ISTAR FINANCIAL INC
Form DEF 14A
April 28, 2004

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

iSTAR FINANCIAL INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

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(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

iSTAR FINANCIAL INC.
1114 Avenue of the Americas
27th Floor
New York, New York 10036

April 27, 2004

Dear Shareholder:

We cordially invite you to attend our 2004 annual meeting of shareholders. We will hold the meeting at the Sofitel Hotel, 45 West 44th Street, New York, New York on May 25, 2004 at 9:00 a.m. local time.

At the annual meeting, we will ask our shareholders to:

(1) elect seven directors to the Board of Directors;

(2) consider and vote upon a proposal to authorize the issuance of common stock equivalents to non-employee directors as part of their annual directors' compensation under a Non-Employee Directors' Deferral Program; provided, however, that in no event will the directors' common stock equivalents, together with all other equity awards issued under our existing Long-Term Incentive Plan, exceed the total number of shares available for award from time to time under the Long-Term Incentive Plan;

(3) consider and vote upon a proposal to extend the iStar Financial High Performance Unit Program by approving a 2007 HPU Plan and a 2008 HPU Plan; and

(4) consider and vote upon a proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent public accountants for the year ending December 31, 2004.

The attached Proxy Statement contains details of the proposals to be voted on at the annual meeting and other important matters. We encourage you to read the Proxy Statement carefully.

YOUR BOARD OF DIRECTORS HAS CONCLUDED THAT THE ELECTION OF THE SEVEN NOMINEES AS DIRECTORS, THE APPROVAL OF THE ISSUANCE OF COMMON STOCK EQUIVALENTS TO NON-EMPLOYEE DIRECTORS AS PART OF THEIR ANNUAL DIRECTORS' COMPENSATION UNDER A NON-EMPLOYEE DIRECTORS' DEFERRAL PROGRAM, THE APPROVAL OF THE EXTENSION OF THE iSTAR FINANCIAL INC. HIGH PERFORMANCE UNIT PROGRAM AND THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT PUBLIC ACCOUNTANTS ARE IN iSTAR FINANCIAL'S BEST INTERESTS AND THE BEST INTERESTS OF OUR SHAREHOLDERS. THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THESE PROPOSALS.

We cordially invite all shareholders to attend the annual meeting in person. Any shareholder attending the annual meeting may vote in person even if he or she previously returned a proxy.

Sincerely,

Jay Sugarman

Chairman of the Board and
Chief Executive Officer

iSTAR FINANCIAL INC.
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of iStar Financial Inc., a Maryland corporation, will be held at the Sofitel Hotel, 45 West 44th Street, New York, New York on May 25, 2004 at 9:00 a.m. local time, for the following purposes as further described in the accompanying proxy statement:

1. To elect to the Board of Directors seven members to hold office until the annual meeting of shareholders held in 2005. The nominees to the Board are the following: Jay Sugarman, Willis Andersen, Jr., Robert W. Holman, Jr., Robin Josephs, John G. McDonald, George R. Puskar and Jeffrey A. Weber.

2. To consider and vote upon a proposal to authorize the issuance of common stock equivalents to non-employee directors as part of their annual directors' compensation under a Non-Employee Directors' Deferral Program; provided, however, that in no event will the directors' common stock equivalents, together with all other equity awards issued under our existing Long-Term Incentive Plan, exceed the total number of shares available for award from time to time under the Long-Term Incentive Plan.

3. To consider and vote upon a proposal to extend the iStar Financial High Performance Unit Program by approving a 2007 HPU Plan and a 2008 HPU Plan.

4. To consider and vote upon a proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent accountants for the fiscal year ending December 31, 2004.

5. To transact such other business as may properly come before the annual meeting or any postponement or adjournment of the meeting.

The Board has fixed April 1, 2004 as the record date for the determination of shareholders entitled to receive notice of and to vote at the annual meeting or any postponement or adjournment of the meeting. Holders of record of our common stock, High Performance common stock and 8.00% Series D Cumulative Redeemable Preferred Stock at the close of business on that day will be entitled to vote at the annual meeting.

By Order of the Board of Directors

Geoffrey M. Dugan
Secretary
New York, New York
April 27, 2004

WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, TO ENSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, PLEASE MARK, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE IN THE POSTAGE PREPAID ENVELOPE ENCLOSED FOR THAT PURPOSE.

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iSTAR FINANCIAL INC.
1114 Avenue of the Americas
27th Floor
New York, New York 10036

PROXY STATEMENT

Annual Meeting Of Shareholders
To Be Held May 25, 2004

We are sending this proxy statement to holders of our common stock and holders of our Series D preferred stock on or about April 27, 2004 in connection with the solicitation by our Board of Directors of proxies to be voted at our 2004 Annual Meeting of Shareholders or at any postponement or adjournment of the meeting. Our common stock includes both our regular common stock and our High Performance common stock.

This proxy statement is accompanied by a copy of our Annual Report to Shareholders for the year ended December 31, 2003.

About the Meeting

Who is entitled to vote at the meeting?

Only holders of record of our common stock and our Series D preferred stock at the close of business on April 1, 2004 are entitled to receive notice of and to vote at the annual meeting or at any postponement or adjournment of the meeting. On the record date, there were 111,911,081 issued and outstanding shares of common stock and 4,000,000 issued and outstanding shares of Series D preferred stock.

What constitutes a quorum?

The presence, either in person or by proxy, of the holders of a majority of the voting power of the outstanding common stock and Series D preferred stock, considered as a single class, on the record date is necessary to constitute a quorum at the annual meeting.

What are the voting rights of shareholders and what vote is needed to approve each proposal?

Each shareholder is entitled to one vote for each share of regular common stock registered in the shareholder's name on the record date and 0.25 votes for each share of High Performance common stock and Series D preferred stock registered in the shareholder's name on the record date. A plurality vote of the voting power of the outstanding common stock and Series D preferred stock, all voting as one class, is required for the election of directors. An affirmative vote of a majority of the votes cast at the meeting by holders of our common stock and Series D preferred stock, all voting as one class, is required for the approval and ratification of each other matter.

How is my vote counted?

If you properly execute a proxy in the accompanying form, and if we receive it prior to voting at the annual meeting, the shares that the proxy represents will be voted in the manner specified on the proxy. If no specification is made, the common stock or preferred stock will be voted FOR the proposals and as recommended by the Board with regard to all other matters in its discretion.

Votes cast by proxy or in person at the annual meeting will be tabulated by the election inspectors appointed for the meeting, who will determine whether or not a quorum is present. The election inspectors will treat abstentions as shares that are present and entitled to vote for purposes of determining the presence of a quorum but as unvoted for purposes of determining the approval of any matter submitted to the shareholders for a vote. If a broker indicates on the proxy that it does not have discretionary authority as to certain shares to vote on a particular matter, those shares will not be considered as present and entitled to vote with respect to that matter.

Can I change my vote after I submit my proxy card?

If you cast a vote by proxy, you may revoke it at any time before it is voted by giving written notice to our Secretary expressly revoking the proxy, by signing and forwarding to us a proxy dated later, or by attending the annual meeting and personally voting the common stock or preferred stock owned of record by you.

Who pays the costs of soliciting proxies?

We will pay the costs of soliciting proxies from our shareholders. In addition to solicitation by mail, certain of our directors, officers and regular employees may solicit the return of proxies by telephone, facsimile, personal interview or otherwise without being paid additional compensation. We will also reimburse brokerage firms and other persons representing the beneficial owners of our shares for their reasonable expenses in forwarding proxy solicitation material to the beneficial owners in accordance with the proxy solicitation rules and regulations of the Securities and Exchange Commission and the New York Stock Exchange. Georgeson Shareholder Communications has been engaged to solicit proxies on our behalf for a fee of $8,000 plus expenses.

PROPOSAL 1:

ELECTION OF DIRECTORS

In accordance with the provisions of our charter, each member of our Board is elected annually.

All of the nominees for director are presently directors. If a nominee becomes unavailable to serve as a director for any reason, the shares represented by any proxy will be voted for the person, if any, who may be designated by the Board to replace that nominee. At this time, the Board has no reason to believe that any nominee will be unavailable to serve as a director if elected.

All of the nominees for director, other than Mr. Sugarman, are independent within the standards prescribed by the New York Stock Exchange.

Matthew J. Lustig was originally designated as a Board member in 2002 by the initial holders of our Series A preferred stock. The initial holders of the Series A had the right to designate one person as a nominee to our Board for so long as affiliates of Lazard Freres Real Estate Investors L.L.C. owned at least 50.00% of the outstanding Series A preferred stock. As of December 31, 2003, the Lazard affiliates had sold all of their Series A preferred stock. The term of Mr. Lustig as a director will expire effective as of the date of our 2004 annual meeting, and Mr. Lustig has chosen not to stand for reelection to the Board.

The following table sets forth the name, age and the position(s) with us (if any) currently held by each person nominated as a director:

Name	Age	Title
Jay Sugarman(1)	41	Chairman and Chief Executive Officer
Willis Andersen, Jr.(2)(4)	72	Director
Robert W. Holman, Jr.(1)	60	Director
Robin Josephs(2)(3)	44	Director
John G. McDonald(3)(4)	66	Director
George R. Puskar(1)(4)	60	Director
Jeffrey A. Weber(2)(3)	39	Director

(1) Member of Investment Committee.

(2) Member of Audit Committee.

(3) Member of Compensation Committee.

(4) Member of Nominating and Governance Committee.

Jay Sugarman is Chairman of the Board and Chief Executive Officer of iStar Financial. Mr. Sugarman has served as a director of iStar Financial (and our predecessor) since 1996 and Chief Executive Officer since 1997. During that time, Mr. Sugarman has built iStar Financial into one of the leading providers of custom-tailored financial solutions to high-end private and corporate owners of real estate in the United States, growing its market capitalization from under $50 million to over $9 billion. Previously, Mr. Sugarman founded and was co-general partner of Starwood Mezzanine Investors, L.P., a private investment partnership specializing in structured real estate finance. Prior to forming Starwood Mezzanine, Mr. Sugarman managed diversified investment funds on behalf of the Burden family, a branch of the Vanderbilts, and the Ziff family. While in that position, he was jointly responsible for the formation of Starwood Capital Group L.P., a leading private real estate investment firm, and the formation of HBK Investments, one of the nation's largest multi-strategy trading operations. Mr. Sugarman received his undergraduate degree *summa cum laude* from Princeton University, where he was nominated for valedictorian and received the Paul Volcker Award in Economics, and his M.B.A. with highest distinction from Harvard Business School, graduating as a Baker Scholar and recipient of the school's academic prizes for both finance and marketing. Mr. Sugarman is a director of WCI Communities, Inc., a residential developer in South Florida.

Willis Andersen, Jr. has served as one of our directors since November 1999. Previously, Mr. Andersen served as a director of TriNet Corporate Realty Trust, Inc. (a company that we acquired in 1999) since June 1993. Mr. Andersen is chairman of our Audit Committee. He is a real estate and REIT industry consultant with over 35 years of experience as an advisor, financial consultant and principal in the real estate industry. Mr. Andersen currently specializes in advisory work for publicly-traded real estate companies. Mr. Andersen's real estate career has involved work with Allied Properties Inc. of San Francisco; Bankoh Advisory Corp. of Honolulu; RAMPAC and ICM Property Investors, Inc., which were formerly NYSE-listed REITs, and Bedford Properties, Inc., a commercial property investment and development firm. He is an active member of the National Association of Real Estate Investment Trusts, and is a former governor and past president (1980-81) of this organization. He received his B.A. from the University of California at Berkeley.

Robert W. Holman, Jr. has served as one of our directors since November 1999. Mr. Holman was the co-founder of TriNet and served as its chief executive officer, co-chairman and chairman of the board. He was chief executive officer and chairman of TriNet's predecessor, Holman/Shidler Corporate Capital, Inc., for ten years. Mr. Holman co-founded and was a senior executive and director of Watkins Pacific Corporation, a multi-national conglomerate. Additionally, Mr. Holman has served as a senior executive, director, owner or board advisor for numerous companies in the United States, Great Britain, Australia and Mexico in the finance, real estate, internet commerce, construction, building materials and travel industries. Currently, he is a director of Amerivest Properties, Inc. He holds a B.A. degree in international economics from the University of California at Berkeley, an M.A. degree with honors from Lancaster University in England, where he was a British Council Fellow, and did post-graduate work at Harvard University where he was awarded a Loeb Fellowship.

Robin Josephs has served as one of our (and our predecessor's) directors since March 1998. Ms. Josephs is chairperson of our Compensation Committee. Ms. Josephs is the managing director of Ropasada, LLC, a private investment firm. Ms. Josephs was employed by Goldman Sachs from 1986 to 1996 in various capacities. Prior to working at Goldman, Ms. Josephs served as an analyst for Booz Allen & Hamilton Inc. in New York from 1982 to 1984. She currently serves as a director of Plum Creek Timber Co., Inc. Ms. Josephs received a B.S. degree in economics from the Wharton School and a M.B.A. from Columbia University.

John G. McDonald has served as one of our directors since November 1999. Previously, Professor McDonald served as a director of TriNet since June 1993. Professor McDonald is chairman of our Nominating and Governance Committee. He is the IBJ Professor of Finance in the Graduate School of Business at Stanford University, where he has taught since 1968. Professor McDonald has taught

M.B.A. courses and executive programs in subject areas including investment management, private equity, venture capital and corporate finance. He currently serves as a director of Scholastic Corporation, Varian, Inc., Plum Creek Timber Co., Inc., and eight investment companies managed by Capital Research & Management Company.

George R. Puskar has served as one of our directors since November 1999. Previously, Mr. Puskar served as a director of TriNet since January 1998. Mr. Puskar is chairman of our Investment Committee. From June 1997 until June 2000, Mr. Puskar served as chairman of the board of Lend Lease Real Estate Investments (formerly known as ERE Yarmouth), the U.S. real estate unit of Lend Lease Corporation, an international financial services and real estate company based in Sydney, Australia. From 1988 until June 1997, Mr. Puskar was chairman and chief executive officer of Equitable Real Estate Investment Management, Inc., where he was responsible for directing the business operations of a full service commercial real estate investment management company with approximately $30 billion in assets under management. Prior to its acquisition by Lend Lease Corporation in June 1997, Equitable Real Estate Investment Management, Inc. operated as a subsidiary of The Equitable Life Assurance Society of the United States. Mr. Puskar is a member of the Counselors of Real Estate. Mr. Puskar currently serves as the chairman of Solutions Manufacturing, Inc., a manufacturer of electronic components based in Rockledge, Florida, is active as the vice chairman of World Team Sports, an organization that specializes in unique athletic events with teams built around disabled athletes and is on the board of New Plan Excel Realty Trust, Inc. Mr. Puskar has previously served as a member of the board of directors of Carr Real Estate Investment Trust, a NYSE-listed REIT, from 1993 to 1997, and on an advisory board at Georgia State University. Mr. Puskar has also served on the boards of the Urban Land Institute, the International Council of Shopping Centers, the National Council of Real Estate Fiduciaries and the National Realty Committee, and as chairman of a campaign to endow a real estate chair at Clark Atlanta University/Morehouse College. Mr. Puskar received a B.A. degree from Duquesne University.

Jeffrey A. Weber is the president and chief executive officer of William A.M. Burden & Co., L.P., a private investment partnership which manages certain assets of the Burden family. He is also the investment advisor to the Florence V. Burden Foundation and a director of the Burden Center for the Aging, Inc. Mr. Weber also serves as the chairman and portfolio manager of The 1794 Commodore Funds. In addition, Mr. Weber is a director of Datamax International Corporation and Logicwork. He is an advisory board member of Fifth Avenue Alternative Investments LLC, a series of hedge fund fund-of-funds managed by Bessemer Trust Company. He is also an advisory committee member of American Securities Partners III, L.P., Bear Stearns Merchant Banking Partners II, L.P., and Signal Equity Partners II, L.P., and chairs the advisory board of ZM Africa Investment Fund, L.P., an OPIC-sponsored southern African private equity firm. Prior to his current position, Mr. Weber worked at Chemical Venture Partners, the venture capital and leverage buyout arm of Chemical Bank, and in the corporate finance department of Drexel Burnham Lambert Incorporated. Mr. Weber holds a B.A. degree from Williams College and an M.B.A. from Harvard Business School.

Recommendation Regarding the Election of Directors

The Board recommends that you vote FOR the seven named nominees to be elected as our directors.

PROPOSAL 2:

APPROVAL OF AUTHORIZATION TO ISSUE COMMON STOCK EQUIVALENTS TO OUR NON-EMPLOYEE DIRECTORS AS PART OF THEIR DIRECTORS' COMPENSATION UNDER A NON-EMPLOYEE DIRECTORS' DEFERRAL PLAN

The following is a summary of the material provisions of the iStar Financial Inc. Non-Employee Directors' Deferral Plan. This summary is qualified in its entirety by reference to the full text of the Plan attached hereto as Annex A, as amended from time to time.

In General

The purpose of the Plan is to align more strongly the interests of our non-employee directors with those of our shareholders, and generally to increase the effectiveness of our non-employee director compensation structure. We propose to achieve this purpose by providing our non-employee directors with annual grants of 2,500 Common Stock Equivalents. A "Common Stock Equivalent" is a right to receive one share of our common stock or, if provided by the Board, a cash amount equal to the fair market value (as determined under the Plan) of one share of our common stock. Except as otherwise provided by the Board, each of our non-employee directors (each, a "participant") is eligible to participate in the Plan.

The Common Stock Equivalents are a new type of equity award for our non-employee directors; however, they will not increase the amount of awards available under our existing Long-Term Incentive Plan. Prior to our 2003 annual meeting, we awarded our directors an annual grant of stock options or restricted shares under our Long-Term Incentive Plan. Beginning with our 2003 annual meeting, subject to the approval of our shareholders at our 2004 annual meeting, we would like to provide our directors with the opportunity to receive their annual equity grant in a manner that will provide them with tax deferral. We are not increasing the amount of equity awards currently available for non-employee directors under our existing Long-Term Incentive Plan or otherwise; rather, we are simply seeking to introduce a new type of equity award Common Stock Equivalents. If our shareholders do not approve the authorization of Common Stock Equivalents, we expect to issue stock options or restricted stock awards to our Board under our Long-Term Incentive Plan as we have in prior years.

The Plan is administered by the Board and awards of Common Stock Equivalents may be made pursuant to the Plan until June 3, 2006. The Board has the authority to interpret and otherwise make decisions under the Plan, and any interpretation of any provision of the Plan or other decision under the Plan made by the Board will be final, binding and conclusive. The Board may delegate any or all of its powers under the Plan to a committee of the Board.

The Board retained the services of an independent compensation consultant to advise the Board on the terms of the Plan.

Certain Provisions Applicable to Annual Awards

Grants of Common Stock Equivalents

Effective as of each annual meeting of shareholders of the Company at which directors are elected, each participant will receive an award of 2,500 Common Stock Equivalents. This grant is effective beginning with the 2003 annual meeting; provided, however, that the 2003 grant was made subject to the approval of our shareholders at the 2004 annual meeting.

Vesting and Forfeiture

Unless otherwise provided by the Board in the applicable agreement governing a participant's Common Stock Equivalents, annual awards of Common Stock Equivalents will vest on the date of the next following annual meeting after the date of grant, except that Common Stock Equivalents awarded in connection with the 2003 annual meeting will vest 18 months after the date of the 2003 annual meeting.

Annual grants of Common Stock Equivalents will be subject to the following vesting conditions:

(i) If a participant does not stand for re-election at an annual meeting at our request (other than a request made following a breach by the participant of our Code of Conduct or Corporate Governance Principles), the vesting of all Common Stock Equivalents held by the participant will be accelerated to the date of the annual meeting at which the participant does not stand for reelection.

(ii) If a participant resigns of his or her own accord or otherwise ceases to serve as a non-employee director before the end of a vesting period, then the participant will retain Common Stock Equivalents that have vested through the date of resignation and will forfeit all other Common Stock Equivalents that have not then vested.

(iii) If we determine that a participant has breached our Code of Conduct or Corporate Governance Principles, the participant will forfeit all Common Stock Equivalents that have not then vested.

(iv) The vesting of Common Stock Equivalents will be accelerated if a participant ceases to serve as a non-employee director by reason of death or disability or upon a change of control (as defined in the Plan).

Dividend Equivalent Rights

Except as may otherwise be provided by the Board, participants will receive a dividend equivalent right in respect of any Common Stock Equivalents awarded under the Plan, which consists of the right to receive a cash payment in an amount equal to the dividend distributions paid on a share of our common stock from time to time. Dividend equivalents will be paid currently. Instead of payment of dividend equivalent rights in cash as contemplated above, except as otherwise provided by the Board, a participant may elect to have additional Common Stock Equivalents credited in respect of a dividend equivalent payment, in accordance with the Plan.

Settlement

Distributions in Stock or Cash

Unless otherwise elected by the participant, vested Common Stock Equivalents will be settled by the transfer of our common stock to the participant. A participant may alternatively elect to receive some or all of a distribution of his or her Common Stock Equivalents in cash, based upon the fair market value of our common stock on the date of the distribution. Any distribution election made by a participant is subject to change by the Board, and the Board may require, in its discretion, that, notwithstanding a participant's election, a distribution be in the form of common stock, cash or a combination of both.

Time of Distribution

Distributions will be made to participants upon the "regular distribution date." The regular distribution date with respect to a participant is the earlier of: (1) the January 1 coincident with or next following the earlier of: (i) the participant's ceasing to be a non-employee director; and (ii) the Participant's death; and (2) a change of control (as defined in the Plan). A participant, under certain limited circumstances, is permitted to elect to receive distributions at times other than the regular distribution date.

Amendment and Termination

The Board may amend or terminate the plan as it shall deem advisable, except that no amendment may adversely affect a participant with respect to amounts previously credited to him or her unless such amendments are required in order to comply with applicable laws.

Certain Tax Effects of Plan Participation

The following is a brief description of the principal U.S. federal income tax consequences under current law of participation in the Plan by a U.S. person.

The Common Stock Equivalents have been designed with the intention that there generally will be no income tax consequences as a result of the crediting of a Common Stock Equivalent to an account until payment is made with respect to a Common Stock Equivalent. Generally, when payment is made, the participant will recognize ordinary income equal to the fair market value of our common stock, and cash (if applicable), received upon payment.

There generally will be no tax consequences as a result of the award of a dividend equivalent right until payment is made with respect to such dividend equivalent right. Generally, when payment is made, the holder will recognize ordinary income equal to the payment received in respect of the dividend equivalent right.

The table below illustrates the annual benefits that will be received by or allocated to each of the following non-employee director participants under the proposed Plan. The table is for illustrative purposes only. The dollar value of the Common Stock Equivalents depends upon the fair market value of our common stock when the Common Stock Equivalents are distributed to the participants.

Name	Annual Common Stock Equivalents
Willis Andersen, Jr.	2,500
Robert W. Holman, Jr.	2,500
Robin Josephs	2,500
John G. McDonald	2,500
George R. Puskar	2,500
Jeffrey A. Weber	2,500

(1) The vesting and forfeiture terms of these Common Stock Equivalents are described above in "Vesting and Forfeiture."

Recommendation regarding the issuance of common stock equivalents to the directors as part of their annual directors' compensation.

The Board recommends that you vote FOR the authorization to issue Common Stock Equivalents to the non-employee directors under the Plan as part of their annual directors' compensation.

PROPOSAL 3:

APPROVAL AND ADOPTION OF AN EXTENSION OF THE iSTAR FINANCIAL INC. HIGH PERFORMANCE UNIT PROGRAM

In 2002, our shareholders approved the iStar Financial High Performance Unit ("HPU") Program for employees other than our Chief Executive Officer. We have issued almost all of the High Performance Common Stock that was initially approved. Accordingly, we are seeking your approval to extend the program and authorize additional shares of High Performance Common Stock to accommodate two new High Performance Unit plans. The two new plans, the 2007 HPU Plan and the 2008 HPU Plan, will be substantially similar to the existing plans for employees and directors approved by our shareholders at our 2002 and 2003 annual meeting.

Equity-linked compensation is a key component of our overall compensation program. Prior to 2002, we used stock options and restricted stock awards issued under our Long-Term Incentive Plan (the "LTIP"). However, the remaining number of shares available under the LTIP was extremely limited and remains limited. We believe that stock options do not optimally align the interests of employees with the long-term interests of shareholders because they could increase in value even during periods of relative underperformance by iStar Financial Inc. In addition, stock options do not adequately reflect the substantial dividend-paying nature of our shares. In order to better align shareholder and employee interests and to ensure our ability to attract and retain qualified personnel, we created the iStar Financial High Performance Unit Program in 2002. The program is a performance-based compensation plan that only has material value to the participants if we create superior returns for our shareholders.

In order to implement the plan, we created a new class of equity known as "High Performance Common Stock." A total of 25,000 shares of High Performance Common Stock were originally authorized for issuance under the program, of which 23,388 shares have been issued and are outstanding. We are seeking approval to issue an additional 10,000 shares. As with the existing plans, eligible employees will be offered the opportunity to purchase the High Performance Common Stock through a limited liability company (the "LLC"). The purchase price will be approved by the Board based upon, among other things, an independent valuation completed by a major securities firm, as reviewed by our outside auditors. The employees will purchase an interest in the LLC and the LLC will use the funds to purchase the High Performance Common Stock from us. Provided that we exceed certain performance levels relative to an absolute return threshold and the return of a weighted industry index, the High Performance Common Stock will pay quarterly cash distributions in the nature of common stock dividends. If performance does not exceed those levels, then the employees' investment will be worth virtually nothing.

Total shareholder return for the valuation period under the 2002 plan was 21.94%, representing approximately $538 million of equity value created, compared to a negative 5.83% return for the weighted industry index consisting of equal weightings of the Russell 1000 Financial Index and the Morgan Stanley REIT Index. Total shareholder return for the valuation period under the 2003 plan was 78.29%, representing approximately $1.9 billion of equity value created, compared to a 24.66% return for the weighted industry index.

The 10,000 additional shares will be allocated to two new employee plans. Each plan will have 5,000 shares of High Performance Common Stock associated with it. This 2007 HPU Plan will have a valuation date of December 31, 2007 and the 2008 HPU Plan will have a valuation date of December 31, 2008. The valuation dates remain subject to acceleration if there is a change of control of the Company. The significance of a valuation date is described below.

An investment in High Performance Common Stock through an LLC will have the following characteristics:

Initial Purchase Price. Employees who are offered the opportunity to invest in High Performance Common Stock will pay a purchase price equal to the fair market valuations approved by the Compensation Committee of our Board based upon, among other things, an independent valuation from a major securities firm. Participants in the 2007 and 2008 Plans will subscribe for units in those plans at the commencement of each program in January 2005 and January 2006, respectively, and will be obligated to deliver the purchase price for 2007 HPU Plan units and 2008 HPU Plan units to the Company on these respective commencement dates. We will not loan money to employees to enable them to pay the purchase price. The employees will be personally at risk for the entire purchase price.

Value. Prior to the valuation date for each plan, the High Performance Common Stock will have little intrinsic value. Each share of High Performance Common Stock will carry 0.25 votes and pay dividends equal to 0.01 times the dividend paid on a share of our common stock, if and when dividends are declared on our common stock. No employee will be permitted to exchange his or her interest in the LLC for shares of the High Performance Common Stock prior to the applicable valuation date.

Threshold Performance Levels. The High Performance Common Stock will continue to have only the nominal value described above unless, on the applicable valuation date, the three-year total rate of return (dividends paid plus share price appreciation) on a share of our common stock exceeds *the greater of*: (1) 30.00%; and (2) a weighted industry index total rate of return consisting of equal weightings of the Russell 1000 Financial Index and the Morgan Stanley REIT Index for the three-year time period leading up to the particular plan valuation date. In determining share price appreciation for purposes of calculating the total rate of return of our common stock and of the benchmark indices, we will compare the value of our common stock or the indices, as applicable, on the first trading date of the relevant measurement period to the average closing values of our common stock or the indices, as applicable, for the last 20 trading days of the measurement period.

Excess Return. If the total rate of return on our common stock exceeds the threshold performance levels for a particular plan, then distributions will be paid on the shares of High Performance Common Stock related to that plan in the same amounts and at the same times as distributions are paid on a number of shares of our common stock equal to the following: 7.50% of our excess total rate of return (over the higher of the two threshold performance levels) multiplied by the weighted average market value of our common equity capitalization during the measurement period, all as divided by the average closing price of a share of our common stock for the 20 trading days immediately preceding the applicable valuation date. These distributions will be passed through to the employees who hold interests in the LLC.

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

Right to Exchange. No employee will have the right to hold directly the High Performance Common Stock prior to the applicable valuation date. Until that time, all High Performance Common Stock will be held in the LLC. From and after the applicable valuation date, an employee will have the right to exchange his or her interests in the LLC for his or her pro rata portion of the High Performance Common Stock.

Conversion; No Public Market. Even following a valuation date upon which the threshold performance levels are achieved, the High Performance Common Stock can never be converted into our common stock, and no organized market is expected to develop in the High Performance Common Stock. The shares will not be listed or traded on any exchange. Employees may transfer High Performance Common Stock to third parties, including family members, subject to applicable securities laws, so long as we play no role in the transfer.

Termination of Employment. If an employee leaves or is terminated for cause before the valuation date for a plan, the Company will have the right, but not the obligation, to repurchase the employee's entire interest in the plan at cost (by causing the LLC to repurchase the employee's interest in the LLC at cost, with the Company then repurchasing the equivalent number of shares of High Performance Common Stock from the LLC). Subject to the next sentence, if an employee is terminated without cause, the Company will have the right, but not the obligation, to repurchase the employee's LLC interests that will reach a valuation date within 12 months at fair market value and any other LLC interests held by the employee at cost. Each employee will be subject to customary non-competition, non-solicitation and confidentiality covenants during the term of their employment.

Change of Control. Upon a change of control of the Company that results in an exchange by our common shareholders of their shares for cash or shares in the acquiring company, shares of High Performance Common Stock will be exchanged for the same consideration as will be received in the transaction by holders of our common stock.

Questions Regarding the High Performance Unit Program

What is the potential effect of the program on future earnings per share?

If the total return on our common stock exceeds BOTH of the threshold performance levels set for a plan, then the holders of interests in High Performance Common Stock would be entitled to a percentage of future distributions made by us. This would have a dilutive effect on the future earnings per share of our common stock, and on our equity ownership after the applicable valuation date if one assumes that the High Performance Common Stock program did not have an offsetting incentive effect that resulted in increased earnings. However, the maximum dilutive effect for each plan is limited to 1.00% of the number of shares of our common stock outstanding, on a fully diluted basis, on the relevant valuation date.

Who is eligible to participate in the program?

The program has been offered to approximately 45 key senior employees; it is our intention to further expand participation in future plans. We may not allocate all of the plan units in the first instance; we will retain some plan units for future employees. We plan to issue up to 10,000 plan units in the aggregate. We do not yet know what the size of individual holdings will be, but based upon our experience with the prior plans, the size of individual plan unit holdings will likely range from approximately 40 to 625 units.

Why did the Board approve the Russell 1000 Financial Index and the Morgan Stanley REIT Index?

The Board has approved an equal weighting of the Russell 1000 Financial Index and the Morgan Stanley REIT Index because it believes that these indices and their relative weighting most accurately capture the nature of our business as a financial services company focused on the real estate industry. These two indices are the financial services and real estate indices most widely reported and accepted among institutional investors. The Board may approve a different index if it determines that these indices are no longer an appropriate basis of comparison for our total rate of return, or if either index ceases to be reported.

How will the total rate of return be measured?

When we determine the "total rate of return" for any security and for any period, we will measure the sum of the cumulative amount of dividends paid in respect of the security for the period (assuming reinvestment of all cash dividends), plus the appreciation in share price over the period, and divide that total by the security price at the beginning of the measurement period.

What are the potential advantages and disadvantages of the program to the Company and our shareholders?

Advantages to Shareholders:

The proposed program aligns the interest of management with those of shareholders by directly tying compensation to superior outperformance for our shareholders on both a relative and absolute basis.

The cost of the plan units to the Company is nominal unless total returns to shareholders exceed the threshold performance levels.

The sale of plan units to participants gives them a long-term financial stake in the Company with both upside AND downside potential, and the units will be illiquid (no trading market; not convertible into common stock) if they are earned.

The program includes strong disincentives for employees to leave the Company, in the form of a potential forfeiture to the Company of plan units at cost, should the participant be terminated for cause or voluntarily resign.

Disadvantages to Shareholders:

If the program is successful, there is a potential for dilution of earnings. To address this issue, dilution will be capped at 1.00% (of total shares outstanding) for each plan.

Although we do not believe that the sale of the new High Performance Common Stock will have an anti-takeover effect, the High Performance Common Stock could increase the potential cost of acquiring control of the Company and thereby discourage an attempt to take control of the Company. However, the Board is not aware of any attempt to take control of the Company and the Board has not approved the sale of the new High Performance Common Stock with the intention of discouraging any such attempt.

Existing tax and accounting authority does not specifically address the proposed program; therefore, it is possible that the characterization of the program for tax and accounting purposes could be different in the future.

* * * * *

The tables below illustrate the value of each of two plans on the relevant valuation date under different circumstances. Each table demonstrates the value of the High Performance Common Stock at given prices for our common stock and the total return calculated at that price compared to the threshold performance levels. For purposes of this illustration, the "value" of each plan is calculated by multiplying: (1) 7.50% of the amount by which the total rate of return on our common stock exceeds the greater of (a) 30.00%, and (b) the return on our designated indices (50.00% of each of the Russell 1000 Financial Index and Morgan Stanley REIT Index), by (2) the weighted average market value of our common equity capitalization over the relevant measurement period. Except as otherwise indicated, it is assumed, for purposes of the illustration shown below that: (1) the valuation date is December 31, 2007 for the 2007 HPU Plan and December 31, 2008 for the 2008 HPU Plan, and (2) the Russell 1000 Financial Index and the Morgan Stanley REIT Index have cumulative total rates of return of 46.29% for the three years ending on the valuation date for each plan.

The tables below are for illustrative purposes only and there can be no assurance that actual outcomes will be within the ranges used. Some of the factors that could affect the results set forth in the table are the total return of our common stock relative to the total return of the Russell 1000 Financial Index and the Morgan Stanley REIT Index, and the market value of our average outstanding common equity during the relevant measurement period. These factors may be affected by general economic conditions, capital market conditions, interest rates, real estate market conditions and our dividend policy.

2007 HPU Plan

5,000 Units High Performance Common Stock

Future Stock Price	iStar Financial Total Return(1)	Minimum Return	Benchmark Indices Total Return	Outperformance Return(2)	Average Market Capitalization(3) (thousands)	Total Shareholder Returns (thousands)	Outperformance Shareholder Value Added(4) (thousands)	Nominal Value of High Performance Units(5) (thousands)
$ 50.50	41.86%	30.00%	46.29%	0.00%	$ 5,662,666	$ 1,961,803	$ 0	$ 3
51.00	43.05%	30.00%	46.29%	0.00%	5,718,732	2,017,869	0	3
51.50	44.25%	30.00%	46.29%	0.00%	5,774,798	2,073,935	0	3
52.00	45.44%	30.00%	46.29%	0.00%	5,830,864	2,130,001	0	3
52.50	46.64%	30.00%	46.29%	0.35%	5,886,930	2,186,067	19,020	1,427
53.00	47.84%	30.00%	46.29%	1.55%	5,942,996	2,242,133	84,362	6,327
53.50	49.03%	30.00%	46.29%	2.74%	5,999,062	2,298,199	150,151	11,261
54.00	50.23%	30.00%	46.29%	3.94%	6,055,128	2,354,265	216,386	16,229

(1) iStar Financial Total Return is calculated as follows: ((Stock Price + 2005, 2006 and 2007 Annual Dividends) $41.80) / $41.80 where 2007 Annual Dividend equals $3.08.

(2) Outperformance Return is the amount, if any, by which the total return of the iStar Financial common stock over the measurement period exceeds the Minimum Return or the Benchmark Indices Total Return, which consists of equal weightings of the Russell 1000 Financial Index and the Morgan Stanley REIT Index during the measurement period.

(3) Assumes the market value of outstanding common equity (iStar Financial common stock) at December 31, 2007 throughout the measurement period.

(4) "Outperformance Shareholder Value Added" is calculated by multiplying the Outperformance Return by the average market capitalization.

(5) The "Value of High Performance Units" is calculated by multiplying the Outperformance Shareholder Value Added by 7.5%. If Outperformance Shareholder Return is $0, the Value of High Performance Units is calculated by multiplying the stock price by stock price by 50 Plan units. The initial investment of HPUs will continue to be treated as contributed equity on the balance sheet of the Company.

2008 HPU Plan

5,000 Units High Performance Common Stock

Future Stock Price	iStar Financial Total Return(1)	Minimum Return	Benchmark Indices Total Return	Outperformance Return(2)	Average Market Capitalization(3) (thousands)	Total Shareholder Returns (thousands)	Outperformance Shareholder Value Added(4) (thousands)	Nominal Value of High Performance Units(5)
$ 50.50	35.76%	30.00%	46.29%	0.00%	$ 5,662,666	$ 1,764,425	$ 0	$ 3
52.00	39.17%	30.00%	46.29%	0.00%	5,830,864	1,932,623	0	3
53.50	42.58%	30.00%	46.29%	0.00%	5,999,062	2,100,821	0	3
55.00	45.99%	30.00%	46.29%	0.00%	6,167,260	2,269,019	0	3
56.50	49.40%	30.00%	46.29%	3.11%	6,335,458	2,437,217	185,298	13,897
58.00	52.81%	30.00%	46.29%	6.52%	6,503,656	2,605,415	392,191	29,414
59.50	56.22%	30.00%	46.29%	9.93%	6,671,854	2,773,613	602,907	45,218
61.00	59.63%	30.00%	46.29%	13.34%	6,840,052	2,941,811	817,445	61,308

(1) iStar Financial Total Return is calculated as follows: ((Stock Price + 2006, 2007 and 2008 Annual Dividends) $44.00) / $44.00 where 2008 Annual Dividend equals $3.23.

(2) Outperformance Return is the amount, if any, by which the total return of the iStar Financial common stock over the measurement period exceeds the Minimum Return or the Benchmark Indices Total Return, which consists of equal weightings of the Russell 1000 Financial Index and the Morgan Stanley REIT Index during the measurement period.

(3) Assumes the market value of outstanding common equity (iStar Financial common stock) at December 31, 2008 throughout the measurement period.

(4) "Outperformance Shareholder Value Added" is calculated by multiplying the Outperformance Return by the average market capitalization.

(5) The "Value of High Performance Units" is calculated by multiplying the Outperformance Shareholder Value Added by 7.5%. If Outperformance Shareholder Return is $0, the Value of High Performance Units is calculated by multiplying the stock price by stock price by 50 Plan units. The initial investment of HPUs will continue to be treated as contributed equity on the balance sheet of the Company.

RECOMMENDATION REGARDING APPROVAL OF THE EXTENSION OF THE iSTAR FINANCIAL INC. HIGH PERFORMANCE UNIT PROGRAM BY THE CREATION OF THE 2007 HPU PLAN AND THE 2008 HPU PLAN.

The Board recommends that you vote FOR approval of the extension of the HPU program.

PROPOSAL 4:

RATIFICATION OF APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board has appointed PricewaterhouseCoopers LLP as our independent auditors for the fiscal year ending December 31, 2004, subject to ratification by our shareholders. We expect a representative of PricewaterhouseCoopers LLP to attend the annual meeting to make a statement, if he or she desires, and to respond to appropriate questions.

Recommendation Regarding Ratification of the Appointment of PricewaterhouseCoopers LLP

The Board recommends that you vote FOR ratification of this appointment.

OTHER INFORMATION

Information Regarding the Board of Directors and Its Committees

How often did the Board meet during 2003?

During the fiscal year ended December 31, 2003, the Board held 12 meetings. All directors attended at least 75% of all Board meetings and applicable committee meetings. In addition, all of the directors who were elected at the 2003 annual meeting were present in person at that annual meeting.

What Committees has the Board Established?

The Board has standing Audit, Compensation, Nominating and Governance and Investment Committees.

<u>The Audit Committee</u>

The Audit Committee is responsible for, among other things, retaining or dismissing our independent auditors, reviewing with the auditors the plan and scope of the audit and audit fees, monitoring the adequacy of reporting and internal controls and meeting periodically with management and our independent auditors.

From the date of our 2003 annual meeting through April 27, 2004, the Audit Committee was composed of Willis Andersen, Jr. (Chairman), Robin Josephs and Matthew J. Lustig. Effective as of April 27, 2004, the members of the Audit Committee are Willis Andersen, Jr. (Chairman), Robin Josephs and Jeffrey A. Weber. Each of the current and former members of the Audit Committee is independent as defined by the Audit Committee's charter and the New York Stock Exchange listing standards. Each of Mr. Andersen and Ms. Josephs qualifies as an "audit committee financial expert" as defined by the Securities and Exchange Commission. Other members of the Board may also qualify as financial experts. The Audit Committee operates under a written charter that was originally adopted in 2001 and was amended in 2003. A copy of the charter may be found on our website at www.istarfinancial.com. The Audit Committee met 12 times during 2003.

<u>The Compensation Committee</u>

From the date of our 2003 annual meeting through April 27, 2004, the Compensation Committee was composed of Robin Josephs (Chairperson), Matthew J. Lustig and John G. McDonald. Effective as of April 27, 2004, the members of the Compensation Committee are Robin Josephs (Chairperson), John G. McDonald and Jeffrey A. Weber. Each of the current and former members of the Compensation Committee is independent as defined by the Compensation Committee's charter and the New York Stock Exchange Listing Standards. The functions of the Compensation Committee are described under the Report of Compensation Committee contained elsewhere in this proxy statement. The Compensation Committee operates under a written charter that was originally adopted by the Board in 2001 and was amended in 2003. A copy of the charter may be found on our website at www.istarfinancial.com. The Compensation Committee met 13 times during 2003.

<u>The Nominating and Governance Committee</u>

The Nominating and Governance Committee is responsible for, among other things, considering and recommending actions relating to corporate governance matters. In addition, the Committee considers and recommends to the Board individuals to serve as our directors and executive officers. In making such recommendations, the Nominating and Governance Committee consider such factors as it deems appropriate. These factors may include judgment, skill, diversity, experience with businesses and other organizations comparable to the Company, the interplay of the candidate's experience with the experience of other Board members, and the extent to which the candidate would be a desirable addition to the Board and any committees. The Committee may solicit and consider suggestions of the directors or management regarding possible nominees, may consider nominees suggested by shareholders and generally shall guide the process of recruiting new directors. The Nominating and

Governance Committee has and may continue to employ professional search firms or consultants (for which it pays a fee) to assist it in identifying potential members of the Board with the desired skills and disciplines. Nominations made by shareholders should be made in accordance with the procedures set forth in this proxy statement under "Corporate Governance Initiatives Shareholder Nominations for Directors." Candidates proposed by shareholders will be considered using the same criteria and in the same manner as all other candidates are considered.

From the date of our 2003 annual meeting through April 27, 2004, the Nominating and Governance Committee was composed of John G. McDonald (Chairman), Robert W. Holman, Jr. and George R. Puskar. Effective as of April 27, 2004, the members of the Nominating and Governance Committee are John G. McDonald (Chairman), Willis Andersen, Jr. and George R. Puskar. Each of the current and former members of the Nominating and Governance Committee is independent, as independence is defined by the applicable listing standards of the New York Stock Exchange. The Nominating and Governance Committee operates under a written charter that was originally adopted by the Board in 2000 and was amended in 2002. A copy of the charter may be found on our website at www.istarfinancial.com. The Nominating and Governance Committee met four times during 2003.

The Investment Committee

The Board has delegated to the Investment Committee the authority to authorize our investment transactions of between $40 million and $75 million. From the date of our 2003 annual meeting through April 27, 2004, the Investment Committee was composed of George R. Puskar (Chairman), Jay Sugarman and Jeffrey Weber. Effective as of April 27, 2004, the members of the Investment Committee are George R. Puskar (Chairman), Robert W. Holman, Jr. and Jay Sugarman. The Investment Committee met 10 times during 2003.

Are there any special arrangements under which members of our Board serve as Directors?

No arrangement or understanding exists between any director and any other person or persons pursuant to which any director was or is to be selected as a director or nominee.

Executive Officers and Other Officers

Who Are Our Key Officers?

Information for Jay Sugarman is contained above under the heading "Proposal 1: Election of Directors." Information with regard to some of our other key officers is set forth below. All of our officers serve at the pleasure of the Board and are customarily appointed as officers at the annual organizational meeting of the Board held following each annual meeting of shareholders.

Timothy J. O'Connor has served as Chief Operating Officer of iStar Financial (and its predecessor) since March 1998 and Executive Vice President since March 2000. Mr. O'Connor is responsible for developing and managing iStar Financial's risk management and due diligence operations, participating in the evaluation and approval of new investments and coordinating iStar Financial's information systems. Previously, Mr. O'Connor was a vice president of Morgan Stanley & Co. responsible for the performance of more than $2 billion of assets acquired by the Morgan Stanley Real Estate Funds. Prior to joining Morgan Stanley, Mr. O'Connor was a vice president of Greystone Realty Corporation involved in the firm's acquisition and asset management operations. Previously, Mr. O'Connor was employed by Exxon Co. USA in its real estate and engineering group. Mr. O'Connor is a former vice president of the New York City/Fairfield County chapter of the National Association of Industrial and Office Parks. Mr. O'Connor received a B.S. degree from the United States Military Academy at West Point and an M.B.A. from the Wharton School.

Catherine D. Rice has served as Chief Financial Officer of iStar Financial since November 2002. Ms. Rice is responsible for managing all of iStar Financial's capital-raising initiatives, financial reporting and investor relations activities, as well as overseeing all other finance, treasury and accounting functions. Prior to joining iStar Financial, Ms. Rice served as managing director in both the financial sponsors group and the real estate investment banking group of Banc of America Securities. Prior to Banc of America Securities, Ms. Rice was a managing director at Lehman Brothers, where she was responsible for the firm's West Coast real estate investment banking effort. She spent the first ten years of her career at Merrill Lynch in its real estate investment banking group. Ms. Rice has over 16 years of experience in the public and private capital markets, and has been involved in over $15 billion of capital-raising and financial advisory transactions, including public and private debt and equity offerings, mortgage financings, merger and acquisition assignments, leveraged buyouts, asset dispositions, debt restructurings and rating advisory assignments. Ms. Rice received a B.A. degree from the University of Colorado and an M.B.A from Columbia University.

Nina B. Matis has served as General Counsel of iStar Financial (and its predecessor) since 1996 and Executive Vice President since November 1999. Ms. Matis is responsible for legal, tax, structuring and regulatory aspects of iStar Financial's operations and investment and financing transactions. Ms. Matis is a partner, and a member of the executive committee, of the law firm of KMZ Rosenman, one of our principal outside law firms. From 1984 through 1987, Ms. Matis was an adjunct professor at Northwestern University School of Law where she taught real estate transactions. Ms. Matis is a director of New Plan Excel Realty Trust, Inc. and a member of the American College of Real Estate Lawyers, Ely Chapter of Lambda Alpha International, the Chicago Finance Exchange, the Urban Land Institute, REFF, the Chicago Real Estate Executive Women, The Chicago Network and The Economic Club of Chicago, and she is listed in both The Best Lawyers of America and Sterling's Who's Who. Ms. Matis received a B.A. degree, with honors, from Smith College and a J.D. degree from New York University School of Law.

Roger M. Cozzi has served as an Executive Vice President of iStar Financial since January 2002 and is co-head of our internal Investment Committee. Prior to that, he served as Senior Vice President in our Investments group. Since joining iStar Financial (and its predecessor) in 1995, Mr. Cozzi has been responsible for the origination of structured financing transactions and has successfully closed over $1 billion of first mortgage, mezzanine and corporate finance investments. From 1995 to 1998, Mr. Cozzi was an investment officer at Starwood Mezzanine Investors, L.P. and Starwood Opportunity Fund IV, two private investment funds that specialized in structured real estate finance and opportunistic equity investments. Prior to joining Starwood, Mr. Cozzi spent three years at Goldman, Sachs & Co. While at Goldman Sachs, he spent two years in the real estate department, where he focused on securitizing and selling investment grade and non-investment grade securities backed by pools of commercial mortgages, evaluating performing commercial mortgage loans for potential principal investment by the Whitehall funds and consulting large corporate tenants on lease alternatives. After two years in real estate, Mr. Cozzi transferred into the investment management industry group, where he worked on several merger transactions, created a conduit to lend directly to mutual funds, and helped create a vehicle to securitize 12b-1 financing fees. Mr. Cozzi graduated magna cum laude from the Wharton School with a B.S. degree in Economics (with concentrations in Finance and Entrepreneurial Management).

Jeffrey R. Digel has served as an Executive Vice President of iStar Financial since March 2000 and is co-head of our internal Investment Committee. Prior to that, he was Senior Vice President in our Investments group since May 1998. Mr. Digel is responsible for the origination of new structured financing transactions, focusing on iStar Financial's financial institution and loan correspondent relationships. Previously, Mr. Digel was a vice president-mortgage finance at Aetna Life Insurance Company responsible for commercial mortgage securitizations, management of Aetna's mortgage correspondent network, management of a $750 million real estate equity portfolio for Aetna's pension clients and origination of new equity investments. Prior to joining Aetna, Mr. Digel was a member of Hart Advisors, responsible for the development and supervision of the portfolio, asset management and client communications functions for Hart's real estate pension advisory business. In addition, Mr. Digel is a member of the Mortgage Bankers Association and the International Council of Shopping Centers. Mr. Digel received a B.A. degree from Middlebury College and an M.M. from Northwestern University.

REPORT OF THE AUDIT COMMITTEE

In connection with our financial statements for the fiscal year ended December 31, 2003 the Audit Committee has reviewed and discussed our audited financial statements with management and our independent auditors. We have discussed with the independent public accountants the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended. We have received and reviewed the written disclosures and the letter from the independent public accountants required by Independence Standard No. 1, *Independence Discussions with Audit Committees*, as amended, and have discussed with the independent public accountants their independence.

Based on the reviews and discussions referred to above, the Audit Committee did not become aware of any material misstatements or omissions in the financial statements referred to above and we recommended to the Board that the financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

Submitted by the Audit Committee:

Willis Andersen, Jr. (Chairman)
Robin Josephs
Matthew J. Lustig

The above report will not be deemed to be incorporated by reference into any filing by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate the same by reference.

CORPORATE GOVERNANCE MATTERS

Corporate Governance Guidelines

Our Board has approved a set of guidelines that provide the framework for the governance of iStar Financial. The Board recognizes that there is on-going and energetic debate about corporate governance standards and that best practices and legal requirements will evolve over time. The Board will review these guidelines and other aspects of governance periodically, as necessary. Our corporate governance guidelines may be found on our website at www.istarfinancial.com.

Committee Charters

Our Audit, Compensation and Nominating and Governance Committee charters meet the enhanced standards that have been established by the New York Stock Exchange. Copies of these charters are available on our website at www.istarfinancial.com.

Code of Conduct

The Code of Conduct documents the principles of conduct and ethics to be followed by our directors, officers and employees. The purpose of the Code is to promote honest and ethical conduct, compliance with applicable governmental rules and regulations, full, fair, accurate, timely and understandable disclosure in periodic reports, prompt internal reporting of violations of the Code, and a culture of honesty and accountability. A copy of the Code has been provided to, and signed by, each of our directors, officers and employees. Among its many features, the Code describes how employees can report any matter that may be of concern to them to a member of our Compliance Committee on an anonymous basis. We have also established an independent hotline service that may be used by employees who wish to report any concerns or suspected violations of our standards of conduct, policies or laws and regulations. A copy of our Code of Conduct may be found on our website at www.istarfinancial.com, and has been included as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2003.

Audit Committee Financial Expert

The Board has determined that each of Willis Andersen, Jr. (Chairman) and Robin Josephs, members of our Audit Committee, meets the criteria of an audit committee financial expert, as adopted by the SEC. Mr. Andersen and Ms. Josephs have agreed to serve as the Company's Audit Committee financial experts.

Disclosure Committee

We maintain a Disclosure Committee consisting of members of our executive management and senior staff. The Disclosure Committee meets at least quarterly. The purpose of the Committee is to bring together representatives from our core business lines and employees involved in the preparation of our financial statements so that the group can discuss any issues or matters of which the members are aware that should be considered for disclosure in our public SEC filings. The Disclosure Committee reports to our Chief Executive Officer and, as appropriate, to our Audit Committee. The Disclosure Committee has adopted a written charter to memorialize the Committee's purpose and procedures. A copy of the charter may be found on our website at www.istarfinancial.com.

Communications with Shareholders

The Company provides the opportunity for shareholders to communicate with the members of the Board. The means for communicating with members of our Board may be found on our website at www.istarfinancial.com.

Shareholder Nominations for the Board

Shareholder nominations for election to the Board should be sent to the attention of the Assistant General Counsel and Secretary of the Company at the address appearing on the notice accompanying this proxy statement, describing the candidate's qualifications and accompanied by the candidate's written statement of willingness and affirmative desire to serve representing the interest of all shareholders. Shareholders may also make nominations directly by following the procedure specified in the Company's Bylaws.

Candidates proposed by shareholders will be considered using the same criteria and in the same manner utilized by the Nominating and Governance Committee of the Board in considering all candidates for election to the Board. See "Other Information The Nominating and Governance Committee."

EXECUTIVE COMPENSATION

Report of the Compensation Committee

The Board has delegated to the Compensation Committee responsibility for overseeing the Company's executive compensation programs. The Compensation Committee is composed exclusively of independent directors. The three directors whose names appear at the end of this report comprise the Compensation Committee.

The principal responsibilities of the Committee are:

- To review management's recommendations and advise management and the Board on broad compensation programs and policies such as salary ranges, annual incentive bonuses and long-term incentive plans, including equity-based compensation programs.

- To establish performance objectives for the Chief Executive Officer and review performance objectives established for other senior executives of the Company; and to evaluate the performance of such executives relative to these objectives, in connection with the Committee's overall review of executive compensation.

- To recommend to the Board the base salary, cash incentive bonus, equity-based incentive awards and other compensation for the Chief Executive Officer of the Company.

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To approve base salaries, cash incentive bonuses, equity-based incentive awards and other compensation for other officers and employees of the Company with base salaries or other fixed compensation in excess of $200,000 per year (which includes all officers who are subject to Section 16(b) of the Securities Exchange Act of 1934, as amended).

To administer the Company's Long Term Incentive Plan (the "LTIP") and HPU programs.

To retain and oversee third party consultants to assist with the Committee's activities, from time to time.

To oversee the Company's performance evaluation practices and procedures.

To perform such other duties and responsibilities pertaining to compensation matters as may be assigned to the Committee by the Board or the Chairman of the Board.

What procedures does the Committee follow?

The Compensation Committee typically meets at the beginning of each year to consider compensation for the Chief Executive Officer and the other executives whose compensation is subject to Committee approval, and to consider senior management's recommendations for base salary adjustments for the coming year and incentive bonuses and equity awards in respect of the preceding year for officers and other eligible employees. We also meet periodically during the year to evaluate the performance of management relative to objectives and to perform our other functions. In addition to our regular annual processes, in 2003 we undertook the negotiation of a new employment agreement with our Chief Executive Officer, as more fully described below.

What is our general compensation philosophy?

The Company's investment strategy targets specific sectors of the real estate credit markets in which we believe we can deliver value-added, flexible financial solutions to our customers, thereby differentiating our financial products from those offered by other capital providers. In the Committee's view, the Company's success depends on the talent, skills and commitme