in "Operating lease income" on the Company's Consolidated Statements of Operations.

Allowance for Doubtful Accounts—As of September 30, 2014 and December 31, 2013, the allowance for doubtful accounts related to real estate tenant receivables was $2.4 million and $3.4 million, respectively, and the allowance for doubtful accounts related to deferred operating lease income was $2.4 million and $2.5 million, respectively.

Note 5—Loans Receivable and Other Lending Investments, net

The following is a summary of the Company's loans receivable and other lending investments by class ($ in thousands):

Type of Investment	As of September 30, 2014	December 31, 2013
Senior mortgages	$588,984	$1,071,662
Subordinate mortgages	46,476	60,679
Corporate/Partnership loans	490,864	473,045
Total gross carrying value of loans	1,126,324	1,605,386
Reserves for loan losses	(119,907)	(377,204)
Total loans receivable, net	1,006,417	1,228,182
Other lending investments—securities	184,329	141,927
Total loans receivable and other lending investments, net(1)	$1,190,746	$1,370,109

Explanatory Note:

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(1) The Company's recorded investment in loans as of September 30, 2014 and December 31, 2013 also includes accrued interest of $6.5 million and $6.5 million, respectively, which are included in "Accrued interest and operating lease income receivable, net" on the Company's Consolidated Balance Sheets.

During the nine months ended September 30, 2014, the Company sold loans with total carrying values of $30.8 million, which resulted in a realized gain of $19.1 million. During the nine months ended September 30, 2013, the

Company sold loans with total carrying values of $95.1 million, which resulted in a net realized loss of $0.6 million. Gains and losses on sales of loans are included in "Other income" on the Company's Consolidated Statements of Operations.

Table of Contents
iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)
(unaudited)

Reserve for Loan Losses—Changes in the Company's reserve for loan losses were as follows ($ in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Reserve for loan losses at beginning of period	$137,904	$479,826	$377,204	$524,499
Provision for (recovery of) loan losses(1)	(673)	(9,834)	(6,865)	5,392
Charge-offs	(17,324)	(89,985)	(250,432)	(149,884)
Reserve for loan losses at end of period	$119,907	$380,007	$119,907	$380,007

Explanatory Note:

(1) For the three and nine months ended September 30, 2014, the provision for loan losses includes recoveries of previously recorded loan loss reserves of $0.9 million and $8.5 million, respectively. For the three and nine months ended September 30, 2013, the provision for loan losses includes recoveries of previously recorded loan loss reserves of $44.1 million and $55.1 million, respectively.

The Company's recorded investment in loans (comprised of a loan's carrying value plus accrued interest) and the associated reserve for loan losses were as follows ($ in thousands):

	Individually Evaluated for Impairment(1)	Collectively Evaluated for Impairment(2)	Loans Acquired with Deteriorated Credit Quality(3)	Total
As of September 30, 2014				
Loans	$211,811	$921,033	$—	$1,132,844
Less: Reserve for loan losses	(89,107)	(30,800)	—	(119,907)
Total	$122,704	$890,233	$—	$1,012,937
As of December 31, 2013				
Loans	$752,425	$849,613	$9,889	$1,611,927
Less: Reserve for loan losses	(348,004)	(29,200)	—	(377,204)
Total	$404,421	$820,413	$9,889	$1,234,723

Explanatory Notes:

(1) The carrying value of these loans include unamortized discounts, premiums, deferred fees and costs aggregating to a net discount of $0.2 million and a net premium of $0.5 million as of September 30, 2014 and December 31, 2013, respectively. The Company's loans individually evaluated for impairment primarily represent loans on non-accrual status and therefore, the unamortized amounts associated with these loans are not currently being amortized into income.

(2) The carrying value of these loans include unamortized discounts, premiums, deferred fees and costs aggregating to a net discount of $8.3 million and $4.6 million as of September 30, 2014 and December 31, 2013, respectively.

(3) The carrying value of the loan includes unamortized discounts, premiums, deferred fees and costs aggregating to a net premium of $0.4 million as of December 31, 2013. The loan had a cumulative principal balance of $10.2 million as of December 31, 2013. The loan was repaid during the nine months ended

September 30, 2014.

Credit Characteristics—As part of the Company's process for monitoring the credit quality of its loans, it performs a quarterly loan portfolio assessment and assigns risk ratings to each of its performing loans. Risk ratings are based on judgments which are inherently uncertain and there can be no assurance that actual performance will be similar to current expectation.

Table of Contents
iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)
(unaudited)

The Company's recorded investment in performing loans, presented by class and by credit quality, as indicated by risk rating, was as follows ($ in thousands):

	As of September 30, 2014		December 31, 2013	
	Performing Loans	Weighted Average Risk Ratings	Performing Loans	Weighted Average Risk Ratings
Senior mortgages	$411,280	2.50	$591,145	2.50
Subordinate mortgages	47,019	2.89	61,364	3.37
Corporate/Partnership loans	494,584	3.83	438,831	3.88
Total	$952,883	3.21	$1,091,340	3.11

As of September 30, 2014, the Company's recorded investment in loans, aged by payment status and presented by class, were as follows ($ in thousands):

	Current	Less Than and Equal to 90 Days	Greater Than 90 Days(1)	Total Past Due	Total
Senior mortgages	$444,704	$—	$146,537	$146,537	$591,241
Subordinate mortgages	47,019	—	—	—	47,019
Corporate/Partnership loans	494,584	—	—	—	494,584
Total	$986,307	$—	$146,537	$146,537	$1,132,844

Explanatory Note:

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(1) As of September 30, 2014, the Company had 4 loans which were greater than 90 days delinquent and were in various stages of resolution, including legal proceedings, environmental concerns and foreclosure-related proceedings, and ranged from 5.0 to 6.0 years outstanding.

Impaired Loans—The Company's recorded investment in impaired loans, presented by class, were as follows ($ in thousands)(1):

	As of September 30, 2014			As of December 31, 2013		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Senior mortgages	$—	$—	$—	$3,012	$2,992	$—
With an allowance recorded:						
Senior mortgages	181,380	180,454	(86,975)	650,337	645,463	(304,544)
Corporate/Partnership loans	30,431	30,444	(2,132)	99,076	99,067	(43,460)
Subtotal	211,811	210,898	(89,107)	749,413	744,530	(348,004)
Total:						
Senior mortgages	181,380	180,454	(86,975)	653,349	648,455	(304,544)
Corporate/Partnership loans	30,431	30,444	(2,132)	99,076	99,067	(43,460)
Total	$211,811	$210,898	$(89,107)	$752,425	$747,522	$(348,004)

Explanatory Note:

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(1) All of the Company's non-accrual loans are considered impaired and included in the table above. In addition, as of September 30, 2014 and December 31, 2013, certain loans modified through troubled debt restructurings with a recorded investment of $31.9 million and $231.8 million, respectively, are also included as impaired loans in accordance with GAAP although they are performing and on accrual status.

The Company's average recorded investment in impaired loans and interest income recognized, presented by class, were as follows ($ in thousands):

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2014		2013		2014		2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:								
Senior mortgages	$40,635	$ 1,234	$13,622	$ 166	$44,574	$ 1,922	$38,508	$ 9,223
Corporate/Partnership loans	—	—	10,044	349	—	—	10,077	789
Subtotal	40,635	1,234	23,666	515	44,574	1,922	48,585	10,012
With an allowance recorded:								
Senior mortgages	192,513	18	749,367	444	385,277	140	830,225	1,399
Subordinate mortgages	—	—	27,068	—	—	—	40,478	—
Corporate/Partnership loans	34,330	40	82,290	83	63,948	157	72,308	240
Subtotal	226,843	58	858,725	527	449,225	297	943,011	1,639
Total:								
Senior mortgages	233,148	1,252	762,989	610	429,851	2,062	868,733	10,622
Subordinate mortgages	—	—	27,068	—	—	—	40,478	—
Corporate/Partnership loans	34,330	40	92,334	432	63,948	157	82,385	1,029
Total	$267,478	$ 1,292	$882,391	$ 1,042	$493,799	$ 2,219	$991,596	$ 11,651

There was no interest income related to the resolution of non-performing loans recorded during the nine months ended September 30, 2014. During the nine months ended September 30, 2013, the Company recorded interest income of $8.0 million related to the resolution of a non-performing loan. Interest income was not previously recorded while the loan was on non-accrual status.

Troubled Debt Restructurings—During the three and nine months ended September 30, 2014 and September 30, 2013, the Company modified loans that were determined to be troubled debt restructurings. The recorded investment in these loans was impacted by the modifications as follows, presented by class ($ in thousands):

	For the Three Months Ended September 30, 2014			For the Nine Months Ended September 30, 2014		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Senior mortgages	1	$ 7,040	$ 7,040	1	$ 7,040	$ 7,040

	For the Three Months Ended September 30, 2013	For the Nine Months Ended September 30, 2013

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Senior mortgages	2	$ 9,020	$ 9,020	5	$ 153,452	$ 145,778

During the three and nine months ended September 30, 2014, the Company restructured one non-performing loan with a recorded investment of $7.0 million to grant a maturity extension of one year and included conditional extension options.

15

Table of Contents
iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)
(unaudited)

During the three months ended September 30, 2013, the Company restructured one performing loan with a recorded investment of $1.4 million to grant a maturity extension of one year. The Company also extended a payoff option on a loan with a recorded investment of $7.6 million that was classified as non-performing.
During the nine months ended September 30, 2013, the Company restructured five loans that were considered troubled debt restructurings. In addition to the loans modified during the three months ended September 30, 2013 that are described above, the Company also restructured one non-performing loan with a recorded investment of $72.7 million in which the Company received a $13.3 million paydown and accepted a discounted payoff option on this loan. At the time of the restructuring, the Company reclassified the loan from non-performing to performing status as the Company believed the borrower would perform under the modified terms of the agreement. The loan was repaid in January 2014 at the discounted payoff amount. The Company restructured one performing loan with a recorded investment of $3.2 million to grant a maturity extension of one year. The Company also extended a payoff option on a loan with a recorded investment of $68.6 million that was classified as non-performing.
Generally when granting concessions, the Company will seek to protect its position by requiring incremental pay downs, additional collateral or guarantees and in some cases lookback features or equity kickers to offset concessions granted should conditions impacting the loan improve. The Company's determination of credit losses is impacted by troubled debt restructurings whereby loans that have gone through troubled debt restructurings are considered impaired, assessed for specific reserves, and are not included in the Company's assessment of general loan loss reserves. Loans previously restructured under troubled debt restructurings that subsequently default are reassessed to incorporate the Company's current assumptions on expected cash flows and additional provision expense is recorded to the extent necessary. As of September 30, 2014, there were no unfunded commitments associated with modified loans considered troubled debt restructurings.

Securities—As of September 30, 2014, other lending investments—securities includes the following ($ in thousands):

	Face Value	Amortized Cost Basis	Net Unrealized Gain (Loss)	Estimated Fair Value	Net Carrying Value
Available-for-Sale Securities					
Municipal debt securities	$1,020	$1,020	$115	$1,135	$1,135
Held-to-Maturity Securities					
Corporate debt securities	175,506	183,194	—	183,194	183,194
Total	$176,526	$184,214	$115	$184,329	$184,329

Note 6—Other Investments

The Company's other investments and its proportionate share of results from equity method investments were as follows ($ in thousands):

	Carrying Value as of		Equity in Earnings			
	September 30, 2014	December 31, 2013	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
			2014	2013	2014	2013
Real estate equity investments(1)	$207,242	$62,205	$33,707	$(966)	$35,394	$1,755
Madison Funds	44,470	67,782	3,982	3,674	1,591	10,798
Other equity method investments(2)(3)	32,566	45,954	10,753	430	35,671	2,056
Oak Hill Funds	20,453	21,366	1,136	1,207	4,192	3,272

LNR	—	—	—	—	—	16,465
Total equity method investments	304,731	197,307	$49,578	$4,345	$76,848	$34,346
Other	9,544	9,902				
Total other investments	$314,275	$207,209				

16

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

Explanatory Notes:

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(1) During the three and nine months ended September 30, 2014, the Company recognized $32.9 million of earnings from equity method investments resulting from asset sales by one of its equity method investees.
(2) During the nine months ended September 30, 2014, the Company recognized $23.4 million of earnings from equity method investments resulting from asset sales and a legal settlement by one of its equity method investees.
(3) In conjunction with the sale of the Company's interests in Oak Hill Advisors, L.P. in 2011, the Company retained interests in its share of carried interest related to various funds. During the three and nine months ended September 30, 2014, the Company recognized $9.0 million of carried interest income.

LNR—In July 2010, the Company acquired an ownership interest of approximately 24% in LNR Property Corporation ("LNR"). LNR is a servicer and special servicer of commercial mortgage loans and CMBS and a diversified real estate investment, finance and management company. In the transaction, the Company and a group of investors, including other creditors of LNR, acquired 100% of the common stock of LNR in exchange for cash and the extinguishment of existing senior notes of LNR's parent holding company (the "Holdco Notes"). The Company contributed $100.0 million aggregate principal amount of Holdco Notes and $100.0 million in cash in exchange for an equity interest of $120.0 million.

Beginning in September 2012, the Company and other owners of LNR entered into negotiations with potential purchasers of LNR. After an extensive due diligence and negotiation process, the LNR owners entered into a definitive contract to sell LNR in January 2013 at a fixed sale price which, from the Company's perspective, reflected in part the Company's then-current expectations about the future results of LNR and potential volatility in its business. The definitive sale contract provided that LNR would not make cash distributions to its owners during the fourth quarter of 2012 through the closing of the sale. Notwithstanding the fixed terms of the contract, our investment balance in LNR increased due to equity in earnings recorded which resulted in our recognition of other than temporary impairment on our investment during the year ended December 31, 2013. In April 2013, the Company completed the sale of its 24% equity interest in LNR and received $220.3 million in net proceeds. Approximately $25.2 million of net proceeds, which were placed in escrow for potential indemnification obligations, were released to the Company in April 2014.
The following table represents investee level summarized financial information for LNR ($ in thousands)(1):

	For the Period from April 1, 2013 to April 19, 2013	For the Period from October 1, 2012 to April 19, 2013
Income Statements		
Total revenue(2)	$32,794	$179,373
Income tax (expense) benefit	(736)	(2,137)
Net income attributable to LNR	(51,983)	113,478

Explanatory Notes:

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(1) The Company recorded its investment in LNR, which was sold in April 2013, on a one quarter lag. Therefore, the amounts in the Company's financial statements for the three and nine months ended September 30, 2013 were based on balances and results from LNR for the period from April 1, 2013 to April 19, 2013 and for the period from October 1, 2012 to April 19, 2013, respectively.

(2) LNR consolidates certain commercial mortgage-backed securities and collateralized debt obligation trusts that are considered VIEs (and for which it is the primary beneficiary), that have been included in the amounts presented above. Total revenue presented above includes $5.1 million and $55.5 million for the period from April 1, 2013 to April 19, 2013 and for the period from October 1, 2012 to April 19, 2013, respectively, of servicing fee revenue that is eliminated upon consolidation of the VIE's at the LNR level. This income is then added back through consolidation at the LNR level as an adjustment to income allocable to noncontrolling entities and has no net impact on net income attributable to LNR.

Table of Contents
iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)
(unaudited)

The following table reconciles the activity related to the Company's investment in LNR for the three months ended March 31, 2013, June 30, 2013 and September 30, 2013 and for the nine months ended September 30, 2013 ($ in thousands):

	For the Three Months Ended March 31, 2013	For the Three Months Ended June 30, 2013	For the Three Months Ended September 30, 2013	For the Nine Months Ended September 30, 2013	
Carrying value of LNR at beginning of period	$205,773	$220,281	$—	$205,773	
Equity in earnings of LNR for the period(1)	45,375	—	—	45,375	(a)
Balance before other than temporary impairment	251,148	220,281	—	251,148	
Other than temporary impairment(1)	(30,867)	—	—	(30,867)	(b)
Sales proceeds pursuant to contract	—	(220,281)	—	(220,281)	
Carrying value of LNR at end of period	220,281	—	—	—	

Explanatory Note:

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(1) During the nine months ended September 30, 2013, the Company recorded an other than temporary impairment of $30.9 million. Subsequent to the sale of the Company's interest in LNR, LNR reported a reduction in their earnings of $66.2 million related to a purchase price allocation adjustment. The reduction was reflected in LNR's operations for the three months ended March 31, 2013, which resulted in a net loss for the period. Because the Company recorded its investment in LNR on a one quarter lag, the adjustment was reflected in the quarter ended June 30, 2013. There was no net impact on the Company's previously reported equity in earnings as the Company limited its proportionate share of earnings from LNR pursuant to the definitive sale agreement as described above.

For the nine months ended September 30, 2013, the amount that was recognized as income in the Company's Consolidated Statements of Operations is the sum of items (a) and (b), and $1.7 million of income recognized for the release of other comprehensive income related to LNR upon sale, or $16.5 million.

Madison Funds—As of September 30, 2014, the Company owned a 29.52% interest in Madison International Real Estate Fund II, LP, a 32.92% interest in Madison International Real Estate Fund III, LP and a 29.52% interest in Madison GP1 Investors, LP (collectively, the "Madison Funds"). The Madison Funds invest in ownership positions of entities that own real estate assets. The Company determined that these entities are VIEs and that the Company is not the primary beneficiary.

Oak Hill Funds—As of September 30, 2014, the Company owned a 5.92% interest in OHA Strategic Credit Master Fund, L.P. ("OHASCF"). OHASCF was formed to acquire and manage a diverse portfolio of assets, investing in distressed, stressed and undervalued loans, bonds, equities and other investments. The Company determined that this entity is a VIE and that the Company is not the primary beneficiary.

Real Estate Equity Investments—During the nine months ended September 30, 2014, the Company partnered with a sovereign wealth fund to form a new unconsolidated entity in which the Company has a noncontrolling equity interest of approximately 51.9%. This entity is not a VIE and the Company does not have controlling interest due to shared power of the entity with its partner. The partners plan to contribute up to an aggregate $500 million of equity to acquire and develop net lease assets over time. The Company is responsible for sourcing new opportunities and managing the venture and its assets in exchange for a promote and management fee. Several of the Company's senior executives whose time is substantially devoted to the net lease venture own a total of 0.6% equity ownership in the venture via co-investment. These executives are also entitled to an amount equal to 50% of any promote payment

received based on the 47.5% partner's interest. During the nine months ended September 30, 2014, the Company sold a net lease asset for net proceeds of $93.7 million, which approximated carrying value, to the venture. The Company also sold its 72% interest in a previously consolidated entity, which owns a net lease asset subject to a non-recourse mortgage of $26.0 million, to the venture for net proceeds of $10.1 million, which approximated carrying value. During the same period, the venture purchased a portfolio of 58 net lease assets for a purchase price of $200.0 million from a third party. As of September 30, 2014, the venture's carrying value of total assets was $347.6 million and the Company had a recorded equity interest in the venture of $127.1 million.

During the three months ended September 30, 2014, an unconsolidated entity for which the Company held a 50.0% noncontrolling equity interest sold its properties. As a result of the transaction, the Company received net proceeds of $48.1 million and recognized a gain of $32.9 million, which is included in "Earnings from equity method investments" in its Consolidated Statements of Operations. As of September 30, 2014, the Company no longer had an equity interest in the entity.

Table of Contents
iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)
(unaudited)

During the nine months ended September 30, 2014, the Company contributed land to a newly formed unconsolidated entity in which the Company received an initial equity interest of 85.7%. This entity is a VIE and the Company does not have controlling interest due to shared power of the entity with its partner. As of September 30, 2014, the Company had a recorded equity interest of $9.6 million. Additionally, the Company committed to provide $45.7 million of mezzanine financing to the entity. As of September 30, 2014, the loan balance was $6.7 million and is included in "Loans receivable and other lending investments, net" on the Company's Consolidated Balance Sheets.

In addition, as of September 30, 2014, the Company's other real estate equity investments included equity interests in real estate ventures ranging from 31% to 76%, comprised of investments of $14.2 million in operating properties and $56.3 million in land assets. As of December 31, 2013, the Company's real estate equity investments included $16.4 million in net lease assets, $16.0 million in operating properties and $29.8 million in land assets. One of the Company's equity investments in operating properties represents a 33% interest in residential property units. For the nine months ended September 30, 2014 and 2013, the Company's earnings from its interest in this property includes income from sales of residential units of $0.3 million and $4.5 million, respectively.
Summarized financial information—The following table presents the investee level summarized financial information of the Company's equity method investments, which were significant subsidiaries as of September 30, 2014 ($ in thousands):

	For the Nine Months Ended August 31,	
	2014	2013
OHA Strategic Credit Master Fund, L.P. ("OHA")		
Revenues(1)	$77,631	$64,803
Expenses(1)	(639)	(1,224)
Net income attributable to OHA(1)	76,992	63,579

	For the Nine Months Ended September 30,	
	2014	2013
Moor Park Real Estate Partners II L.P. ("Moor Park")		
Revenues	$25,760	$993
Expenses	(224)	(210)
Net income attributable to Moor Park	25,536	783

Explanatory Note:

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(1) The Company recorded its investment in OHA, on a month lag. Therefore, the amounts in the Company's financial statements for the three and nine months ended September 30, 2014 and September 30, 2013 were based on balances and results from OHA for the three and nine months ended August 31, 2014 and August 31, 2013, respectively.

Other Investments—As of September 30, 2014, the Company also had smaller investments in real estate related funds and other strategic investments in several other entities that were accounted for under the equity method or cost method.

19

Table of Contents
iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)
(unaudited)

Note 7—Other Assets and Other Liabilities
Deferred expenses and other assets, net, consist of the following items ($ in thousands):

	As of September 30, 2014	December 31, 2013
Intangible assets, net(1)	$54,336	$100,652
Deferred financing fees, net(2)	39,675	33,591
Other receivables	20,123	34,655
Leasing costs, net(3)	18,175	21,799
Corporate furniture, fixtures and equipment, net(4)	5,645	6,557
Other assets	50,517	40,726
Deferred expenses and other assets, net	$188,471	$237,980

Explanatory Notes:

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(1) Intangible assets, net are primarily related to the acquisition of real estate assets. Accumulated amortization on intangible assets was $40.4 million and $38.1 million as of September 30, 2014 and December 31, 2013, respectively. The amortization of above market leases decreased operating lease income on the Company's Consolidated Statements of Operations by $1.4 million and $5.0 million for the three and nine months ended September 30, 2014, respectively, and $1.4 million and $4.6 million for the three and nine months ended September 30, 2013. The amortization expense for other intangible assets was $1.3 million and $5.5 million for the three and nine months ended September 30, 2014, respectively, and $1.9 million and $7.0 million for the three and nine months ended September 30, 2013, respectively. These amounts are included in "Depreciation and amortization" on the Company's Consolidated Statements of Operations.

(2) Accumulated amortization on deferred financing fees was $12.5 million and $9.9 million as of September 30, 2014 and December 31, 2013, respectively.

(3) Accumulated amortization on leasing costs was $8.2 million and $7.1 million as of September 30, 2014 and December 31, 2013, respectively.

(4) Accumulated depreciation on corporate furniture, fixtures and equipment was $6.8 million and $6.2 million as of September 30, 2014 and December 31, 2013, respectively.

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

	As of September 30, 2014	December 31, 2013
Accrued expenses	$57,839	$58,840
Accrued interest payable	44,361	40,015
Intangible liabilities, net(1)	12,339	26,223
Other liabilities(2)	45,440	45,753
Accounts payable, accrued expenses and other liabilities	$159,979	$170,831

Explanatory Notes:

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(1)

Intangible liabilities, net are primarily related to the acquisition of real estate assets. Accumulated amortization on intangible liabilities was $5.8 million and $4.6 million as of September 30, 2014 and December 31, 2013, respectively. The amortization of intangible liabilities increased operating lease income on the Company's Consolidated Statements of Operations by $0.5 million and $2.1 million for the three and nine months ended September 30, 2014, respectively, and $0.9 million and $3.1 million for the three and nine months ended September 30, 2013, respectively.

(2) As of September 30, 2014, "Other liabilities" includes $7.7 million related to tax increment financing ("TIF") bonds which were issued by a governmental entity to fund the installation of infrastructure within one of the Company's master planned community developments. The balance represents a special assessment associated with each individual land parcel, which will decrease as the Company sells parcels.

Deferred tax assets and liabilities of the Company's TRS entities were as follows ($ in thousands):

	As of September 30, 2014	December 31, 2013
Deferred tax assets(1)	$52,723	$55,962
Valuation allowance	(52,723)	(55,962)
Net deferred tax assets (liabilities)	$—	$—

20

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

Explanatory Note:

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(1) Deferred tax assets as of September 30, 2014 include real estate basis differences of $34.9 million, investment basis differences of $9.6 million, net operating loss carryforwards of $5.9 million and other differences of $2.3 million. Deferred tax assets as of December 31, 2013 include real estate basis differences of $33.0 million, net operating loss carryforwards of $14.9 million and investment basis differences of $8.1 million.

Note 8—Debt Obligations, net

As of September 30, 2014 and December 31, 2013, the Company's debt obligations were as follows ($ in thousands):

	Carrying Value as of				
	September 30, 2014	December 31, 2013	Stated Interest Rates		Scheduled Maturity Date
Secured credit facilities and term loans:					
2012 Tranche A-2 Facility	$382,242	$431,475	LIBOR + 5.75%	(1)	March 2017
February 2013 Secured Credit Facility	—	1,379,407	LIBOR + 3.50%	(2)	—
Term loans collateralized by net lease assets	251,112	278,817	4.851% - 7.26%	(3)	Various through 2026
Total secured credit facilities and term loans	633,354	2,089,699			
Unsecured notes:					
6.05% senior notes	105,765	105,765	6.05	%	April 2015
5.875% senior notes	261,403	261,403	5.875	%	March 2016
3.875% senior notes	265,000	265,000	3.875	%	July 2016
3.0% senior convertible notes(4)	200,000	200,000	3.0	%	November 2016
1.50% senior convertible notes(5)	200,000	200,000	1.50	%	November 2016
5.85% senior notes	99,722	99,722	5.85	%	March 2017
9.0% senior notes	275,000	275,000	9.0	%	June 2017
4.00% senior notes	550,000	—	4.00	%	November 2017
7.125% senior notes	300,000	300,000	7.125	%	February 2018
4.875% senior notes	300,000	300,000	4.875	%	July 2018
5.00% senior notes	770,000	—	5.00	%	July 2019
Total unsecured notes	3,326,890	2,006,890			
Other debt obligations:					
Other debt obligations	100,000	100,000	LIBOR + 1.50%		October 2035
Total debt obligations	4,060,244	4,196,589			
Debt discounts, net	(13,228)	(38,464)			
Total debt obligations, net	$4,047,016	$4,158,125			

Explanatory Notes:

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(1) The loan has a LIBOR floor of 1.25%. As of September 30, 2014, inclusive of the floor, the 2012 Tranche A-2 Facility loan incurred interest at a rate of 7.00%.
(2) This loan had a LIBOR floor of 1.00%.
(3)

As of September 30, 2014 and December 31, 2013, includes a loan with a floating rate of LIBOR plus 2.00%. As of December 31, 2013, includes a loan with a floating rate of LIBOR plus 2.75%. As of September 30, 2014, the weighted average interest rate of these loans is 5.3%.

(4) The Company's 3.0% senior convertible fixed rate notes due November 2016 ("3.0% Convertible Notes") are convertible at the option of the holders, into 85.0 shares per $1,000 principal amount of 3.0% Convertible Notes, at any time prior to the close of business on November 14, 2016.

(5) The Company's 1.50% senior convertible fixed rate notes due November 2016 ("1.50% Convertible Notes") are convertible at the option of the holders, into 57.8 shares per $1,000 principal amount of 1.50% Convertible Notes, at any time prior to the close of business on November 14, 2016.

Future Scheduled Maturities—As of September 30, 2014, future scheduled maturities of outstanding long-term debt obligations are as follows ($ in thousands):

	Unsecured Debt	Secured Debt	Total
2014 (remaining three months)	$—	$—	$—
2015	105,765	—	105,765
2016	926,403	—	926,403
2017	924,722	382,242	1,306,964
2018	600,000	15,705	615,705
Thereafter	870,000	235,407	1,105,407
Total principal maturities	3,426,890	633,354	4,060,244
Unamortized debt discounts, net	(9,075)	(4,153)	(13,228)
Total long-term debt obligations, net	$3,417,815	$629,201	$4,047,016

February 2013 Secured Credit Facility—On February 11, 2013, the Company entered into a $1.71 billion senior secured credit facility due October 15, 2017 (the "February 2013 Secured Credit Facility") that amended and restated its $1.82 billion senior secured credit facility, dated October 15, 2012 (the "October 2012 Secured Credit Facility"). The February 2013 Credit Facility amended the October 2012 Secured Credit Facility by: (i) reducing the interest rate from LIBOR plus 4.50%, with a 1.25% LIBOR floor, to LIBOR plus 3.50%, with a 1.00% LIBOR floor; and (ii) extending the call protection period for the lenders from October 15, 2013 to December 31, 2013.
In connection with the February 2013 Secured Credit Facility transaction, the Company incurred $17.1 million of lender fees, of which $14.4 million was capitalized in "Debt obligations, net" on the Company's Consolidated Balance Sheets and $2.7 million was recorded as a loss in "Loss on early extinguishment of debt, net" on the Company's Consolidated Statements of Operations as it related to the lenders who did not participate in the new facility. The Company also incurred $3.8 million in third party fees, of which $3.6 million was recognized in “Other expense” on the Company's Consolidated Statements of Operations, as it related primarily to those lenders from the original facility that modified their debt under the new facility, and $0.2 million was recorded in “Deferred expenses and other assets, net” on the Company's Consolidated Balance Sheets, as it related to the new lenders.
During the nine months ended September 30, 2014, net proceeds from the issuances of the Company's $550.0 million aggregate principal amount of 4.00% senior unsecured notes and $770.0 million aggregate principal amount of 5.00% senior unsecured notes, together with cash on hand, were used to fully repay and terminate the February 2013 Secured Credit Facility. From February 2013 through full payoff in June 2014, the Company made cumulative amortization repayments of $388.5 million. Amortization repayments made during the nine months ended September 30, 2014 resulted in losses on early extinguishment of debt of $1.1 million related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid. In connection with the repayment and termination of the facility, the Company recorded a loss on early extinguishment of debt of $22.8 million related to unamortized discounts and financing fees at the time of refinancing. These amounts were included in "Loss on extinguishment of debt, net" on the Company's Consolidated Statements of Operations.
March 2012 Secured Credit Facilities—In March 2012, the Company entered into an $880.0 million senior secured credit agreement providing for two tranches of term loans: a $410.0 million 2012 A-1 tranche due March 2016, which bears interest at a rate of LIBOR + 4.00% (the "2012 Tranche A-1 Facility"), and a $470.0 million 2012 A-2 tranche due March 2017, which bears interest at a rate of LIBOR + 5.75% (the "2012 Tranche A-2 Facility," together the "March 2012 Secured Credit Facilities"). The 2012 A-1 and A-2 tranches were issued at 98.0% of par and 98.5% of par, respectively, and both tranches include a LIBOR floor of 1.25%. Proceeds from the March 2012 Secured Credit Facilities, together with cash on hand, were used to repurchase and repay at maturity $606.7 million aggregate principal amount of the Company's convertible notes due October 2012, to fully repay the $244.0 million balance on the Company's unsecured credit facility due June 2012, and to repay, upon maturity, $90.3 million outstanding

principal balance of its 5.50% senior unsecured notes.

The March 2012 Secured Credit Facilities are collateralized by a first lien on a fixed pool of assets. Proceeds from principal repayments and sales of collateral are applied to amortize the March 2012 Secured Credit Facilities. Proceeds received for interest, rent, lease payments and fee income are retained by the Company. The Company may also make optional prepayments, subject to prepayment fees. The 2012 Tranche A-1 Facility was fully repaid in August 2013. Repayments of the 2012 Tranche A-1 Facility

22

prior to scheduled amortization dates resulted in losses on early extinguishment of debt of $0.2 million and $4.4 million during the three and nine months ended September 30, 2013 related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid. These amounts were included in "Loss on extinguishment of debt, net" on the Company's Consolidated Statements of Operations.

Additionally, through September 30, 2014, the Company made cumulative amortization repayments of $87.8 million on the 2012 Tranche A-2 Facility. For the three and nine months ended September 30, 2014, repayments of the 2012 Tranche A-2 Facility prior to maturity resulted in losses on early extinguishment of debt of $0.2 million and $1.0 million, respectively, related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid. These amounts were included in "Loss on extinguishment of debt, net" on the Company's Consolidated Statements of Operations.

Unsecured Notes—In June 2014, the Company issued $550.0 million aggregate principal amount of 4.00% senior unsecured notes due November 2017 and $770.0 million aggregate principal amount of 5.00% senior unsecured notes due July 2019. Net proceeds from these transactions, together with cash on hand, were used to fully repay and terminate the February 2013 Secured Credit Facility which had an outstanding balance of $1.32 billion.

Encumbered/Unencumbered Assets—As of September 30, 2014 and December 31, 2013, the carrying value of the Company's encumbered and unencumbered assets by asset type are as follows ($ in thousands):

	As of			
	September 30, 2014		December 31, 2013	
	Encumbered Assets	Unencumbered Assets	Encumbered Assets	Unencumbered Assets
Real estate, net	$605,616	$ 2,077,210	$1,644,463	$ 1,151,718
Real estate available and held for sale	17,950	300,014	152,604	207,913
Loans receivable and other lending investments, net(1)	47,018	1,174,528	860,557	538,752
Other investments	20,519	293,756	24,093	183,116
Cash and other assets	—	974,814	—	907,995
Total	$691,103	$ 4,820,322	$2,681,717	$ 2,989,494

Explanatory Note:

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(1) As of September 30, 2014 and December 31, 2013, the amounts presented exclude general reserves for loan losses of $30.8 million and $29.2 million, respectively.

Debt Covenants

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

The Company's March 2012 Secured Credit Facilities contain certain covenants, including covenants relating to collateral coverage, dividend payments, restrictions on fundamental changes, transactions with affiliates, matters relating to the liens granted to the lenders and the delivery of information to the lenders. In particular, the Company is required to maintain collateral coverage of 1.25x outstanding borrowings. In addition, for so long as the Company maintains its qualification as a REIT, the March 2012 Secured Credit Facilities permit the Company to distribute 100% of its REIT taxable income on an annual basis. The Company may not pay common dividends if it ceases to qualify as a REIT.

The Company's March 2012 Secured Credit Facilities contain cross default provisions that would allow the lenders to declare an event of default and accelerate the Company's indebtedness to them if the Company fails to pay amounts due in respect of its other recourse indebtedness in excess of specified thresholds or if the lenders under such other indebtedness are otherwise permitted

to accelerate such indebtedness for any reason. The indentures governing the Company's unsecured public debt securities permit the bondholders to declare an event of default and accelerate the Company's indebtedness to them if the Company's other recourse indebtedness in excess of specified thresholds is not paid at final maturity or if such indebtedness is accelerated.

Note 9—Commitments and Contingencies

Unfunded Commitments—The Company generally funds construction and development loans and build-outs of space in net lease assets over a period of time if and when the borrowers and tenants meet established milestones and other performance criteria. The Company refers to these arrangements as Performance-Based Commitments. In addition, the Company sometimes establishes a maximum amount of additional funding which it will make available to a borrower or tenant for an expansion or addition to a project if it approves of the expansion or addition in its sole discretion. The Company refers to these arrangements as Discretionary Fundings. Finally, the Company has committed to invest capital in several real estate funds and other ventures. These arrangements are referred to as Strategic Investments.

As of September 30, 2014, the maximum amount of fundings the Company may be required to make under each category, assuming all performance hurdles and milestones are met under the Performance-Based Commitments, that it approves all Discretionary Fundings and that 100% of its capital committed to Strategic Investments is drawn down, are as follows ($ in thousands):

	Loans and Other Lending Investments	Real Estate	Other Investments	Total
Performance-Based Commitments	$348,591	$16,333	$33,114	$398,038
Strategic Investments	—	—	45,756	45,756
Discretionary Fundings	5,000	—	—	5,000
Total	$353,591	$16,333	$78,870	$448,794

Legal Proceedings—The Company and/or one or more of its subsidiaries is party to various pending litigation matters that are considered ordinary routine litigation incidental to the Company's business as a finance and investment company focused on the commercial real estate industry, including loan foreclosure and foreclosure-related proceedings. In addition to such matters, the Company is a party to the following legal proceeding:

On March 7, 2014, a shareholder action purporting to assert derivative, class and individual claims was filed in the Circuit Court for Baltimore City, Maryland naming the Company, a number of its current and former senior executives (including its chief executive officer) and current and former directors as defendants. The complaint sought unspecified damages and other relief and alleged breach of fiduciary duty, breach of contract and other causes of action arising out of shares of common stock issued by the Company to its senior executives pursuant to restricted stock unit awards granted in December 2008 and modified in July 2011. Defendants filed Motions to Dismiss the claims in their entirety. On October 30, 2014, the Court granted the defendants’ Motions to Dismiss and plaintiffs’ claims against all of the defendants in this action were dismissed.

The Company evaluates, on a quarterly basis, developments in legal proceedings that could require a liability to be accrued and/or disclosed. Based on its current knowledge, and after consultation with legal counsel, the Company believes it is not a party to, nor are any of its properties the subject of, any pending legal proceeding that would have a material adverse effect on the Company's Consolidated Financial Statements.

Note 10—Derivatives

The Company's use of derivative financial instruments is primarily limited to the utilization of interest rate swaps, interest rate caps and foreign exchange contracts. The principal objective of such financial instruments is to minimize the risks and/or costs associated with the Company's operating and financial structure and to manage its exposure to interest rates and foreign exchange rates. Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements, foreign exchange rate movements, and other identified risks, but may not meet the strict hedge accounting requirements.

Table of Contents
iStar Financial Inc.
Notes to Consolidated Financial Statements (Continued)
(unaudited)

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013 ($ in thousands):

	Derivative Assets as of				Derivative Liabilities as of			
	September 30, 2014		December 31, 2013		September 30, 2014		December 31, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Designated in Hedging Relationships								
Foreign exchange contracts	Other Assets	$—	Other Assets	$393	Other Liabilities			