

ISTAR FINANCIAL INC
Form 10-K/A
March 10, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

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

(Mark One)

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from _____ to _____

Commission File No. 1-15371

iSTAR FINANCIAL INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

95-6881527
(I.R.S. Employer
Identification Number)

1114 Avenue of the Americas, 39th Floor
New York, NY
(Address of principal executive offices)

10036
(Zip code)

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

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

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| Title of each class: Name of Exchange on which registered: | Name of Exchange on which registered: |
|--|---------------------------------------|
| Common Stock, \$0.001 par value | New York Stock Exchange |
| 8.000% Series D Cumulative Redeemable Preferred Stock, \$0.001 par value | New York Stock Exchange |
| 7.875% Series E Cumulative Redeemable Preferred Stock, \$0.001 par value | New York Stock Exchange |
| 7.8% Series F Cumulative Redeemable Preferred Stock, \$0.001 par value | New York Stock Exchange |
| 7.65% Series G Cumulative Redeemable Preferred Stock, \$0.001 par value | New York Stock Exchange |
| 7.50% Series I Cumulative Redeemable Preferred Stock, \$0.001 par value | New York Stock Exchange |

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of June 30, 2009 the aggregate market value of the common stock, \$0.001 par value per share of iStar Financial Inc. ("Common Stock"), held by non-affiliates (1) of the registrant was approximately \$267.1 million, based upon the closing price of \$2.84 on the New York Stock Exchange composite tape on such date.

As of February 16, 2010, there were 94,195,478 shares of Common Stock outstanding.

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

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the registrant's definitive proxy statement for the registrant's 2010 Annual Meeting, to be filed within 120 days after the close of the registrant's fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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EXPLANATORY NOTE

iStar Financial Inc. filed its Annual Report on Form 10-K for the year ended December 31, 2009 on February 26, 2010. This Amendment is being filed to correct an inadvertent error in the fixed charge coverage ratios included in explanatory note 8 to the Selected Financial Data Table in Item 6 of the Form 10-K. The corrected ratios, which conform to those disclosed by iStar Financial Inc. in its earnings press release issued on February 17, 2010 and accompanying public conference call, are included in this Amendment. Except as otherwise expressly noted herein, this Amendment does not reflect events occurring after the filing of iStar Financial Inc.'s original Form 10-K on February 26, 2010. Accordingly, this Amendment should be read in conjunction with iStar Financial's original Form 10-K.

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The following table sets forth selected financial data on a consolidated historical basis for the Company. This information should be read in conjunction with the discussions set forth in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations." Certain prior year amounts have been reclassified to conform to the 2009 presentation.

| | For the Years Ended December 31, | | | | |
|---|--|------------------|------------------|----------------|----------------|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| | (In thousands, except per share data and ratios) | | | | |
| OPERATING DATA: | | | | | |
| Interest income | \$ 557,809 | \$ 947,661 | \$ 998,008 | \$ 575,598 | \$ 406,668 |
| Operating lease income | 305,007 | 308,742 | 306,513 | 285,555 | 262,625 |
| Other income | 30,468 | 97,851 | 99,938 | 70,824 | 80,133 |
| Total revenue | 893,284 | 1,354,254 | 1,404,459 | 931,977 | 749,426 |
| Interest expense | 481,116 | 666,706 | 629,260 | 429,613 | 312,806 |
| Operating costs-corporate tenant lease assets | 23,467 | 23,059 | 27,915 | 22,159 | 20,622 |
| Depreciation and amortization | 97,869 | 94,726 | 83,690 | 66,258 | 61,609 |
| General and administrative | 127,044 | 143,902 | 156,534 | 95,358 | 61,971 |
| Provision for loan losses | 1,255,357 | 1,029,322 | 185,000 | 14,000 | 2,250 |
| Impairment of other assets | 122,699 | 295,738 | 144,184 | 5,683 | |
| Impairment of goodwill | 4,186 | 39,092 | | | |
| Other expense | 104,795 | 37,234 | 8,927 | 874 | 2,014 |
| Total costs and expenses | 2,216,533 | 2,329,779 | 1,235,510 | 633,945 | 461,272 |
| Income (loss) before earnings from equity method investments, minority interest and other items | (1,323,249) | (975,525) | 168,949 | 298,032 | 288,154 |
| Gain (loss) on early extinguishment of debt | 547,349 | 393,131 | 225 | | (46,004) |
| Gain on sale of joint venture interest | | 280,219 | | | |
| Earnings from equity method investments | 5,298 | 6,535 | 29,626 | 12,391 | 3,016 |

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| | | | | | |
|--|--------------|--------------|------------|------------|------------|
| Income (loss) from continuing operations | (770,602) | (295,640) | 198,800 | 310,423 | 245,166 |
| Income (loss) from discontinued operations | (11,671) | 22,415 | 29,970 | 41,384 | 37,373 |
| Gain from discontinued operations | 12,426 | 91,458 | 7,832 | 24,227 | 6,354 |
| Net income (loss) | (769,847) | (181,767) | 236,602 | 376,034 | 288,893 |
| Net (income) loss attributable to noncontrolling interests | 1,071 | 991 | 816 | (1,207) | (980) |
| Gains attributable to noncontrolling interests | | (22,249) | | | |
| Net income (loss) attributable to iStar Financial Inc. | (768,776) | (203,025) | 237,418 | 374,827 | 287,913 |
| Preferred dividend requirements | (42,320) | (42,320) | (42,320) | (42,320) | (42,320) |
| Net income (loss) attributable to iStar Financial Inc. and allocable to common shareholders, HPU holders and Participating Security holders(1) | \$ (811,096) | \$ (245,345) | \$ 195,098 | \$ 332,507 | \$ 245,593 |

Per common share data(2):

| | | | | | |
|--|-----------|-----------|---------|---------|---------|
| Income (loss) attributable to iStar Financial Inc. from continuing operations: | | | | | |
| Basic | \$ (7.89) | \$ (2.68) | \$ 1.19 | \$ 2.25 | \$ 1.75 |
| Diluted(3) | \$ (7.89) | \$ (2.68) | \$ 1.18 | \$ 2.23 | \$ 1.74 |
| Net income (loss) attributable to iStar Financial Inc.: | | | | | |
| Basic | \$ (7.88) | \$ (1.85) | \$ 1.48 | \$ 2.81 | \$ 2.13 |
| Diluted(3) | \$ (7.88) | \$ (1.85) | \$ 1.47 | \$ 2.78 | \$ 2.11 |

Per HPU share data(2):

Income (loss) attributable to iStar Financial Inc. from continuing operations:

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| | | | | | |
|---|---------------|-------------|-----------|-----------|-----------------|
| Basic | \$ (1,503.13) | \$ (505.47) | \$ 224.40 | \$ 425.60 | \$ 331.00 |
| Diluted(3) | \$ (1,503.13) | \$ (505.47) | \$ 223.27 | \$ 422.07 | \$ 327.73 |
| Net income (loss) attributable to iStar Financial Inc.: | | | | | |
| Basic | \$ (1,501.73) | \$ (349.87) | \$ 279.53 | \$ 530.94 | \$ 402.73 |
| Diluted(3) | \$ (1,501.73) | \$ (349.87) | \$ 278.07 | \$ 526.47 | \$ 398.73 |
| Dividends declared per common share(4) | | | | | |
| | \$ | 1.74 | \$ | 3.60 | \$ 3.08 \$ 2.93 |
| | | 4 | | | |

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| | For the Years Ended December 31, | | | | |
|---|--|---------------|---------------|--------------|--------------|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| | (In thousands, except per share data and ratios) | | | | |
| SUPPLEMENTAL DATA: | | | | | |
| Adjusted diluted earnings (loss) attributable to iStar Financial, Inc. and allocable to common shareholders and HPU holders(5)(6) | \$ (708,595) | \$ (359,295) | \$ 355,707 | \$ 429,922 | \$ 391,884 |
| EBITDA(6)(7) | \$ (168,362) | \$ 612,325 | \$ 1,013,087 | \$ 904,537 | \$ 687,571 |
| Ratio of earnings to fixed charges(8) | (0.5)x | 0.6x | 1.3x | 1.7x | 1.8x |
| Ratio of earnings to fixed charges and preferred stock dividends | (0.5)x | 0.6x | 1.3x | 1.6x | 1.6x |
| Weighted average common shares outstanding basic | 100,071 | 131,153 | 126,801 | 115,023 | 112,513 |
| Weighted average common shares outstanding diluted | 100,071 | 131,153 | 127,542 | 116,057 | 113,668 |
| Weighted average HPU shares outstanding basic and diluted | 15 | 15 | 15 | 15 | 15 |
| Cash flows from: | | | | | |
| Operating activities | \$ 76,276 | \$ 418,529 | \$ 561,337 | \$ 431,224 | \$ 515,919 |
| Investing activities | 726,221 | (27,943) | (4,745,080) | (2,529,260) | (1,406,121) |
| Financing activities | (1,074,402) | 1,444 | 4,182,299 | 2,088,617 | 917,150 |
| BALANCE SHEET DATA: | | | | | |
| Loans and other lending investments, net | \$ 7,661,562 | \$ 10,586,644 | \$ 10,949,354 | \$ 6,799,850 | \$ 4,661,915 |
| Corporate tenant lease assets, net | 2,885,896 | 3,044,811 | 3,309,866 | 3,084,794 | 3,115,361 |
| Total assets | 12,810,575 | 15,296,748 | 15,848,298 | 11,059,995 | 8,532,296 |
| Debt obligations, net | 10,894,903 | 12,486,404 | 12,363,044 | 7,833,437 | 5,859,592 |
| Redeemable noncontrolling interests | 7,444 | 9,190 | 17,773 | 9,229 | 9,228 |
| Total equity | 1,656,118 | 2,446,662 | 2,972,170 | 3,016,372 | 2,470,954 |

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. 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 Plan.
- (2) See Note 14 of the Company's Notes to the Consolidated Financial Statements.
- (3)

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For the years ended December 31, 2007, 2006 and 2005, net income used to calculate earnings per diluted common share and HPU share includes joint venture income of \$85, \$115, and \$28, respectively.

- (4) The Company generally declares common dividends in the month subsequent to the end of the quarter. During 2009, no common dividends were declared. During 2008, no common dividends were declared for the three month periods ended September 30, 2008 and December 31, 2008. In December of 2007, the Company declared a special \$0.25 dividend due to higher taxable income generated as a result of the Company's acquisition of Fremont CRE.
- (5) Adjusted earnings represents net income allocable to common shareholders and HPU holders computed in accordance with GAAP, before depreciation, depletion, amortization, gain from discontinued operations, ineffectiveness on interest rate hedges, impairment of goodwill and intangible assets, extraordinary items and cumulative effect of change in accounting principle. (See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations," for a reconciliation of adjusted earnings to net income).
- (6) Both adjusted earnings and EBITDA should be examined in conjunction with net income (loss) as shown in the Company's Consolidated Statements of Operations. Neither adjusted earnings nor EBITDA should be considered as an alternative to net income (loss) (determined in accordance with GAAP) as an indicator of the Company's performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is either measure indicative of funds available to fund the Company's cash needs or available for distribution to shareholders. Rather, adjusted earnings and EBITDA are additional measures the Company uses to analyze how its business is performing. As a commercial finance company that focuses on real estate lending and corporate tenant leasing, the Company records significant depreciation on its real estate assets and amortization of deferred financing costs associated with its borrowings. It should be noted that the Company's manner of calculating adjusted earnings and EBITDA may differ from the calculations of similarly-titled measures by other companies.

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- (7) EBITDA is calculated as net income (loss) attributable to iStar Financial Inc. plus the sum of interest expense, income taxes, depreciation, depletion and amortization.

| | For the Years Ended December 31, | | | | |
|---|----------------------------------|----------------|------------------|----------------|----------------|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| | (in thousands) | | | | |
| Net income (loss) attributable to iStar Financial Inc | \$ (769,847) | \$ (181,767) | \$ 236,602 | \$ 376,034 | \$ 288,893 |
| Add: Interest expense(1) | 481,116 | 666,706 | 629,260 | 429,613 | 312,806 |
| Add: Income taxes | 4,141 | 10,175 | 6,972 | 891 | 2,014 |
| Add: Depreciation, depletion and amortization(2) | 98,238 | 102,745 | 99,427 | 83,058 | 75,574 |
| Add: Joint venture depreciation, depletion and amortization | 17,990 | 14,466 | 40,826 | 14,941 | 8,284 |
| EBITDA | \$ (168,362) | \$ 612,325 | \$ 1,013,087 | \$ 904,537 | \$ 687,571 |

Explanatory Notes:

- (1) For the years ended December 31, 2007, 2006 and 2005, interest expense includes \$12, \$194, and \$247, respectively, of interest expense reclassified to discontinued operations.
- (2) For the years ended December 31, 2009, 2008, 2007, 2006, and 2005, depreciation, depletion and amortization includes \$1,419, \$6,717, \$10,677, \$12,567, and \$11,461, respectively, of depreciation, depletion and amortization reclassified to discontinued operations.
- (8) This ratio of earnings to fixed charges is calculated in accordance with GAAP. The Company's bank credit facilities and senior notes both have fixed charge coverage covenants, however, each is calculated differently in accordance with the terms of the respective agreements. In addition, the fixed charge covenant in the bank credit facilities is a maintenance covenant while the covenant in the senior notes is an incurrence covenant. The fixed charge coverage ratios for the bank credit facilities and senior notes were 2.4x and 2.3x, respectively as of December 31, 2009.

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PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

The following exhibits are filed as part of this Amendment No.1:

| Exhibit Number | Document Description |
|---------------------------|---|
| 31.0 | Certifications pursuant to Section 302 of the Sarbanes-Oxley Act. |
| 32.0 | Certifications pursuant to Section 906 of the Sarbanes-Oxley Act. |

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

iSTAR FINANCIAL INC.
Registrant

Date: March 10, 2010

/s/ JAY SUGARMAN

Jay Sugarman
Chairman of the Board of Directors and Chief Executive Officer (Principal executive officer)

Date: March 10, 2010

/s/ JAMES D. BURNS

James D. Burns
*Chief Financial Officer
(Principal financial and accounting officer)*