

ISTAR FINANCIAL INC  
Form 10-Q  
November 08, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2010

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

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**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, 39<sup>th</sup> Floor  
New York, NY**

(Address of principal executive offices)

**10036**

(Zip code)

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

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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

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subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark 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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of October 29, 2010, there were 92,318,899 shares of common stock, \$0.001 par value per share, of iStar Financial Inc. ("Common Stock") outstanding.

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**iStar Financial Inc.**

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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)**

	<b>As of September 30, 2010</b>	<b>As of December 31, 2009</b>
<b>ASSETS</b>		
Loans and other lending investments, net	\$ 5,339,180	\$ 7,661,562
Corporate tenant lease assets, net	1,792,206	2,885,896
Other investments	542,540	433,130
Real estate held for investment, net	709,448	422,664
Other real estate owned	782,611	839,141
Assets held for sale		17,282
Cash and cash equivalents	1,119,641	224,632
Restricted cash	12,005	39,654
Accrued interest and operating lease income receivable, net	23,147	54,780
Deferred operating lease income receivable	62,116	122,628
Deferred expenses and other assets, net	81,855	109,206
<b>Total assets</b>	<b>\$ 10,464,749</b>	<b>\$ 12,810,575</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities:</b>		
Accounts payable, accrued expenses and other liabilities	\$ 185,309	\$ 252,110
Debt obligations, net	8,517,401	10,894,903
<b>Total liabilities</b>	<b>8,702,710</b>	<b>11,147,013</b>
<b>Commitments and contingencies</b>		
Redeemable noncontrolling interests	1,366	7,444
<b>Equity:</b>		
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
High Performance Units	9,800	9,800
Common Stock, \$0.001 par value, 200,000 shares authorized, 138,172 issued and 92,319 outstanding at September 30, 2010 and 137,868 issued and 94,216 outstanding at December 31, 2009	138	138
Additional paid-in capital	3,804,663	3,791,972
Retained earnings (deficit)	(1,944,898)	(2,051,376)
	2,027	6,145

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Accumulated other comprehensive income (see Note 14)

Treasury stock, at cost, \$0.001 par value, 45,853 shares at September 30, 2010 and 43,652 shares at December 31, 2009	(158,492)	(151,016)
Total iStar Financial Inc. shareholders' equity	1,713,260	1,605,685
Noncontrolling interests	47,413	50,433
Total equity	1,760,673	1,656,118
Total liabilities and equity	\$ 10,464,749	\$ 12,810,575

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Revenue:</b>				
Interest income	\$ 84,210	\$ 124,701	\$ 287,295	\$ 444,109
Operating lease income	41,546	44,063	127,981	133,634
Other income	8,616	9,452	22,869	20,397
<b>Total revenue</b>	<b>134,372</b>	<b>178,216</b>	<b>438,145</b>	<b>598,140</b>
<b>Costs and expenses:</b>				
Interest expense	77,286	97,094	246,815	322,255
Operating costs corporate tenant lease assets	5,226	3,809	11,279	11,924
Depreciation and amortization	15,509	16,564	47,510	46,890
General and administrative	24,239	28,543	76,569	97,856
Provision for loan losses	78,414	345,892	277,242	1,039,004
Impairment of other assets	3,832	17,565	17,041	65,129
Other expense	24,052	12,459	61,044	84,523
<b>Total costs and expenses</b>	<b>228,558</b>	<b>521,926</b>	<b>737,500</b>	<b>1,667,581</b>
<b>Income (loss) before earnings (loss) from equity method investments and gain on early extinguishment of debt</b>				
	(94,186)	(343,710)	(299,355)	(1,069,441)
Gain on early extinguishment of debt, net	9,525	91,701	118,305	446,957
<b>Earnings (loss) from equity method investments</b>	<b>6,523</b>	<b>7,370</b>	<b>31,703</b>	<b>(11,266)</b>
<b>Income (loss) from continuing operations</b>				
	(78,138)	(244,639)	(149,347)	(633,750)
<b>Income (loss) from discontinued operations</b>	<b>(916)</b>	<b>(3,612)</b>	<b>18,040</b>	<b>4,837</b>
Gain from discontinued operations	4,422	809	270,382	12,426
<b>Net income (loss)</b>	<b>(74,632)</b>	<b>(247,442)</b>	<b>139,075</b>	<b>(616,487)</b>
Net (income) loss attributable to noncontrolling interests	(858)	(515)	(857)	998
<b>Net income (loss) attributable to iStar Financial Inc.</b>	<b>(75,490)</b>	<b>(247,957)</b>	<b>138,218</b>	<b>(615,489)</b>
Preferred dividends	(10,580)	(10,580)	(31,740)	(31,740)
<b>Net income (loss) attributable to iStar Financial Inc. and allocable to common shareholders, HPU holders and Participating Security holders(1)(2)(3)</b>	<b>\$ (86,070)</b>	<b>\$ (258,537)</b>	<b>\$ 106,478</b>	<b>\$ (647,229)</b>

**Per common share data(3):**

Income (loss) attributable to iStar Financial Inc. from continuing operations:				
Basic and diluted	\$ (0.93)	\$ (2.52)	\$ (1.89)	\$ (6.38)
Net income (loss) attributable to iStar Financial Inc.:				
Basic and diluted	\$ (0.89)	\$ (2.55)	\$ 1.10	\$ (6.21)
Weighted average number of common shares basic and diluted				
	93,370	98,674	93,556	101,324

**Per HPU share data(1)(3):**

Income (loss) attributable to iStar Financial Inc. from continuing operations:				
Basic and diluted	\$ (176.14)	\$ (476.73)	\$ (356.46)	\$ (1,207.13)
Net income (loss) attributable to iStar Financial Inc.:				
Basic and diluted	\$ (169.27)	\$ (481.93)	\$ 209.67	\$ (1,175.73)
Weighted average number of HPU shares basic and diluted				
	15	15	15	15

**Explanatory Notes:**

- (1) HPU holders are current and former Company employees who purchased high performance common stock units under the Company's High Performance Unit Program.
- (2) Participating Security holders are Company employees and directors who hold unvested restricted stock units and common stock equivalents granted under the Company's Long Term Incentive Plans.
- (3) See Note 13 for amounts attributable to iStar Financial Inc. for income (loss) from continuing operations and further details on the calculation of earnings per share.

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

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**iStar Financial Inc.**

**Consolidated Statement of Changes in Equity**

**For the Nine Months Ended September 30, 2010**

**(In thousands)**

**(unaudited)**

	iStar Financial Inc. Shareholders' Equity								
	Preferred Stock(1)	HPU's	Common Stock at Par	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Treasury Stock at cost	Noncontrolling Interests	Total Equity
Balance at December 31, 2009	\$ 22	\$ 9,800	\$ 138	\$ 3,791,972	\$ (2,051,376)	\$ 6,145	\$ (151,016)	\$ 50,433	\$ 1,656,118
Dividends declared preferred					(31,740)				(31,740)
Repurchase of stock							(7,476)		(7,476)
Restricted stock unit amortization, net									