

ISTAR FINANCIAL INC
Form DEF 14A
May 01, 2006
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

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))**
- x 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)

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- x No fee required.
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(1)	Title of each class of securities to which transaction applies:
(2)	Aggregate number of securities to which transaction applies:
(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
(4)	Proposed maximum aggregate value of transaction:
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(1)	Amount Previously Paid:
(2)	Form, Schedule or Registration Statement No.:
(3)	Filing Party:
(4)	Date Filed:

1114 Avenue of the Americas, 27th Floor
New York, New York 10036

April 30, 2006

Dear Shareholder:

We cordially invite you to attend our 2006 annual meeting of shareholders. We will hold the meeting at The Harvard Club of New York City, 35 West 44th Street, 3rd Floor, West Room, New York, New York on Wednesday, May 31, 2006 at 9:00 a.m. local time.

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

- (1) elect eight directors to the Board of Directors;
- (2) consider and vote upon a proposal to amend our charter;
- (3) consider and vote upon a proposal to approve the iStar Financial Inc. 2006 Long-Term Incentive 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, 2006.

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 EIGHT NOMINEES AS DIRECTORS, THE APPROVAL OF THE AMENDMENT OF OUR CHARTER, THE APPROVAL OF THE iSTAR FINANCIAL INC. 2006 LONG-TERM INCENTIVE PLAN 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** EACH OF THE NOMINEES FOR DIRECTOR AND **FOR** APPROVAL OF THESE PROPOSALS.

All shareholders are cordially invited 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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders (Annual Meeting) of iStar Financial Inc., a Maryland corporation, will be held at The Harvard Club of New York City, 35 West 44th Street, 3rd Floor, West Room, New York, New York on Wednesday, May 31, 2006 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 (the Board) eight nominees as directors of iStar Financial, to hold office until the annual meeting of shareholders to be held in 2007 and when their successors are duly elected and qualify. The nominees to the Board are: Willis Andersen, Jr., Glenn R. August, Robert W. Holman, Jr., Robin Josephs, John G. McDonald, George R. Puskar, Jay Sugarman and Jeffrey A. Weber.
2. To consider and vote upon a proposal to amend iStar Financial s charter.
3. To consider and vote upon a proposal to approve the iStar Financial Inc. 2006 Long-Term Incentive 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, 2006.
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 the close of business on April 3, 2006 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, par value \$.01 per share (Common Stock) and 8.00% Series D preferred stock (Series D 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, NY
April 30, 2006

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.

1114 Avenue of the Americas, 27th Floor
New York, New York 10036

PROXY STATEMENT
Annual Meeting of Shareholders
To Be Held May 31, 2006

We are sending this proxy statement to holders of our common stock, par value \$.01 per share (Common Stock), and holders of our 8.00% Series D preferred stock (Series D Preferred Stock) on or about April 30, 2006 in connection with the solicitation by our Board of Directors of proxies to be voted at our 2006 annual meeting of shareholders (the Annual Meeting) or at any postponement or adjournment of the Annual Meeting. Our Common Stock includes both our regular Common Stock and our high performance common stock. Our Common Stock is listed on the New York Stock Exchange (NYSE) and is traded under the symbol SFI.

This proxy statement is accompanied by a copy of our Annual Report to Shareholders for the year ended December 31, 2005. Additional copies of the Annual Report including our financial statements at December 31, 2005 may be obtained at our website at www.istarfinancial.com, or by contacting our Investor Relations department at (212) 940-9400, 1114 Avenue of the Americas, 27th Floor, New York, NY 10036. Copies will be furnished at no additional expense.

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 3, 2006 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 114,699,208 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 or Series D Preferred Stock registered in the shareholder's name on the record date. A plurality of votes cast of the outstanding Common Stock and Series D Preferred Stock, all voting as one class, is required to elect each nominee as director. An affirmative vote of a majority of the votes entitled to be cast by the holders of our Common Stock and Series D Preferred Stock, all voting as one class, is required for the approval of the proposed charter amendment. 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, provided that, in the case of the proposal to approve the 2006 Long-Term Incentive Plan, at least a majority of the outstanding shares of Common Stock cast votes on the proposal.

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, your votes will be cast in the manner you specify on the proxy. If you submit a properly executed proxy but fail to specify how your votes should be cast, your votes will be cast 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 your shares are held by a broker, bank or other nominee (i.e., in street name), you will receive instructions from your nominee which you must follow in order to have your shares voted. Such shareholders who wish to vote in person at the meeting will need to obtain a proxy form from the broker, bank or other nominee that holds their shares of record. 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 be considered as present for purposes of determining a quorum but will not be considered votes cast.

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

If you submit a proxy, you may revoke it at any time before it is exercised by giving written notice to our Secretary expressly revoking the proxy, by signing and forwarding to us a later dated proxy, or by attending the Annual Meeting and personally casting your votes at the meeting.

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 (SEC) and the NYSE. 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, directors are elected annually and serve until their successors are duly elected and qualify.

All of the nominees for director are presently directors. If a nominee becomes unavailable to serve as a director for any reason, the persons named as proxy holders on the enclosed proxy card will cast all the votes they are entitled to cast 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 and Mr. August, are independent within the standards prescribed by the NYSE.

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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)	43	Chairman and Chief Executive Officer
Willis Andersen, Jr.(2)(3)	74	Lead Director
Glenn R. August	44	Director
Robert W. Holman, Jr.(1)(2)	62	Director
Robin Josephs(2)(4)	46	Director
John G. McDonald(3)(4)	68	Director
George R. Puskar(1)(3)	62	Director
Jeffrey A. Weber(4)	41	Director

- (1) Member of Investment Committee.
- (2) Member of Audit Committee.
- (3) Member of Nominating and Governance Committee.
- (4) Member of Compensation Committee.

Jay Sugarman is our Chairman of the Board and Chief Executive Officer. Mr. Sugarman has served as one of our (and our predecessor s) directors since 1996 and Chief Executive Officer since 1997. Through a series of innovative investment strategies, 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, growing its total market capitalization from under \$50 million to over \$10 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.

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. (TriNet), a company that we acquired in 1999, since June 1993. Mr. Andersen serves as our Lead Director, with duties that include presiding at all executive sessions of the independent directors and serving as principal liaison between the Chairman and the independent directors. Mr. Andersen is also 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.

Glenn R. August has served as one of our directors since May 2005. Mr. August is the President and Senior Partner of Oak Hill Advisors, L.P. and supervises all investment, trading and operational activities. Mr. August joined Oak Hill s predecessor in 1987 as a co-founder of Acadia Partners. Since then, he has been responsible for more than \$25 billion

of investments in leveraged loans, high yield bonds and

3

distressed securities. In addition, he co-founded all of the Oak Hill leveraged securities investment partnerships including Oak Hill Securities Fund I and II, Oak Hill Credit Partners I, II, III and IV, Oak Hill Credit Alpha Fund and Oak Hill Credit Opportunities Fund. Mr. August is also a Managing Partner of the advisor to Oak Hill Special Opportunities Fund, a \$500 million investment partnership focused on investments in distressed companies. Mr. August previously worked in the mergers and acquisitions department at Morgan Stanley in New York and London. He earned an M.B.A. from Harvard Business School, where he was a Baker Scholar, and a B.S. from Cornell University. He currently serves on the Board of Directors of TeleCity Group plc, the 92nd St. Y and The Mount Sinai Children's Center Foundation.

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 the chairman of the board and lead director of Amerivest Properties, Inc. and serves as the chairman of their compensation committee and as a member of their investment committee. 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 and consulting firm. Ms. Josephs was a senior executive with 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. Ms. Josephs is co-chair of the Reunion Committee at University of Pennsylvania and a trustee of the University of Chicago Cancer Research Foundation.

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 Stanford Investors 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 mutual funds managed by Capital Research and 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, and serves as a director 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 has served as a director of iStar Financial since June 2003. Mr. Weber is the president of York Capital Management, a multi-billion dollar event-driven investment management firm organized in 1991 with offices in New York, London and Singapore. Mr. Weber is a director of the York Enhanced Strategies Fund, LLC, a \$650 million RIC and market value CDO. Mr. Weber is a director of the Burden Center for the Aging, Inc. and serves on the Advisory Board of the Department of Medicine of Mount Sinai Medical Center. Prior to his current position, Mr. Weber was the president and chief executive officer of William A.M. Burden & Co., L.P. where his tenure spanned twelve years. Mr. Weber also worked at Chemical Venture Partners, the venture capital and leveraged 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 eight named nominees to be elected as our directors.

PROPOSAL 2:

AMENDMENT OF OUR CHARTER TO MODIFY THE PURPOSE

PROVISIONS OF ARTICLE III AND RELATED MODIFICATIONS

We are submitting to our shareholders for their approval a proposal to amend our charter in order to eliminate certain potential limitations contained in Article III(b) of our charter on the types of investments we may make and to make certain other modifications. Our charter currently contains both a general description of our purpose and a more limited description of our primary purpose. The general purpose clause, which is contained in Article III(a) of our charter, provides that we may engage in any lawful act or activity (including, without limitation or obligation, engaging in business as a REIT) for which corporations may be organized under the General Corporation Laws of the State of Maryland. Article III(b) of our charter further provides as follows:

(b) The primary purposes of the Corporation include to acquire a diversified portfolio of debt and/or debt like interests in real estate and/or real estate related assets, including (i) originating mortgage loans and/or acquiring mortgage loans or acquiring securities collateralized, in whole or in part, by such mortgage loans, as well as making equity investments in real estate and real estate-related assets, (ii) acquiring direct or indirect interests in short term, medium and long-term real estate-related debt securities and mortgage interests, which may include warrants, equity participations or similar rights incidental to a debt investment by the Corporation, (iii) making, holding and disposing of purchase money loans with respect to assets sold by the Corporation, and (iv) acquiring positions in non-performing and sub-performing debt for the purpose of either restructuring it as performing debt or if such efforts are unsuccessful, of obtaining shortly thereafter primary management rights over or equity interests in the underlying assets securing such debt (the Diversified Portfolio). Such investments may incorporate a variety of real property equity and financing techniques, including, without limitation, partnerships, joint ventures, purchase and leasebacks, land purchase-leases, net lease financings, purchase and installment salebacks, and Mortgages. The Corporation's authority with respect to the Diversified Portfolio includes the power to acquire, hold, own, develop, redevelop, construct, improve, maintain, operate, manage, sell, lease, rent, transfer, encumber, mortgage, convey, exchange and otherwise dispose of all or part of the

Diversified Portfolio and the Diversified Portfolio may be held by the Corporation directly or indirectly.

We propose amending our charter to repeal this subsection (b) and retain only the general purpose clause in subsection (a). While the language of subsection (b) encompasses the types of instruments on which we have primarily focused and expect to continue to focus in the foreseeable future, we believe that it is more customary for publicly-traded companies in our industry to have a general purpose clause without further definition of the company's primary purpose. As a finance company that seeks to provide custom-tailored financing solutions to its customers, we wish to be able to continue to develop and explore a variety of investment opportunities, without concern for whether the investments fall squarely within the types of investments specifically described in Article III(b). The limitations of Article III(b) were originally put in place at the inception of our predecessor company at the request of the controlling shareholders of the predecessor. These controlling shareholders, who no longer hold any investment in our company, were two opportunity funds that were formed to invest solely in the types of investments described in Article III(b). As a large, publicly-traded company involved in an increasingly dynamic industry, it is appropriate for our charter to permit us to make investments that we believe will meet our business objectives, without restriction on the particular form of the investments.

Consistent with the proposed amendment eliminating Article III(b), we also propose amending Article VIII, which describes our investment policy, to repeal the first paragraph of subsection (a). The first paragraph of Article VIII(a) of our charter provides as follows:

(a) While the Directors are authorized, pursuant to Article VI, to invest the Corporation Assets in a wide variety of investments, it is the present intention of the Corporation that it shall be a principal investment objective and policy of the Corporation to invest the Corporation Assets in the Diversified Portfolio.

Upon the elimination of Article III(b), as proposed, the reference in Article VIII(a) to the Diversified Portfolio will no longer be necessary or relevant. For the reasons described above, we believe it is appropriate to repeal this paragraph to eliminate ambiguity and potential restrictions on our investment activities.

Lastly, we propose amending our charter to repeal two other provisions that are no longer applicable:

- Article III(c) prohibits certain activities unless the provisions of certain non-competition agreements involving Starwood Capital Group, L.P. are amended, terminated or waived. Starwood Capital Group, L.P. was formerly affiliated with controlling shareholders of our predecessor company, which no longer hold any investment in the company. Starwood Capital Group, L.P. has not had any involvement with our company for several years and these non-competition agreements are no longer in effect. Accordingly, it is no longer necessary or appropriate for our charter to contain any reference to these agreements. Article III(c) provides as follows:

(c) Without the amendment, termination or waiver of provisions of certain non-competition agreements between Starwood Capital Group, L.P. and Starwood Hotels & Resorts, Inc., a publicly traded hotel corporation and Starwood Hotels & Resorts Worldwide, Inc., the Corporation is prohibited from: (i) making investments in loans collateralized by hotel assets where it is anticipated that the underlying equity will be acquired by the debt holder within one (1) year from the acquisition of such debt, (ii) acquiring equity interests in hotels (other than acquisitions of warrants, equity participations or similar rights incidental to a debt investment by the Corporation or that are acquired as a result of the exercise of remedies in respect of a loan in which the Corporation has an interest) or (iii) selling or contributing to or acquiring any interests in Starwood Hotels & Resorts, Inc., including debt positions or equity interests obtained by the Corporation under, pursuant to or by reason of the holding of debt positions.

- Article VI(g) of our charter requires that a stated minimum number of our directors must not be affiliated with Starwood Capital Group, L.P. Since Starwood Capital Group, L.P. has not had any involvement with our company for several years, this provision is also no longer necessary or appropriate. Article VI(g) provides as follows:

(g) A minimum of the greater of (i) 33-1/3% of the total number of Directors or (ii) three (3) members of the Board and the Executive Committee (as established in the Bylaws) of the Board shall be Persons who are not Affiliates of Starwood Capital Group, L.L.C.; provided, however, that if at any time the number of Directors or members of the Executive Committee who are not Affiliates of such Person becomes less than the minimum number set forth above, whether because of the death, resignation, removal, or change in affiliation of one or more Directors or members of the Executive Committee or otherwise, then such requirement shall not be applicable for a period of ninety (90) days after such event occurs, during which period the continuing Directors or Director then in office shall appoint, pursuant to paragraph (b) of Article VI, a sufficient number of other individuals as Directors or as members of the Executive Committee so that again a minimum of the greater of (i) 33-1/3% of the total number of Directors or (ii) three (3) members of the Board and the Executive Committee then in office are not Affiliates of such Person. The Directors shall at all times endeavor to comply with the requirement of this paragraph (i) of Article VI as to independence, but failure so to comply with such requirement shall not affect the validity or effectiveness of any action of the Directors or of the Executive Committee.

The proposed charter amendments would not affect our REIT status, nor would they change our focus away from being the leading publicly traded finance company focused primarily on the commercial real estate industry. We intend to continue to primarily provide custom tailored financing to high end private and corporate owners of real estate, including senior and mezzanine real estate debt, senior and mezzanine corporate capital, and corporate net lease financing. However, we believe that modifying our charter as proposed will provide us with additional flexibility to adapt our products and investments to meet the needs of our customers, ultimately for the benefit of our shareholders.

The proposed amendments, if approved by shareholders, will become effective on the date the amendments are filed with the Maryland Department of Assessments and Taxation. It is anticipated that the appropriate filing to effect the amendments will be made as soon after the Annual Meeting as practicable.

Recommendation Regarding Amendment of Our Charter

The Board of Directors has approved and recommends that shareholders vote FOR the proposal to amend our charter.

PROPOSAL 3:

APPROVAL OF iSTAR FINANCIAL INC.

2006 LONG-TERM INCENTIVE PLAN

The Board of Directors believes that the adoption and approval of a new long-term stock incentive plan will facilitate our continued use of long-term equity-based incentives and rewards for the foreseeable future and is in the best interests of the Company and our shareholders. We expect equity-based incentives to continue to comprise an important part of the compensation packages needed to provide long-term incentives and rewards to those individuals responsible for our success and to attract qualified executives, key employees, directors and consultants to our company. Our current Long-Term Incentive Plan (the 1996 Plan) was originally adopted in 1996 and is scheduled to expire in March 2008. As of December 31, 2005, a total of approximately 981,000 shares remain available for awards under the 1996 Plan. During the first quarter of 2006, awards consisting of approximately 440,000 restricted stock units were granted to officers and other employees, as a result of which approximately 541,000 shares currently remain available under the 1996 Plan.

Accordingly, the Board of Directors has approved, subject to the approval of our shareholders, the iStar Financial Inc. 2006 Long-Term Incentive Plan (the Plan). Shareholder approval of the Plan will

help ensure that we will have a sufficient number of long-term equity-based incentives and rewards to issue in the future to our employees and other eligible participants. In addition, shareholders are being asked to approve the Plan to ensure, for federal tax purposes, the deductibility of compensation recognized by certain participants in the Plan which may otherwise be limited by Section 162(m) of the Internal Revenue Code (the Code). Section 162(m) of the Code, under certain circumstances, causes compensation in excess of \$1 million to an employee in a year not to be deductible to the employer.

Summary of the Plan

The material features of the Plan are summarized below. This summary of the plan provisions is qualified in its entirety by reference to the full text of the Plan, a copy of which is attached to this proxy statement as Exhibit A. To the extent that there is a conflict between this summary and the Plan, the Plan shall govern. Capitalized terms used but not defined herein shall have their meanings as defined in the Plan.

Purpose

The purpose of the Plan is to provide equity-based incentives as a means of attracting and retaining qualified key employees, directors, officers, advisors, consultants and other personnel and encouraging them to increase their efforts to make our business more successful whether directly or through our subsidiaries or other affiliates. Awards under the Plan may be in the form of options, restricted stock, phantom shares, dividend equivalent rights or other forms of equity-based compensation. We will consider awards pursuant to the Plan in light of our overall compensation philosophy and competitive conditions in the marketplace.

Duration

Awards may be granted under the Plan until the 10th anniversary of the date on which it is approved by our shareholders. However, the Plan may be terminated at any time prior to that date by the Board. No awards have been made under the Plan prior to its approval by our shareholders.

Administration

The Plan will be administered by the Compensation Committee of our Board. If no committee exists, the functions of the Compensation Committee will be exercised by the Board. Nevertheless, any grants to members of the Compensation Committee will be made and administered by the Board rather than the Compensation Committee.

The Compensation Committee has the full authority to administer and interpret the Plan, to authorize the granting of awards, to determine the eligibility of a person to receive an award, and to determine the number of shares of Common Stock to be covered by each award (subject to the individual participant limitations provided in the Plan). The award agreement will contain other terms, provisions and conditions not inconsistent with the Plan, as determined by the Compensation Committee. The Compensation Committee may (subject to such considerations as may arise under Section 16 of the Exchange Act, or under other corporate, securities or tax laws) take any steps it deems appropriate, that are not inconsistent with the purposes and intent of the Plan, to establish performance-based criteria applicable to awards otherwise permitted to be granted under the Plan, and to attempt to procure shareholder approval with respect thereto, to take into account the provisions of Section 162(m) of the Code.

The Compensation Committee, in its discretion, may delegate to our chief executive officer all or part of the Compensation Committee's authority and duties with respect to awards; however, the Compensation Committee may not delegate its authority and duties with respect to awards that have been, or will be, granted to our chief executive officer. Any such delegation by the Compensation Committee may, in the sole discretion of the Compensation Committee, include a limitation as to the amount of awards that may be awarded during the period of the delegation and may contain guidelines as to the determination of the option exercise price, or price of other awards and the vesting criteria. The Compensation Committee may revoke or amend the terms of a delegation at any time but such action shall not invalidate any prior actions of the Compensation Committee's delegate that were consistent with the terms of the Plan.

Eligibility and Types of Awards

Persons who are eligible to be granted awards under the Plan are key employees, directors, officers, advisors, consultants or other personnel of our company and our subsidiaries or other persons expected to provide significant services (of a type expressly approved by the Compensation Committee as covered services for these purposes) to us or our subsidiaries, joint venture affiliates or other entities designated in the discretion of the Compensation Committee, or employees of the foregoing. The Compensation Committee generally determines eligibility for awards under the Plan.

Available Shares

Subject to adjustment upon certain corporate transactions or events, a maximum of 4,550,000 shares of Common Stock may be subject to stock options, shares of restricted stock, phantom shares, dividend equivalent rights and other equity-based awards under the Plan (including shares that would have been otherwise issuable under the 1996 Plan) at the time of the award. In addition, subject to adjustment upon certain corporate transactions or events, a maximum of 1,000,000 shares of Common Stock may underlie awards of incentive stock options. The maximum number of shares of Common Stock that may underlie awards, other than options, in any one year to any person, may not exceed 1,000,000. In addition, subject to adjustment upon certain corporate transactions or events, a participant may not receive options for more than 1,000,000 shares of our Common Stock in one year. In the event an option or other award granted under the Plan is forfeited or canceled, is settled in cash, including the settlement of tax withholding obligations using shares of Common Stock, or otherwise expires or terminates, or if shares of Common Stock are delivered in full or partial payment of the exercise price in connection with an option, the shares subject to any portion of such award will again become available for the issuance of additional awards.

Stock Options

Other than as specifically set forth under the terms of the Plan, the Compensation Committee shall determine the terms of specific options, including whether options shall constitute incentive stock options. The award agreement evidencing an award of options will specify the extent to which, and period during which, an option may be exercised after termination of employment. Generally, an option cannot be exercised after a termination of employment (or other service) to the extent it was not exercisable at the time of termination. The exercise price of an option shall be determined by the Compensation Committee and reflected in the applicable award agreement, but unless otherwise determined by the Compensation Committee, in no event shall the exercise price be less than 100% of the fair market value of a share of Common Stock on the date of grant. The exercise price with respect to incentive stock options may not be lower than 100%, or 110% in the case of an incentive stock option granted to a 10% shareholder, of the fair market value of our Common Stock on the date of grant. The aggregate fair market value (determined as of the date the option is granted) of the shares for which any option holder may be awarded incentive stock options that become exercisable for the first time during any calendar year (under the Plan or any other stock option plan required to be taken into account under Section 422(d) of the Code) may not exceed \$100,000. Each option will be exercisable for the period or periods specified in the award agreement, which will generally not exceed 10 years from the date of grant (or five years in the case of an incentive stock option granted to a 10% shareholder). The Compensation Committee shall determine the time or times at which an option may be exercised in whole or in part, and the method or methods by which, and the form or forms in which, payment of the option price with respect thereto may be made or deemed to have been made (including, without limitation, by cash, loans or third-party sale programs, or by the tender of previously-owned shares). Each option granted under the Plan will generally not be transferable except by will or the laws of descent and distribution; provided, however, that the Compensation Committee may permit other transfers. The Compensation Committee may establish a program under which participants will have phantom shares credited upon their exercise of options, rather than receiving shares at that time.

Restricted Stock

Restricted stock is an award of Common Stock that is subject to restrictions (including, without limitation, any limitations on transferability, or the right to vote a share of restricted stock) as the Compensation Committee shall determine. Unless otherwise provided in the applicable award agreement, dividends paid on shares of restricted stock while the shares are unvested will, unless otherwise provided by the Compensation Committee, be held by us until the period of forfeiture lapses, and paid to the grantee

as soon as practicable after such period lapses. Restrictions on the shares will lapse in accordance with the terms of the applicable award agreement, as determined by the Compensation Committee. Unless otherwise provided in the applicable award agreement, upon a termination of employment or other service for cause or by the grantee for any reason other than death or disability, all shares of restricted stock still subject to restrictions shall be forfeited to us and we will pay an amount equal to the lesser of the amount paid by the grantee for such shares and the fair market value on the date of forfeiture. It is generally expected that, upon a termination of employment or other service on account of death, disability or retirement of a grantee, or if the grantee has a termination of service by us for any reason other than cause, during the applicable period of forfeiture, then restrictions under the Plan will immediately lapse on all restricted stock granted to the applicable grantee.

Subject to the other terms of the Plan, the Compensation Committee may provide a specified purchase price for the restricted stock, determine the restrictions applicable to restricted stock and determine or impose other conditions to the grant of restricted stock under the Plan as it may deem appropriate.

Phantom Shares

A phantom share represents a right to receive the fair market value of a share of our Common Stock, or, if provided by the Compensation Committee, the right to receive the fair market value of a share of our Common Stock in excess of a base value established by the Compensation Committee at the time of grant. The Compensation Committee may provide in an award agreement that any particular phantom share shall expire at the end of a specified term. Phantom shares will vest as provided in the applicable award agreement. Unless otherwise determined by the Compensation Committee at the time of the grant, phantom shares will be settled by a transfer of shares of Common Stock. Phantom shares will be settled with a single-sum distribution; however, the Compensation Committee may, in its discretion and under certain circumstances, permit a participant to receive as settlement of the phantom shares installments over a period not to exceed 10 years. Unless otherwise provided in the applicable award agreement, the settlement date with respect to a phantom share is the first day of the month to follow the date on which the phantom share vests; provided that a grantee may elect, in accordance with procedures to be established by the Compensation Committee, that such settlement date will follow the grantee's termination of service, or such other time as may be permitted by the Compensation Committee.

Dividend Equivalents

A dividend equivalent is a right to receive (or have credited) the equivalent value (in cash or shares of Common Stock) of dividends declared on shares of Common Stock otherwise subject to an award. The Compensation Committee may provide that amounts payable with respect to dividend equivalents shall be converted into cash or additional shares of our Common Stock. The Compensation Committee will establish all other limitations and conditions of awards of dividend equivalents.

Other Equity-Based Awards

The Plan authorizes the granting of other awards based upon the Common Stock (including the grant of securities convertible into our Common Stock and stock appreciation rights), and subject to terms and conditions established by the Board.

Performance Goals

As mentioned above, the Compensation Committee may, in its discretion, in the case of awards intended to qualify for an exception from the limitation imposed by Section 162(m) of the Code, establish one or more performance goals as a precondition to the issuance or vesting of awards, and provide, in connection with the establishment of the performance goals, for predetermined awards to those participants with respect to whom the applicable performance goals are satisfied. The performance goals shall be based upon one or more of the following criteria: pre-tax income, after tax income, net income, operating income, cash flow, earnings per share, return on equity, return on invested capital or assets, cash and/or funds available for distribution, appreciation in the fair market value of the common stock, return on investment, shareholder return, net earnings growth, stock appreciation, related return ratios, increase in revenues, net earnings, changes in the per share or aggregate market price of our common stock, number of securities sold, earnings before any one or more of the following: interest, taxes, depreciation or

amortization for the applicable period, as reflected in our financial reports for the applicable period, total revenue growth, our published ranking against its peer group of real estate investment trusts based on total shareholder return, and funds from operations.

Special Rules Upon Reorganizations, Changes in Control, Etc.

If we are involved in a merger, consolidation, dissolution, liquidation, reorganization, exchange of shares, sale of substantially all of our assets or stock or a transaction similar thereto, or upon certain changes in our capital structure and other similar events, the Compensation Committee may make related adjustments in its discretion to outstanding awards and various Plan provisions (including, without limitation, to the number and kind of shares available under the Plan).

Without limiting the foregoing, upon a change in control (as defined in the Plan), the Compensation Committee may make such adjustments as it, in its discretion, determines are necessary or appropriate in light of the change in control, but only if the Compensation Committee determines that the adjustments do not have an adverse economic impact on the participants (as determined at the time of the adjustments).

Amendment and Termination

The Board may amend the Plan as it deems advisable, except that it may not amend the Plan in any way that would adversely affect a participant with respect to an award previously granted unless the amendment is required in order to comply with applicable laws. In addition, the Board may not amend the Plan if the amendment would cause the Plan to fail to comply with any requirement of applicable law or regulation, unless and until such amendment is approved by our shareholders.

Prohibition on Re-Pricing

The Plan provides that no option or stock appreciation right issued under the Plan may be amended to reduce the exercise price of the option or stock appreciation right below the exercise price of such option or stock appreciation right on the date of grant. In addition, no option or stock appreciation right may be granted in exchange for, or in connection with, the cancellation or surrender of an option, stock appreciation right or other award having a lower exercise price.

Prohibition on Loans to Executives

The Plan prohibits the extension of any loans by us to any officer in respect of the exercise of options or with respect to any other award granted under the Plan.

Certain U.S. Federal Income Tax Consequences

Non-Qualified Stock Options

No income will be recognized by an option holder at the time a non-qualified stock option is granted. Ordinary income will generally be recognized by an option holder, however, at the time a non-qualified stock option is exercised in an amount equal to the excess of the fair market value of the underlying Common Stock on the exercise date over the exercise price. We will generally be entitled to a deduction for federal income tax purposes in the same amount as the amount included in ordinary income by the option holder with respect to his or her non-qualified stock option. Gain or loss on a subsequent sale or other disposition of the shares acquired upon the exercise of a non-qualified stock option will be measured by the difference between the amount realized on the disposition and the tax basis of such shares, and will generally be long-term or short-term capital gain depending on the holding period involved. The tax basis of the shares acquired upon the exercise of any non-qualified stock option will be equal to the sum of the exercise price of the non-qualified stock option and the amount included in income with respect to the option. Notwithstanding the foregoing, in the event that exercise of the option is permitted other than by cash payment of the exercise price, various special tax rules may apply.

Incentive Stock Options

In general, neither the grant nor the exercise of an incentive stock option will result in taxable income to an option holder or a deduction for us. To receive special tax treatment as an incentive stock option under the Code as to shares acquired upon exercise of an incentive stock option, an option holder must neither dispose of the shares within two years after the incentive stock option is granted nor within one year after the transfer of the shares to the option holder pursuant to exercise of the option. In addition, the option holder must be an employee of us or a qualified subsidiary at all times between the date of grant and the date three months (one year in the case of disability) before exercise of the option. (Special rules apply in the case of the death of the option holder.) Incentive stock option treatment under the Code generally allows the sale of shares of our Common Stock received upon the exercise of an incentive stock option to result in any gain being treated as a capital gain to the option holder, but we will not be entitled to a tax deduction. The exercise of an incentive stock option (if the holding period rules described in this paragraph are satisfied), however, will give rise to income includable by the option holder in his or her alternative minimum taxable income for purposes of the alternative minimum tax in an amount equal to the excess of the fair market value of the stock acquired on the date of the exercise of the option over the exercise price.

If the holding period rules noted above are not satisfied, gain recognized on the disposition of the shares acquired upon the exercise of an incentive stock option will be characterized as ordinary income. This gain will be equal to the difference between the exercise price and the fair market value of the shares at the time of exercise. (Special rules may apply to disqualifying dispositions where the amount realized is less than the value at exercise.) We will generally be entitled to a deduction equal to the amount of such gain included by an option holder as ordinary income. Any excess of the amount realized upon such disposition over the fair market value at exercise will generally be long-term or short-term capital gain depending on the holding period involved. Notwithstanding the foregoing, if exercise of the option is permitted other than by cash payment of the exercise price, various special tax rules may apply.

Restricted Stock

Unless a holder of restricted stock makes an 83(b) election (as discussed below), there generally will be no tax consequences as a result of the grant of restricted stock until the restricted stock is no longer subject to a substantial risk of forfeiture or is transferable (free of the risk). Dividends paid on unvested shares, if retained by the grantee, will generally be treated as compensation income for U.S. federal income tax purposes (unless an 83(b) election has been made, as discussed below). Generally, when the restrictions are lifted, the holder will recognize ordinary income, and we will be entitled to a deduction, equal to the difference between the fair market value of the stock at that time and the amount, if any, paid by the holder for the restricted stock. Subsequently realized changes in the value of the stock generally will be treated as long-term or short-term capital gain or loss, depending on the length of time the shares are held prior to disposition of the shares. In general terms, if a holder makes an 83(b) election (under Section 83(b) of the Code) upon the award of restricted stock, the holder will recognize ordinary income on the date of the award of restricted stock, and we will be entitled to a deduction, equal to (i) the fair market value of the restricted stock as though the stock were (A) not subject to a substantial risk of forfeiture or (B) transferable, minus (ii) the amount, if any, paid for the restricted stock. If an 83(b) election is made, there will generally be no tax consequences to the holder upon the lifting of restrictions, and all subsequent appreciation in the restricted stock generally would be eligible for capital gains treatment. In the event of a forfeiture after an 83(b) election is made, no deduction or loss will be available, other than with respect to amounts actually paid for the stock.

Phantom Shares

It is generally expected that any phantom shares would be designed with the intention that there will be no tax consequences as a result of the granting of a phantom share until payment is made with respect to the phantom share. When payment is made, the participant generally would recognize ordinary income, and we would generally be entitled to a deduction, equal to the fair market value of the Common Stock and cash, as applicable, received upon payment.

Dividend Equivalents

There generally will be no tax consequences as a result of the award of a dividend equivalent. When payment is made, the holder of the dividend equivalent generally will recognize ordinary income, and we will be entitled to a deduction, equal to the amount received in respect of the dividend equivalent.

Recommendation Regarding Approval of iStar Financial Inc. 2006 Long-Term Incentive Plan

The Board of Directors has approved and recommends that shareholders vote FOR approval of the iStar Financial Inc. 2006