

ISTAR INC.  
Form 10-Q  
May 03, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q  
(Mark One)

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

For the quarterly period ended March 31, 2016

OR

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

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

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iStar Inc.  
(Exact name of registrant as specified in its charter)  
Maryland 95-6881527  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)  
1114 Avenue of the Americas, 39th Floor  
New York, NY 10036  
(Address of principal executive offices) (Zip code)  
Registrant's telephone number, including area code: (212) 930-9400

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Indicate by check mark whether the registrant: (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports); and (ii) has been 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Non-accelerated filer

Large accelerated filer  Accelerated filer  (Do not check if a Smaller reporting company   
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 April 29, 2016, there were 75,409,187 shares, \$0.001 par value per share, of iStar Inc. common stock outstanding.

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## PART I. CONSOLIDATED FINANCIAL INFORMATION

## Item 1. Financial Statements

iStar Inc.

Consolidated Balance Sheets

(In thousands, except per share data)

	As of March 31, 2016 (unaudited)	December 31, 2015
<b>ASSETS</b>		
Real estate		
Real estate, at cost	\$2,040,779	\$ 2,050,541
Less: accumulated depreciation	(462,179 )	(456,558 )
Real estate, net	1,578,600	1,593,983
Real estate available and held for sale	132,395	137,274
Total real estate	1,710,995	1,731,257
Land and development, net	1,024,434	1,001,963
Loans receivable and other lending investments, net	1,637,387	1,601,985
Other investments	233,990	254,172
Cash and cash equivalents	591,181	711,101
Accrued interest and operating lease income receivable, net	16,020	18,436
Deferred operating lease income receivable, net	98,861	97,421
Deferred expenses and other assets, net	179,310	181,457
Total assets	\$5,492,178	\$ 5,597,792
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$202,963	\$ 214,835
Loan participations payable, net	154,111	152,086
Debt obligations, net	4,110,730	4,118,823
Total liabilities	4,467,804	4,485,744
Commitments and contingencies (refer to Note 11)	—	—
Redeemable noncontrolling interests (refer to Note 5)	8,981	10,718
Equity:		
iStar Inc. shareholders' equity:		
Preferred Stock Series D, E, F, G and I, liquidation preference \$25.00 per share (refer to Note 13)	22	22
Convertible Preferred Stock Series J, liquidation preference \$50.00 per share (refer to Note 13)	4	4
Common Stock, \$0.001 par value, 200,000 shares authorized, 75,441 and 81,109 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	75	81
Additional paid-in capital	3,632,246	3,689,330
Retained earnings (deficit)	(2,646,661 )	(2,625,474 )
Accumulated other comprehensive income (loss) (refer to Note 13)	(5,577 )	(4,851 )
Total iStar Inc. shareholders' equity	980,109	1,059,112
Noncontrolling interests	35,284	42,218
Total equity	1,015,393	1,101,330
Total liabilities and equity	\$5,492,178	\$ 5,597,792

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



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iStar Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

(unaudited)

	For the Three Months Ended March 31,	
	2016	2015
Revenues:		
Operating lease income	\$54,937	\$59,139
Interest income	33,219	34,896
Other income	11,541	10,564
Land development revenue	14,947	8,258
Total revenues	114,644	112,857
Costs and expenses:		
Interest expense	57,021	54,632
Real estate expense	34,305	39,634
Land development cost of sales	11,575	6,891
Depreciation and amortization	14,708	18,501
General and administrative	23,102	20,753
Provision for (recovery of) loan losses	1,506	4,293
Other expense	740	2,123
Total costs and expenses	142,957	146,827
Income (loss) before earnings from equity method investments and other items	(28,313 )	(33,970 )
Loss on early extinguishment of debt, net	(125 )	(168 )
Earnings from equity method investments	8,267	6,547
Income (loss) from continuing operations before income taxes	(20,171 )	(27,591 )
Income tax (expense) benefit	414	(5,878 )
Income (loss) from continuing operations <sup>(1)</sup>	(19,757 )	(33,469 )
Income from sales of real estate	10,458	21,156
Net income (loss)	(9,299 )	(12,313 )
Net (income) loss attributable to noncontrolling interests	942	1,841
Net income (loss) attributable to iStar Inc.	(8,357 )	(10,472 )
Preferred dividends	(12,830 )	(12,830 )
Net (income) loss allocable to HPU holders and Participating Security holders <sup>(2)(3)</sup>	—	749
Net income (loss) allocable to common shareholders	\$(21,187)	\$(22,553)
Per common share data <sup>(1)</sup> :		
Income (loss) attributable to iStar Inc. from continuing operations:		
Basic and diluted	\$(0.27 )	\$(0.26 )
Net income (loss) attributable to iStar Inc.:		
Basic and diluted	\$(0.27 )	\$(0.26 )
Weighted average number of common shares:		
Basic and diluted	77,060	85,497
Per HPU share data <sup>(1)(2)</sup> :		
Income (loss) attributable to iStar Inc. from continuing operations		
Basic and diluted	\$—	\$(49.93 )
Net income (loss) attributable to iStar Inc.:		
Basic and diluted	\$—	\$(49.93 )
Weighted average number of HPU shares:		

Basic and diluted

— 15

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Income (loss) from continuing operations attributable to iStar Inc. was \$(18.8) million and \$(31.6) million for the (1) three months ended March 31, 2016 and 2015, respectively. Refer to Note 15 for details on the calculation of earnings per share.

(2) All of the Company's outstanding High Performance Units ("HPUs") were repurchased and retired on August 13, 2015 (refer to Note 15).

(3) Participating Security holders are non-employee directors who hold common stock equivalents and restricted stock awards granted under the Company's Long Term Incentive Plans that are eligible to participate in dividends (refer to Note 14 and Note 15).

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

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iStar Inc.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(unaudited)

	For the Three Months Ended March 31,	
	2016	2015
Net income (loss)	\$ (9,299)	\$ (12,313)
Other comprehensive income (loss):		
Reclassification of (gains)/losses on available-for-sale securities into earnings upon realization <sup>(1)</sup>	—	(2,531 )
Reclassification of (gains)/losses on cash flow hedges into earnings upon realization <sup>(2)</sup>	257	150
Unrealized gains/(losses) on available-for-sale securities	19	(575 )
Unrealized gains/(losses) on cash flow hedges	(962 )	(945 )
Unrealized gains/(losses) on cumulative translation adjustment	(40 )	(244 )
Other comprehensive income (loss)	(726 )	(4,145 )
Comprehensive income (loss)	(10,025 )	(16,458 )
Comprehensive (income) loss attributable to noncontrolling interests	942	1,844
Comprehensive income (loss) attributable to iStar Inc.	\$ (9,083)	\$ (14,614)

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(1) Reclassified to "Other income" in the Company's consolidated statements of operations.

Reclassified to "Interest expense" in the Company's consolidated statements of operations are \$160 and \$35 for the three months ended March 31, 2016 and 2015, respectively. Reclassified to "Earnings from equity method investments" in the Company's consolidated statements of operations are \$97 and \$115 for the three months ended March 31, 2016 and 2015, respectively.

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

iStar Inc.  
Consolidated Statements of Changes in Equity  
For the Three Months Ended March 31, 2016 and 2015  
(In thousands)  
(unaudited)

	iStar Inc. Shareholders' Equity							
	Preferred Stock Series J <sup>(1)</sup>	Preferred Stock Series K <sup>(1)</sup>	Common Stock at Par	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
Balance as of December 31, 2015	\$ 22	\$ 4	\$ 81	\$ 3,689,330	\$(2,625,474)	\$ (4,851)	\$ 42,218	\$ 1,101,330
Dividends declared—preferred	—	—	—	—	(12,830)	—	—	(12,830)
Issuance of stock/restricted stock unit amortization, net	—	—	—	604	—	—	—	604
Net income (loss) for the period <sup>(2)</sup>	—	—	—	—	(8,357)	—	358	(7,999)
Change in accumulated other comprehensive income (loss)	—	—	—	—	—	(726)	—	(726)
Repurchase of stock	—	—	(6)	(58,126)	—	—	—	(58,132)
Change in additional paid in capital attributable to redeemable noncontrolling interest	—	—	—	438	—	—	—	438
Change in noncontrolling interest <sup>(3)</sup>	—	—	—	—	—	—	(7,292)	(7,292)
Balance as of March 31, 2016	\$ 22	\$ 4	\$ 75	\$ 3,632,246	\$(2,646,661)	\$ (5,577)	\$ 35,284	\$ 1,015,393



iStar Inc.  
Consolidated Statements of Changes in Equity  
For the Three Months Ended March 31, 2016 and 2015  
(In thousands)  
(unaudited)

iStar Inc. Shareholders' Equity										
	Preferred Stock Series J <sup>(1)</sup>	Preferred Stock Series K <sup>(1)</sup>	Preferred Stock Series L <sup>(1)</sup>	Preferred Stock Series M <sup>(1)</sup>	Common Stock at Par	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
Balance as of December 31, 2014	\$22	\$4	\$9,800	\$85	\$3,744,621	\$ (2,556,469)	\$ (971)	\$51,256		\$1,248,348
Dividends declared—preferred	—	—	—	—	—	(12,830)	—	—	—	(12,830)
Issuance of stock/restricted stock unit amortization, net	—	—	—	—	3,054	—	—	—	—	3,054
Net income (loss) for the period <sup>(2)</sup>	—	—	—	—	—	(10,472)	—	(819)	(819)	(11,291)
Change in accumulated other comprehensive income (loss)	—	—	—	—	—	—	—	(4,145)	—	(4,145)
Repurchase of stock	—	—	—	—	(558)	—	—	—	—	(558)
Change in additional paid in capital attributable to redeemable noncontrolling interest	—	—	—	—	(3,028)	—	—	—	—	(3,028)
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	52	52
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(4)	(4)
Balance as of March 31, 2015	\$22	\$4	\$9,800	\$85	\$3,744,089	\$ (2,579,771)	\$ (5,116)	\$50,485		\$1,219,598

(1) Refer to Note 13 for details on the Company's Preferred Stock.

(2) For the three months ended March 31, 2016 and 2015, net income (loss) shown above excludes \$(1,300) and \$(1,022) of net loss attributable to redeemable noncontrolling interests.

(3) Includes a payment to acquire a noncontrolling interest (refer to Note 5).

(4) All of the Company's outstanding HPUs were repurchased and retired on August 13, 2015 (refer to Note 15).

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

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iStar Inc.

Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

	For the Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net income (loss)	\$(9,299 )	\$(12,313 )
Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Provision for (recovery of) loan losses	1,506	4,293
Depreciation and amortization	14,708	18,501
Payments for withholding taxes upon vesting of stock-based compensation	(1,109 )	(1,683 )
Non-cash expense for stock-based compensation	4,577	3,238
Amortization of discounts/premiums and deferred financing costs on debt obligations, net	4,601	4,025
Amortization of discounts/premiums and deferred interest on loans, net	(22,049 )	(19,303 )
Earnings from equity method investments	(8,267 )	(6,547 )
Distributions from operations of other investments	26,317	3,946
Deferred operating lease income	(2,126 )	(1,796 )
Income from sales of real estate	(10,458 )	(21,156 )
Land development revenue in excess of cost of sales	(3,372 )	(1,367 )
Other operating activities, net	7,745	2,463
Changes in assets and liabilities:		
Changes in accrued interest and operating lease income receivable, net	2,415	(2,083 )
Changes in deferred expenses and other assets, net	1,034	5,229
Changes in accounts payable, accrued expenses and other liabilities	(23,023 )	(27,801 )
Cash flows used in operating activities	(16,800 )	(52,354 )
Cash flows from investing activities:		
Originations and fundings of loans receivable, net	(94,343 )	(188,044 )
Capital expenditures on real estate assets	(17,735 )	(14,716 )
Capital expenditures on land and development assets	(29,375 )	(19,953 )
Repayments of and principal collections on loans receivable and other lending investments, net	73,211	34,992
Net proceeds from sales of loans receivable	—	5,595
Net proceeds from sales of real estate	35,680	147,635
Net proceeds from sales of land and development assets	8,775	7,737
Distributions from other investments	7,675	4,260
Contributions to other investments	(6,377 )	(1,231 )
Changes in restricted cash held in connection with investing activities	1,660	(136 )
Other investing activities, net	7,716	7,807
Cash flows used in investing activities	(13,113 )	(16,054 )
Cash flows from financing activities:		
Borrowings from debt obligations	275,000	250,000
Repayments of debt obligations	(282,755 )	(12,328 )
Preferred dividends paid	(12,830 )	(12,830 )
Repurchase of stock	(58,760 )	(558 )
Other financing activities, net	(10,686 )	(2,585 )
Cash flows from (used in) financing activities	(90,031 )	221,699
Effect of exchange rate changes on cash	24	—
Changes in cash and cash equivalents	(119,920 )	153,291

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Cash and cash equivalents at beginning of period	711,101	472,061
Cash and cash equivalents at end of period	\$591,181	\$625,352

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

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iStar Inc.

Notes to Consolidated Financial Statements

(unaudited)

Note 1—Business and Organization

Business—iStar Inc. (the "Company"), doing business as "iStar", finances, invests in and develops real estate and real estate related projects as part of its fully-integrated investment platform. The Company has invested more than \$35 billion over the past two decades and is structured as a real estate investment trust ("REIT") with a diversified portfolio focused on larger assets located in major metropolitan markets. The Company's primary business segments are real estate finance, land and development, net lease and operating properties (refer to Note 17).

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

Note 2—Basis of Presentation and Principles of Consolidation

Basis of Presentation—The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles in the United States of America ("GAAP") for complete financial statements. These unaudited consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as amended on Form 10-K/A on March 9, 2016 (the "2015 Annual Report").

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments, consisting of normal recurring adjustments necessary for a fair statement of the results for the interim periods presented. Such operating results may not be indicative of the expected results for any other interim periods or the entire year. Certain prior year amounts have been reclassified in the consolidated financial statements and the related notes to conform to the 2016 presentation.

During the year ended December 31, 2015, the Company determined that its classification of common shares repurchased under its share repurchase programs should be classified as a reduction to common stock for the par amount of the common stock repurchased and additional paid in capital and included as shares unissued within the consolidated financial statements. The Company previously classified common shares repurchased under its share repurchase programs as treasury stock. The misclassification eliminates treasury stock and results in corresponding reductions of common stock and additional paid-in capital, which results in no change in total equity within the consolidated balance sheets and consolidated statements of changes in equity. All repurchased shares previously reported as treasury stock will now be reported as unissued common stock. The change has no impact on the previously reported consolidated statements of operations, consolidated statements of comprehensive income or consolidated statements of cash flows. The Company evaluated the impact of this correction on previously issued financial statements and concluded they were not materially misstated. In order to conform previous financial statements with the current period, the Company elected to revise previously issued financial statements the next time such financial statements are filed. The accompanying consolidated statements of changes in equity balances as of

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March 31, 2015 have been revised as follows:

	As Reported	Change	As Adjusted
	(in thousands)		
March 31, 2015			
Additional paid-in capital	\$4,007,540	\$(263,451)	\$3,744,089
Common stock	146	(61 )	85
Treasury stock, at cost	(263,512 )	263,512	—
Total	3,744,174	—	3,744,174

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iStar Inc.

Notes to Consolidated Financial Statements (Continued)

(unaudited)

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

**Consolidated VIEs**—The Company consolidates VIEs for which it is considered the primary beneficiary. As of March 31, 2016, the total assets of these consolidated VIEs were \$351.4 million and total liabilities were \$60.9 million. The classifications of these assets are primarily within "Land and development" and "Real estate, net" on the Company's consolidated balance sheets. The classifications of liabilities are primarily within "Accounts payable, accrued expenses and other liabilities" on the Company's consolidated balance sheets. The liabilities of these VIEs are non-recourse to the Company and can only be satisfied from each VIE's respective assets. The Company did not have any unfunded commitments related to consolidated VIEs as of March 31, 2016.

**Unconsolidated VIEs**—The Company has investments in VIEs where it is not the primary beneficiary and accordingly the VIEs have not been consolidated in the Company's consolidated financial statements. As of March 31, 2016, the Company's maximum exposure to loss from these investments does not exceed the sum of the \$75.2 million carrying value of the investments, which are classified in "Other investments" on the Company's consolidated balance sheets, and \$54.2 million of related unfunded commitments.

**Note 3—Summary of Significant Accounting Policies**

In accordance with the adoption of Accounting Standards Update ("ASU") 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03") the Company presents debt issuance costs as a deduction from the carrying value of "Debt obligations, net" and "Loan participations payable, net" on the Company's consolidated balance sheets, which is consistent with the presentation of debt discounts. These costs were previously recorded in "Deferred expenses and other assets, net" on the Company's consolidated balance sheets. As a result, as of December 31, 2015, "Deferred expenses and other assets, net" excludes \$25.1 million of debt issuance costs and "Debt obligations, net" and "Loan participations payable, net" are presented net of debt issuance costs of \$24.9 million and \$0.2 million, respectively. Debt issuance costs associated with revolving-debt arrangements are recorded in "Deferred expenses and other assets, net" on the Company's consolidated balance sheets.

On January 1, 2016, the Company adopted ASU 2015-02, Amendments to the Consolidation Analysis ("ASU 2015-02") which modified the analysis it must perform to determine whether it should consolidate certain types of entities. The guidance does not amend the existing disclosure requirements for VIEs or voting interest entities ("VOEs"). The guidance, however, modified the requirements to qualify under the VOE model. The adoption did not have a material impact on the Company's consolidated financial statements.

On January 1, 2016, the Company adopted ASU 2014-16, Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity ("ASU 2014-16") which eliminated the diversity in practice for the accounting for hybrid financial instruments issued in the form of a share. ASU 2014-16 requires management to consider all terms and features, whether stated or implied, of a hybrid instrument when determining whether the nature of the instrument is more akin to a debt instrument or an equity instrument. Embedded derivative features, which are accounted for separately from host contracts, should also be considered in the analysis of the hybrid instrument. The adoption did not have a material impact on the Company's consolidated financial statements.

As of March 31, 2016, the remainder of the Company's significant accounting policies, which are detailed in the Company's 2015 Annual Report, have not changed materially.

New Accounting Pronouncements—In March 2016, Financial Accounting Standards Board ("FASB") issued ASU 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09") which was issued to simplify several aspects of the accounting for share-based payment transactions, including income tax, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted. Management is evaluating the impact of the guidance on the Company's consolidated financial statements.

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iStar Inc.

Notes to Consolidated Financial Statements (Continued)

(unaudited)

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"), which requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. For operating leases, a lessee will be required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position; (ii) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis and (iii) classify all cash payments within operating activities in the statement of cash flows. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. Management is evaluating the impact of the guidance on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is not permitted. Management is evaluating the impact of the guidance on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15") which requires management to evaluate whether there is substantial doubt that the Company is able to continue operating as a going concern within one year after the date the financial statements are issued or available to be issued. If there is substantial doubt, additional disclosure is required, including the principal condition or event that raised the substantial doubt, the Company's evaluation of the condition or event in relation to its ability to meet its obligations and the Company's plan to alleviate (or, which is intended to alleviate) the substantial doubt. ASU 2014-15 is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted. Management does not believe the guidance will have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09") which supersedes existing industry-specific guidance, including ASC 360-20, Real Estate Sales. The new standard is principles-based and requires more estimates and judgment than current guidance. Certain contracts with customers, including lease contracts and financial instruments and other contractual rights, are not within the scope of the new guidance. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers - Deferral of the Effective Date, to defer the effective date of ASU 2014-09 by one year. ASU 2014-09 is now effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted beginning January 1, 2017. Management is evaluating the impact of the guidance on the Company's consolidated financial statements.



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iStar Inc.

Notes to Consolidated Financial Statements (Continued)

(unaudited)

## Note 4—Real Estate

The Company's real estate assets were comprised of the following (\$ in thousands):

	Net Lease	Operating Properties	Total
As of March 31, 2016			
Land and land improvements, at cost	\$304,929	\$132,369	\$437,298
Buildings and improvements, at cost	1,177,060	426,421	1,603,481
Less: accumulated depreciation	(382,501 )	(79,678 )	(462,179 )
Real estate, net	1,099,488	479,112	1,578,600
Real estate available and held for sale <sup>(1)</sup>	717	131,678	132,395
Total real estate	\$1,100,205	\$610,790	\$1,710,995
As of December 31, 2015			
Land and land improvements, at cost	\$306,172	\$133,275	\$439,447
Buildings and improvements, at cost	1,183,723	427,371	1,611,094
Less: accumulated depreciation	(377,416 )	(79,142 )	(456,558 )
Real estate, net	1,112,479	481,504	1,593,983
Real estate available and held for sale <sup>(1)</sup>	—	137,274	137,274
Total real estate	\$1,112,479	\$618,778	\$1,731,257

<sup>(1)</sup> As of March 31, 2016 and December 31, 2015, the Company had \$131.7 million and \$137.3 million, respectively, of residential properties available for sale in its operating properties portfolio.

Real Estate Available and Held for Sale—During the three months ended March 31, 2016, the Company transferred one net lease asset with a carrying value of \$0.7 million to held for sale due to an executed contract with a third party. During the three months ended March 31, 2015, the Company transferred net lease assets with a carrying value of \$7.5 million to held for sale due to executed contracts with third parties.

Dispositions—During the three months ended March 31, 2016 and 2015, the Company sold residential condominiums for total net proceeds of \$19.7 million and \$49.0 million, respectively, and recorded income from sales of real estate totaling \$4.9 million and \$17.6 million, respectively. During the three months ended March 31, 2016 and 2015, the Company sold net lease assets for net proceeds of \$10.0 million and \$4.9 million, respectively, resulting in gains of \$4.9 million and \$3.6 million, respectively. During the three months ended March 31, 2016, the Company also sold a commercial operating property for net proceeds of \$5.9 million resulting in a gain of \$0.7 million. The gains are recorded in "Income from sales of real estate" in the Company's consolidated statements of operations.

During the three months ended March 31, 2015, the Company, through a consolidated entity, sold a leasehold interest in a commercial operating property for net proceeds of \$93.5 million and simultaneously entered into a ground lease with an initial term of 99 years. In connection with this transaction, the Company recorded a lease incentive asset of \$38.1 million, which is included in "Deferred expenses and other assets, net" on the Company's consolidated balance sheets, and deferred a gain of \$5.3 million, which is included in "Accounts payable, accrued expenses and other liabilities" on the Company's consolidated balance sheets. In December 2015, the Company acquired the noncontrolling interest in the entity for \$6.4 million.

Tenant Reimbursements—The Company receives reimbursements from tenants for certain facility operating expenses including common area costs, insurance, utilities and real estate taxes. Tenant expense reimbursements were \$6.3 million and \$7.0 million for the three months ended March 31, 2016 and 2015, respectively. These amounts are included in "Operating lease income" in the Company's consolidated statements of operations.

Allowance for Doubtful Accounts—As of March 31, 2016 and December 31, 2015, the allowance for doubtful accounts related to real estate tenant receivables was \$2.2 million and \$1.9 million, respectively, and the allowance for doubtful accounts related to deferred operating lease income was \$1.5 million as of both dates. These amounts are included in "Accrued interest and

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operating lease income receivable, net" and "Deferred operating lease income receivable, net", respectively, on the Company's consolidated balance sheets.

## Note 5—Land and Development

The Company's land and development assets were comprised of the following (\$ in thousands):

	As of	
	March 31,	December
	2016	31,
		2015
Land and land development, at cost	\$1,030,766	\$1,007,995
Less: accumulated depreciation	(6,332 )	(6,032 )
Total land and development, net	\$1,024,434	\$1,001,963

Acquisitions—In February 2016, the Company acquired an additional 7.2% interest in a consolidated entity for \$7.2 million. The Company owns 92.2% of the entity as of March 31, 2016.

Dispositions—For the three months ended March 31, 2016 and 2015, the Company sold residential lots and units and recognized land development revenue of \$14.9 million and \$8.3 million, respectively, from its land and development portfolio. For the three months ended March 31, 2016 and 2015, the Company recognized land development cost of sales of \$11.6 million and \$6.9 million, respectively, from its land and development portfolio.

Redeemable Noncontrolling Interest—The Company has an interest in a strategic venture that provides the minority partner an option to redeem its interest at fair value. The Company has reflected the partner's noncontrolling interest in this venture as a component of redeemable noncontrolling interest within its consolidated balance sheets. Changes in fair value are being accreted over the term from the date of issuance to the earliest redemption date using the interest method. As of March 31, 2016 and December 31, 2015, this interest had a carrying value of \$6.1 million and \$7.2 million, respectively. As of March 31, 2016 and December 31, 2015, this interest had an estimated redemption value of \$9.2 million.

## Note 6—Loans Receivable and Other Lending Investments, net

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

	As of	
Type of Investment	March 31,	December 31,
	2016	2015
Senior mortgages	\$1,010,329	\$975,915
Corporate/Partnership loans	664,564	643,270
Subordinate mortgages	25,454	28,676
Total gross carrying value of loans	1,700,347	1,647,861
Reserves for loan losses	(109,671 )	(108,165 )
Total loans receivable, net	1,590,676	1,539,696
Other lending investments—securities	46,711	62,289
Total loans receivable and other lending investments, net <sup>(1)</sup>	\$1,637,387	\$1,601,985

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(1)

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The Company's recorded investment in loans as of March 31, 2016 and December 31, 2015 includes accrued interest of \$10.1 million and \$9.0 million, respectively, which are included in "Accrued interest and operating lease income receivable, net" on the Company's consolidated balance sheets.

During the three months ended March 31, 2015, the Company sold a loan with a carrying value of \$5.5 million. No gain or loss was recognized as a result of the transaction.

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

	For the Three Months Ended March 31,	
	2016	2015
Reserve for loan losses at beginning of period	\$ 108,165	\$ 98,490
Provision for loan losses <sup>(1)</sup>	1,506	4,293
Reserve for loan losses at end of period	\$ 109,671	\$ 102,783

(1) For the three months ended March 31, 2015 the provision for loan losses includes recoveries of previously recorded loan loss reserves of \$0.2 million.

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

	Individually Evaluated for Impairment <sup>(1)</sup>	Collectively Evaluated for Impairment <sup>(2)</sup>	Total
As of March 31, 2016			
Loans	\$ 141,420	\$ 1,569,029	\$ 1,710,449
Less: Reserve for loan losses	(73,071 )	(36,600 )	(109,671 )
Total	\$ 68,349	\$ 1,532,429	\$ 1,600,778
As of December 31, 2015			
Loans	\$ 132,492	\$ 1,524,347	\$ 1,656,839
Less: Reserve for loan losses	(72,165 )	(36,000 )	(108,165 )
Total	\$ 60,327	\$ 1,488,347	\$ 1,548,674

(1) The carrying value of these loans include unamortized discounts, premiums, deferred fees and costs totaling net discounts of \$0.2 million as of March 31, 2016 and December 31, 2015. The Company's loans individually evaluated for impairment primarily represent loans on non-accrual status and therefore, the unamortized amounts associated with these loans are not currently being amortized into income.

(2) The carrying value of these loans include unamortized discounts, premiums, deferred fees and costs totaling net discounts of \$6.5 million and \$8.2 million as of March 31, 2016 and December 31, 2015, respectively.

Credit Characteristics—As part of the Company's process for monitoring the credit quality of its loans, it performs a quarterly loan portfolio assessment and assigns risk ratings to each of its performing loans. Risk ratings, which range from 1 (lower risk) to 5 (higher risk), are based on judgments which are inherently uncertain and there can be no assurance that actual performance will be similar to current expectation.

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

	As of March 31, 2016	As of December 31, 2015
Performing Loans	Weighted Average	Performing Loans Weighted Average

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		Risk Ratings		Risk Ratings
Senior mortgages	\$879,019	2.96	\$853,595	2.96
Corporate/Partnership loans	664,210	3.31	641,713	3.37
Subordinate mortgages	25,800	3.92	29,039	3.64
Total	\$1,569,029	3.13	\$1,524,347	3.15

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The Company's recorded investment in loans, aged by payment status and presented by class, were as follows (\$ in thousands):

	Current	Less Than and Equal to 90 Days	Greater Than 90 Days <sup>(1)</sup>	Total Past Due	Total
As of March 31, 2016					
Senior mortgages	\$889,128	\$9,083	\$116,825	\$125,908	\$1,015,036
Corporate/Partnership loans	669,613	—	—	—	669,613
Subordinate mortgages	25,800	—	—	—	25,800
Total	\$1,584,541	\$9,083	\$116,825	\$125,908	\$1,710,449
As of December 31, 2015					
Senior mortgages	\$864,099	\$—	\$116,250	\$116,250	\$980,349
Corporate/Partnership loans	647,451	—	—	—	647,451
Subordinate mortgages	29,039	—	—	—	29,039
Total	\$1,540,589	\$—	\$116,250	\$116,250	\$1,656,839

As of March 31, 2016, the Company had four loans which were greater than 90 days delinquent and were in various stages of resolution, including legal proceedings, environmental concerns and foreclosure-related (1) proceedings, and ranged from 1.0 to 8.0 years outstanding. As of December 31, 2015, the Company had four loans which were greater than 90 days delinquent and were in various stages of resolution, including legal proceedings, environmental concerns and foreclosure-related proceedings, and ranged from 1.0 to 7.0 years outstanding.

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

	As of March 31, 2016			As of December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Senior mortgages	\$9,083	\$9,082	\$—	\$—	\$—	\$—
With an allowance recorded:						
Senior mortgages	126,933	125,882	(70,533 )	126,754	125,776	(69,627 )
Corporate/Partnership loans	5,404	5,402	(2,538 )	5,738	5,738	(2,538 )
Subtotal	132,337	131,284	(73,071 )	132,492	131,514	(72,165 )
Total	\$141,420	\$140,366	\$(73,071 )	\$132,492	\$131,514	\$(72,165 )

(1) All of the Company's non-accrual loans are considered impaired and included in the table above.

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

	For the Three Months Ended March 31,			
	2016		2015	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
With no related allowance recorded:				
Senior mortgages	\$4,542	\$ —	\$ —	\$ —
With an allowance recorded:				
Senior mortgages	126,843	—	130,491	17
Corporate/Partnership loans	5,571	—	7,868	9
Subtotal	132,414	—	138,359	26
Total	\$136,956	\$ —	\$138,359	\$ 26

Securities—Other lending investments—securities includes the following (\$ in thousands):

	Face Value	Amortized Cost	Net Unrealized Gain (Loss)	Estimated Fair Value	Net Carrying Value
As of March 31, 2016					
Available-for-Sale Securities					
Municipal debt securities	\$5,365	\$ 5,365	\$ 171	\$ 5,536	\$ 5,536
Held-to-Maturity Securities					
Corporate debt securities	41,563	41,175	—	41,204	41,175
Total	\$46,928	\$ 46,540	\$ 171	\$ 46,740	\$ 46,711
As of December 31, 2015					
Available-for-Sale Securities					
Municipal debt securities	\$1,010	\$ 1,010	\$ 151	\$ 1,161	\$ 1,161
Held-to-Maturity Securities					
Corporate debt securities	54,549	61,128	—	61,199	61,128
Total	\$55,559	\$ 62,138	\$ 151	\$ 62,360	\$ 62,289



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## Note 7—Other Investments

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

	Carrying Value as of		Equity in Earnings (Losses)	
			For the Three Months Ended	
			March 31,	
	March 31, 2016	December 31, 2015	2016	2015
Other real estate equity investments	\$85,122	\$ 81,452	\$(1,702)	\$(1,302)
iStar Net Lease I LLC ("Net Lease Venture")	68,043	69,096	946	1,633
Other investments <sup>(1)</sup>	57,734	73,525	802	1,696
Marina Palms, LLC ("Marina Palms")	23,091	30,099	8,221	4,520
Total other investments	\$233,990	254,172	\$8,267	\$6,547

- (1) In conjunction with the sale of the Company's interests in Oak Hill Advisors, L.P. in 2011, the Company retained a share of the carried interest related to various funds. During the three months ended March 31, 2016 and 2015, the Company recognized \$3.2 million and \$1.5 million, respectively, of carried interest income.

Other real estate equity investments—As of March 31, 2016, the Company's other real estate equity investments included equity interests in real estate ventures ranging from 19% to 76%, comprised of investments of \$12.0 million in operating properties and \$68.6 million in land assets. As of December 31, 2015, the Company's other real estate equity investments included \$11.1 million in operating properties and \$64.0 million in land assets.

In addition, during 2014 the Company contributed land to a newly formed unconsolidated entity in which the Company received an initial equity interest of 85.7%. This entity is a VIE and the Company does not have controlling interest due to shared control of the entity with its partner. As of March 31, 2016 and December 31, 2015, the Company had a recorded equity interest of \$4.5 million and \$6.3 million, respectively. Additionally, the Company committed to provide \$45.7 million of mezzanine financing to the entity. As of March 31, 2016, the loan balance was \$34.5 million and is included in "Loans receivable and other lending investments, net" on the Company's consolidated balance sheets. During the three months ended March 31, 2016 and 2015, the Company recorded \$1.2 million and \$0.6 million of interest income, respectively, relating to this loan.

Net Lease Venture—In February 2014, the Company partnered with a sovereign wealth fund to form a new unconsolidated entity in which the Company has an equity interest of approximately 51.9%. This entity is not a VIE and the Company does not have controlling interest due to the substantive participating rights of its partner. The partners plan to contribute up to an aggregate \$500 million of equity to acquire and develop net lease assets over time. The Company is responsible for sourcing new opportunities and managing the venture and its assets in exchange for a promote and management fee. Several of the Company's senior executives whose time is substantially devoted to the net lease venture own a total of 0.6% equity ownership in the venture via co-investment. These senior executives are also entitled to an amount equal to 50% of any promote payment received based on the 47.5% partner's interest. As of March 31, 2016 and December 31, 2015, the venture's carrying value of total assets was \$398.8 million and \$400.2 million, respectively. During the three months ended March 31, 2016 and 2015, the Company recorded \$0.4 million of management fees from the Net Lease Venture and are included in "Other income" in the Company's consolidated

statements of operations.

**Other investments**—As of March 31, 2016, the Company also had smaller investments in real estate related funds and other strategic investments in several other entities that were accounted for under the equity method or cost method. As of March 31, 2016 and December 31, 2015, the carrying value of the Company's cost method investments was \$1.5 million. During the three months ended March 31, 2015, the Company sold available-for-sale securities for proceeds of \$7.3 million for gains of \$2.5 million, which are included in "Other income" in the Company's consolidated statements of operations. The amount reclassified out of accumulated other comprehensive income into earnings was determined based on the specific identification method.

**Marina Palms**—As of March 31, 2016, the Company owned a 47.5% equity interest in Marina Palms, a residential condominium development. This entity is not a VIE and the Company does not have controlling interest due to shared control of the entity with its partner. As of March 31, 2016 and December 31, 2015, the venture's carrying value of total assets was \$230.8 million and \$278.5 million, respectively.

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Summarized investee financial information—The following table presents the investee level summarized financial information of the Company's equity method investments, which were significant subsidiaries for the three months ended March 31, 2016 and 2015 (\$ in thousands):

	Revenues	Expenses	Net Income Attributable to Parent Entities
For the Three Months Ended March 31, 2016			
Marina Palms	\$ 50,628	\$(25,511)	\$ 25,117
Net Lease Venture	7,830	(5,863)	1,823
For the Three Months Ended March 31, 2015			
Marina Palms	\$ 34,998	\$(22,638)	\$ 12,360
Net Lease Venture	7,829	(4,546)	3,146

## Note 8—Other Assets and Other Liabilities

Deferred expenses and other assets, net, consist of the following items (\$ in thousands):

	As of	
	March 31, 2016	December 31, 2015
Intangible assets, net <sup>(1)</sup>	\$69,647	\$ 71,446
Other assets <sup>(2)</sup>	39,428	36,999
Restricted cash	24,152	26,657
Other receivables	22,599	22,557
Leasing costs, net <sup>(3)</sup>	18,855	19,393
Corporate furniture, fixtures and equipment, net <sup>(4)</sup>	4,629	4,405
Deferred expenses and other assets, net	\$179,310	\$ 181,457

Intangible assets, net includes above market and in-place lease assets related to the acquisition of real estate assets. This balance also includes a lease incentive asset of \$38.1 million (refer to Note 4). Accumulated amortization on intangible assets, net was \$37.7 million and \$37.3 million as of March 31, 2016 and December 31, 2015, respectively. The amortization of above market leases and lease incentive assets decreased operating lease income (1) in the Company's consolidated statements of operations by \$1.2 million and \$2.3 million for the three months ended March 31, 2016 and 2015, respectively. These intangible lease assets are amortized over the term of the lease. The amortization expense for in-place leases was \$0.5 million and \$1.5 million for the three months ended March 31, 2016 and 2015, respectively. These amounts are included in "Depreciation and amortization" in the Company's consolidated statements of operations.

(2) Includes a \$7.0 million receivable related to the sale of a land parcel in 2015.

(3) Accumulated amortization of leasing costs was \$9.4 million and \$9.8 million as of March 31, 2016 and December 31, 2015, respectively.

(4) Accumulated depreciation on corporate furniture, fixtures and equipment was \$8.3 million and \$8.1 million as of March 31, 2016 and December 31, 2015, respectively.



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

	As of	
	March 31, December 31,	
	2016	2015
Other liabilities <sup>(1)</sup>	\$85,327	\$ 80,332
Accrued expenses <sup>(2)</sup>	65,226	68,937
Accrued interest payable	42,220	55,081
Intangible liabilities, net <sup>(3)</sup>	10,190	10,485
Accounts payable, accrued expenses and other liabilities <sup>(4)</sup>	\$202,963	\$ 214,835

As of March 31, 2016 and December 31, 2015, "Other liabilities" includes \$14.5 million related to a profit sharing payable to a developer for residential units sold and \$4.6 million and \$4.4 million, respectively, associated with "Real estate available and held for sale" on the Company's consolidated balance sheets. As of March 31, 2016 and December 31, 2015, "Other liabilities" also includes \$7.3 million and \$6.6 million, respectively, related to tax increment financing bonds which were issued by government entities to fund development within two of the Company's land projects. The amount represents tax assessments associated with each project, which will decrease (1) as the Company sells units. As of March 31, 2016 and December 31, 2015, includes \$0.3 million and \$0.9 million, respectively, related to share repurchases that settled in April 2016 and January 2016, respectively. As of March 31, 2016 and December 31, 2015, includes \$6.0 million of deferred net revenue in connection with the sale of a land and development asset. As of March 31, 2016, includes \$0.8 million of deferred financing costs that had not yet been paid in cash. As of December 31, 2015, included \$5.7 million of deferred revenue in connection with the sale of a land and development asset in 2015. This amount was recognized in land development revenue during the three months ended March 31, 2016.

As of March 31, 2016 and December 31, 2015, accrued expenses includes \$3.9 million and \$5.3 million, (2) respectively, associated with "Real estate available and held for sale" on the Company's consolidated balance sheets.

Intangible liabilities, net includes below market lease liabilities related to the acquisition of real estate assets.

Accumulated amortization on below market leases was \$6.5 million and \$6.6 million as of March 31, 2016 and (3) December 31, 2015, respectively. The amortization of below market leases increased operating lease income in the Company's consolidated statements of operations by \$0.3 million and \$0.4 million for the three months ended March 31, 2016 and 2015, respectively.

As of March 31, 2016 and December 31, 2015, includes \$29.2 million and \$26.2 million, respectively, of capital (4) expenditures that had not yet been paid in cash.

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

	As of	
	March 31, December 31,	
	2016	2015
Deferred tax assets (liabilities) <sup>(1)</sup>	\$53,678	\$ 53,910
Valuation allowance	(53,678 )	(53,910 )
Net deferred tax assets (liabilities)	\$—	\$ —

(1) Deferred tax assets as of March 31, 2016 include timing differences related primarily to asset basis of \$36.0 million, deferred expenses and other items of \$16.0 million and net operating loss ("NOL") carryforwards of \$1.7 million. Deferred tax assets as of December 31, 2015, include timing differences related primarily to asset basis of

\$40.0 million, deferred expenses and other items of \$10.7 million and NOL carryforwards of \$3.2 million.

Note 9—Loan Participations Payable, net

During the year ended December 31, 2015, the Company transferred to a third party a \$100.0 million junior loan participation in a \$250.0 million mezzanine loan commitment that it had previously originated. The Company had funded \$38.9 million of the junior loan prior to transfer and received proceeds of \$38.9 million upon transfer. The transferee is responsible for funding the remaining \$61.1 million under the junior loan commitment, which bears interest at a rate of 5.90%. The Company will fund these commitments if the transferee defaults. For the three months ended March 31, 2016, the transferee funded an additional \$1.9 million directly to the borrower. As of March 31, 2016, the balance of the loan was \$54.9 million.

During the year ended December 31, 2015, the Company transferred to a third party a \$100.0 million senior loan participation in a \$220.2 million senior loan commitment that it had previously originated. The transferred participation bears interest at a rate of LIBOR+ 3.50% with a LIBOR floor of 0.25%. The Company had fully funded the \$100.0 million transferred participation prior to transfer and received net proceeds of \$99.2 million.

These transfers of financial assets did not meet the sales criteria established under ASC Topic 860 and have been accounted for as loan participations payable as of March 31, 2016 and December 31, 2015, with balances, net of a discount and debt issuance costs, of \$154.1 million and \$152.1 million, respectively. As of March 31, 2016 and December 31, 2015, the corresponding loan

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receivable balances were \$154.9 million and \$153.0 million, respectively, and are included in "Loans receivable and other lending investments, net" on the Company's consolidated balance sheets. The principal and interest due on these participations are paid from cash flows of the corresponding loans receivable, which serve as collateral for the participations.

Note 10—Debt Obligations, net

As of March 31, 2016 and December 31, 2015, the Company's debt obligations were as follows (\$ in thousands):

	Carrying Value as of		Stated	Scheduled
	March 31, 2016	December 31, 2015	Interest Rates	Maturity Date
Secured credit facilities and term loans:				
2012 Tranche A-2 Facility	\$325,123	\$339,717	LIBOR + 5.75%	<sup>(1)</sup> March 2017
2015 Revolving Credit Facility	245,000	250,000	Various	<sup>(2)</sup> March 2018
Term loans collateralized by net lease assets	237,297	239,547	4.851% - 7.26%	<sup>(3)</sup> Various through 2026
Total secured credit facilities and term loans	807,420	829,264		
Unsecured notes:				
5.875% senior notes	—	261,403	5.875	% —
3.875% senior notes	265,000	265,000	3.875	% July 2016
3.00% senior convertible notes <sup>(4)</sup>	200,000	200,000	3.00	% November 2016
1.50% senior convertible notes <sup>(5)</sup>	200,000	200,000	1.50	% November 2016
5.85% senior notes	99,722	99,722	5.85	% March 2017
9.00% senior notes	275,000	275,000	9.00	% June 2017
4.00% senior notes	550,000	550,000	4.00	% November 2017
7.125% senior notes	300,000	300,000	7.125	% February 2018
4.875% senior notes	300,000	300,000	4.875	% July 2018
5.00% senior notes	770,000	770,000	5.00	% July 2019
6.50% senior notes	275,000	—	6.50	% July 2021
Total unsecured notes	3,234,722	3,221,125		
Other debt obligations:				
Other debt obligations	100,000	100,000	LIBOR + 1.50%	October 2035
Total debt obligations	4,142,142	4,150,389		
Debt discounts and deferred financing costs, net	(31,412 )	(31,566 )		
Total debt obligations, net <sup>(6)</sup>	\$4,110,730	\$4,118,823		

(1) The loan has a LIBOR floor of 1.25%. As of March 31, 2016, inclusive of the floor, the 2012 Tranche A-2 Facility loan incurred interest at a rate of 7.00%.

The loan bears interest at the Company's election of either (i) a base rate, which is the greater of (a) prime, (b) federal funds plus 0.5% or (c) LIBOR plus 1.00% and subject to a margin ranging from 1.25% to 1.75%, or (ii) LIBOR subject to a margin ranging from 2.25% to 2.75%. At maturity, the Company may convert outstanding borrowings to a one year term loan which matures in quarterly installments through March 2019.

(3) As of March 31, 2016 and December 31, 2015, includes a loan with a floating rate of LIBOR plus 2.00%. As of March 31, 2016, the weighted average interest rate of these loans is 5.2%.

(4)

The Company's 3.00% senior convertible fixed rate notes due November 2016 ("3.00% Convertible Notes") are convertible at the option of the holders, into 85.0 shares per \$1,000 principal amount of 3.00% Convertible Notes, at \$11.77 per share at any time prior to the close of business on November 14, 2016.

The Company's 1.50% senior convertible fixed rate notes due November 2016 ("1.50% Convertible Notes") are (5) convertible at the option of the holders, into 57.8 shares per \$1,000 principal amount of 1.50% Convertible Notes, at \$17.29 per share at any time prior to the close of business on November 14, 2016.

(6) The Company capitalized interest relating to development activities of \$1.4 million and \$1.5 million for the three months ended March 31, 2016 and 2015, respectively.



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Future Scheduled Maturities—As of March 31, 2016, future scheduled maturities of outstanding debt obligations are as follows (\$ in thousands):

	Unsecured Debt	Secured Debt	Total
2016 (remaining nine months) <sup>(1)</sup>	\$665,000	\$—	\$665,000
2017	924,722	325,123	1,249,845
2018	600,000	257,780	857,780
2019	770,000	30,401	800,401
2020	—	—	—
Thereafter	375,000	194,116	569,116
Total principal maturities	3,334,722	807,420	4,142,142
Unamortized discounts and deferred financing costs, net	(28,675 )	(2,737 )	(31,412 )
Total debt obligations, net	\$3,306,047	\$804,683	\$4,110,730

<sup>(1)</sup> Includes the \$265.0 million principal amount of senior unsecured notes due July 2016 that were repaid in full in April 2016.

2015 Revolving Credit Facility—On March 27, 2015, the Company entered into a secured revolving credit facility with a maximum capacity of \$250.0 million (the "2015 Revolving Credit Facility"). Borrowings under this credit facility bear interest at a floating rate indexed to one of several base rates plus a margin which adjusts upward or downward based upon the Company's corporate credit rating. An undrawn credit facility commitment fee ranges from 0.375% to 0.5%, based on average utilization each quarter. During the three months ended March 31, 2016, the weighted average cost of the credit facility was 3.18%. Commitments under the revolving facility mature in March 2018. At maturity, the Company may convert outstanding borrowings to a one year term loan which matures in quarterly installments through March 2019.

2012 Secured Credit Facilities—In March 2012, the Company entered into an \$880.0 million senior secured credit agreement providing for two tranches of term loans: a \$410.0 million 2012 A-1 tranche due March 2016, which accrued interest at a rate of LIBOR + 4.00% (the "2012 Tranche A-1 Facility"), and a \$470.0 million 2012 A-2 tranche due March 2017, which bears interest at a rate of LIBOR + 5.75% (the "2012 Tranche A-2 Facility," together the "2012 Secured Credit Facilities"). The 2012 A-1 and A-2 tranches were issued at 98.0% of par and 98.5% of par, respectively, and both tranches include a LIBOR floor of 1.25%. Proceeds from the 2012 Secured Credit Facilities, together with cash on hand, were used to repurchase and repay other outstanding debt.

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

Additionally, through March 31, 2016, the Company made cumulative amortization repayments of \$144.9 million on the 2012 Tranche A-2 Facility. For the three months ended March 31, 2016 and 2015, repayments of the 2012 Tranche A-2 Facility prior to maturity resulted in losses on early extinguishment of debt of \$0.1 million and \$0.2 million, respectively, related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid. These amounts are included in "Loss on early extinguishment of debt, net" in the Company's consolidated statements of operations.

Unsecured Notes—In March 2016, the Company repaid its \$261.4 million principal amount of 5.875% senior unsecured notes at maturity using available cash. In addition, in March 2016 the Company issued \$275.0 million principal amount of 6.50% senior unsecured notes due July 2021. Proceeds from the offering were used to repay \$5.0 million of the 2015 Revolving Credit Facility, pay related financing costs and, subsequent to the end of the quarter, repay in full the \$265.0 million principal amount of senior unsecured notes due July 2016.

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Encumbered/Unencumbered Assets—As of March 31, 2016 and December 31, 2015, the carrying value of the Company's encumbered and unencumbered assets by asset type are as follows (\$ in thousands):

	As of		December 31, 2015	
	March 31, 2016		Encumbered	Unencumbered
	Assets	Assets	Assets	Assets
Real estate, net	\$806,550	\$ 772,050	\$816,721	\$ 777,262
Real estate available and held for sale	13,047	119,348	10,593	126,681
Land and development	17,682	1,006,752	17,714	984,249
Loans receivable and other lending investments, net <sup>(1)(2)</sup>	157,347	1,361,735	170,162	1,314,823
Other investments	15,385	218,605	22,352	231,820
Cash and other assets	—	885,372	—	1,008,415
Total	\$1,010,011	\$ 4,363,862	\$1,037,542	\$ 4,443,250

(1) As of March 31, 2016 and December 31, 2015, the amounts presented exclude general reserves for loan losses of \$36.6 million and \$36.0 million, respectively.

(2) As of March 31, 2016 and December 31, 2015, the amount presented excludes loan participations of \$154.9 million and \$153.0 million, respectively.

## Debt Covenants

The Company's outstanding unsecured debt securities contain corporate level covenants that include a covenant to maintain a ratio of unencumbered assets to unsecured indebtedness of at least 1.2x and a covenant not to incur additional indebtedness (except for incurrences of permitted debt), if on a pro forma basis, the Company's consolidated fixed charge coverage ratio, determined in accordance with the indentures governing the Company's debt securities, is 1.5x or lower. If any of the Company's covenants are breached and not cured within applicable cure periods, the breach could result in acceleration of its debt securities unless a waiver or modification is agreed upon with the requisite percentage of the bondholders. While the Company's ability to incur additional indebtedness under the fixed charge coverage ratio is currently limited, the Company is permitted to incur indebtedness for the purpose of refinancing existing indebtedness and for other permitted purposes under the indentures.

The Company's 2012 Secured Credit Facilities and the 2015 Revolving Credit Facility contain certain covenants, including covenants relating to collateral coverage, dividend payments, restrictions on fundamental changes, transactions with affiliates, matters relating to the liens granted to the lenders and the delivery of information to the lenders. In particular, the 2012 Secured Credit Facilities require the Company to maintain collateral coverage of at least 1.25x outstanding borrowings on the facilities. The 2015 Revolving Credit Facility is secured by a borrowing base of assets and requires the Company to maintain both collateral coverage of at least 1.5x outstanding borrowings on the facility and a consolidated ratio of cash flow to fixed charges of at least 1.5x. The 2015 Revolving Credit Facility does not require that proceeds from the borrowing base be used to pay down outstanding borrowings provided the collateral coverage remains at least 1.5x outstanding borrowings on the facility. To satisfy this covenant, the Company has the option to pay down outstanding borrowings or substitute assets in the borrowing base. In addition, for so long as the Company maintains its qualification as a REIT, the 2012 Secured Credit Facilities and the 2015 Revolving Credit Facility permit the Company to distribute 100% of its REIT taxable income on an annual basis (prior to deducting certain cumulative NOL carryforwards in the case of the 2015 Revolving Credit Facility). The Company may not pay common dividends if it ceases to qualify as a REIT.

The Company's 2012 Secured Credit Facilities and the 2015 Revolving Credit Facility contain cross default provisions that would allow the lenders to declare an event of default and accelerate the Company's indebtedness to them if the Company fails to pay amounts due in respect of its other recourse indebtedness in excess of specified thresholds or if the lenders under such other indebtedness are otherwise permitted to accelerate such indebtedness for any reason. The indentures governing the Company's unsecured public debt securities permit the bondholders to declare an event of default and accelerate the Company's indebtedness to them if the Company's other recourse indebtedness in excess of specified thresholds is not paid at final maturity or if such indebtedness is accelerated.

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## Note 11—Commitments and Contingencies

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

As of March 31, 2016, the maximum amount of fundings the Company may be required to make under each category, assuming all performance hurdles and milestones are met under the Performance-Based Commitments, that it approves all Discretionary Fundings and that 100% of its capital committed to Strategic Investments is drawn down, are as follows (\$ in thousands):

	Loans and Other Lending Investments	Real Estate	Other Investments	Total
Performance-Based Commitments	\$ 752,417	\$ 17,161	\$ 19,642	\$ 789,220
Strategic Investments	—	—	45,978	45,978
Discretionary Fundings	5,000	—	—	5,000
Total	\$ 757,417	\$ 17,161	\$ 65,620	\$ 840,198

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

On March 7, 2014, a shareholder action purporting to assert derivative, class and individual claims was filed in the Circuit Court for Baltimore City, Maryland naming the Company, a number of its current and former senior executives (including its chief executive officer) and current and former directors as defendants. The complaint sought unspecified damages and other relief and alleged breach of fiduciary duty, breach of contract and other causes of action arising out of shares of common stock issued by the Company to its senior executives pursuant to restricted stock unit awards granted in December 2008 and modified in July 2011. On October 30, 2014, the Circuit Court granted the defendants' Motions to Dismiss and plaintiffs' claims against all of the defendants in this action were dismissed. Plaintiffs appealed the Circuit Court's dismissal of their claims against the Company and all other defendants. On January 28, 2016, the Court of Special Appeals affirmed the order of the Circuit Court, holding that the Circuit Court properly dismissed plaintiffs' claims against all defendants, including the Company. On March 16, 2016, plaintiffs filed a petition for certiorari with the Maryland Court of Appeals, requesting that the Court of Appeals reverse the decision of the Court of Special Appeals. We have filed a response in opposition, arguing that the petition for certiorari should be denied. Action on the petition for certiorari is pending.

On January 22, 2015, the United States District Court for the District of Maryland (the "Court") entered a judgment in favor of the Company in the matter of U.S. Home Corporation ("Lennar") v. Settlers Crossing, LLC, et al. (Civil Action No. DKC 08-1863). The litigation involved a dispute over the purchase and sale of approximately 1,250 acres

of land in Prince George's County, Maryland. The Court found that the Company was entitled to specific performance and awarded damages to it in the aggregate amount of: (i) the remaining purchase price to be paid by Lennar of \$114.0 million; plus (ii) interest on the unpaid amount at a rate of 12% per annum, calculated on a per diem basis, from May 27, 2008, until Lennar proceeds to settlement on the land; plus (iii) real estate taxes paid by the Company; plus (iv) actual and reasonable attorneys' fees and costs incurred by the Company in connection with the litigation. The Court ordered Lennar to proceed to settlement on the land and to pay the total amounts awarded to the Company within 30 days of the judgment. Lennar has appealed the Court's judgment. The Court has granted Lennar's motion to stay the judgment pending appeal, subject to Lennar posting a required appeal bond, which has been posted. The Court also clarified the judgment that the unpaid amount will accrue simple interest at a rate of 12% annually, including while the appeal is pending. In the pending appeal before the United States Court of Appeals for the Fourth Circuit, the parties have filed their respective briefs. Oral argument has not yet been scheduled. There can be no assurance as to the timing or actual

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receipt by the Company of amounts awarded by the Court or the outcome of any appeal. A third party is entitled to a 7.8% participation interest in all proceeds paid to the Company.

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

## Note 12—Derivatives

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

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheets as of March 31, 2016 and December 31, 2015 (\$ in thousands):

	Derivative Assets as of				Derivative Liabilities as of			
	March 31, 2016		December 31, 2015		March 31, 2016		December 31, 2015	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives Designated in Hedging Relationships</b>								
Foreign exchange contracts	N/A	\$ —	Other Assets	\$ 39	Other Liabilities	\$ 48	N/A	\$ —
Interest rate swaps	N/A	—	N/A	—	Other Liabilities	564	Other Liabilities	131
<b>Total</b>		<b>\$ —</b>		<b>\$ 39</b>		<b>\$ 612</b>		<b>\$ 131</b>
<b>Derivatives not Designated in Hedging Relationships</b>								
Foreign exchange contracts	Other Assets	\$ 106	Other Assets	\$ 378	Other Liabilities	\$ 317	N/A	\$ —
Interest rate cap	Other Assets	301	Other Assets	1,105	N/A	—	N/A	—
<b>Total</b>		<b>\$ 407</b>		<b>\$ 1,483</b>		<b>\$ 317</b>		<b>\$ —</b>

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The tables below present the effect of the Company's derivative financial instruments in the consolidated statements of operations and the consolidated statements of comprehensive income (loss) for the three months ended March 31, 2016 and 2015 (\$ in thousands):

Derivatives Designated in Hedging Relationships	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Earnings (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Earnings (Ineffective Portion)
For the Three Months Ended March 31, 2016				
Interest rate cap	Interest Expense	\$ —	\$ (185 )	N/A
Interest rate cap	Earnings from equity method investments	(1 )	—	N/A
Interest rate swaps	Interest Expense	(502 )	25	N/A
Interest rate swap	Earnings from equity method investments	(459 )	(97 )	N/A
Foreign exchange contracts	Earnings from equity method investments	(87 )	—	N/A
For the Three Months Ended March 31, 2015				
Interest rate cap	Interest Expense	—	(77 )	N/A
Interest rate cap	Earnings from equity method investments	(7 )	—	N/A
Interest rate swaps	Interest Expense	(376 )	42	N/A
Interest rate swap	Earnings from equity method investments	(364 )	(115 )	N/A
Foreign exchange contracts	Earnings from equity method investments	(198 )	—	N/A

Derivatives not Designated in Hedging Relationships	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income For the Three Months Ended March 31, 2016	Amount of Gain (Loss) Recognized in Income For the Three Months Ended March 31, 2015
Interest rate cap	Other Expense	\$(803)	\$(2,036)
Foreign exchange contracts	Other Expense	(182 )	2,289

Foreign Exchange Contracts—The Company is exposed to fluctuations in foreign exchange rates on investments it holds in foreign entities. The Company uses foreign exchange contracts to hedge its exposure to changes in foreign exchange rates on its foreign investments. Foreign exchange contracts involve fixing the U.S. dollar ("USD") to the



respective foreign currency exchange rate for delivery of a specified amount of foreign currency on a specified date. The foreign exchange contracts are typically cash settled in USD for their fair value at or close to their settlement date.

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For derivatives designated as net investment hedges, the effective portion of changes in the fair value of the derivatives are reported in Accumulated Other Comprehensive Income as part of the cumulative translation adjustment. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. Amounts are reclassified out of Accumulated Other Comprehensive Income into earnings when the hedged foreign entity is either sold or substantially liquidated. As of March 31, 2016, the Company had the following outstanding foreign currency derivatives that were used to hedge its net investments in foreign operations that were designated (\$ and Rs in thousands):

Derivative Type	Notional Amount	Notional (USD Equivalent)	Maturity
Sells Indian rupee ("INR")/Buys USD Forward	456,000	\$ 6,553	December 2016

For derivatives not designated as net investment hedges, the changes in the fair value of the derivatives are reported in the Company's consolidated statements of operations within "Other Expense." As of March 31, 2016, the Company had the following outstanding foreign currency derivatives that were used to hedge its net investments in foreign operations that were not designated (\$, €, and £ in thousands):

Derivative Type	Notional Amount	Notional (USD Equivalent)	Maturity
Sells euro ("EUR")/Buys USD Forward	€ 5,900	\$ 6,396	April 2016
Sells pound sterling ("GBP")/Buys USD Forward	£ 3,200	\$ 4,705	April 2016

The Company marks its foreign investments each quarter based on current exchange rates and records the gain or loss through "Other expense" in its consolidated statements of operations for loan investments or "Accumulated other comprehensive income (loss)," on its consolidated balance sheets for net investments in foreign subsidiaries. The Company recorded net gains (losses) related to foreign investments of \$0.1 million and \$(0.1) million during the three months ended March 31, 2016 and 2015, respectively, in its consolidated statements of operations.

Interest Rate Hedges—For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivatives are reported in Accumulated Other Comprehensive Income (Loss). The ineffective portion of the change in fair value of the derivatives is recognized directly in the Company's consolidated statements of operations. As of March 31, 2016, the Company had the following outstanding interest rate swap that was used to hedge its variable rate debt that was designated as a cash flow hedge (\$ in thousands):

Derivative Type	Notional Amount	Variable Rate	Fixed Rate	Effective Date	Maturity
Interest rate swap	\$26,801	LIBOR + 2.00%	3.47%	October 2012	November 2019

For derivatives not designated as cash flow hedges, the changes in the fair value of the derivatives are reported in the Company's consolidated statements of operations within "Other Expense." As of March 31, 2016, the Company had the following outstanding interest rate cap that was used to hedge its variable rate debt that was not designated as a cash flow hedge (\$ in thousands):

Derivative Type	Notional Amount	Variable Rate	Fixed Rate	Effective Date	Maturity
Interest rate cap	\$500,000	LIBOR	1.00%	July 2014	July 2017

Over the next 12 months, the Company expects that \$0.2 million related to terminated cash flow hedges will be reclassified from "Accumulated other comprehensive income (loss)" into interest expense and \$0.6 million relating to other cash flow hedges will be reclassified from "Accumulated other comprehensive income (loss)" into earnings.

Credit Risk-Related Contingent Features—The Company has agreements with each of its derivative counterparties that contain a provision where if the Company either defaults or is capable of being declared in default on any of its indebtedness, then the Company could also be declared in default on its derivative obligations.

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The Company reports derivative instruments on a gross basis in the consolidated financial statements. In connection with its foreign currency derivatives which were in a liability position as of March 31, 2016 and December 31, 2015, the Company has posted collateral of \$1.0 million as of both dates and is included in "Deferred expenses and other assets, net" on the Company's consolidated balance sheets. The Company's net exposure under these contracts was zero as of March 31, 2016.

## Note 13—Equity

Preferred Stock—The Company had the following series of Cumulative Redeemable and Convertible Perpetual Preferred Stock outstanding as of March 31, 2016 and December 31, 2015:

Series	Shares Issued and Outstanding (in thousands)	Par Value	Cumulative Preferential Cash Dividends <sup>(1)(2)</sup>		Equivalent to Fixed Annual Rate (per share)
			Liquidation Preference	Rate per Annum	
D	4,000	\$0.001	\$25.00	8.00 %	\$ 2.00
E	5,600	0.001	25.00	7.875 %	1.97
F	4,000	0.001	25.00	7.80 %	1.95
G	3,200	0.001	25.00	7.65 %	1.91
I	5,000	0.001	25.00	7.50 %	1.88
J <sup>(3)</sup>	4,000	0.001	50.00	4.50 %	2.25
	25,800				

Holder of shares of the Series D, E, F, G, I and J preferred stock are entitled to receive dividends, when and as declared by the Company's Board of Directors, out of funds legally available for the payment of dividends.

Dividends are cumulative from the date of original issue and are payable quarterly in arrears on or before the 15th day of each March, June, September and December or, if not a business day, the next succeeding business (1) day. Any dividend payable on the preferred stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as of the close of business on the first day of the calendar month in which the applicable dividend payment date falls or on another date designated by the Company's Board of Directors for the payment of dividends that is not more than 30 nor less than 10 days prior to the dividend payment date.

The Company declared and paid dividends of \$2.0 million, \$2.8 million, \$2.0 million, \$1.5 million and \$2.3 million on its Series D, E, F, G and I Cumulative Redeemable Preferred Stock during the three months ended (2) March 31, 2016 and 2015. The Company declared and paid dividends of \$2.3 million on its Series J Convertible Perpetual Preferred Stock during the three months ended March 31, 2016 and 2015. All 2015 dividends qualified as a return of capital for tax reporting purposes. There are no dividend arrearages on any of the preferred shares currently outstanding.

(3) Each share of the Series J Preferred Stock is convertible at the holder's option at any time, initially into 3.9087 shares of the Company's common stock (equal to an initial conversion price of approximately \$12.79 per share), subject to specified adjustments. The Company may not redeem the Series J Preferred Stock prior to March 15,

2018. On or after March 15, 2018, the Company may, at its option, redeem the Series J Preferred Stock, in whole or in part, at any time and from time to time, for cash at a redemption price equal to 100% of the liquidation preference of \$50.00 per share, plus accrued and unpaid dividends, if any, to the redemption date.

**Dividends**—In order to maintain its qualification as a REIT, the Company must currently distribute, at a minimum, an amount equal to 90% of its taxable income, excluding net capital gains, and must distribute 100% of its taxable income (including net capital gains) to avoid paying corporate federal income taxes. The Company has recorded NOLs and may record NOLs in the future, which may reduce its taxable income in future periods and lower or eliminate entirely the Company's obligation to pay dividends for such periods in order to maintain its REIT qualification. As of December 31, 2014, the Company had \$856.4 million of NOL carryforwards at the corporate REIT level that can generally be used to offset both ordinary and capital taxable income in future years and will expire through 2034 if unused. The amount of NOL carryforwards as of December 31, 2015 will be determined upon finalization of the Company's 2015 tax return. Because taxable income differs from cash flow from operations due to non-cash revenues and expenses (such as depreciation and certain asset impairments), in certain circumstances, the Company may generate operating cash flow in excess of its dividends or, alternatively, may need to make dividend payments in excess of operating cash flows. The 2012 Tranche A-2 Facility and 2015 Revolving Credit Facility permit the Company to distribute 100% of its REIT taxable income on an annual basis (prior to deducting certain cumulative NOL carryforwards in the case of the 2015 Revolving Credit Facility), for so long as the Company maintains its qualification as a REIT. The 2012 Tranche A-2 Facility and 2015 Revolving Credit Facility restrict the Company from paying any common dividends if it ceases to qualify as a REIT. The Company did not declare or pay any common stock dividends for the three months ended March 31, 2016 and 2015.

**Stock Repurchase Program**—In February 2016, after having substantially utilized the remaining availability previously authorized, the Company's Board of Directors authorized a new \$50.0 million stock repurchase program. The program authorizes

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the repurchase of common stock from time to time in open market and privately negotiated purchases, including pursuant to one or more trading plans. During the three months ended March 31, 2016, the Company repurchased 5.8 million shares of its outstanding common stock for \$58.1 million, at an average cost of \$9.94 per share. During the three months ended March 31, 2015, the Company repurchased 44,000 shares of its outstanding common stock for \$0.6 million, at an average cost of \$12.66 per share. As of March 31, 2016 and December 31, 2015, the Company had remaining authorization to repurchase up to \$40.6 million and \$48.7 million, respectively, of common stock under its stock repurchase program.

Accumulated Other Comprehensive Income (Loss)—"Accumulated other comprehensive income (loss)" reflected in the Company's shareholders' equity is comprised of the following (\$ in thousands):

	As of	
	March 31, 2016	December 31, 2015
Unrealized gains (losses) on available-for-sale securities	\$(106 )	\$ (125 )
Unrealized gains (losses) on cash flow hedges	(1,433 )	(690 )
Unrealized losses on cumulative translation adjustment	(4,038 )	(4,036 )
Accumulated other comprehensive income (loss)	\$(5,577 )	\$ (4,851 )

## Note 14—Stock-Based Compensation Plans and Employee Benefits

Stock-Based Compensation—The Company recorded stock-based compensation expense of \$4.6 million and \$3.2 million for the three months ended March 31, 2016 and 2015, respectively, in "General and administrative" in the Company's consolidated statements of operations. As of March 31, 2016, there was \$2.7 million of total unrecognized compensation cost related to all unvested restricted stock units ("Units") that are expected to be recognized over a weighted average remaining vesting/service period of 1.77 years.

Performance Incentive Plans—The Company's Performance Incentive Plan ("iPIP") is designed to provide, primarily to senior executives and select professionals engaged in the Company's investment activities, long-term compensation which has a direct relationship to the realized returns on investments included in the plan. The fair value of points is determined using a model that forecasts the Company's projected investment performance. iPIP is a liability-classified award which will be remeasured each reporting period at fair value until the awards are settled. The following is a summary of granted iPIP points.

- In May 2014, the Company granted 73 iPIP points in the initial 2013-2014 investment pool.

- In January 2015, the Company granted an additional 10 iPIP points in the 2013-2014 investment pool and 34 iPIP points in the 2015-2016 investment pool.

- In January 2016, the Company granted an additional 10 iPIP points in the 2013-2014 investment pool and an additional 40 iPIP points in the 2015-2016 investment pool.

As of March 31, 2016 and December 31, 2015, the Company had accrued compensation costs relating to iPIP of \$19.6 million and \$16.6 million, respectively, which are included in "Accounts payable, accrued expenses and other liabilities" on the Company's consolidated balance sheets.

Long-Term Incentive Plan—The Company's shareholders approved the Company's 2009 Long-Term Incentive Plan (the "2009 LTIP") which is designed to provide incentive compensation for officers, key employees, directors and advisors of the Company. The 2009 LTIP provides for awards of stock options, shares of restricted stock, phantom shares, restricted stock units, dividend equivalent rights and other share-based performance awards. All awards under the 2009 LTIP are made at the discretion of the Company's Board of Directors or a committee of the Board of Directors.

As of March 31, 2016, an aggregate of 3.6 million shares remain available for issuance pursuant to future awards under the Company's 2009 Long-Term Incentive Plan.

The Company's 2007 Incentive Compensation Plan ("Incentive Plan") was approved and adopted by the Company's Board of Directors in 2007 in order to establish performance goals for selected officers and other key employees and to determine bonuses that will be awarded to those officers and other key employees based on the extent to which they achieve those performance goals. Equity-based awards may be made under the Incentive Plan, subject to the terms of the Company's equity incentive plans.

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Restricted Share Issuances—During the three months ended March 31, 2016, the Company granted 92,057 shares of common stock to certain employees under the 2009 LTIP as part of annual incentive awards that included a mix of cash and equity awards. The shares are fully-vested and 58,667 shares were issued net of statutory minimum required tax withholdings. The employees are restricted from selling these shares for up to 18 months from the date of grant.

2016 Restricted Stock Unit Activity—During the three months ended March 31, 2016, the Company granted new stock-based compensation awards to certain employees in the form of long-term incentive awards, comprised of the following:

122,817 service-based Units were granted on January 29, 2016, representing the right to receive an equivalent number of shares of the Company's common stock (after deducting shares for minimum required statutory withholdings) if and when the Units vest. The Units will cliff vest in one installment on December 31, 2018, if the employee remains employed by the Company on the vesting date, subject to certain accelerated vesting rights. Dividends will accrue as and when dividends are declared by the Company on shares of its common stock, but will not be paid unless and until the Units vest and are settled. As of March 31, 2016, 122,817 of such service-based Units were outstanding.

As of March 31, 2016, the Company had the following additional stock-based compensation awards outstanding:

48,519 target amount of performance-based Units were granted on January 30, 2015, representing the right to receive an equivalent number of shares of the Company's common stock (after deducting shares for minimum required statutory withholdings) if and when the Units vest. The performance is based on the Company's TSR, measured over a performance period ending on December 31, 2017, which is the date the awards cliff vest. Vesting will range from 0% to 200% of the target amount of the awards, depending on the Company's TSR performance relative to the NAREIT All REITs Index (one-half of the target amount of the award) and the Russell 2000 Index (one-half of the target amount of the award) during the performance period. The Company, as well as any companies not included in each index at the beginning and end of the performance period, are excluded from calculation of the performance of such index. To the extent Units vest based on the Company's TSR performance, holders will receive an equivalent number of shares of common stock (after deducting shares for minimum required statutory withholdings), if the employee remains employed by the Company on the vesting date, subject to certain accelerated vesting rights. Dividends will accrue as and when dividends are declared by the Company on shares of its common stock, but will not be paid unless and until the Units vest and are settled. The fair values of the performance-based Units were determined by utilizing a Monte Carlo model to simulate a range of possible future stock prices for the Company's common stock. The assumptions used to estimate the fair value of these performance-based awards were 0.75% for risk-free interest rate and 28.14% for expected stock price volatility.

61,557 service-based Units were granted on January 30, 2015, representing the right to receive an equivalent number of shares of the Company's common stock (after deducting shares for minimum required statutory withholdings) if and when the Units vest. The Units will cliff vest in one installment on December 31, 2017, if the employee remains employed by the Company on the vesting date, subject to certain accelerated vesting rights. Dividends will accrue as and when dividends are declared by the Company on shares of its common stock, but will not be paid unless and until the Units vest and are settled.

49,434 target amount of performance-based Units, granted on January 10, 2014, representing the right to receive an equivalent number of shares of the Company's common stock (after deducting shares for minimum required statutory withholdings) if and when the Units vest based on the Company's TSR measured over a performance period ending on December 31, 2016, which is the date the awards cliff vest. The other terms of these performance-based Units are identical to the terms described above for the performance-based Units granted in 2015. The fair values of the performance-based Units were determined by utilizing a Monte Carlo model to simulate a range of possible future stock prices for the Company's common stock. The assumptions used to estimate the fair value of these performance-based awards were 0.76% for risk-free interest rate and 44.84% for expected stock price volatility.



62,662 service-based Units, granted on January 10, 2014, representing the right to receive an equivalent number of shares of the Company's common stock (after deducting shares for minimum required statutory withholdings) if and when the Units vest. The Units will cliff vest in one installment on December 31, 2016, if the employee remains employed by the Company on the vesting date, subject to certain accelerated vesting rights. Dividends will accrue as and when dividends are declared by the Company on shares of its common stock, but will not be paid unless and until the Units vest and are settled.

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8,751 service-based Units granted on various dates, representing the right to receive an equivalent number of shares of the Company's common stock (after deducting shares for minimum required statutory withholdings) if and when the Units vest. The Units have an original vesting term of three years. Upon vesting of these Units, holders will receive shares of the Company's common stock in the amount of the vested Units, net of statutory minimum required tax withholdings. Dividends will accrue as and when dividends are declared by the Company on shares of its common stock, but will not be paid unless and until the Units vest and are settled.

Directors' Awards—As of March 31, 2016, a combined total of 296,755 CSEs and restricted shares of common stock granted to members of the Company's Board of Directors remained outstanding under the Company's Non-Employee Directors Deferral Plan, with an aggregate intrinsic value of \$2.9 million.

401(k) Plan—The Company made gross contributions of \$0.6 million for each of the three months ended March 31, 2016 and 2015.

Note 15—Earnings Per Share

Earnings per share ("EPS") is calculated using the two-class method, which allocates earnings among common stock and participating securities to calculate EPS when an entity's capital structure includes either two or more classes of common stock or common stock and participating securities. HPU holders were current and former Company employees who purchased high performance common stock units under the Company's High Performance Unit Program. These HPU units were treated as a separate class of common stock. All of the Company's outstanding HPUs were repurchased and retired on August 13, 2015.

The following table presents a reconciliation of income (loss) from continuing operations used in the basic and diluted EPS calculations (\$ in thousands, except for per share data):

	For the Three Months Ended March 31,	
	2016	2015
Income (loss) from continuing operations	\$(19,757)	\$(33,469)
Income from sales of real estate	10,458	21,156
Net (income) loss attributable to noncontrolling interests	942	1,841
Preferred dividends	(12,830 )	(12,830 )
Income (loss) from continuing operations attributable to iStar Inc. and allocable to common shareholders, HPU holders and Participating Security Holders for basic earnings per common share	\$(21,187)	\$(23,302)
Earnings allocable to common shares:		
Numerator for basic and diluted earnings per share:		
Income (loss) from continuing operations attributable to iStar Inc. and allocable to common shareholders	\$(21,187)	\$(22,553)
Denominator for basic and diluted earnings per share:		
Weighted average common shares outstanding for basic and diluted earnings per common share	77,060	85,497

Basic and diluted earnings per common share:

Net income (loss) attributable to iStar Inc. and allocable to common shareholders \$(0.27 ) \$(0.26 )

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	For the Three Months Ended March 31, 2015
Earnings allocable to High Performance Units <sup>(1)</sup> :	
Numerator for basic and diluted earnings per HPU share:	
Net income (loss) attributable to iStar Inc. and allocable to HPU holders	\$—\$(749 )
Denominator for basic and diluted earnings per HPU share:	
Weighted average High Performance Units outstanding for basic and diluted earnings per share	—15
Basic and diluted earnings per HPU share:	
Net income (loss) attributable to iStar Inc. and allocable to HPU holders	\$—\$(49.93)

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(1) All of the Company's outstanding HPUs were repurchased and retired on August 13, 2015.

For the three months ended March 31, 2016 and 2015, the following shares were not included in the diluted EPS calculation because they were anti-dilutive (in thousands)<sup>(1)</sup>:

	For the Three Months Ended March 31,	
	2016	2015
Joint venture shares	298	298
3.00% convertible senior unsecured notes	16,992	16,992
Series J convertible perpetual preferred stock	15,635	15,635
1.50% convertible senior unsecured notes	11,567	11,567

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(1) For the three months ended March 31, 2016 and 2015, the effect of the Company's unvested Units, performance-based Units, CSEs and restricted stock awards were anti-dilutive.

## Note 16—Fair Values

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy prioritizes the inputs to be used in valuation techniques to measure fair value:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Certain of the Company's assets and liabilities are recorded at fair value either on a recurring or non-recurring basis.

Assets required to be marked-to-market and reported at fair value every reporting period are classified as being valued on a recurring basis. Assets not required to be recorded at fair value every period may be recorded at fair value if a specific provision or other impairment is recorded within the period to mark the carrying value of the asset to market

as of the reporting date. Such assets are classified as being valued on a non-recurring basis.

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(unaudited)

The following fair value hierarchy table summarizes the Company's assets and liabilities recorded at fair value on a recurring and non-recurring basis by the above categories (\$ in thousands):

	Total	Fair Value Using Quoted market prices in active markets (Level 1)	Significant inputs observable (Level 2)	Significant unobservable inputs (Level 3)
As of March 31, 2016				
Recurring basis:				
Derivative assets <sup>(1)</sup>	\$407	\$—	\$407	\$—
Derivative liabilities <sup>(1)</sup>	929	—	929	—
Available-for-sale securities <sup>(1)</sup>	5,536	—	—	5,536
Non-recurring basis:				
Impaired loans <sup>(2)</sup>	5,200	—	—	5,200
As of December 31, 2015				
Recurring basis:				
Derivative assets <sup>(1)</sup>	\$1,522	\$—	\$1,522	\$—
Derivative liabilities <sup>(1)</sup>	131	—	131	—
Available-for-sale securities <sup>(1)</sup>	1,161	—	—	1,161
Non-recurring basis:				
Impaired loans <sup>(3)</sup>	3,200	—	—	3,200

The fair value of the Company's derivatives and available-for-sale securities are based upon third-party broker quotes. During the three months ended March 31, 2016, the Company acquired \$4.4 million of available for sale securities. There were no other material changes in Level 3 assets and there were no transfers into/out of Level 3 for the three months ended March 31, 2016.

(1) The Company recorded a provision for loan losses on one loan with a fair value of \$5.2 million using an appraisal based on market comparable sales.

(2) The Company recorded a provision for loan losses on one loan with a fair value of \$3.2 million based on a discounted cash flow analysis using a discount rate of 14.3%.

Fair values of financial instruments—The Company's estimated fair values of its loans receivable and other lending investments and outstanding debt was \$1.7 billion and \$4.3 billion, respectively, as of March 31, 2016 and \$1.6 billion and \$4.3 billion, respectively, as of December 31, 2015. The Company determined that the significant inputs used to value its loans receivable and other lending investments and debt obligations fall within Level 3 of the fair value hierarchy. The carrying value of other financial instruments including cash and cash equivalents, restricted cash, accrued interest receivable and accounts payable, approximate the fair values of the instruments. Cash and cash equivalents and restricted cash values are considered Level 1 on the fair value hierarchy. The fair value of other financial instruments, including derivative assets and liabilities, are included in the fair value hierarchy table above.



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Note 17—Segment Reporting

The Company has determined that it has four reportable segments based on how management reviews and manages its business. These reportable segments include: Real Estate Finance, Net Lease, Operating Properties and Land and Development. The Real Estate Finance segment includes all of the Company's activities related to senior and mezzanine real estate loans and real estate related securities. The Net Lease segment includes all of the Company's activities related to the ownership and leasing of corporate facilities. The Operating Properties segment includes the Company's activities and operations related to its commercial and residential properties. The Land and Development segment includes the Company's activities related to its developable land portfolio.

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Notes to Consolidated Financial Statements (Continued)

(unaudited)

The Company evaluates performance based on the following financial measures for each segment. The Company's segment information is as follows (\$ in thousands):

	Real Estate Finance	Net Lease	Operating Properties	Land and Development	Corporate/Other <sup>(1)</sup>	Company Total
For the Three Months Ended March 31, 2016						
Operating lease income	\$—	\$35,750	\$19,081	\$106	\$—	\$54,937
Interest income	33,219	—	—	—	—	33,219
Other income	1,297	80	7,344	1,065	1,755	11,541
Land development revenue	—	—	—	14,947	—	14,947
Earnings (loss) from equity method investments	—	946	(142)	6,661	802	8,267
Income from sales of real estate	—	4,928	5,530	—	—	10,458
Total revenue and other earnings	34,516	41,704	31,813	22,779	2,557	133,369
Real estate expense	—	(4,508)	(21,120)	(8,677)	—	(34,305)
Land development cost of sales	—	—	—	(11,575)	—	(11,575)
Other expense	86	—	—	—	(826)	(740)
Allocated interest expense	(14,702)	(16,236)	(6,620)	(8,359)	(11,104)	(57,021)
Allocated general and administrative <sup>(2)</sup>	(3,831)	(4,296)	(1,870)	(3,270)	(5,258)	(18,525)
Segment profit (loss) <sup>(3)</sup>	\$16,069	\$16,664	\$2,203	\$ (9,102)	\$ (14,631)	\$11,203
Other significant items:						
Provision for loan losses	\$1,506	\$—	\$—	\$—	\$—	\$1,506
Depreciation and amortization	—	8,851	5,283	300	274	14,708
Capitalized expenditures	—	851	15,797	34,268	—	50,916
For the Three Months Ended March 31, 2015						
Operating lease income	\$—	\$36,339	\$22,614	\$186	\$—	\$59,139
Interest income	34,896	—	—	—	—	34,896
Other income	48	3	8,876	633	1,004	10,564
Land development revenue	—	—	—	8,258	—	8,258
Earnings (loss) from equity method investments	—	1,633	535	2,609	1,770	6,547
Income from sales of real estate	—	3,527	17,629	—	—	21,156
Total revenue and other earnings	34,944	41,502	49,654	11,686	2,774	140,560
Real estate expense	—	(5,270)	(27,424)	(6,940)	—	(39,634)
Land development cost of sales	—	—	—	(6,891)	—	(6,891)
Other expense	1	—	—	—	(2,124)	(2,123)
Allocated interest expense	(14,235)	(16,835)	(7,668)	(7,544)	(8,350)	(54,632)
Allocated general and administrative <sup>(2)</sup>	(3,094)	(3,761)	(1,828)	(2,793)	(6,039)	(17,515)
Segment profit (loss) <sup>(3)</sup>	\$17,616	\$15,636	\$12,734	\$ (12,482)	\$ (13,739)	\$19,765
Other significant items:						
Provision for loan losses	\$4,293	\$—	\$—	\$—	\$—	\$4,293
Depreciation and amortization	—	9,449	8,344	390	318	18,501

Capitalized expenditures	—	345	10,094	22,380	—	32,819
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	Real Estate Finance	Net Lease	Operating Properties	Land and Development	Corporate/Other <sup>(1)</sup>	Company Total
As of March 31, 2016						
Real estate						
Real estate, net	\$—	\$1,099,488	\$479,112	\$—	\$—	\$1,578,600
Real estate available and held for sale	—	717	131,678	—	—	132,395
Total real estate	—	1,100,205	610,790	—	—	1,710,995
Land and development	—	—	—	1,024,434	—	1,024,434
Loans receivable and other lending investments, net	1,637,387	—	—	—	—	1,637,387
Other investments	—	68,043	12,033	96,173	57,741	233,990
Total portfolio assets	\$1,637,387	\$1,168,248	\$622,823	\$1,120,607	\$57,741	4,606,806
Cash and other assets						885,372
Total assets						\$5,492,178
As of December 31, 2015						
Real estate						
Real estate, net	\$—	\$1,112,479	\$481,504	\$—	\$—	\$1,593,983
Real estate available and held for sale	—	—	137,274	—	—	137,274
Total real estate	—	1,112,479	618,778	—	—	1,731,257
Land and development	—	—	—	1,001,963	—	1,001,963
Loans receivable and other lending investments, net	1,601,985	—	—	—	—	1,601,985
Other investments	—	69,096	11,124	100,419	73,533	254,172
Total portfolio assets	\$1,601,985	\$1,181,575	\$629,902	\$1,102,382	\$73,533	4,589,377
Cash and other assets						1,008,415
Total assets						\$5,597,792

(1) Corporate/Other represents all corporate level and unallocated items including any intercompany eliminations necessary to reconcile to consolidated Company totals. This caption also includes the Company's joint venture investments and strategic investments that are not included in the other reportable segments above.

(2) General and administrative excludes stock-based compensation expense of \$4.6 million and \$3.2 million for the three months ended March 31, 2016 and 2015, respectively.

(3) The following is a reconciliation of segment profit to net income (loss) (\$ in thousands):

	For the Three Months Ended March 31,	
	2016	2015
Segment profit	\$11,203	\$19,765
Less: (Provision for) loan losses	(1,506 )	(4,293 )
Less: Stock-based compensation expense	(4,577 )	(3,238 )
Less: Depreciation and amortization	(14,708 )	(18,501 )
Less: Income tax (expense) benefit	414	(5,878 )

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Less: Loss on early extinguishment of debt, net	(125 )	(168 )
Net income (loss)	\$(9,299 )	\$(12,313)

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are included with respect to, among other things, iStar Inc.'s (the "Company's") current business plan, business strategy, portfolio management, prospects and liquidity. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results or outcomes to differ materially from those contained in the forward-looking statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In assessing all forward-looking statements, readers are urged to read carefully all cautionary statements contained in this Form 10-Q and the uncertainties and risks described in Item 1A—"Risk Factors" in our 2015 Annual Report (as defined below), all of which could affect our future results of operations, financial condition and liquidity. For purposes of Management's Discussion and Analysis of Financial Condition and Results of Operations, the terms "we," "our" and "us" refer to iStar Inc. and its consolidated subsidiaries, unless the context indicates otherwise. The discussion below should be read in conjunction with our consolidated financial statements and related notes in this quarterly report on Form 10-Q and our 2015 Annual Report. These historical financial statements may not be indicative of our future performance. We have reclassified certain items in our consolidated financial statements of prior periods to conform to our current financial statements presentation.

## Introduction

iStar Inc., doing business as "iStar", finances, invests in and develops real estate and real estate related projects as part of its fully-integrated investment platform. We have invested more than \$35 billion over the past two decades and are structured as a real estate investment trust ("REIT") with a diversified portfolio focused on larger assets located in major metropolitan markets. Our primary business segments are real estate finance, land and development, net lease and operating properties.

## Executive Overview

We have continued to originate investments within our core business segments of real estate finance and net lease, which we anticipate should drive future revenue growth. In addition, we have made significant investments within our operating property and land and development portfolios in order to maximize asset value and better position assets for sale. Through strategic ventures, we have partnered with other providers of capital within our net lease segment and with developers with residential building expertise within our land and development segment. We expect these partnerships to have a positive impact on our business.

Access to the capital markets has allowed us to extend our debt maturity profile and become primarily an unsecured borrower. In March 2016, we repaid our \$261.4 million 5.875% senior unsecured notes at maturity using available cash. In addition, we issued \$275.0 million principal amount of 6.50% senior unsecured notes due July 2021. Proceeds from the offering were used to repay \$5.0 million of the 2015 Revolving Credit Facility and related financing costs. As of March 31, 2016, we had \$591.2 million of cash, which we expect to use primarily to repay debt and fund future investment activities. Subsequent to the end of the quarter, we used the remaining proceeds from the March offering to repay in full the \$265.0 million principal amount of senior unsecured notes due July 2016.

During the three months ended March 31, 2016, three of our four business segments, including real estate finance, net lease and operating properties, contributed positively to our earnings. We continue to work on repositioning or redeveloping our transitional operating properties and progressing on the entitlement and development of our land assets in order to maximize their value. We intend to continue these efforts, with the objective of having these assets contribute positively to earnings in the future. For the three months ended March 31, 2016, we recorded a net loss allocable to common shareholders of \$21.2 million, compared to \$22.6 million during the same period in the prior

year. Adjusted income allocable to common shareholders for the three months ended March 31, 2016 was \$3.1 million, compared to \$8.5 million during the same period in the prior year.

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Results of Operations for the Three Months Ended March 31, 2016 compared to the Three Months Ended March 31, 2015

	For the Three Months Ended March 31,		\$	% Change	
	2016	2015	Change		
	(in thousands)				
Operating lease income	\$54,937	\$59,139	\$(4,202)	(7)	)%
Interest income	33,219	34,896	(1,677)	(5)	)%
Other income	11,541	10,564	977	9	%
Land development revenue	14,947	8,258	6,689	81	%
Total revenue	114,644	112,857	1,787	2	%
Interest expense	57,021	54,632	2,389	4	%
Real estate expense	34,305	39,634	(5,329)	(13)	)%
Land development cost of sales	11,575	6,891	4,684	68	%
Depreciation and amortization	14,708	18,501	(3,793)	(21)	)%
General and administrative	23,102	20,753	2,349	11	%
Provision for (recovery of) loan losses	1,506	4,293	(2,787)	(65)	)%
Other expense	740	2,123	(1,383)	(65)	)%
Total costs and expenses	142,957	146,827	(3,870)	(3)	)%
Loss on early extinguishment of debt, net	(125)	(168)	43	26	%
Earnings from equity method investments	8,267	6,547	1,720	26	%
Income tax (expense) benefit	414	(5,878)	6,292	>(100%)	
Income from sales of real estate	10,458	21,156	(10,698)	(51)	)%
Net income (loss)	\$(9,299)	\$(12,313)	\$3,014	24	%

Revenue—Operating lease income, which primarily includes income from net lease assets and commercial operating properties, decreased to \$54.9 million during the three months ended March 31, 2016 from \$59.1 million for the same period in 2015.

Operating lease income from net lease assets decreased to \$35.8 million during the three months ended March 31, 2016 from \$36.3 million for the same period in 2015. The decrease was primarily due to the sale of net lease assets in 2015. Operating lease income from same store net lease assets, defined as net lease assets we owned on or prior to January 1, 2015 and were in service through March 31, 2016, increased slightly to \$34.3 million during the three months ended March 31, 2016 from \$34.2 million for the same period in 2015. This increase was primarily due to an increase in rent per occupied square foot to \$9.61 for the three months ended March 31, 2016 from \$9.57 for the same period in 2015, and an increase in the occupancy rate, which was 96.0% as of March 31, 2016 and 95.5% as of March 31, 2015.

Operating lease income from commercial operating properties decreased to \$18.9 million during the three months ended March 31, 2016 from \$22.5 million for the same period in 2015. The decrease was primarily due to the sale of a leasehold interest in an operating property in 2015 and other commercial operating property sales in 2015. This decrease was partially offset by an increase in operating lease income for same store commercial operating properties, defined as commercial operating properties, excluding hotels and marinas, which we owned on or prior to January 1, 2015 and were in service through March 31, 2016. Operating lease income from same store commercial operating properties increased to \$16.5 million during the three months ended March 31, 2016 from \$14.9 million for the same period in 2015, due primarily to an increase in occupancy rates, which was 76.6% as of March 31, 2016 and 68.8% as of March 31, 2015, partially offset by a decrease in rent per occupied square foot to \$24.19 for the three months ended

March 31, 2016 from \$24.35 for the same period in 2015. Ancillary operating lease income for residential operating properties and land and development assets decreased slightly for the three months ended March 31, 2016 to \$0.2 million from \$0.3 million for the same period in 2015.

Interest income decreased to \$33.2 million during the three months ended March 31, 2016 from \$34.9 million for the same period in 2015. The decrease was due primarily to the weighted average yield on our performing loans, which decreased to 8.5% for the three months ended March 31, 2016 from 9.6% for the same period in 2015, due primarily to the repayment of loans with higher interest rates. This decrease was partially offset by new investment originations and additional fundings on existing loans,



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which increased our average balance of performing loans to \$1.57 billion during the three months ended March 31, 2016 from \$1.48 billion for the same period in 2015.

Other income increased to \$11.5 million during the three months ended March 31, 2016 from \$10.6 million for the same period in 2015. The increase was primarily due to an increase in loan prepayment fees and property tax refunds, partially offset by a decrease in lease termination fees.

Land development revenue and cost of sales—During the three months ended March 31, 2016, we sold residential lots and units for proceeds of \$14.9 million which had associated cost of sales of \$11.6 million. We also recognized earnings from equity method investments of \$6.7 million from unconsolidated land and development investments, resulting in total gross margin from our land and development portfolio of \$10.0 million. During the three months ended March 31, 2015, we sold residential lots and units for proceeds of \$8.3 million which had associated cost of sales of \$6.9 million. We also recognized earnings from equity method investments of \$2.6 million from unconsolidated land and development investments, resulting in total gross margin from our land and development portfolio of \$4.0 million. The increase in 2016 from the same period in 2015 was primarily due to the progression of our land and development projects.

Costs and expenses—Interest expense increased to \$57.0 million during the three months ended March 31, 2016 from \$54.6 million for the same period in 2015 due to an increase in our outstanding debt. The average balance of our outstanding debt increased to \$4.21 billion for the three months ended March 31, 2016 from \$4.08 billion for the same period in 2015. Our weighted average effective cost of debt was 5.5% for the three months ended March 31, 2016 and 2015.

Real estate expenses decreased to \$34.3 million during the three months ended March 31, 2016 from \$39.6 million for the same period in 2015. The decrease was due primarily to expenses for commercial operating properties which decreased to \$18.6 million during the three months ended March 31, 2016 from \$22.5 million for the same period in 2015. This decrease was primarily due to the sale of a leasehold interest in an operating property and other operating property sales during 2015. Expenses for same store commercial operating properties, excluding hotels and marinas, increased to \$10.0 million from \$9.9 million for the same period in 2015. Expenses associated with residential units also decreased to \$2.6 million during the three months ended March 31, 2016 from \$4.9 million for the same period in 2015 due to the sale of residential units since March 31, 2015. Expenses for net lease assets decreased to \$4.5 million during the three months ended March 31, 2016 from \$5.3 million for the same period in 2015 due primarily to the sale of net lease assets in 2015. Expenses for same store net lease assets decreased to \$4.5 million from \$4.8 million for the same period in 2015. These decreases were offset by an increase in carry costs and other expenses on our land assets, which increased to \$8.6 million during the three months ended March 31, 2016 from \$6.9 million for the same period in 2015, primarily due to an increase in costs incurred on certain land assets prior to development.

Depreciation and amortization decreased to \$14.7 million during the three months ended March 31, 2016 from \$18.5 million for the same period in 2015, primarily due to the sale of a leasehold interest in an operating property and other commercial operating property sales in 2015.

General and administrative expenses increased to \$23.1 million during the three months ended March 31, 2016 from \$20.8 million for the same period in 2015, primarily due to the timing of expense recognition for our performance based compensation program, the vesting of previously issued compensation awards and the grant of additional iPIP points.

The net provision for loan losses was \$1.5 million during the three months ended March 31, 2016 as compared to \$4.3 million for the same period in 2015. Included in the net provision for the three months ended March 31, 2016 were provisions of \$0.9 million in the specific reserve due to one non-performing loan and \$0.6 million in the general reserve primarily due to new investment originations. Included in the net provision for the three months ended March 31, 2015 was an increase of \$4.5 million in the general reserve due primarily to new investment originations offset by recoveries of previously recorded loan loss reserves of \$0.2 million.

Other expense decreased to \$0.7 million during the three months ended March 31, 2016 from \$2.1 million for the same period in 2015. This decrease was primarily the result of a change in the fair value of an interest rate cap that was not designated as a cash flow hedge.

Earnings from equity method investments—Earnings from equity method investments increased to \$8.3 million during the three months ended March 31, 2016 from \$6.5 million for the same period in 2015. During the three months ended March 31, 2016, we recognized \$8.2 million related to sales activity on a land development venture, \$0.9 million related to leasing operations at our Net Lease Venture and aggregate losses of \$0.8 million from our remaining equity method investments. For the three months ended March 31, 2015, we recognized \$6.5 million of earnings from equity method investments due primarily to \$4.5 million related to sales activity on a land development venture.

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Income tax (expense) benefit—Income taxes are primarily generated by assets held by our taxable REIT subsidiaries ("TRS's"). An income tax benefit of \$0.4 million was recorded during the three months ended March 31, 2016 as compared to income tax expense of \$5.9 million for the same period in 2015. The current income tax benefit relates primarily to a taxable loss generated from the sales of TRS properties. The income tax expense for the three months ended March 31, 2015 primarily related to taxable income generated from the sales of TRS properties.

Income from sales of real estate—Income from sales of real estate decreased to \$10.5 million during the three months ended March 31, 2016 from \$21.2 million for the same period in 2015. During the three months ended March 31, 2016 and 2015, we sold residential condominiums that resulted in income of \$4.9 million and \$17.6 million, respectively. The decrease was due primarily to our decreasing inventory of residential condominiums. During the three months ended March 31, 2016 and 2015, we sold net lease assets resulting in a gain of \$4.9 million and \$3.6 million, respectively. In addition, during the three months ended March 31, 2016, we sold a commercial operating property resulting in a gain of \$0.7 million.

## Adjusted Income

In addition to net income (loss) prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP"), we use adjusted income, a non-GAAP financial measure, to measure our operating performance. Adjusted income represents net income (loss) allocable to common shareholders, prior to the effect of depreciation and amortization, provision for (recovery of) loan losses, impairment of assets, stock-based compensation expense and the non-cash portion of gain (loss) on early extinguishment of debt ("Adjusted Income").

We believe Adjusted Income is a useful measure to consider, in addition to net income (loss), as it may help investors evaluate our operating performance prior to certain non-cash items.

Adjusted Income should be examined in conjunction with net income (loss) as shown in our consolidated statements of operations. Adjusted Income should not be considered as an alternative to net income (loss) (determined in accordance with GAAP), as an indicator of our performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is Adjusted Income indicative of funds available to fund our cash needs or available for distribution to shareholders. Rather, Adjusted Income is an additional measure for us to use to analyze how our business is performing. It should be noted that our manner of calculating Adjusted Income may differ from the calculations of similarly-titled measures by other companies.

	For the Three Months Ended March 31, 2016      2015 (in thousands)	
Adjusted Income		
Net income (loss) allocable to common shareholders	\$(21,187)	\$(22,553)
Add: Depreciation and amortization <sup>(1)</sup>	17,172	20,072
Add/Less: Provision for loan losses	1,506	4,293
Add: Impairment of assets <sup>(2)</sup>	915	4,337
Add: Stock-based compensation expense	4,577	3,238
Add: Loss on early extinguishment of debt, net	125	168
Less: HPU/Participating Security allocation	(2)	(1,032)
Adjusted income (loss) allocable to common shareholders	\$3,106	\$8,523

(1) Depreciation and amortization also includes our proportionate share of depreciation and amortization expense for equity method investments and excludes the portion of depreciation and amortization expense allocable to

noncontrolling interests.

For the three months ended March 31, 2016 and 2015, impairment of assets includes impairments on cost and (2) equity method investments recorded in "Other income" and "Earnings from equity method investments", respectively, in our consolidated statements of operations.

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## Risk Management

Loan Credit Statistics—The table below summarizes our non-performing loans and the reserves for loan losses associated with our loans (\$ in thousands):

	As of			
	March 31,	December 31,		
	2016	2015		
Non-performing loans				
Carrying value <sup>(1)</sup>	\$68,349	\$ 60,327		
As a percentage of total carrying value of loans	4.3	% 3.9	%	
Reserve for loan losses				
Asset-specific reserves for loan losses	\$73,071	\$ 72,165		
As a percentage of gross carrying value of impaired loans	51.7	% 54.5	%	
Total reserve for loan losses	\$109,671	\$ 108,165		
As a percentage of total loans before loan loss reserves	6.4	% 6.6	%	

(1) As of March 31, 2016 and December 31, 2015, carrying values of non-performing loans are net of asset-specific reserves for loan losses.

Non-Performing Loans—We designate loans as non-performing at such time as: (1) the loan becomes 90 days delinquent; (2) the loan has a maturity default; or (3) management determines it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan. All non-performing loans are placed on non-accrual status and income is only recognized in certain cases upon actual cash receipt. As of March 31, 2016, we had non-performing loans with an aggregate carrying value of \$68.3 million compared to non-performing loans of with an aggregate carrying value of \$60.3 million as of December 31, 2015. We expect that our level of non-performing loans will fluctuate from period to period.

Reserve for Loan Losses—The reserve for loan losses was \$109.7 million as of March 31, 2016, or 6.4% of total loans, compared to \$108.2 million or 6.6% as of December 31, 2015. For the three months ended March 31, 2016, the provision for loan losses includes provisions for specific reserves of \$0.9 million due to one non-performing loan and \$0.6 million of general reserves due primarily to new investment originations. We expect that our level of reserve for loan losses will fluctuate from period to period. Due to the volatility of the commercial real estate market, the process of estimating collateral values and reserves requires the use of significant judgment. We currently believe there are adequate collateral and reserves to support the carrying values of the loans.

The reserve for loan losses includes an asset-specific component and a formula-based component. An asset-specific reserve is established for an impaired loan when the estimated fair value of the loan's collateral less costs to sell is lower than the carrying value of the loan. As of March 31, 2016, asset-specific reserves increased to \$73.1 million compared to \$72.2 million as of December 31, 2015, due primarily to a new non-performing loan.

The formula-based general reserve is derived from estimated principal default probabilities and loss severities applied to groups of performing loans based upon risk ratings assigned to loans with similar risk characteristics during our quarterly loan portfolio assessment. During this assessment, we perform a comprehensive analysis of our loan portfolio and assign risk ratings to loans that incorporate management's current judgments about their credit quality based on all known and relevant factors that may affect collectability. We consider, among other things, payment status, lien position, borrower financial resources and investment in collateral, collateral type, project economics and geographical location as well as national and regional economic factors. This methodology results in loans being segmented by risk classification into risk rating categories that are associated with estimated probabilities of default and principal loss. We estimate loss rates based on historical realized losses experienced within our portfolio and take

into account current economic conditions affecting the commercial real estate market when establishing appropriate time frames to evaluate loss experience.

The general reserve increased to \$36.6 million or 2.3% of performing loans as of March 31, 2016, compared to \$36.0 million or 2.4% of performing loans as of December 31, 2015. This increase was primarily attributable to an increase in the balance of performing loans, which was driven by new investment originations.

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Risk concentrations—As of March 31, 2016, based on current gross carrying values, the Company's total investment portfolio has the following characteristics (\$ in thousands)<sup>(1)</sup>:

Property/Collateral Types	Real Estate Finance	Net Lease	Operating Properties	Land & Development	Total	% of Total
Land and Development	\$45,079	\$—	\$—	\$ 1,126,939	\$1,172,018	22.9 %
Office / Industrial	157,281	847,287	132,401	—	1,136,969	22.2 %
Mixed Use / Mixed Collateral	579,638	—	257,474	—	837,112	16.4 %
Hotel	349,443	136,080	55,339	—	540,862	10.6 %
Entertainment / Leisure	—	500,552	—	—	500,552	9.8 %
Condominium	269,604	—	131,714	—	401,318	7.9 %
Retail	66,902	57,347	125,573	—	249,822	4.9 %
Other Property Types	206,040	9,483	—	—	215,523	4.2 %
Strategic Investments	—	—	—	—	57,741	1.1 %
<b>Total</b>	<b>\$1,673,987</b>	<b>\$1,550,749</b>	<b>\$702,501</b>	<b>\$ 1,126,939</b>	<b>\$5,111,917</b>	<b>100.0%</b>

  

Geographic Region	Real Estate Finance	Net Lease	Operating Properties	Land & Development	Total	% of Total
Northeast	\$1,006,071	\$382,939	\$485	\$ 251,404	\$1,640,899	32.1 %
West	84,227	402,406	57,056	364,001	907,690	17.8 %
Southeast	135,752	234,605	275,875	147,302	793,534	15.5 %
Mid-Atlantic	168,808	139,076	150,743	204,071	662,698	13.0 %
Southwest	52,863	169,923	145,514	149,285	517,585	10.1 %
Central	164,135	79,866	58,372	4,526	306,899	6.0 %
Various <sup>(2)</sup>	62,131	141,934	14,456	6,350	224,871	4.4 %
Strategic Investments <sup>(2)</sup>	—	—	—	—	57,741	1.1 %
<b>Total</b>	<b>\$1,673,987</b>	<b>\$1,550,749</b>	<b>\$702,501</b>	<b>\$ 1,126,939</b>	<b>\$5,111,917</b>	<b>100.0%</b>

<sup>(1)</sup> Based on the carrying value of our total investment portfolio gross of accumulated depreciation and general loan loss reserves.

<sup>(2)</sup> Combined, strategic investments and the various category include \$19.8 million of international assets.

### Liquidity and Capital Resources

During the three months ended March 31, 2016, we funded a total of \$147.8 million associated with new investments, prior financing commitments as well as ongoing development during the quarter. Total fundings included \$94.3 million in lending and other investments, \$34.2 million to develop our land and development assets and \$19.3 million of capital to reposition or redevelop our operating properties and invest in net lease assets. Also during the three months ended March 31, 2016, we generated \$131.8 million of proceeds from loan repayments and asset sales within our portfolio, comprised of \$79.7 million from real estate finance, \$25.5 million from operating properties, \$10.6 million from net lease assets, \$9.0 million from land and development assets and \$7.0 million from other investments. These amounts are inclusive of fundings and proceeds from both consolidated investments and our pro rata share from equity method investments. In March 2016, we repaid the \$261.4 million principal amount of 5.875% senior unsecured notes at maturity using available cash. In addition, we issued \$275.0 million principal amount of 6.50% senior unsecured notes due July 2021. Proceeds from the offering were used to repay \$5.0 million of the 2015 Revolving Credit Facility, pay related financing costs and, subsequent to the end of the quarter, repay in full the \$265.0 million principal amount of senior unsecured notes due July 2016. As of March 31, 2016, we had unrestricted cash of \$591.2 million, including proceeds from the notes issuance.

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The following table outlines our capital expenditures on real estate and land and development assets as reflected in our consolidated statements of cash flows for the three months ended March 31, 2016 and 2015, by segment (\$ in thousands):

	For the Three Months Ended March 31,	
	2016	2015
Operating Properties	\$16,757	\$13,824
Net Lease	978	892
Total capital expenditures on real estate assets	\$17,735	\$14,716
Land and Development	\$29,375	\$19,953
Total capital expenditures on land and development assets	\$29,375	\$19,953

Our primary cash uses over the next 12 months are expected to be funding of investments, repayment of debt, capital expenditures and funding ongoing business operations. Subsequent to the end of the quarter, we repaid in full the \$265.0 million principal amount of senior unsecured notes due July 2016. We have other debt maturities of \$824.8 million due before March 31, 2017. Over the next 12 months, we currently expect to fund in the range of approximately \$200 million to \$275 million of capital expenditures within our portfolio. The majority of these amounts relate to our land and development and operating properties business segments and include multifamily and residential development activities which are expected to include approximately \$115 million in vertical construction. The amount spent will depend on the pace of our development activities as well as the extent to which we strategically partner with others to complete these projects. As of March 31, 2016, we also had approximately \$840 million of maximum unfunded commitments associated with our investments of which we expect to fund the majority over the next two years, assuming borrowers and tenants meet all milestones and performance hurdles and all other conditions to fundings are met. See "Unfunded Commitments" below. Our capital sources to meet cash uses through the next 12 months and beyond will primarily be expected to include cash on hand, income from our portfolio, loan repayments from borrowers, proceeds from asset sales and capital raised through debt and/or equity capital raising transactions. We cannot predict with certainty the specific transactions we will undertake to generate sufficient liquidity to meet our obligations as they come due. We will adjust our plans as appropriate in response to changes in our expectations and changes in market conditions. While economic trends have stabilized, it is not possible for us to predict whether these trends will continue or to quantify the impact of these or other trends on our financial results.



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Contractual Obligations—The following table outlines the contractual obligations related to our long-term debt obligations, loan participations payable and operating lease obligations as of March 31, 2016 (Refer to Note 10 to the consolidated financial statements).

	Amounts Due By Period					
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	5 - 10 Years	After 10 Years
	(in thousands)					
Long-Term Debt Obligations:						
Unsecured notes <sup>(1)</sup>	\$3,234,722	\$764,722	\$1,425,000	\$770,000	\$275,000	\$—
Secured credit facilities	325,123	325,123	—	—	—	—
Revolving credit facility	245,000	—	245,000	—	—	—
Secured term loans	237,297	9,326	26,380	38,920	161,738	933
Other debt obligations	100,000	—	—	—	—	100,000
Total principal maturities	4,142,142	1,099,171	1,696,380	808,920	436,738	100,933
Interest Payable <sup>(2)</sup>	576,742	206,753	238,405	93,404	17,237	20,943
Loan Participations Payable <sup>(3)</sup>	154,905	—	100,000	54,905	—	—
Operating Lease Obligations	25,566	5,728	8,808	6,658	3,643	729
Total <sup>(4)</sup>	\$4,899,355	\$1,311,652	\$2,043,593	\$963,887	\$457,618	\$122,605

(1) Includes the \$265.0 million principal amount of senior unsecured notes due July 2016 that were repaid in full in April 2016.

(2) Variable-rate debt assumes 1-month LIBOR of 0.43% and 3-month LIBOR of 0.62% that were in effect as of March 31, 2016.

(3) Refer to Note 9 to the consolidated financial statements.

(4) We also have issued letters of credit totaling \$2.2 million in connection with our investments. See "Unfunded Commitments" below, for a discussion of certain unfunded commitments related to our lending and net lease businesses.

2015 Revolving Credit Facility—On March 27, 2015, we entered into a secured revolving credit facility with a maximum capacity of \$250.0 million (the "2015 Revolving Credit Facility"). Borrowings under this credit facility bear interest at a floating rate indexed to one of several base rates plus a margin which adjusts upward or downward based upon our corporate credit rating. An undrawn credit facility commitment fee ranges from 0.375% to 0.50%, based on average utilization each quarter. During the three months ended March 31, 2016, the weighted average cost of the credit facility was 3.18%. Commitments under the revolving facility mature in March 2018. At maturity, we may convert outstanding borrowings to a one-year term loan which matures in quarterly installments through March 2019.

2012 Secured Credit Facilities—In March 2012, we entered into an \$880.0 million senior secured credit agreement providing for two tranches of term loans: a \$410.0 million 2012 A-1 tranche due March 2016, which accrued interest at a rate of LIBOR + 4.00% (the "2012 Tranche A-1 Facility"), and a \$470.0 million 2012 A-2 tranche due March 2017, which bears interest at a rate of LIBOR + 5.75% (the "2012 Tranche A-2 Facility," together the "2012 Secured Credit Facilities"). The 2012 A-1 and A-2 tranches were issued at 98.0% of par and 98.5% of par, respectively, and both tranches include a LIBOR floor of 1.25%. Proceeds from the 2012 Secured Credit Facilities, together with cash on hand, were used to repurchase and repay other outstanding debt.

The 2012 Secured Credit Facilities are collateralized by a first lien on a fixed pool of assets. Proceeds from principal repayments and sales of collateral are applied to amortize the 2012 Secured Credit Facilities. Proceeds received for interest, rent, lease payments and fee income are retained by us. We may also make optional prepayments, subject to prepayment fees. The 2012 Tranche A-1 Facility was fully repaid in August 2013. Additionally, through March 31, 2016, we made cumulative amortization repayments of \$144.9 million on the 2012 Tranche A-2 Facility. For the three

months ended March 31, 2016 and 2015, repayments of the 2012 Tranche A-2 Facility prior to maturity resulted in losses on early extinguishment of debt of 0.1 million and \$0.2 million, respectively, related to the accelerated amortization of discounts and unamortized deferred financing fees on the portion of the facility that was repaid. These amounts are included in "Loss on early extinguishment of debt, net" in our consolidated statements of operations.

Unsecured Notes—In March 2016, we repaid our \$261.4 million principal amount of 5.875% senior unsecured notes at maturity using available cash. In addition, in March 2016 we issued \$275.0 million principal amount of 6.50% senior unsecured notes due July 2021. Proceeds from the offering were used to repay \$5.0 million of the 2015 Revolving Credit Facility, pay related financing costs and, subsequent to the end of the quarter, repay in full the \$265.0 million principal amount of senior unsecured notes due July 2016.

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Encumbered/Unencumbered Assets—As of March 31, 2016 and December 31, 2015, the carrying value of our encumbered and unencumbered assets by asset type are as follows (\$ in thousands):

	As of		December 31, 2015	
	March 31, 2016	March 31, 2016	Encumbered	Unencumbered
	Assets	Assets	Assets	Assets
Real estate, net	\$806,550	\$772,050	\$816,721	\$777,262
Real estate available and held for sale	13,047	119,348	10,593	126,681
Land and development	17,682	1,006,752	17,714	984,249
Loans receivable and other lending investments, net <sup>(1)(2)</sup>	157,347	1,361,735	170,162	1,314,823
Other investments	15,385	218,605	22,352	231,820
Cash and other assets	—	885,372	—	1,008,415
Total	\$1,010,011	\$4,363,862	\$1,037,542	\$4,443,250

(1) As of March 31, 2016 and December 31, 2015, the amounts presented exclude general reserves for loan losses of \$36.6 million and \$36.0 million, respectively.

(2) As of March 31, 2016 and December 31, 2015, the amount presented excludes loan participations of \$154.9 million and \$153.0 million, respectively.

## Debt Covenants

Our outstanding unsecured debt securities contain corporate level covenants that include a covenant to maintain a ratio of unencumbered assets to unsecured indebtedness of at least 1.2x and a covenant not to incur additional indebtedness (except for incurrences of permitted debt), if on a pro forma basis, our consolidated fixed charge coverage ratio, determined in accordance with the indentures governing our debt securities, is 1.5x or lower. If any of our covenants are breached and not cured within applicable cure periods, the breach could result in acceleration of our debt securities unless a waiver or modification is agreed upon with the requisite percentage of the bondholders. While our ability to incur additional indebtedness under the fixed charge coverage ratio is currently limited, we are permitted to incur indebtedness for the purpose of refinancing existing indebtedness and for other permitted purposes under the indentures.

The 2012 Secured Credit Facilities and the 2015 Revolving Credit Facility contain certain covenants, including covenants relating to collateral coverage, dividend payments, restrictions on fundamental changes, transactions with affiliates, matters relating to the liens granted to the lenders and the delivery of information to the lenders. In particular, the 2012 Secured Credit Facilities require us to maintain collateral coverage of at least 1.25x outstanding borrowings on the facilities. The 2015 Revolving Credit Facility is secured by a borrowing base of assets and requires us to maintain both collateral coverage of at least 1.5x outstanding borrowings on the facility and a consolidated ratio of cash flow to fixed charges of at least 1.5x. The 2015 Revolving Credit Facility does not require that proceeds from the borrowing base be used to pay down outstanding borrowings provided the collateral coverage remains at least 1.5x outstanding borrowings on the facility. To satisfy this covenant, we have the option to pay down outstanding borrowings or substitute assets in the borrowing base. In addition, for so long as we maintain our qualification as a REIT, the 2012 Secured Credit Facilities and the 2015 Revolving Credit Facility permit us to distribute 100% of our REIT taxable income on an annual basis (prior to deducting certain cumulative NOL carryforwards in the case of the 2015 Revolving Credit Facility). We may not pay common dividends if we cease to qualify as a REIT.

The 2012 Secured Credit Facilities and the 2015 Revolving Credit Facility contain cross default provisions that would allow the lenders to declare an event of default and accelerate our indebtedness to them if we fail to pay amounts due in respect of our other recourse indebtedness in excess of specified thresholds or if the lenders under such other indebtedness are otherwise permitted to accelerate such indebtedness for any reason. The indentures governing our unsecured public debt securities permit the bondholders to declare an event of default and accelerate our indebtedness

to them if our other recourse indebtedness in excess of specified thresholds is not paid at final maturity or if such indebtedness is accelerated.

Derivatives—Our use of derivative financial instruments is primarily limited to the utilization of interest rate swaps, interest rate caps or other instruments to manage interest rate risk exposure and foreign exchange contracts to manage our risk to changes in foreign currencies. Refer to Note 12 to the consolidated financial statements.

Off-Balance Sheet Arrangements—We are not dependent on the use of any off-balance sheet financing arrangements for liquidity. We have made investments in various unconsolidated ventures. Refer to Note 7 to the consolidated financial statements for further details of our unconsolidated investments. Our maximum exposure to loss from these investments is limited to the carrying value of our investments and any unfunded commitments (see below).

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Unfunded Commitments—We generally fund construction and development loans and build-outs of space in net lease assets over a period of time if and when the borrowers and tenants meet established milestones and other performance criteria. We refer to these arrangements as Performance-Based Commitments. In addition, we sometimes establish a maximum amount of additional funding which we will make available to a borrower or tenant for an expansion or addition to a project if we approve of the expansion or addition in our sole discretion. We refer to these arrangements as Discretionary Fundings. Finally, we have committed to invest capital in several real estate funds and other ventures. These arrangements are referred to as Strategic Investments. As of March 31, 2016, the maximum amounts of the fundings we may make under each category, assuming all performance hurdles and milestones are met under the Performance-Based Commitments, that we approve all Discretionary Fundings and that 100% of our capital committed to Strategic Investments is drawn down, are as follows (in thousands):

	Loans and			
	Other	Real	Other	Total
	Lending	Estate	Investments	
	Investments			
Performance-Based Commitments	\$ 752,417	\$ 17,161	\$ 19,642	\$ 789,220
Strategic Investments	—	—	45,978	45,978
Discretionary Fundings	5,000	—	—	5,000
Total	\$ 757,417	\$ 17,161	\$ 65,620	\$ 840,198

Stock Repurchase Program—In February 2016, after having substantially utilized the remaining availability previously authorized, our Board of Directors authorized a new \$50.0 million stock repurchase program. The program authorizes the repurchase of common stock from time to time in open market and privately negotiated purchases, including pursuant to one or more trading plans. During the three months ended March 31, 2016, we repurchased 5.8 million shares of our outstanding common stock for \$58.1 million, at an average cost of \$9.94 per share. During the three months ended March 31, 2015, we repurchased 44,000 shares of its outstanding common stock for \$0.6 million, at an average cost of \$12.66 per share. As of March 31, 2016 and December 31, 2015, we had remaining authorization to repurchase up to \$40.6 million and \$48.7 million, respectively, of common stock under our stock repurchase program.

Critical Accounting Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and judgments in certain circumstances that affect amounts reported as assets, liabilities, revenues and expenses. We have established detailed policies and control procedures intended to ensure that valuation methods, including any judgments made as part of such methods, are well controlled, reviewed and applied consistently from period to period. We base our estimates on historical corporate and industry experience and various other assumptions that we believe to be appropriate under the circumstances. For all of these estimates, we caution that future events rarely develop exactly as forecasted, and, therefore, routinely require adjustment.

In accordance with the adoption of Accounting Standards Update ("ASU") 2015-03, Simplifying the Presentation of Debt Issuance Costs, we present debt issuance costs as a deduction from the carrying value of "Debt obligations, net" and "Loan participations payable, net" on our consolidated balance sheets, which is consistent with the presentation of debt discounts. These costs were previously recorded in "Deferred expenses and other assets, net" on our consolidated balance sheets. However, debt issuance costs associated with revolving-debt arrangements are recorded in "Deferred expenses and other assets, net" on our consolidated balance sheets.

On January 1, 2016, we adopted ASU 2015-02, Amendments to the Consolidation Analysis, which modified the analysis we must perform to determine whether we should consolidate certain types of entities. The guidance does not amend the existing disclosure requirements variable interest entities or voting interest entities ("VOEs"). The guidance, however, modified the requirements to qualify under the VOE model. The adoption did not have a material impact on our consolidated financial statements.

On January 1, 2016, we adopted ASU 2014-16, Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity ("ASU 2014-16") which eliminated the diversity in practice for the accounting for hybrid financial instruments issued in the form of a share. ASU 2014-16

requires management to consider all terms and features, whether stated or implied, of a hybrid instrument when determining whether the nature of the instrument is more akin to a debt instrument or an equity instrument. Embedded derivative features, which are accounted for separately from host contracts, should also be considered in the analysis of the hybrid instrument. The adoption did not have a material impact on our consolidated financial statements.

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As of March 31, 2016, the remainder of our significant accounting policies, which are detailed in our 2015 Annual Report, have not changed materially.

New Accounting Pronouncements—For a discussion of the impact of new accounting pronouncements on our financial condition or results of operations, refer to Note 3 to the consolidated financial statements.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in Quantitative and Qualitative Disclosures About Market Risk for the three months ended March 31, 2016 as compared to the disclosures included in our 2015 Annual Report. See discussion of quantitative and qualitative disclosures about market risk under Item 7a—"Quantitative and Qualitative Disclosures about Market Risk," included in our 2015 Annual Report.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company has formed a disclosure committee that is responsible for considering the materiality of information and determining the disclosure obligations of the Company on a timely basis. The disclosure committee reports directly to the Company's Chief Executive Officer and Chief Financial Officer.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the disclosure committee and other members of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) or Rule 15d-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure.

There have been no changes during the last fiscal quarter in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.



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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company and/or one or more of its subsidiaries is party to various pending litigation matters that are considered ordinary routine litigation incidental to its real estate and real estate related business activities, including loan foreclosure and foreclosure-related proceedings. In addition to such matters, the Company is a party to the following legal proceedings:

Shareholder Action

On March 7, 2014, a shareholder action purporting to assert derivative, class and individual claims was filed in the Circuit Court for Baltimore City, Maryland naming the Company, a number of our current and former senior executives (including our chief executive officer) and current and former directors as defendants. The complaint sought unspecified damages and other relief and alleged breach of fiduciary duty, breach of contract and other causes of action arising out of shares of our common stock issued by the Company to our senior executives pursuant to restricted stock unit awards granted in December 2008 and modified in July 2011. On October 30, 2014, the Circuit Court granted the defendants' Motions to Dismiss and plaintiffs' claims against all of the defendants in this action were dismissed. Plaintiffs appealed the Circuit Court's dismissal of their claims against the Company and all other defendants. On January 28, 2016, the Court of Special Appeals affirmed the order of the Circuit Court, holding that the Circuit Court properly dismissed plaintiffs' claims against all defendants, including the Company. On March 16, 2016, plaintiffs filed a petition for certiorari with the Maryland Court of Appeals, requesting that the Court of Appeals reverse the decision of the Court of Special Appeals. We have filed a response in opposition, arguing that the petition for certiorari should be denied. Action on the petition for certiorari is pending.

U.S. Home Corporation ("Lennar") v. Settlers Crossing, LLC, et al. (Civil Action No. DKC 08-1863)

On January 22, 2015, the United States District Court for the District of Maryland (the "Court") entered a judgment in favor of the Company in the matter of Lennar v. Settlers Crossing, LLC, et al. (Civil Action No. DKC 08-1863). The litigation involved a dispute over the purchase and sale of approximately 1,250 acres of land in Prince George's County, Maryland. The Court found that the Company was entitled to specific performance and awarded damages to it in the aggregate amount of: (i) the remaining purchase price to be paid by Lennar of \$114.0 million; plus (ii) interest on the unpaid amount at a rate of 12% per annum, calculated on a per diem basis, from May 27, 2008, until Lennar proceeds to settlement on the land; plus (iii) real estate taxes paid by the Company; plus (iv) actual and reasonable attorneys' fees and costs incurred by the Company in connection with the litigation. The Court ordered Lennar to proceed to settlement on the land and to pay the total amounts awarded to the Company within 30 days of the judgment. Lennar has appealed the Court's judgment. The Court has granted Lennar's motion to stay the judgment pending appeal, subject to Lennar posting a required appeal bond, which has been posted. The Court also clarified the judgment that the unpaid amount will accrue simple interest at a rate of 12% annually, including while the appeal is pending. In the pending appeal before the United States Court of Appeals for the Fourth Circuit, the parties have filed their respective briefs. Oral argument has not yet been scheduled. There can be no assurance as to the timing or actual receipt by the Company of amounts awarded by the Court or the outcome of any appeal. A third party is entitled to a 7.8% participation interest in all proceeds paid to the Company.

Item 1a. Risk Factors

There were no material changes from the risk factors previously disclosed in the Company's 2015 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth the information with respect to purchases made by or on behalf of the Company of its common stock during the three months ended March 31, 2016.

Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased	Maximum Dollar Value of Shares that as Part of a Publicly Announced
			May Yet be Purchased Under the

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			Plan	Plans <sup>(1)</sup>
January 1 to January 31	4,666,462	\$ 10.23	4,666,462	\$943,326
February 1 to February 29	523,059	\$ 8.86	523,059	\$46,310,958
March 1 to March 31	649,891	\$ 8.74	649,891	\$40,630,436

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In February 2016, the Company's Board of Directors authorized a new \$50.0 million stock repurchase program.

(1) The program authorizes the repurchase of common stock from time to time in open market and privately negotiated purchases, including pursuant to one or more trading plans. There is no fixed expiration date to this stock repurchase program.

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Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

INDEX TO EXHIBITS

Exhibit  
Number Document Description

3.1 Articles Supplementary (Incorporated by reference to Form 8-K filed on April 19, 2016)

31.0 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act.

32.0 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act.

101\* The following financial information from the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2016 is formatted in XBRL ("eXtensible Business Reporting Language"): (i) the Consolidated Balance Sheets as of March 31, 2016 (unaudited) and December 31, 2015, (ii) the Consolidated Statements of Operations (unaudited) for the three months ended March 31, 2016 and 2015, (iii) the Consolidated Statements of Comprehensive Income (Loss) (unaudited) for the three months ended March 31, 2016 and 2015, (iv) the Consolidated Statement of Changes in Equity (unaudited) for the three months ended March 31, 2016 and 2015, (v) the Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2016 and 2015 and (vi) the Notes to the Consolidated Financial Statements (unaudited).

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In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 is deemed not filed \* or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Exchange Act of 1934 and otherwise is not subject to liability under these sections.

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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 Inc.

Registrant

Date: May 3, 2016 /s/ JAY SUGARMAN

Jay Sugarman

Chairman of the Board of Directors and Chief  
Executive Officer (principal executive officer)

iStar Inc.

Registrant

Date: May 3, 2016 /s/ DAVID DISTASO

David DiStaso

Chief Financial Officer (principal financial and  
accounting officer)