

CAPITAL TRUST INC  
Form 10-K  
March 16, 2009

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 2008

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

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-14788

Capital Trust, Inc.  
(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of  
incorporation or organization)

94-6181186  
(I.R.S. Employer Identification No.)

410 Park Avenue, 14th Floor, New York,  
NY  
(Address of principal executive offices)

10022  
(Zip Code)

Registrant's telephone number, including area code: (212) 655-0220  
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
class A common stock, \$0.01 par value ("class A common stock")	New York Stock Exchange

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

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

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10 K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  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   
MARKET VALUE

The aggregate market value of the outstanding class A common stock held by non-affiliates of the registrant was approximately \$296,277,924 as of June 30, 2008 (the last business day of the registrant's most recently completed second fiscal quarter) based on the closing sale price on the New York Stock Exchange on that date.

OUTSTANDING STOCK

As of February 28, 2009 there were 21,846,545 outstanding shares of class A common stock. The class A common stock is listed on the New York Stock Exchange (trading symbol "CT").

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the registrant's definitive proxy statement to be filed with the Commission within 120 days after the close of the registrant's fiscal year.

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## PART I

### Item 1. Business

References herein to “we,” “us” or “our” refer to Capital Trust, Inc. and its subsidiaries unless the context specifically requires otherwise.

#### Overview

We are a fully integrated, self-managed, real estate finance and investment management company that specializes in credit sensitive financial products. To date, our investment programs have focused on loans and securities backed by commercial real estate assets. We invest for our own account directly on our balance sheet and for third parties through a series of investment management vehicles. From the inception of our finance business in 1997 through December 31, 2008, we have completed over \$11.0 billion of investments in the commercial real estate debt arena. We conduct our operations as a real estate investment trust, or REIT, for federal income tax purposes and we are headquartered in New York City.

#### Operating Segments

Segment revenue and profit information is presented in Note 20 to the consolidated financial statements.

#### Current Market Conditions

During 2008, the general economic environment deteriorated precipitously, leaving the U.S economy and many economies around the world in a state of severe economic recession. In addition, the global capital markets continued to be in a severe state of crisis. The impact on commercial real estate has been a combination of: (i) decreased, and expected further decreases, in property level cash flows and (ii) lack of capital, both debt and equity, to allow for markets to function in an orderly manner. Transaction volume has declined significantly, credit spreads for all forms of mortgage debt reached all-time highs, issuance levels of commercial mortgage backed securities, or CMBS, ground to a halt, and other forms of financing from the debt markets have been dramatically curtailed. Financial institutions still hold significant inventories of unsold loans and CMBS, creating a further overhang on the markets. These factors have combined to create significant decreases in property values and have and will continue to impact the performance of our existing portfolio of assets. Furthermore, the volatility in the capital markets has caused severe stress to all financial institutions and our business is dependent upon these counterparties for, among other things, financing and interest rate derivatives.

#### Restructuring of Our Debt Obligations

On March 16, 2009, we consummated a restructuring of substantially all of our recourse debt obligations with certain of our secured and unsecured creditors pursuant to the amended terms of our secured credit facilities, our senior unsecured credit agreement, and certain of our trust preferred securities.

#### Secured Credit Facilities

In connection with the restructuring, we amended our secured, recourse credit facilities with: (i) JPMorgan Chase Bank, N.A., JPMorgan Chase Funding Inc. and J.P. Morgan Securities Inc., or collectively JPMorgan, (ii) Morgan Stanley Bank, N.A., or Morgan Stanley, and (iii) Citigroup Financial Products Inc. and Citigroup Global Markets Inc., or collectively Citigroup. We collectively refer to JPMorgan, Morgan Stanley and Citigroup as the participating secured lenders. Further, as part of the restructuring, we also entered into an agreement to terminate our secured, recourse facility with Goldman Sachs Mortgage Company, or Goldman Sachs. We had previously, on February 25,

2009, terminated our secured financing with UBS Real Estate Securities Inc., or UBS.

Specifically, on March 16, 2009, we entered into separate amendments to the respective master repurchase agreements with JPMorgan, Morgan Stanley and Citigroup. Pursuant to the terms of each such agreement, we repaid the balance outstanding with each participating secured lender by an amount equal to three percent (3%) of the current outstanding principal amount due under its existing secured, recourse credit facility, \$17.7 million in the aggregate, and further amended the terms of each such facility, without any change to the collateral pool securing the debt owed to each participating secured lender, to provide the following:

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- Maturity dates were modified to one year from the March 16, 2009 effective date of each respective agreement, which maturity date may be extended further for two one-year periods. The first one-year extension option is exercisable by us so long as the outstanding balance as of the first extension date is less than or equal to a certain amount, which is a reduction of twenty percent (20%), including the upfront payment described above, of the outstanding principal amount from the date of the amendment, and no other defaults or events of default have occurred and are continuing, or would be caused by such extension. The second one-year extension option is exercisable by each participating secured lender in its sole discretion.
- We agreed to pay each participating secured lender periodic amortization as follows: (i) mandatory payments, payable monthly in arrears, in an amount equal to sixty-five (65%) (subject to adjustment in the second year) of the net interest income generated by each such lender's collateral pool, and (ii) one hundred percent (100%) of the principal proceeds received from the repayment of assets in each such lender's collateral pool. In addition, under the terms of the amendment with Citigroup, we agreed to pay Citigroup an additional quarterly amortization payment equal to the lesser of: (x) Citigroup's then outstanding senior secured credit facility balance or (y) the product of (i) the total cash paid (including both principal and interest) during the period to our senior unsecured credit facility in excess of an amount equivalent to LIBOR plus 1.75% based upon a \$100.0 million facility amount, and (ii) a fraction, the numerator of which is Citigroup's then outstanding senior secured credit facility balance and the denominator is the total outstanding secured indebtedness of the participating secured lenders.
- We further agreed to amortize each participating secured lender's secured debt at the end of each calendar quarter on a pro rata basis until we have repaid our secured, recourse credit facilities and thereafter our senior unsecured credit facility in an amount equal to any unrestricted cash in excess of the sum of (i) \$25.0 million, and (ii) any unfunded loan and co-investment commitments.
- Each participating secured lender was relieved of its obligation to make future advances with respect to unfunded commitments arising under investments in its collateral pool.
- We received the right to sell or refinance collateral assets as long as we apply one hundred percent (100%) of the proceeds to pay down the related secured credit facility balance subject to minimum release price mechanics.
- We eliminated the cash margin call provisions and amended the mark-to-market provisions so that future changes in collateral value will be determined based upon changes in the performance of the underlying real estate collateral in lieu of the previous provisions which were based on market spreads. Beginning six months after the date of execution of the agreements, each collateral pool will be valued monthly on this basis. If the ratio of a participating secured lender's total outstanding secured credit facility balance to total collateral value exceeds 1.15x the ratio calculated as of the effective date of the amended agreements, we will be required to liquidate collateral in order to return to compliance with the prescribed loan to collateral value ratio or post other collateral to bring the ratio back into compliance.

In each master repurchase agreement amendment and the amendment to our senior unsecured credit agreement described in greater detail below, which we collectively refer to as our restructured debt obligations, we also replaced all existing financial covenants with the following uniform covenants which:

- prohibit new balance sheet investments except, subject to certain limitations, co-investments in our investment management vehicles or protective investments to defend existing collateral assets on our balance sheet;
  - prohibit the incurrence of any additional indebtedness except in limited circumstances;

- limit the total cash compensation to all employees and, specifically with respect to our chief executive officer, chief operating officer and chief financial officer, freeze their base salaries at 2008 levels, and require cash bonuses to any of them to be approved by a committee comprised of one representative designated by the secured lenders, the administrative agent under the senior unsecured credit facility and the chairman of our board of directors;
- prohibit the payment of cash dividends to our common shareholders except to the minimum extent necessary to maintain our REIT status;
- require us to maintain a minimum amount of liquidity, as defined, of \$7.0 million in 2009 and \$5.0 million thereafter;
- trigger an event of default if both our chief executive officer and chief operating officer cease their current employment with us during the term of the agreement and we fail to hire a replacement acceptable to the lenders; and
- trigger an event of default, if any event or condition occurs which causes any obligation or liability of more than \$1.0 million to become due prior to its scheduled maturity or any monetary default under our restructured debt obligations if the amount of such obligation is at least \$1.0 million.

Pursuant to the restructuring, the interest rates on our secured borrowings will remain the same as those in effect as of December 31, 2008. In exchange for maintenance of these historic rates, on March 16, 2009 we issued, or irrevocably committed to issue as of such date, JPMorgan, Morgan Stanley and Citigroup warrants to purchase 3,479,691 shares of our class A common stock at an exercise price of \$1.79 per share, which is equal to the closing bid price on the New York Stock Exchange on March 13, 2009. The warrants will become exercisable on March 16, 2012 and expire on March 16, 2019, and may be exercised through a cashless exercise.

The warrants were issued, or irrevocably committed to be issued, in reliance upon the exemption provided in Section 4(2) of the Securities Act of 1933, as amended, and the safe harbor of Rule 506 under Regulation D. Any certificates representing such securities will contain restrictive legends preventing sale, transfer or other disposition, unless registered under the Securities Act of 1933. No form of general solicitation or general advertising was conducted in connection with the issuance.

The foregoing descriptions of the amendments to the secured credit facilities with the participating secured lenders, the amendment to the senior unsecured credit facility and the warrant agreement with respect to the warrants are qualified in their entirety by reference to Exhibits 10.49b, 10.46d and 10.69, respectively, to this Form 10-K.

On March 16, 2009, we also entered into an agreement to terminate the master repurchase agreement with Goldman Sachs, pursuant to which we satisfied the indebtedness due under the Goldman Sachs secured credit facility. Specifically, we: (i) pre-funded certain required advances of approximately \$2.4 million under one loan in the collateral pool, (ii) paid Goldman Sachs \$2.6 million to effect a full release to us of another loan, and (iii) transferred all of the other assets that served as collateral for Goldman Sachs to Goldman Sachs for a purchase price of \$85.7 million as payment in full for the balance remaining under the secured credit facility. Goldman Sachs agreed to release us from any further obligation under the secured credit facility. The foregoing description is qualified in its entirety by reference to Exhibit 10.47e to this Form 10-K.

Previously, on February 25, 2009, we entered into a satisfaction, termination and release agreement with UBS pursuant to which the parties terminated their right, title, interest in, to and under a master repurchase agreement. We consented to the transfer to UBS, and UBS unconditionally accepted and retained all of our rights, title and interest in a loan financed under the master repurchase agreement in complete satisfaction of all of our obligations, including all amounts due thereunder. The foregoing description is qualified in its entirety by reference to Exhibit 10.71 to this

Form 10-K.

We are currently in negotiations with Lehman Brothers to resolve the \$18.0 million outstanding balance under our secured, recourse credit facility with such firm, which finances a single asset.

#### Senior Unsecured Credit Agreement

On March 16, 2009, we entered into an amended and restated senior unsecured credit agreement governing our \$100.0 million term loan from WestLB AG, New York Branch, participant and administrative agent, Fortis Capital Corp., Wells Fargo Bank, N.A., JPMorgan Chase Bank, N.A., Morgan Stanley Bank, N.A. and Deutsche Bank Trust Company Americas, which we collectively refer to as the senior unsecured lenders. Pursuant to the amended and restated senior unsecured credit agreement, we and the senior unsecured lenders agreed to:

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- Extend the maturity date of the senior unsecured credit agreement to be co-terminus with the maturity date of the secured credit facilities with the participating secured lenders (as they may be further extended until March 16, 2012, as described above);
- Increase the cash interest rate under the senior unsecured credit agreement to LIBOR plus 3.0% per annum (from LIBOR plus 1.75%), plus an accrual rate of 7.20% per annum less the cash interest rate;
- Initiate quarterly amortization equal to the greater of: (i) \$5.0 million per annum and (ii) 25% of the annual cash flow received from our currently unencumbered collateralized debt obligation interests;
- Pledge our unencumbered collateralized debt obligation interests and provide a negative pledge with respect to certain other assets; and
- Replace all existing financial covenants with substantially identical covenants and default provisions to those described above in the participating secured credit facilities.

The foregoing description is qualified in its entirety by reference to the amended and restated credit agreement filed as Exhibit 10.70 to this Form 10-K.

#### Trust Preferred Securities

On March 16, 2009, we reached an agreement with Taberna Preferred Funding V, Ltd., Taberna Preferred Funding VI, Ltd., Taberna Preferred Funding VIII, Ltd. and Taberna Preferred Funding IX, Ltd., or collectively Taberna, to issue new junior subordinated notes in exchange for \$50.0 million face amount of trust preferred securities issued through our statutory trust subsidiary CT Preferred Trust I held by affiliates of Taberna, which we refer to as the Trust I Securities, and \$53.1 million face amount of trust preferred securities issued through our statutory trust subsidiary CT Preferred Trust II held by affiliates of Taberna, which we refer to as the Trust II Securities. We refer to the Trust I Securities and the Trust II Securities together as the Trust Securities. The Trust Securities were backed by and recorded as junior subordinated debentures issued by us with terms that mirror the Trust Securities.

Pursuant to the exchange agreement dated March 16, 2009, by and among us and Taberna, we issued \$118.6 million aggregate principal amount of new junior subordinated notes due on April 30, 2036 (an amount equal to 115% of the current aggregate face amount of the Trust Securities being exchanged). The interest rate payable under the new subordinated notes is 1% per annum from March 16, 2009, through and including April 29, 2012, which we refer to as the modification period. After the modification period, the interest rate will revert to a blended rate equal to that which was previously payable under the notes underlying the Trust Securities, a fixed rate of 7.23% per annum through and including April 29, 2016 and thereafter a floating rate, reset quarterly, equal to three month LIBOR plus 2.44% until maturity. The new junior subordinated notes will be contractually senior to the remaining trust preferred securities, will mature on April 12, 2036 and will be freely redeemable by us at par at any time. The new junior subordinated notes contain a covenant that through April 30, 2012, subject to certain exceptions, we may not declare or pay dividends or distributions on, or redeem, purchase or acquire any of our equity interests (other than remaining trust preferred securities not exchanged) except to the extent necessary to maintain our status as a REIT. Except for the foregoing, the new junior subordinated notes contain substantially similar provisions as the Trust Securities. The foregoing description is qualified in its entirety by reference to the Exchange Agreement filed as Exhibit 10.72 to this Form 10-K.

As part of the agreement with Taberna, we also agreed to pay \$750,000 to cover third party fees and costs incurred in connection with the exchange transaction.

Current Period Financial Statement Impact:

While the restructuring of our debt obligations was finalized subsequent to December 31, 2008 and the amendments to the respective agreements and termination of our facility with UBS were executed in the first quarter of 2009, certain elements of the transaction require us to amend the presentation of certain items in our consolidated financial statements for the fiscal year ended December 31, 2008. Specifically, the aggregate \$140.4 million (face value) of loans sold to Goldman Sachs and UBS have been reclassified under the consolidated balance sheet classification, loans held-for-sale, and a valuation allowance of \$48.3 million, reflecting the difference between the carrying value of the loans and the sale price, was recorded on the consolidated statement of operations.

## Developments during Fiscal Year 2008

During the year ended December 31, 2008, we originated \$553.2 million (on a gross basis) of new investments in 27 separate transactions. Of this total, we closed \$55.0 million directly for our balance sheet and \$498.2 million for our managed funds and accounts, which we refer to as investment management vehicles.

Primarily as a result of principal repayments, our balance sheet portfolio of interest earning assets comprised of loans and CMBS, decreased from \$3.1 billion (160 separate investments) at year end 2007 to \$2.6 billion (150 separate investments) at year end 2008. At year end, we held 73 loans with an aggregate book value of \$1.8 billion and our CMBS portfolio was comprised of 77 bonds with an aggregate book value of \$852 million. In addition to interest earning assets, our balance sheet assets include loans held-for-sale and our equity investments in unconsolidated subsidiaries, primarily comprised of our co-investments in our investment management vehicles.

In 2008, our overall portfolio migrated in the following manner:

- New investments in interest earning assets of \$47.8 million, net of related purchase discounts.
- Total fundings under existing loan commitments of \$89.8 million, which resulted in remaining unfunded loan commitments of \$54.2 million as of year end.
- Total principal payments received on interest earning assets, including receipts from asset sales, of \$420.4 million.
- An aggregate provision for possible credit losses of \$57.6 million was taken against five loans with a total principal balance of \$82.1 million, and a \$10.0 million loan against which we previously recorded a \$4.0 million provision was written-off as uncollectable. In addition, we foreclosed on one loan with a book balance of \$11.9 million and have taken a \$2.0 million impairment on that asset.
- Ratings activity on our CMBS portfolio included a total of 13 securities which received ratings downgrades and 6 securities which received ratings upgrades. We recorded a \$900,000 other-than-temporary impairment on one CMBS investment with a net book value of \$3.5 million.
- Maturity dates were extended on 5 loans with an aggregate principal balance of \$61.8 million.

On the capital raising front, we raised \$125.5 million of new balance sheet equity capital in 2008 through the following transactions:

- In March 2008, we closed a public offering of 4,000,000 shares of class A common stock, from which we received net proceeds of approximately \$112.6 million.
- During 2008, we issued 488,563 shares of class A common stock under our dividend reinvestment and direct stock purchase plans, from which we received net proceeds of approximately \$12.9 million.

In 2008, we renewed or obtained new financing commitments as follows:

- In March 2008, we exercised the term-out option under our senior unsecured credit facility with WestLB, extending the maturity date of the \$100 million principal balance outstanding for one year as a non-revolving term loan.
  - In May 2008, we entered into a new \$18.0 million loan and security agreement with Lehman Brothers.
  -

In June 2008, we amended our master repurchase agreements with the former Bear Stearns entities by extending the termination date of each obligation to October 2008.

- In July 2008, we extended the availability period under our \$250.0 million master repurchase agreement with Citigroup to July 2009.
- In July 2008, we extended the purchase period of our \$300.0 million master repurchase agreement with Morgan Stanley to July 2009.
- In October 2008, we combined the JP Morgan and Bear Stearns repurchase facilities and extended the resultant \$355 million facility for two years.

As described above, in 2008, we continued to expand our investment management business by raising a new private equity vehicle, CT High Grade Partners II, LLC, or CT High Grade II, and obtaining additional equity commitments in our other actively investing vehicle, CT Opportunity Partners I, LP., or CTOPI. During 2008, excluding incentive management fees, revenues from our investment management business grew to \$12.9 million, an increase of 270% from 2007 levels.

- CT High Grade II held its initial closing in June 2008 with \$667 million of commitments from two institutional investors. The fund targets senior debt opportunities in the commercial real estate debt sector and does not employ leverage. We earn a 0.40% per annum management fee on invested capital.
- CTOPI is a multi-investor private equity fund designed to invest in commercial real estate debt and equity, specifically taking advantage of the current dislocation in the commercial real estate capital markets. On July 14, 2008, CTOPI held its final closing completing its capital raise with \$540 million of total equity commitments. We have committed to invest \$25 million in the vehicle and entities controlled by our chairman have committed to invest \$20 million. The fund's investment period expires in December 2010, and we earn base management fees as the investment manager to CTOPI (equal to 1.60% per annum of total equity commitments during the investment period and of invested capital thereafter). In addition, we earn gross incentive management fees of 20% of profits after a 9% preferred return and a 100% return of capital.
- CT High Grade Mezzanine<sup>SM</sup> closed in November 2006, with a single, related party investor committing \$250 million. This separate account targets lower risk subordinate debt investments and does not utilize leverage and we earn management fees of 0.25% per annum on invested assets. In July 2007, we upsized the account by \$100 million to \$350 million and extended the investment period to July 2008.
- CT Large Loan 2006, Inc. closed in May 2006 with total equity commitments of \$325 million from eight third party investors. The fund employs leverage and we earn management fees of 0.75% per annum of invested assets (capped at 1.5% on invested equity). The investment period ended in May 2008.
- CTX Fund I, L.P., or CTX Fund, is a single investor fund designed to invest in collateralized debt obligations, or CDOs, sponsored, but not issued, by us. We do not earn fees on the CTX Fund, however, we earn CDO management fees from the CDOs in which the CTX Fund invests. We sponsored one such CDO in 2007, a \$500 million CDO secured primarily by credit default swaps referencing CMBS.
- CT Mezzanine Partners III, Inc., or Fund III, is a vehicle we co-sponsored with a joint venture partner that had an investment period that ran from 2003 to 2005. The fund is currently liquidating in the ordinary course. We have a co-investment in the fund, earn 100% of base management fees and we split incentive management fees with our partner, who receives 37.5% of Fund III's incentive management fees.

## Platform

Our platform consists of 33 full time professionals with extensive real estate credit, capital markets and structured finance expertise. Our senior management team has, on average, over 20 years of industry experience. Founded in 1997, our business has been built on long-standing relationships with borrowers, brokers and our origination partners. This extensive network produces a pipeline of investment opportunities from which we select only those transactions that we believe exhibit a compelling risk/return profile. Once a transaction that meets our parameters is identified, we apply a disciplined process founded on four elements:

- intense credit underwriting;
- creative financial structuring;
- efficient capitalization; and
- aggressive asset management.

The first element, and the foundation of our platform, is our credit underwriting. For each prospective investment, an in-house underwriting team is assigned to perform an intense ground-up analysis of all aspects of credit risk. Our underwriting process is embodied in our proprietary credit policies and procedures that detail the due diligence steps from initial client contact through closing. We have developed the capability to apply this methodology to a high volume of investment opportunities, including CMBS transactions with a large number of underlying loans, through the combination of personnel, procedures and technology. On all levels, input is received from our finance, capital markets, credit and legal teams, as well as from various third parties, including our credit providers.

Creative financial structuring is the second critical element. In our direct investment programs, we strive to design a customized structure for each investment that provides us with the necessary credit, yield and protective structural features while meeting the varying, and often complex, needs of our clients. We believe our demonstrated ability to structure creative solutions gives us a distinct competitive advantage in the marketplace. In the structured products arena, our broad capital markets expertise enables us to better analyze the risks and opportunities embedded in complex vehicles such as CMBS and synthetic securities.

Efficient capitalization is the third integral element of our platform. We utilize multiple debt and equity products to capitalize our balance sheet and investment management business. As such, we seek to maintain adequate liquidity to defend the balance sheet and investment management vehicles against reasonable capital market and real estate market volatility.

The final element of our platform is aggressive asset management. We pride ourselves on our active style of managing our portfolios. From the closing of an investment through its final repayment, our dedicated asset management team is in constant contact with our borrowers and servicers, monitoring performance of our collateral and enforcing our rights as necessary. We are rated/approved as a special servicer by all three rating agencies, allowing us to exercise a substantial level of control in certain structured transactions, such as CMBS.

## Business Model

As depicted below, our business model is designed to produce a unique mix of net interest income from our balance sheet investments and fee income from our investment management operations.

We operate our business to qualify as a REIT for federal income tax purposes. We manage our balance sheet investments to produce a portfolio that meets the asset and income tests necessary to maintain our REIT qualification and conduct our investment management business through our wholly-owned subsidiary, CT Investment Management Co., LLC, which is subject to federal, state and city income tax.

#### Investment Strategies

Since 1997, our investment programs have focused on various strategies designed to take advantage of opportunities that have developed in the commercial real estate finance sector.

Depending on our assessment of relative value, our real estate investments may take a variety of forms including, but not limited to:

- **Mortgage Loans**—These are secured property loans evidenced by a first mortgage which is senior to any mezzanine financing and the owner's equity. These loans may finance stabilized properties, may serve as bridge loans providing required interim financing to property owners or may provide construction and development financing. Our mortgage loans vary in duration and typically require a balloon payment of principal at maturity. These investments may include pari passu participations in mortgage loans. We may also originate and fund first mortgage loans in which we intend to sell the senior tranche, thereby creating what we refer to as a subordinate mortgage interest.
- **Subordinate Mortgage Interests**—Sometimes known as B Notes, these are loans evidenced by a junior participation in a first mortgage, with the senior participation known as an A Note. Although sometimes evidenced by its own promissory note, subordinate mortgage interests have the same borrower and benefit from the same underlying obligation and collateral as the A Note lender. The subordinate mortgage interest is subordinated to the A Note by virtue of a contractual arrangement between the A Note lender and the subordinate mortgage interest lender and in most instances is contractually limited in rights and remedies in the case of default. In some cases, there may be multiple senior and/or junior interests in a single mortgage loan.

- **Mezzanine Loans**—These include both property and corporate mezzanine loans. Property mezzanine loans are secured property loans that are subordinate to a first mortgage loan, but senior to the owner’s equity. A mezzanine property loan is evidenced by its own promissory note and is typically made to the owner of the property-owning entity, which is typically the first mortgage borrower. It is not secured by a mortgage on the property, but by a pledge of the borrower’s ownership interest in the property-owning entity. Subject to negotiated contractual restrictions, the mezzanine lender generally has the right, following foreclosure, to become the owner of the property, subject to the lien of the first mortgage. Corporate mezzanine loans, on the other hand, are investments in or loans to real estate related operating companies, including REITs. Such investments may take the form of secured debt, preferred stock and other hybrid instruments such as convertible debt. Corporate mezzanine loans may finance, among other things, operations, mergers and acquisitions, management buy-outs, recapitalizations, start-ups and stock buy-backs generally involving real estate and real estate related entities.
- **CMBS**—These are securities collateralized by pools of individual first mortgage loans. Cash flows from the underlying mortgages are aggregated and allocated to the different classes of securities in accordance with their seniority, typically ranging from the AAA rated through the unrated, first loss tranche. Administration and servicing of the pool is performed by a trustee and servicers, who act on behalf of all security holders in accordance with contractual agreements. Our investments generally represent the subordinated tranches in these pools ranging from the BBB rated through the unrated class. When practical, we are designated the special servicer for the CMBS trusts in which we have appropriate ownership interests, enabling us to control the resolution of matters which require lender approval. We also include select investments in CDOs in this category.

#### Business Plan

Our near term business strategy is to continue to manage our balance sheet investments and existing investment management vehicles through the current volatile market, though our balance sheet investment activities cannot resume until we have retired or refinanced the existing restructured obligations due our lenders. At the same time, we expect to grow our investment management business and capitalize on new opportunities in the marketplace.

#### Competition

We are engaged in a competitive business. In our investment activities, we compete for opportunities with numerous public and private investment vehicles, including financial institutions, specialty finance companies, mortgage banks, pension funds, opportunity funds, hedge funds, REITs and other institutional investors, as well as individuals. Many competitors are significantly larger than us, have well established operating histories and may have greater access to capital, more resources and other advantages over us. These competitors may be willing to accept lower returns on their investments or to compromise underwriting standards and, as a result, our origination volume and profit margins could be adversely affected. In our investment management business, we compete with other investment management companies in attracting third party capital for our vehicles and many of our competitors are well established, possessing substantially greater financial, marketing and other resources.

#### Government Regulation

Our activities in the United States, including the financing of our operations, are subject to a variety of federal and state regulations. In addition, a majority of states have ceilings on interest rates chargeable to certain customers in financing transactions. Furthermore, our international activities are also subject to local regulations.

## Employees

As of December 31, 2008, we had 33 full-time employees. Our staff is employed under a co-employment agreement with a third party human resources firm, Ambrose Employer Group, LLC. In addition, our chief operating officer and chief financial officer are employed under employment contracts. None of our employees are covered by a collective bargaining agreement and management considers the relationship with our employees to be good. In addition to our staff in New York, we contract for the services of an additional 15 dedicated professionals employed by a commercial real estate underwriting services firm in Chennai, India.

## Code of Business Conduct and Ethics and Corporate Governance Documents

We have adopted a code of business conduct and ethics that applies to all of our employees and our board of directors, including our principal executive officer and principal financial and accounting officer. This code of business conduct and ethics is designed to comply with SEC regulations and New York Stock Exchange corporate governance rules related to codes of conduct and ethics and is posted on our corporate website at <http://www.capitaltrust.com>. In addition, our corporate governance guidelines and charters for our audit, compensation and corporate governance committees of the board of directors are also posted on our corporate website. Copies of our code of business conduct and ethics, our corporate governance guidelines and our committee charters are also available free of charge, upon request directed to Investor Relations, Capital Trust, Inc., 410 Park Avenue, 14th Floor, New York, NY 10022.

## Website Access to Reports

We maintain a website at <http://www.capitaltrust.com>. Through our website, we make available, free of charge, our annual proxy statement, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish them to, the SEC. The SEC maintains a website that contains these reports at <http://www.sec.gov>.

Item 1A.

Risk Factors

FORWARD LOOKING INFORMATION

Our Annual Report on Form 10-K for the year ended December 31, 2008, our 2008 Annual Report to Shareholders, any of our Quarterly Reports on Form 10-Q or Current Reports on Form 8-K of the Company, or any other oral or written statements made in press releases or otherwise by or on behalf of Capital Trust, Inc., may contain forward looking statements within the meaning of the Section 21E of the Securities and Exchange Act of 1934, as amended, which involve certain risks and uncertainties. Forward looking statements predict or describe our future operations, business plans, business and investment strategies and portfolio management and the performance of our investments and our investment management business. These forward looking statements are identified by their use of such terms and phrases as “intends,” “intend,” “intended,” “goal,” “estimate,” “estimates,” “expects,” “expect,” “expected,” “project,” “projections,” “plans,” “seeks,” “anticipates,” “anticipated,” “should,” “could,” “may,” “will,” “designed to,” “foreseeable,” “believes” and “scheduled” and similar expressions. Our actual results or outcomes may differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statement was made. We assume no obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

Our actual results may differ significantly from any results expressed or implied by these forward looking statements. Some, but not all, of the factors that might cause such a difference include, but are not limited to:

- the effects of the recent turmoil in the financial markets and general economic recession upon our ability to invest and manage our investments;
- the general political, economic and competitive conditions in the United States and foreign jurisdictions where we invest;
- the level and volatility of prevailing interest rates and credit spreads, magnified by the current turmoil in the credit markets;
  - adverse changes in the real estate and real estate capital markets;
  - difficulty in obtaining financing or raising capital, especially in the current constrained financial markets;
- the deterioration of performance and thereby credit quality of property securing our investments, borrowers and, in general, the risks associated with the ownership and operation of real estate that may cause cash flow deterioration to us and potentially principal losses on our investments;
- a compression of the yield on our investments and the cost of our liabilities, as well as the level of leverage available to us;
- adverse developments in the availability of desirable loan and investment opportunities whether they are due to competition, regulation or otherwise;
- events, contemplated or otherwise, such as natural disasters including hurricanes and earthquakes, acts of war and/or terrorism (such as the events of September 11, 2001) and others that may cause unanticipated and uninsured performance declines and/or losses to us or the owners and operators of the real estate securing our investment;
- the cost of operating our platform, including, but not limited to, the cost of operating a real estate investment platform and the cost of operating as a publicly traded company;

- authoritative generally accepted accounting principles or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, the Securities and Exchange Commission, Internal Revenue Service, the New York Stock Exchange, and other authorities that we are subject to, as well as their counterparts in any foreign jurisdictions where we might do business; and

- the risk factors set forth below, including those related to the restructuring of our debt obligations.

## Risks Related to Our Investment Activities

Our efforts to stabilize our business with the restructuring of our debt obligations may not be successful as our balance sheet portfolio is subject to the risk of further deterioration and ongoing turmoil in the financial markets.

We have previously invested on a leveraged basis, which magnifies the consequences of a deterioration in the performance of our portfolio of investments. Even with the restructuring of our debt obligations, we may not be able to satisfy our obligations to our lenders and maintain the stability we intend from our restructuring. The impact of the economic recession on the commercial real estate sector in general, and our portfolio in particular, cannot be predicted and we expect to experience defaults by borrowers and other impairments to our investments. These events may trigger defaults under our restructured debt obligations that may result in the exercise of remedies that cause severe losses in the book value of our investments. Therefore, an investment in our class A common stock is subject to a high degree of risk.

Our restructured debt obligations with our lenders prohibit new balance sheet investment activities, which prevents us from growing our balance sheet portfolio.

Following a series of negotiations that were precipitated by our decision to conserve our cash resources and not meet further margin calls made by our secured lenders, we have restructured our debt obligations with our participating secured and unsecured lenders, a development that has consequences to our business. Under the terms of the restructured debt obligations, we are prohibited from acquiring or originating new investments. This restriction precludes us from growing our balance sheet portfolio at a time when investment opportunities that provide attractive risk-adjusted returns may otherwise be available to us. Our interest earning investments will continue to be reduced which will negatively impact our net investment income. There can be no assurance that we will be able to retire completely or refinance our restructured debt obligations so that we can resume our balance sheet investment activities.

Our liquidity will be impacted by our restructured debt obligations.

Our restructured debt obligations further reduce our current liquidity as a result of up front payments and ongoing required amortization and additional interest payments. The reduction in liquidity may impair our ability to meet our obligations and, given the covenants contained in our restructured debt obligations, our ability to improve our liquidity position will be constrained. In addition, we must maintain a minimum of \$7.0 million in liquidity during 2009 and \$5.0 million thereafter, a requirement that may limit our ability to make commitments to investment management vehicles and, ultimately, that we may not be able to achieve.

The U.S. and other financial markets have been in turmoil and the U.S. and other economies in which we operate are in the midst of an economic recession which can be expected to negatively impact our operations.

The U.S. and other financial markets have been experiencing extreme dislocations and a severe contraction in available liquidity globally as important segments of the credit markets are frozen as lenders are unwilling or unable to originate new credit. Global financial markets have been disrupted by, among other things, volatility in security prices, credit rating downgrades, the failure and near failure of a number of large financial institutions and declining valuations, and this disruption has been acute in real estate related markets. This disruption has led to a decline in business and consumer confidence and increased unemployment and has precipitated an economic recession around the globe. As a consequence, owners and operators of commercial real estate that secure or back our investment may experience distress and real estate values in the U.S. or elsewhere may decline. We are unable to predict the likely duration or severity of the current disruption in financial markets and adverse economic conditions which could materially and adversely affect our business, financial condition and results of operations, including leading to significant impairment to our assets and our ability to generate income.



Our existing loans and investments expose us to a high degree of risk associated with investing in real estate assets.

Real estate historically has experienced significant fluctuations and cycles in performance that may result in reductions in the value of our real estate related investments. The performance and value of our loans and investments once originated or acquired by us depends upon many factors beyond our control. The ultimate performance and value of our investments is subject to the varying degrees of risk generally incident to the ownership and operation of the properties which collateralize or support our investments. The ultimate performance and value of our loans and investments depends upon, in large part, the commercial property owner's ability to operate the property so that it produces sufficient cash flows necessary either to pay the interest and principal due to us on our loans and investments or pay us as an equity advisor. Revenues and cash flows may be adversely affected by:

- changes in national economic conditions;
- changes in local real estate market conditions due to changes in national or local economic conditions or changes in local property market characteristics;
- the extent of the impact of the current turmoil in the financial markets, including the lack of available debt financing for commercial real estate;
  - tenant bankruptcies;
  - competition from other properties offering the same or similar services;
  - changes in interest rates and in the state of the debt and equity capital markets;
  - the ongoing need for capital improvements, particularly in older building structures;
  - changes in real estate tax rates and other operating expenses;
- adverse changes in governmental rules and fiscal policies, civil unrest, acts of God, including earthquakes, hurricanes and other natural disasters, and acts of war or terrorism, which may decrease the availability of or increase the cost of insurance or result in uninsured losses;
  - adverse changes in zoning laws;
  - the impact of present or future environmental legislation and compliance with environmental laws;
- the impact of lawsuits which could cause us to incur significant legal expenses and divert management's time and attention from our day-to-day operations; and
  - other factors that are beyond our control and the control of the commercial property owners.

In the event that any of the properties underlying or collateralizing our loans or investments experiences any of the foregoing events or occurrences, the value of, and return on, such investments, our profitability and the market price of our class A common stock would be negatively impacted. In addition, our restructured debt obligations contain covenants which limit the amount of protective investments we may make to preserve value in collateral securing our investments.

A prolonged economic slowdown, a lengthy or severe recession, a credit crisis, or declining real estate values could harm our operations or may adversely affect our liquidity.

We believe the risks associated with our business are more severe during periods of economic slowdown or recession like those we are currently experiencing, particularly if these periods are accompanied by declining real estate values. The recent dislocation of the global credit markets and anticipated collateral consequences to commercial activity of businesses unable to finance their operations as required may lead to a weakening of general economic conditions and precipitate declines in real estate values and otherwise exacerbate troubled borrowers' ability to repay loans in our portfolio or backing our CMBS. Declining real estate values would likely reduce the level of new mortgage loan originations, since borrowers often use increases in the value of their existing properties to support the purchase of or investment in additional properties, which in turn could lead to fewer opportunities for our investment. Borrowers may also be less able to pay principal and interest on our loans as the real estate economy weakens. Continued weakened economic conditions could negatively affect occupancy levels and rental rates in the markets in which the collateral supporting our investments are located, which, in turn, may have a material adverse impact on our cash flows and operating results of our borrowers. Further, declining real estate values significantly increase the likelihood that we will incur losses on our loans in the event of default because the value of our collateral may be insufficient to cover our basis in the loan. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both our net interest income from loans in our portfolio as well as our ability to operate our investment management business, which would significantly harm our revenues, results of operations, financial condition, liquidity, business prospects and our share price.

We are exposed to the risks involved with making subordinated investments.

Our subordinated investments involve the risks attendant to investments consisting of subordinated loans and similar positions. In many cases, management of our investments and our remedies with respect thereto, including the ability to foreclose on or direct decisions with respect to the collateral securing such investments, is subject to the rights of senior lenders and the rights set forth in inter-creditor or servicing agreements. Our interests and those of the senior lenders and other interested parties may not be aligned.

We may not be able to obtain the level of leverage necessary to optimize or achieve our target rate of returns.

Our return on investment depends, in part, upon our ability to grow our balance sheet portfolio of invested assets and those of our investment management vehicles through the use of leverage at a cost of debt that is lower than the yield earned on our investments. Under the terms of the restructured debt obligations, we are required to cease our balance sheet investment activities and may not incur any further indebtedness unless used to retire the debt due our lenders. As a result, we are precluded from carrying out our historical leveraged investment strategy for our balance sheet.

We have historically obtained leverage through the issuance of CDOs, repurchase agreements and other borrowings. Our failure to obtain and/or maintain leverage at desired levels, or to obtain leverage on attractive terms, would have an adverse effect on our performance or that of our investment management vehicles. Moreover, we are dependent upon a limited universe of lenders to provide financing under repurchase agreements, and there can be no assurance that these agreements will be renewed or extended at expiration. Our ability to obtain financing through the CDO market, which has been closed since 2007, is subject to conditions in the financial markets which are impacted by factors beyond our control that may at times be adverse and reduce the level of investor demand for such securities. In particular, recent turmoil in the credit markets has severely impeded the ability of borrowers, even well capitalized borrowers, to obtain credit from lenders operating in virtually frozen credit markets, and it can be expected that this development will negatively impact our ability to finance our assets. At this time, we are unable to refinance our restructured debt obligations with our lenders. There can be no assurance that U.S. and non-U.S. government efforts to improve conditions in the credit markets will be successful in the short term or at all, and the amount of leverage available from our investment management vehicles' lenders may be significantly reduced or, in certain cases, even

eliminated.

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We are obligated to fund unfunded commitments under our loan agreements.

We are required to fund unfunded obligations to our borrowers. Historically, prior to our restructuring, we relied upon our lenders to fund a portion of these commitments. Going forward, we can rely only on our immediately available liquidity to meet these commitments. If we do not have the liquidity in excess of the minimum amounts required under our restructured debt obligations, and the lenders do not consent to our obtaining additional financing, if available, we would default on these commitments and potentially lose value in these investments and expose ourselves to litigation.

We are subject to counterparty risk associated with our debt obligations and interest rate swaps.

Our counterparties for these critical financial relationships include both domestic and international financial institutions. Many of them have been severely impacted by the credit market turmoil and have been experiencing financial pressures. In some cases, our counterparties have filed bankruptcy.

We are subject to the general risk of a leveraged investment strategy and the specific risks of our restructured indebtedness.

Our restructured secured debt obligations are secured by our investments, which are subject to being revalued by our credit providers. If the value of the underlying property collateralizing our investments declines, we may be required to liquidate our investments, the impact of which could be magnified if such a liquidation is at a commercially inopportune time, such as the market environment we are currently experiencing. In addition, the occurrence of any event or condition which causes any obligation or liability of more than \$1.0 million to become due prior to its scheduled maturity or any monetary default under our restructured debt obligations if the amount of such obligation is at least \$1.0 million could constitute a cross-default under our restructured debt obligations. If a cross-default occurs, the maturity of almost all of our indebtedness could be accelerated and become immediately due and payable.

We may guarantee some of our leverage and contingent obligations.

We guarantee the performance of our obligations, including, but not limited to, our repurchase agreements, derivative agreements, obligations to co-invest in our investment management vehicles and unsecured indebtedness. The non-performance of such obligations may cause losses to us in excess of the capital we initially may have invested or committed under such obligations and there is no assurance that we will have sufficient capital to cover any such losses.

Our secured and unsecured credit agreements may impose restrictions on our operation of the business.

Under our secured and unsecured indebtedness, such as our credit and derivative agreements, we make certain representations, warranties and affirmative and negative covenants that restrict our ability to operate while still utilizing those sources of credit. Currently, our restructured debt obligations prohibit us from acquiring or originating new balance sheet investments except, subject to certain limitations, co-investments in our investment management vehicles or protective investments to defend existing collateral assets on our balance sheet, and from incurring additional indebtedness unless used to pay down such obligations. In addition, such representations, warranties and covenants include, but are not limited to covenants which:

- limit the total cash compensation to all employees and, specifically with respect to our chief executive officer, chief operating officer and chief financial officer, freeze their base salaries at 2008 levels, and require cash bonuses to any of them to be approved by a committee comprised of one representative designated by the secured lenders, the administrative agent under the senior unsecured credit facility and the chairman of our board of directors;

- prohibit the payment of cash dividends to our common shareholders except to the minimum extent necessary to maintain our REIT status;

- require us to maintain a minimum amount of liquidity, as defined, of \$7.0 million in 2009 and \$5.0 million thereafter;
- trigger an event of default if both our chief executive officer and chief operating officer cease their current employment with us during the term of the agreement and we fail to hire a replacement acceptable to the lenders; and
- trigger an event of default, if any event or condition occurs which causes any obligation or liability of more than \$1.0 million to become due prior to its scheduled maturity or any monetary default under our restructured debt obligations if the amount of such obligation is at least \$1.0 million.

Our success depends on the availability of attractive investments and our ability to identify, structure, consummate, leverage, manage and realize returns on attractive investments.

Our operating results are dependent upon the availability of, as well as our ability to identify, structure, consummate, leverage, manage and realize returns on, credit sensitive investment opportunities for our managed vehicles and our balance sheet assuming we are able to resume balance sheet investment activity. In general, the availability of desirable investment opportunities and, consequently, our balance sheet returns and our investment management vehicles' returns, will be affected by the level and volatility of interest rates, conditions in the financial markets, general economic conditions, the demand for credit sensitive investment opportunities and the supply of capital for such investment opportunities. We cannot make any assurances that we will be successful in identifying and consummating investments which satisfy our rate of return objectives or that such investments, once consummated, will perform as anticipated. In addition, if we are not successful in investing for our investment management vehicles, the potential revenues we earn from management fees and co-investment returns will be reduced. We may expend significant time and resources in identifying and pursuing targeted investments, some of which may not be consummated.

The real estate investment business is highly competitive. Our success depends on our ability to compete with other providers of capital for real estate investments.

Our business is highly competitive. Competition may cause us to accept economic or structural features in our investments that we would not have otherwise accepted and it may cause us to search for investments in markets outside of our traditional product expertise. We compete for attractive investments with traditional lending sources, such as insurance companies and banks, as well as other REITs, specialty finance companies and private equity vehicles with similar investment objectives, which may make it more difficult for us to consummate our target investments. Many of our competitors have greater financial resources and lower costs of capital than we do, which provides them with greater operating flexibility and a competitive advantage relative to us.

Our loans and investments may be subject to fluctuations in interest rates which may not be adequately protected, or protected at all, by our hedging strategies.

Our current balance sheet investments include loans with both floating interest rates and fixed interest rates. Floating rate investments earn interest at rates that adjust from time to time (typically monthly) based upon an index (typically one month LIBOR). These floating rate loans are insulated from changes in value specifically due to changes in interest rates, however, the coupons they earn fluctuate based upon interest rates (again, typically one month LIBOR) and, in a declining and/or low interest rate environment, these loans will earn lower rates of interest and this will impact our operating performance. Fixed interest rate investments, however, do not have adjusting interest rates and, as prevailing interest rates change, the relative value of the fixed cash flows from these investments will cause potentially significant changes in value. We may employ various hedging strategies to limit the effects of changes in interest rates (and in some cases credit spreads), including engaging in interest rate swaps, caps, floors and other

interest rate derivative products. We believe that no strategy can completely insulate us or our investment management vehicles from the risks associated with interest rate changes and there is a risk that they may provide no protection at all and potentially compound the impact of changes in interest rates. Hedging transactions involve certain additional risks such as counterparty risk, the legal enforceability of hedging contracts, the early repayment of hedged transactions and the risk that unanticipated and significant changes in interest rates may cause a significant loss of basis in the contract and a change in current period expense. We cannot make assurances that we will be able to enter into hedging transactions or that such hedging transactions will adequately protect us or our investment management vehicles against the foregoing risks.

Accounting for derivatives under GAAP is extremely complicated. Any failure by us to account for our derivatives properly in accordance with GAAP in our consolidated financial statements could adversely affect our earnings. In particular, cash flow hedges which are not perfectly correlated (and appropriately designated and/or documented as such) with a variable rate financing will impact our reported income as gains, and losses on the ineffective portion of such hedges.

Our use of leverage may create a mismatch with the duration and index of the investments that we are financing.

We attempt to structure our leverage to minimize the difference between the term of our investments and the leverage we use to finance such an investment. In the event that our leverage is shorter term than the financed investment, we may not be able to extend or find appropriate replacement leverage. In the event that our leverage is longer term than the financed investment, we may not be able to repay such leverage or replace the financed investment with an optimal substitute or at all, which will negatively impact our desired leveraged returns. Our attempts to mitigate such risk are subject to factors outside of our control, such as the availability to us of favorable financing and hedging options, which is subject to a variety of factors, of which duration and term matching are only two such factors.

Our loans and investments are illiquid, which will constrain our ability to vary our portfolio of investments.

Our real estate investments and structured financial product investments are relatively illiquid and some are highly illiquid. Such illiquidity may limit our ability to vary our portfolio or our investment management vehicles' portfolios of investments in response to changes in economic and other conditions. Illiquidity may result from the absence of an established market for investments as well as the legal or contractual restrictions on their resale. In addition, illiquidity may result from the decline in value of a property securing these investments. We cannot make assurances that the fair market value of any of the real property serving as security will not decrease in the future, leaving our or our investment management vehicles' investments under-collateralized or not collateralized at all, which could impair the liquidity and value, as well as our return on such investments.

We may not have control over certain of our loans and investments.

Our ability to manage our portfolio of loans and investments may be limited by the form in which they are made. In certain situations, we or our investment management vehicles may:

- acquire investments subject to rights of senior classes and servicers under inter-creditor or servicing agreements;
- acquire only a participation in an underlying investment;
- co-invest with third parties through partnerships, joint ventures or other entities, thereby acquiring non-controlling interests; or
- rely on independent third party management or strategic partners with respect to the management of an asset.

Therefore, we may not be able to exercise control over the loan or investment. Such financial assets may involve risks not present in investments where senior creditors, servicers or third party controlling investors are not involved. Our rights to control the process following a borrower default may be subject to the rights of senior creditors or servicers whose interests may not be aligned with ours. A third party partner or co-venturer may have financial difficulties resulting in a negative impact on such asset, may have economic or business interests or goals which are inconsistent with ours and those of our investment management vehicles, or may be in a position to take action contrary to our or our investment management vehicles' investment objectives. In addition, we and our investment management vehicles may, in certain circumstances, be liable for the actions of our third party partners or co-venturers.

We may not achieve our targeted rate of return on our investments.

We originate or acquire investments based on our estimates or projections of overall rates of return on such investments, which in turn are based upon, among other considerations, assumptions regarding the performance of assets, the amount and terms of available financing to obtain desired leverage and the manner and timing of dispositions, including possible asset recovery and remediation strategies, all of which are subject to significant uncertainty. In addition, events or conditions that we have not anticipated may occur, such as the recent volatility of the financial markets, and may have a significant effect on the actual rate of return received on an investment.

As we acquire or originate investments when permitted for our balance sheet portfolio, whether as new additions or as replacements for maturing investments, there can be no assurance that we will be able to originate or acquire investments that produce rates of return comparable to rates on our existing investments.

Investor demand for commercial real estate CDOs has been effectively eliminated.

In recent years, we have relied to a substantial extent on CDO financings to obtain match funded financing for our investments. Until the market for commercial real estate CDOs recovers, we may be unable to utilize CDOs to finance our investments and we may need to utilize less favorable sources of financing to finance our investments on a long-term basis. There can be no assurance as to when demand for commercial real estate CDOs will return or the terms of such securities investors will demand or whether we will be able to issue CDOs to finance our investments on terms beneficial to us.

We may not be able to find suitable replacement investments for CDOs with reinvestment periods.

Some of our CDOs have periods where principal proceeds received from assets securing the CDO can be reinvested only for a defined period of time, commonly referred to as a reinvestment period. Our ability to find suitable investments during the reinvestment period that meet the criteria set forth in the CDO documentation and by rating agencies may determine the success of our CDO investments. Our potential inability to find suitable investments may cause, among other things, lower returns, interest deficiencies, hyper-amortization of the senior CDO liabilities and may cause us to reduce the life of our CDOs and accelerate the amortization of certain fees and expenses.

The use of CDO financings may have a negative impact on our cash flow.

The terms of CDOs generally provide that the principal amount of investments must exceed the principal balance of the related bonds by a certain amount and that interest income exceeds interest expense by a certain amount. Certain of our CDOs provide that, if defaults, losses, or rating agency downgrades cause a decline in collateral value or cash flow levels, the cash flow otherwise payable to our retained subordinated classes may be redirected to repay classes of CDOs senior to ours until the tests are brought in compliance. In certain instances, we have breached these tests and cash flow has been redirected and there can be no assurances that this will not occur on all of our CDOs. Once breached there is no certainty about when or if the cash flow redirection will remedy the tests' failure or that cash flow will be restored to our subordinated classes.

We may be required to repurchase loans that we have sold or to indemnify holders of our CDOs.

If any of the loans we originate or acquire and sell or securitize through CDOs do not comply with representations and warranties that we make about certain characteristics of the loans, the borrowers and the underlying properties, we may be required to repurchase those loans or replace them with substitute loans. In addition, in the case of loans that we have sold instead of retained, we may be required to indemnify persons for losses or expenses incurred as a result of a breach of a representation or warranty. Repurchased loans typically require a significant allocation of working capital to carry on our books, and our ability to borrow against such assets is limited. Any significant repurchases or indemnification payments could adversely affect our financial condition and operating results.

The commercial mortgage and mezzanine loans we originate or acquire and the commercial mortgage loans underlying the commercial mortgage backed securities in which we invest are subject to delinquency, foreclosure and loss, which could result in losses to us.

Our commercial mortgage and mezzanine loans are secured by commercial property and are subject to risks of delinquency and foreclosure, and risks of loss that are greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of the property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be affected by, among other things, tenant mix, success of tenant businesses, property management decisions, property location and condition, competition from comparable types of properties, changes in laws that increase operating expenses or limit rents that may be charged, any need to address environmental contamination at the property, changes in national, regional or local economic conditions and/or specific industry segments, declines in regional or local real estate values, declines in regional or local rental or occupancy rates, increases in interest rates, real estate tax rates and other operating expenses, and changes in governmental rules, regulations and fiscal policies, including environmental legislation, acts of God, terrorism, social unrest and civil disturbances.

Our investments in subordinated commercial mortgage backed securities and similar investments are subject to losses.

In general, losses on an asset securing a mortgage loan included in a securitization will be borne first by the equity holder of the property and then by the most junior security holder, referred to as the "first loss" position. In the event of default and the exhaustion of any equity support and any classes of securities junior to those in which we invest (and in some cases we may be invested in the junior most classes of securitizations), we may not be able to recover all of our investment in the securities we purchase. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral is available to satisfy interest and principal payments due on the related mortgage backed securities, the securities in which we invest may incur significant losses. Subordinate interests generally are not actively traded and are relatively illiquid investments and recent volatility in CMBS trading markets has caused the value of these investments to decline.

The prices of lower credit quality CMBS are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns and underlying borrower developments. A projection of an economic downturn, for example, could cause a decline in the price of lower credit quality CMBS because the ability of borrowers to make principal and interest payments on the mortgages underlying the mortgage backed securities may be impaired. In such event, existing credit support in the securitization structure may be insufficient to protect us against the loss of our principal on these securities.

We may have difficulty or be unable to sell some of our loans and commercial mortgage backed securities.

A prolonged period of frozen capital markets and an out of favor real estate sector may prevent us from selling our loans and CMBS. Given the terms of our recent restructuring, we may be forced to sell assets in order to meet required debt reduction levels. If the market for real estate loans and CMBS remains in its current state, this may be difficult or impossible, causing further losses or events of default.

The impact of the events of September 11, 2001 and the effect thereon on terrorism insurance expose us to certain risks.

The terrorist attacks on September 11, 2001 disrupted the U.S. financial markets, including the real estate capital markets, and negatively impacted the U.S. economy in general. Any future terrorist attacks, the anticipation of any such attacks, and the consequences of any military or other response by the U.S. and its allies may have a further

adverse impact on the U.S. financial markets and the economy generally. We cannot predict the severity of the effect that such future events would have on the U.S. financial markets, the economy or our business.

In addition, the events of September 11, 2001 created significant uncertainty regarding the ability of real estate owners of high profile assets to obtain insurance coverage protecting against terrorist attacks at commercially reasonable rates, if at all. The Terrorism Risk Insurance Act of 2002, or TRIA, was extended in December 2007. Coverage under the new law, the Terrorism Risk Insurance Program Reauthorization Act, or TRIPRA, now expires in 2014. There is no assurance that TRIPRA will be extended beyond 2014. The absence of affordable insurance coverage may adversely affect the general real estate lending market, lending volume and the market's overall liquidity and may reduce the number of suitable investment opportunities available to us and the pace at which we are able to make investments. If the properties that we invest in are unable to obtain affordable insurance coverage, the value of those investments could decline and in the event of an uninsured loss, we could lose all or a portion of our investment.

The economic impact of any future terrorist attacks could also adversely affect the credit quality of some of our loans and investments. Some of our loans and investments will be more susceptible to such adverse effects than others. We may suffer losses as a result of the adverse impact of any future attacks and these losses may adversely impact our results of operations.

Our non-U.S. investments will expose us to certain risks.

We make investments in foreign countries. Investing in foreign countries involves certain additional risks that may not exist when investing in the United States. The risks involved in foreign investments include:

- exposure to local economic conditions, local interest rates, foreign exchange restrictions and restrictions on the withdrawal of foreign investment and earnings, investment restrictions or requirements, expropriations of property and changes in foreign taxation structures;
- potential adverse changes in the diplomatic relations of foreign countries with the United States and government policies against investments by foreigners;
  - changes in foreign regulations;
- hostility from local populations, potential instability of foreign governments and risks of insurrections, terrorist attacks, war or other military action;
  - fluctuations in foreign currency exchange rates;
  - changes in social, political, legal, taxation and other conditions affecting our international investment;
- logistical barriers to our timely receiving the financial information relating to our international investments that may need to be included in our periodic reporting obligations as a public company; and
- lack of uniform accounting standards (including availability of information in accordance with U.S. generally accepted accounting principles).

Unfavorable legal, regulatory, economic or political changes such as those described above could adversely affect our financial condition and results of operations.

We may from time to time invest a portion of our assets in non-U.S. investments or in instruments denominated in non-U.S. currencies, the prices of which will be determined with reference to currencies other than the U.S. dollar. We may hedge our foreign currency exposure. To the extent unhedged, the value of our non-U.S. assets will fluctuate with U.S. dollar exchange rates as well as the price changes of our investments in the various local markets and currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences

in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. An increase in the value of the U.S. dollar compared to the other currencies in which we make our investments will reduce the effect of increases and magnify the effect of decreases in the prices of our securities in their local markets. We could realize a net loss on an investment, even if there were a gain on the underlying investment before currency losses were taken into account. We may seek to hedge currency risks by investing in currencies, currency futures contracts and options on currency futures contracts, forward currency exchange contracts, swaps, options or any combination thereof (whether or not exchange traded), but there can be no assurance that these strategies will be effective, and such techniques entail costs and additional risks.

There are increased risks involved with construction lending activities.

We originate loans for the construction of commercial and residential use properties. Construction lending generally is considered to involve a higher degree of risk than other types of lending due to a variety of factors, including generally larger loan balances, the dependency on successful completion of a project, the dependency upon the successful operation of the project (such as achieving satisfactory occupancy and rental rates) for repayment, the difficulties in estimating construction costs and loan terms which often do not require full amortization of the loan over its term and, instead, provide for a balloon payment at stated maturity.

Some of our investments and investment opportunities may be in synthetic form.

Synthetic investments are contracts between parties whereby payments are exchanged based upon the performance of an underlying obligation. In addition to the risks associated with the performance of the obligation, these synthetic interests carry the risk of the counterparty not performing its contractual obligations. Market standards, GAAP accounting methodology and tax regulations related to these investments are evolving, and we cannot be certain that their evolution will not adversely impact the value or sustainability of these investments. Furthermore, our ability to invest in synthetic investments, other than through taxable REIT subsidiaries, may be severely limited by the REIT qualification requirements because synthetic investment contracts generally are not qualifying assets and do not produce qualifying income for purposes of the REIT asset and income tests.

#### Risks Related to Our Investment Management Business and Management of CDOs

Our recent balance sheet restructuring may adversely impact our investment management business.

In large part, our ability to raise capital and garner other investment management and advisory business is dependent upon our reputation as a balance sheet manager and credit underwriter, as well as the ability to demonstrate that we have the resources to execute mandates. Our recent restructuring will likely negatively impact our abilities in this regard.

We are subject to risks and uncertainties associated with operating our investment management business, and we may not achieve the investment returns that we expect.

We will encounter risks and difficulties as we operate our investment management business. In order to achieve our goals as an investment manager, we must:

- manage our investment management vehicles successfully by investing their capital in suitable investments that meet their respective investment criteria;
  - actively manage the assets in our portfolios in order to realize targeted performance;
- create incentives for our management and professional staff to develop and operate the investment management business; and
- structure, sponsor and capitalize future investment management vehicles that provide investors with attractive investment opportunities.

If we do not successfully operate our investment management business to achieve the investment returns that we or the market anticipates, our results of operations may be adversely impacted.

We may expand our investment management business to involve other investment classes where we do not have prior investment experience. We may find it difficult to attract third party investors without a performance track record involving such investments. Even if we attract third party capital, there can be no assurance that we will be successful in deploying the capital to achieve targeted returns on the investments.

We face substantial competition from established participants in the private equity market as we offer investment management vehicles to third party investors.

We face significant competition from large financial and other institutions that have proven track records in marketing and managing vehicles and otherwise have a competitive advantage over us because they have access to pre-existing third party investor networks into which they can channel competing investment opportunities. If our competitors offer investment products that are competitive with products offered by us, we will find it more difficult to attract investors and to capitalize our investment management vehicles.

Our investment management vehicles are subject to the risk of defaults by third party investors on their capital commitments.

The capital commitments made by third party investors to our investment management vehicles represent unsecured promises by those investors to contribute cash to the investment management vehicles from time to time as investments are made by the investment management vehicles. Accordingly, we are subject to general credit risks that the investors may default on their capital commitments. If defaults occur, we may not be able to close loans and investments we have identified and negotiated which could materially and adversely affect the investment management vehicles' investment program or make us liable for breach of contract, in either case to the detriment of our franchise in the private equity market.

CTIMCO's role as collateral manager for our CDOs and investment manager for our funds may expose us to liabilities to investors.

We are subject to potential liabilities to investors as a result of CTIMCO's role as collateral manager for our CDOs and our investment management business generally. In serving in such roles, we could be subject to claims by CDO investors and investors in our funds that we did not act in accordance with our duties under our CDO and investment fund documentation or that we were negligent in taking or refraining from taking actions with respect to the underlying collateral in our CDOs or in making investments. In particular, the discretion that we exercise in managing the collateral for our CDOs and the investments in our investment management business could result in liability due to the current negative conditions in the commercial real estate market and the inherent uncertainties surrounding the course of action that will result in the best long term results with respect to such collateral and investments. This risk could be increased due to the affiliated nature of our roles. If we were found liable for our actions as collateral manager or investment manager and we were required to pay significant damages to our CDO and investment advisory investors, our financial condition could be materially adversely effected.

## Risks Related to Our Company

We are dependent upon our senior management team to develop and operate our business.

Our ability to develop and operate our business depends to a substantial extent upon the experience, relationships and expertise of our senior management and key employees. We cannot assure you that these individuals will remain in our employ. The employment agreements with our chief executive officer, John R. Klopp, and our chief credit officer, Thomas C. Ruffing, were scheduled to expire on December 31, 2008, unless further extended, but prior to that date we entered in agreements with them committing the parties to determine whether or not to extend or renew their respective employment agreements and, if so extended or renewed, to execute amended employment agreements reflecting such change in the first quarter of 2009. The employment agreement with our chief operating officer, Stephen D. Plavin, would have expired on December 28, 2008, had we not exercised our option to extend for an additional twelve months. The employment agreement with our chief financial officer, Geoffrey G. Jervis, expires on December 31, 2009 (subject to our option to extend for an additional twelve months), unless further extended. There can be no assurance that Messrs. Klopp and Ruffing will enter into amended employment agreements extending their employment with us. In addition, the departure of both Mr. Klopp and Mr. Plavin from their employment with us constitutes an event of default under our restructured debt obligations unless a suitable replacement acceptable to the lenders is hired by us.

Our ability to compensate our employees is limited by our restructured debt obligations.

Our restructured debt obligations limit the aggregate cash compensation we are able to pay our employees (excluding our chief executive officer, chief operating officer and chief financial officer), to 2008 aggregate compensation levels. In the case of our chief executive officer, chief operating officer and chief financial officer, salaries are frozen at 2008 levels and cash bonus compensation must be approved by our lenders. This may impact our ability to retain our employees or attract new employees.

There may be conflicts between the interests of our investment management vehicles and us.

We are subject to a number of potential conflicts between our interests and the interests of our investment management vehicles. We are subject to potential conflicts of interest in the allocation of investment opportunities between our balance sheet once our balance sheet investment activity resumes and our investment management vehicles. In addition, we may make investments that are senior or junior to, participations in, or have rights and interests different from or adverse to, the investments made by our investment management vehicles. Our interests in such investments may conflict with the interests of our investment management vehicles in related investments at the time of origination or in the event of a default or restructuring of the investment. Finally, our officers and employees may have conflicts in allocating their time and services among us and our investment management vehicles.

We must manage our portfolio in a manner that allows us to rely on an exclusion from registration under the Investment Company Act of 1940 in order to avoid the consequences of regulation under that Act.

We rely on an exclusion from registration as an investment company afforded by Section 3(c)(5)(C) of the Investment Company Act of 1940. Under this exclusion, we are required to maintain, on the basis of positions taken by the SEC staff in interpretive and no-action letters, a minimum of 55% of the value of the total assets of our portfolio in “mortgages and other liens on and interests in real estate,” which we refer to as “Qualifying Interests,” and a minimum of 80% in Qualifying Interests and real estate related assets. Because registration as an investment company would significantly affect our ability to engage in certain transactions or to organize ourselves in the manner we are currently organized, we intend to maintain our qualification for this exclusion from registration. In the past, when required due to the mix of assets in our balance sheet portfolio, we have purchased all of the outstanding interests in pools of whole residential mortgage loans, which we treat as Qualifying Interests based on SEC staff positions. Investments in such pools of whole residential mortgage loans may not represent an optimum use of our investable capital when compared to the available investments we target pursuant to our investment strategy. These investments present additional risks to us, and these risks are compounded by our inexperience with such investments. We continue to analyze our investments and may acquire other pools of whole loan residential mortgage backed securities when and if required for compliance purposes.

We treat our investments in CMBS, B Notes and mezzanine loans as Qualifying Interests for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C) to the extent such treatment is consistent with guidance provided by the SEC or its staff. In the absence of such guidance that otherwise supports the treatment of these investments as Qualifying Interests, we will treat them, for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C), as real estate related assets or miscellaneous assets, as appropriate.

If our portfolio does not comply with the requirements of the exclusion we rely upon, we could be forced to alter our portfolio by selling or otherwise disposing of a substantial portion of the assets that are not Qualifying Interests or by acquiring a significant position in assets that are Qualifying Interests. Altering our portfolio in this manner may have an adverse effect on our investments if we are forced to dispose of or acquire assets in an unfavorable market and may adversely affect our stock price.

If it were established that we were an unregistered investment company, there would be a risk that we would be subject to monetary penalties and injunctive relief in an action brought by the SEC, that we would be unable to enforce contracts with third parties and that third parties could seek to obtain rescission of transactions undertaken during the period it was established that we were an unregistered investment company and limitations on corporate leverage that would have an adverse impact on our investment returns.

#### Risks Relating to Our Class A Common Stock

Sales or other dilution of our equity may adversely affect the market price of our class A common stock.

In connection with restructuring our debt obligations, we issued, or irrevocably committed to issue, warrants to purchase 3,479,691 shares of our class A common stock, which represents approximately 16% of our outstanding class A common stock as of March 16, 2009. The market price of our class A common stock could decline as a result of sales of a large number of shares of class A common stock acquired upon exercise of the warrants in the market. If the warrants are exercised, the issuance of additional shares of class A common stock would dilute the ownership interest of our existing shareholders.

Because a limited number of shareholders, including members of our management team, own a substantial number of our shares, they may make decisions or take actions that may be detrimental to your interests.

Our executive officers and directors, along with vehicles for the benefit of their families, collectively own and control 2,602,476 shares of our class A common stock representing approximately 11.9% of our outstanding class A common stock as of February 28, 2009. W. R. Berkley Corporation, or WRBC, which employs one of our directors, owns 3,843,413 shares of our class A common stock, which represents 17.6% of our outstanding class A common stock as of February 28, 2009. By virtue of their voting power, these shareholders have the power to significantly influence our affairs and are able to influence the outcome of matters required to be submitted to shareholders for approval, including the election of our directors, amendments to our charter, mergers, sales of assets and other acquisitions or sales. The influence exerted by these shareholders over our affairs might not be consistent with the interests of some or all of our other shareholders. In addition, the concentration of ownership in our officers or directors or shareholders associated with them may have the effect of delaying or preventing a change in control of our company, including transactions in which you might otherwise receive a premium for your class A common stock, and might negatively affect the market price of our class A common stock.

Some provisions of our charter and bylaws and Maryland law may deter takeover attempts, which may limit the opportunity of our shareholders to sell their shares at a favorable price.

Some of the provisions of our charter and bylaws and Maryland law discussed below could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our shareholders by providing them with the opportunity to sell their shares at a premium to the then current market price.

**Issuance of Preferred Stock Without Shareholder Approval.** Our charter authorizes our board of directors to authorize the issuance of up to 100,000,000 shares of preferred stock and up to 100,000,000 shares of class A common stock. Our charter also authorizes our board of directors, without shareholder approval, to classify or reclassify any unissued shares of our class A common stock and preferred stock into other classes or series of stock and to amend our charter to increase or decrease the aggregate number of shares of stock of any class or series that may be issued. Our board of directors, therefore, can exercise its power to reclassify our stock to increase the number of shares of preferred stock we may issue without shareholder approval. Preferred stock may be issued in one or more series, the terms of which may be determined without further action by shareholders. These terms may include preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications or terms or conditions of redemption. The issuance of any preferred stock, however, could materially adversely affect the rights of holders of our class A common stock and, therefore, could reduce the value of the class A common stock. In addition, specific rights granted to future holders of our preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The power of our board of directors to issue preferred stock could make it more difficult, delay, discourage, prevent or make it more costly to acquire or effect a change in control, thereby preserving the current shareholders' control.

**Advance Notice Bylaw.** Our bylaws contain advance notice procedures for the introduction of business and the nomination of directors. These provisions could discourage proxy contests and make it more difficult for you and other shareholders to elect shareholder-nominated directors and to propose and approve shareholder proposals opposed by management.

Maryland Takeover Statutes. We are subject to the Maryland Business Combination Act which could delay or prevent an unsolicited takeover of us. The statute substantially restricts the ability of third parties who acquire, or seek to acquire, control of us to complete mergers and other business combinations without the approval of our board of directors even if such transaction would be beneficial to shareholders. "Business combinations" between such a third party acquirer or its affiliate and us are prohibited for five years after the most recent date on which the acquirer or its affiliate becomes an "interested shareholder." An "interested shareholder" is defined as any person who beneficially owns 10 percent or more of our shareholder voting power or an affiliate or associate of ours who, at any time within the two-year period prior to the date interested shareholder status is determined, was the beneficial owner of 10 percent or more of our shareholder voting power. If our board of directors approved in advance the transaction that would otherwise give rise to the acquirer or its affiliate attaining such status, such as the issuance of shares of our class A common stock to WRBC, the acquirer or its affiliate would not become an interested shareholder and, as a result, it could enter into a business combination with us. Our board of directors could choose not to negotiate with an acquirer if the board determined in its business judgment that considering such an acquisition was not in our strategic interests. Even after the lapse of the five-year prohibition period, any business combination with an interested shareholder must be recommended by our board of directors and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by shareholders; and
- two-thirds of the votes entitled to be cast by shareholders other than the interested shareholder and affiliates and associates thereof.

The super-majority vote requirements do not apply if the transaction complies with a minimum price requirement prescribed by the statute.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors prior to the time that an interested shareholder becomes an interested shareholder. Our board of directors has exempted any business combination involving family partnerships controlled separately by John R. Klopp and Craig M. Hatkoff, and a limited liability company indirectly controlled by a trust for the benefit of Samuel Zell and his family. As a result, these persons and WRBC may enter into business combinations with us without compliance with the super-majority vote requirements and the other provisions of the statute.

We are subject to the Maryland Control Share Acquisition Act. With certain exceptions, the Maryland General Corporation Law provides that "control shares" of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquiring person or by our officers or by our directors who are our employees, and may be redeemed by us. "Control shares" are voting shares which, if aggregated with all other shares owned or voted by the acquirer, would entitle the acquirer to exercise voting power in electing directors within one of the specified ranges of voting power. A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions, including an undertaking to pay expenses, may compel our board to call a special meeting of shareholders to be held within 50 days of demand to consider the voting rights of the "control shares" in question. If no request for a meeting is made, we may present the question at any shareholders' meeting.

If voting rights are not approved at the shareholders' meeting or if the acquiring person does not deliver the statement required by Maryland law, then, subject to certain conditions and limitations, we may redeem for fair value any or all of the control shares, except those for which voting rights have previously been approved. If voting rights for control shares are approved at a shareholders' meeting and the acquirer may then vote a majority of the shares entitled to vote, then all other shareholders may exercise appraisal rights. The fair value of the shares for purposes of these appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition. The control share acquisition statute does not apply to shares acquired in a merger, consolidation or share exchange if we are not a party to the transaction, nor does it apply to acquisitions approved or exempted by our charter or bylaws. Our bylaws

contain a provision exempting certain holders identified in our bylaws from this statute, including WRBC, family partnerships controlled separately by John R. Klopp and Craig M. Hatkoff, and a limited liability company indirectly controlled by a trust for the benefit of Samuel Zell and his family.

We are also subject to the Maryland Unsolicited Takeovers Act which permits our board of directors, among other things and notwithstanding any provision in our charter or bylaws, to elect on our behalf to stagger the terms of directors and to increase the shareholder vote required to remove a director. Such an election would significantly restrict the ability of third parties to wage a proxy fight for control of our board of directors as a means of advancing a takeover offer. If an acquirer was discouraged from offering to acquire us, or prevented from successfully completing a hostile acquisition, you could lose the opportunity to sell your shares at a favorable price.

The price of our class A common stock may be impacted by many factors.

As with any public company, a number of factors may impact the trading price of our class A common stock, many of which are beyond our control. These factors include, in addition to other risk factors mentioned in this section:

- the level of institutional interest in us;
- the perception of REITs generally and REITs with portfolios similar to ours, in particular, by market professionals;
- the attractiveness of securities of REITs in comparison to other companies;
- the market's perception of our ability to successfully manage our portfolio and our recent restructuring; and;
- the general economic environment and the commercial real estate property and capital markets.

Our restructured debt obligations restrict us from paying cash dividends, which reduces the attractiveness of an investment in our class A common stock.

The restrictions on our inability to pay cash dividends, except in a limited manner, will reduce the current dividend yield on our class A common stock and this can negatively impact the price of our class A common stock as investors seeking current income pursue alternative investments.

Your ability to sell a substantial number of shares of our class A common stock may be restricted by the low trading volume historically experienced by our class A common stock.

Although our class A common stock is listed on the New York Stock Exchange, the daily trading volume of our shares of class A common stock has historically been lower than the trading volume for certain other companies. As a result, the ability of a holder to sell a substantial number of shares of our class A common stock in a timely manner without causing a substantial decline in the market value of the shares, especially by means of a large block trade, may be restricted by the limited trading volume of the shares of our class A common stock.

#### Risks Related to our REIT Status and Certain Other Tax Items

Our charter does not permit any individual to own more than 9.9% of our class A common stock, and attempts to acquire our class A common stock in excess of the 9.9% limit would be void without the prior approval of our board of directors.

For the purpose of preserving our qualification as a REIT for federal income tax purposes, our charter prohibits direct or constructive ownership by any individual of more than a certain percentage, currently 9.9%, of the lesser of the total number or value of the outstanding shares of our class A common stock as a means of preventing ownership of more than 50% of our class A common stock by five or fewer individuals. The charter's constructive ownership rules are complex and may cause the outstanding class A common stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual. As a result, the acquisition of less than 9.9% of our outstanding class A common stock by an individual or entity could cause an individual to own constructively in excess of 9.9% of our outstanding class A common stock, and thus be subject to the charter's ownership limit. There can be no assurance that our board of directors, as permitted in the charter, will increase, or will not decrease, this ownership limit in the future. Any attempt to own or transfer shares of our class A common stock in excess of the ownership limit without the consent of our board of directors will be void, and will result in the shares being transferred by operation of the charter to a charitable trust, and the person who acquired such excess shares will not be entitled to any distributions thereon or to vote such excess shares.



The 9.9% ownership limit may have the effect of precluding a change in control of us by a third party without the consent of our board of directors, even if such change in control would be in the interest of our shareholders or would result in a premium to the price of our class A common stock (and even if such change in control would not reasonably jeopardize our REIT status). The ownership limit exemptions and the reset limits granted to date would limit our board of directors' ability to reset limits in the future and at the same time maintain compliance with the REIT qualification requirement prohibiting ownership of more than 50% of our class A common stock by five or fewer individuals.

There are no assurances that we will be able to pay dividends in the future.

We expect in the future when we generate taxable income to pay quarterly dividends and to make distributions to our shareholders in amounts so that all or substantially all of our taxable income in each year, subject to certain adjustments, is distributed. This, along with our compliance with other requirements, should enable us to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our board of directors may deem relevant from time to time. There are no assurances that we will be able to pay dividends in the future. In addition, some of our distributions may include a return of capital, which would reduce the amount of capital available to operate our business. There have been recent changes to the Internal Revenue Code that would allow us to pay required dividends in the form of additional shares of common stock equal in value up to 90% of the required dividend. We expect that as we undertake efforts to conserve cash and enhance our liquidity and comply with our restructured debt obligations covenants, future required dividends on our class A common stock will be paid in the form of class A common stock to the fullest extent permitted. There can be no assurance as to when we will no longer be subject to debt obligation covenants or will cease our efforts to conserve cash and enhance liquidity to an extent we believe positions us to resume the payment of dividends completely or substantially in cash.

We will be dependent on external sources of capital to finance our growth.

As with other REITs, but unlike corporations generally, our ability to finance our growth must largely be funded by external sources of capital because we generally will have to distribute to our shareholders 90% of our taxable income in order to qualify as a REIT, including taxable income where we do not receive corresponding cash. Our access to external capital will depend upon a number of factors, including general market conditions, the market's perception of our growth potential, our current and potential future earnings, cash distributions and the market price of our class A common stock.

If we do not maintain our qualification as a REIT, we will be subject to tax as a regular corporation and face a substantial tax liability. Our taxable REIT subsidiaries will be subject to income tax.

We expect to continue to operate so as to qualify as a REIT under the Internal Revenue Code. However, qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which only a limited number of judicial or administrative interpretations exist. Notwithstanding the availability of cure provisions in the tax code, various compliance requirements could be failed and could jeopardize our REIT status. Furthermore, new tax legislation, administrative guidance or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT. If we fail to qualify as a REIT in any tax year, then:

- we would be taxed as a regular domestic corporation, which under current laws, among other things, means being unable to deduct distributions to shareholders in computing taxable income and being subject to federal income tax on our taxable income at regular corporate rates;



- any resulting tax liability could be substantial, could have a material adverse effect on our book value and would reduce the amount of cash available for distribution to shareholders;
- unless we were entitled to relief under applicable statutory provisions, we would be required to pay taxes, and thus, our cash available for distribution to shareholders would be reduced for each of the years during which we did not qualify as a REIT; and
  - we generally would not be eligible to requalify as a REIT for four full taxable years.

Fee income from our investment management business is expected to be realized by one of our taxable REIT subsidiaries, and, accordingly, will be subject to income tax.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities and limit our expansion opportunities.

In order to qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, our sources of income, the nature of our investments in commercial real estate and related assets, the amounts we distribute to our shareholders and the ownership of our stock. We may also be required to make distributions to shareholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

Complying with REIT requirements may force us to liquidate or restructure otherwise attractive investments.

In order to qualify as a REIT, we must also ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investments in securities cannot include more than 10% of the outstanding voting securities of any one issuer or 10% of the total value of the outstanding securities of any one issuer unless we and such issuer jointly elect for such issuer to be treated as a “taxable REIT subsidiary” under the Internal Revenue Code. The total value of all of our investments in taxable REIT subsidiaries cannot exceed 20% of the value of our total assets. In addition, no more than 5% of the value of our assets can consist of the securities of any one issuer. If we fail to comply with these requirements, we must dispose of a portion of our assets within 30 days after the end of the calendar quarter in order to avoid losing our REIT status and suffering adverse tax consequences.

Complying with REIT requirements may force us to borrow to make distributions to shareholders.

From time to time, our taxable income may be greater than our cash flow available for distribution to shareholders. If we do not have other funds available in these situations, we may be unable to distribute substantially all of our taxable income as required by the REIT provisions of the Internal Revenue Code. Thus, we could be required to borrow funds, sell a portion of our assets at disadvantageous prices or find another alternative. These options could increase our costs or reduce our equity. Our restructured debt obligations may cause us to recognize taxable income without any corresponding cash income and we may be required to distribute additional dividends in cash and/or class A common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal executive and administrative offices are located in approximately 15,000 square feet of office space leased at 410 Park Avenue, New York, New York 10022. Our telephone number is (212) 655-0220 and our website address is <http://www.capitaltrust.com>. Our lease for office space expires in October 2018.

Item 3. Legal Proceedings

We are not party to any material litigation or legal proceedings, or, to the best of our knowledge, any threatened litigation or legal proceedings, which, in our opinion, individually or in the aggregate, would have a material adverse effect on our results of operations or financial condition.

Item 4. Submission of Matters to a Vote of Security Holders

We did not submit any matters to a vote of security holders during the fourth quarter of 2008.

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## PART II

## Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our class A common stock is listed for trading on the New York Stock Exchange, or NYSE, under the symbol "CT." The table below sets forth, for the calendar quarters indicated, the reported high and low sale prices for the class A common stock as reported on the NYSE composite transaction tape and the per share cash dividends declared on the class A common stock.

	High	Low	Dividend
2008			
Fourth quarter	\$13.17	\$3.42	\$0.00
Third quarter	19.76	9.78	0.60
Second quarter	29.98	18.71	0.80
First quarter	30.38	24.30	0.80
2007			
Fourth quarter	\$38.17	\$26.91	\$2.70(1)
Third quarter	37.37	30.65	0.80
Second quarter	47.39	34.14	0.80
First quarter	55.27	43.70	0.80
2006			
Fourth quarter	\$50.62	\$39.70	\$1.40(2)
Third quarter	42.97	33.89	0.75
Second quarter	35.62	29.69	0.70
First quarter	34.32	29.60	0.60

(1) Comprised of a regular quarterly dividend of \$0.80 per share and a special dividend of \$1.90 per share.

(2) Comprised of a regular quarterly dividend of \$0.75 per share and a special dividend of \$0.65 per share.

The last reported sale price of the class A common stock on February 28, 2009 as reported on the NYSE composite transaction tape was \$1.67. As of February 28, 2009, there were 498 holders of record of the class A common stock. By including persons holding shares in broker accounts under street names, however, we estimate our shareholder base to be approximately 9,858

We generally intend to distribute each year substantially all of our taxable income (which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles) to our shareholders so as to comply with the REIT provisions of the Internal Revenue Code. If necessary for REIT qualification purposes, we may need to distribute any taxable income remaining after giving effect to the distribution of the final regular quarterly dividend each year, together with the first regular quarterly dividend payment of the following taxable year or, at our discretion, in a separate dividend distributed prior thereto. We refer to these dividends as special dividends. As required by covenants in our restructured debt obligations, our cash dividend distributions are restricted to the minimum amount necessary to maintain our status as a REIT. Moreover, such covenants, taking into consideration the recent IRS ruling, "Revenue Procedure 2008-68", which allow REITs to distribute up to 90% of their dividends in the form of stock for tax years ending on or before December 31, 2009, require us to make any distribution in stock to the extent permitted.

In addition to the foregoing restrictions, our dividend policy remains subject to revision at the discretion of our board of directors. All distributions will be made at the discretion of our board of directors and will depend upon our taxable income, our financial condition, our maintenance of REIT status and other factors that our board of directors deems relevant. In accordance with Internal Revenue Service guidance, we are required to report the amount of excess inclusion income earned by the Company. In 2008, we calculated excess inclusion income to be de minimis.

## Issuer Purchases of Equity Securities

The following table provides information regarding purchases of shares of our common stock made by or on our behalf during the three months ended December 31, 2008.

Period	(a) Total Number of Shares Purchased(1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1-31, 2008	—	\$—	—	—
November 1-30, 2008	—	—	—	—
December 1-31, 2008	6,240	3.60	—	—
Total	6,240	\$3.60	—	—

- (1) All purchases were made pursuant to elections by incentive plan participants to satisfy tax withholding obligations through the surrender of shares equal in value to the amount of the withholding obligation incurred upon the vesting of restricted stock.

## Equity Compensation Plan Information

The following table summarizes information, as of December 31, 2008, relating to our equity compensation plans pursuant to which shares of our common stock or other equity securities may be granted from time to time.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options	(b) Weighted average exercise price of outstanding options	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders(1)	170,477	\$15.62	577,376
Equity compensation plans not approved by security holders (2)	—	—	—
Total	170,477	\$15.62	577,376

- (1) The number of securities remaining for future issuance consists of 577,376 shares issuable under our 2007 long-term incentive plan which was approved by our shareholders. Awards under the plan may include restricted stock, unrestricted stock, stock options, stock units, stock appreciation rights, performance shares, performance units, deferred share units or other equity-based awards, as the board of directors may determine.

(2) All of our equity compensation plans have been approved by security holders.

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## Item 6.

## Selected Financial Data

The following table sets forth selected consolidated financial data, which was derived from our historical consolidated financial statements included in our Annual Reports on Form 10-K, for the years ended 2004 through 2008.

Certain reclassifications have been made to all periods presented prior to 2005 to reflect the application of Financial Accounting Standards Board Interpretation No. 46(R) on January 1, 2004.

You should read the following information together with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and the notes thereto included in “Item 8. Financial Statements and Supplementary Data.”

	Years ended December 31,				
	2008	2007	2006	2005	2004
	(in thousands, except for per share data)				
<b>STATEMENT OF OPERATIONS DATA:</b>					
<b>REVENUES:</b>					
Interest and related income	\$ 196,215	\$ 254,505	\$ 176,758	\$ 86,753	\$ 46,639
Management fees	13,308	10,330	4,407	13,124	7,863
Total revenues	209,523	264,835	181,165	99,877	54,502
<b>OPERATING EXPENSES:</b>					
Interest expense	129,665	162,377	104,607	37,229	20,141
General and administrative expenses	24,957	29,956	23,075	21,939	15,229
Depreciation and amortization	179	1,810	3,049	1,114	1,100
Impairments	2,917	—	—	—	5,886
Provision for/(recapture of) possible credit losses	63,577	—	—	—	(6,672)
Valuation allowance on loans held-for-sale	48,259	—	—	—	—
Total operating expenses	269,554	194,143	130,731	60,282	35,684
Gain on sale of investments	374	15,077	—	4,951	300
Gain on extinguishment of debt	6,000	—	—	—	—
(Loss)/income from equity investments	(1,988)	(2,109)	898	(222)	2,407
(Loss)/income before income taxes	(55,645)	83,660	51,332	44,324	21,525
Provision/(benefit) for income taxes	1,893	(706)	(2,735)	213	(451)
<b>NET (LOSS)/INCOME ALLOCABLE TO COMMON STOCK:</b>	<b>\$ (57,538)</b>	<b>\$ 84,366</b>	<b>\$ 54,067</b>	<b>\$ 44,111</b>	<b>\$ 21,976</b>
<b>PER SHARE INFORMATION:</b>					
Net (loss)/income per share of common stock:					
Basic	\$ (2.73)	\$ 4.80	\$ 3.43	\$ 2.91	\$ 2.17
Diluted	\$ (2.73)	\$ 4.77	\$ 3.40	\$ 2.88	\$ 2.14
Dividends declared per share of common stock	\$ 2.20	\$ 5.10	\$ 3.45	\$ 2.45	\$ 1.85
Weighted average shares of common stock outstanding:					
Basic	21,099	17,570	15,755	15,181	10,141
Diluted	21,099	17,690	15,923	15,336	10,277

Years ended December 31,

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	2008	2007	2006	2005	2004
<b>BALANCE SHEET DATA:</b>					
Total assets	\$ 2,838,627	\$ 3,211,482	\$ 2,648,564	\$ 1,557,642	\$ 877,766
Total liabilities	2,437,183	2,803,245	2,222,292	1,218,792	561,269
Shareholders' equity	401,444	408,237	426,272	338,850	316,497

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

References herein to "we," "us" or "our" refer to Capital Trust, Inc. and its subsidiaries unless the context specifically requires otherwise.

Introduction

Our business model is designed to produce a mix of net interest margin from our balance sheet investments and fee income plus co-investment income from our investment management operations. In managing our operations, we focus on originating investments, managing our portfolios and capitalizing our businesses.

Current Market Conditions

During 2008, the general economic environment deteriorated precipitously, leaving the U.S economy and many economies around the world in a state of severe economic recession. In addition, the global capital markets continued to be in a severe state of crisis. The impact on commercial real estate has been a combination of: (i) decreased, and expected further decreases, in property level cash flows and (ii) lack of capital, both debt and equity, to allow for markets to function in an orderly manner. Transaction volume has declined significantly, credit spreads for all forms of mortgage debt reached all-time highs, issuance levels of commercial mortgage backed securities, or CMBS, ground to a halt, and other forms of financing from the debt markets have been dramatically curtailed. Financial institutions still hold significant inventories of unsold loans and CMBS, creating a further overhang on the markets. These factors have combined to create significant decreases in property values and have and will continue to impact the performance of our existing portfolio of assets. Furthermore, the volatility in the capital markets has caused severe stress to all financial institutions and our business is dependent upon these counterparties for, among other things, financing and interest rate derivatives.

Restructuring of Our Debt Obligations

On March 16, 2009, we consummated a restructuring of substantially all of our recourse debt obligations with certain of our secured and unsecured creditors pursuant to the amended terms of our secured credit facilities, our senior unsecured credit agreement, and certain of our trust preferred securities.

Secured Credit Facilities

In connection with the restructuring, we amended our secured, recourse credit facilities with: (i) JPMorgan Chase Bank, N.A., JPMorgan Chase Funding Inc. and J.P. Morgan Securities Inc., or collectively JPMorgan, (ii) Morgan Stanley Bank, N.A., or Morgan Stanley, and (iii) Citigroup Financial Products Inc. and Citigroup Global Markets Inc., or collectively Citigroup. We collectively refer to JPMorgan, Morgan Stanley and Citigroup as the participating secured lenders. Further, as part of the restructuring, we also entered into an agreement to terminate our secured, recourse facility with Goldman Sachs Mortgage Company, or Goldman Sachs. We had previously, on February 25, 2009, terminated our secured financing with UBS Real Estate Securities Inc., or UBS.

Specifically, on March 16, 2009, we entered into separate amendments to the respective master repurchase agreements with JPMorgan, Morgan Stanley and Citigroup. Pursuant to the terms of each such agreement, we repaid the balance outstanding with each participating secured lender by an amount equal to three percent (3%) of the current outstanding principal amount due under its existing secured, recourse credit facility, \$17.7 million in the aggregate, and further amended the terms of each such facility, without any change to the collateral pool securing the debt owed to each participating secured lender, to provide the following:



- Maturity dates were modified to one year from the March 16, 2009 effective date of each respective agreement, which maturity dates may be extended further for two one-year periods. The first one-year extension option is exercisable by us so long as the outstanding balance as of the first extension date is less than or equal to a certain amount, which is a reduction of twenty percent (20%), including the upfront payment described above, of the outstanding principal amount from the date of the amendments, and no other defaults or events of default have occurred and are continuing, or would be caused by such extension. The second one-year extension option is exercisable by each participating secured lender in its sole discretion.
- We agreed to pay each participating secured lender periodic amortization as follows: (i) mandatory payments, payable monthly in arrears, in an amount equal to sixty-five (65%) (subject to adjustment in the second year) of the net interest income generated by each such lender's collateral pool, and (ii) one hundred percent (100%) of the principal proceeds received from the repayment of assets in each such lender's collateral pool. In addition, under the terms of the amendment with Citigroup, we agreed to pay Citigroup an additional quarterly amortization payment equal to the lesser of: (x) Citigroup's then outstanding senior secured credit facility balance or (y) the product of (i) the total cash paid (including both principal and interest) during the period to our senior unsecured credit facility in excess of an amount equivalent to LIBOR plus 1.75% based upon a \$100.0 million facility amount, and (ii) a fraction, the numerator of which is Citigroup's then outstanding senior secured credit facility balance and the denominator is the total outstanding secured indebtedness of the participating secured lenders.
- We further agreed to amortize each participating secured lender's secured debt at the end of each calendar quarter on a pro rata basis until we have repaid our secured, recourse credit facilities and thereafter our senior unsecured credit facility in an amount equal to any unrestricted cash in excess of the sum of (i) \$25.0 million, and (ii) any unfunded loan and co-investment commitments.
- Each participating secured lender was relieved of its obligation to make future advances with respect to unfunded commitments arising under investments in its collateral pool.
- We received the right to sell or refinance collateral assets as long as we apply one hundred percent (100%) of the proceeds to pay down the related secured credit facility balance subject to minimum release price mechanics.
- We eliminated the cash margin call provisions and amended the mark-to-market provisions so that future changes in collateral value will be determined based upon changes in the performance of the underlying real estate collateral in lieu of the previous provisions which were based on market spreads. Beginning six months after the date of execution of the agreements, each collateral pool will be valued monthly on this basis. If the ratio of a participating secured lender's total outstanding secured credit facility balance to total collateral value exceeds 1.15x the ratio calculated as of the effective date of the amended agreements, we will be required to liquidate collateral in order to return to compliance with the prescribed loan to collateral value ratio or post other collateral to bring the ratio back into compliance.

In each master repurchase agreement amendment and the amendment to our senior unsecured credit agreement described in greater detail below, which we collectively refer to as our restructured debt obligations, we also replaced all existing financial covenants with the following uniform covenants which:

- prohibit new balance sheet investments except, subject to certain limitations, co-investments in our investment management vehicles or protective investments to defend existing collateral assets on our balance sheet;
  - prohibit the incurrence of any additional indebtedness except in limited circumstances;



- limit the total cash compensation to all employees and, specifically with respect to our chief executive officer, chief operating officer and chief financial officer, freeze their base salaries at 2008 levels, and require cash bonuses to any of them to be approved by a committee comprised of one representative designated by the secured lenders, the administrative agent under the senior unsecured credit facility and the chairman of our board of directors;
- prohibit the payment of cash dividends to our common shareholders except to the minimum extent necessary to maintain our REIT status;
- require us to maintain a minimum amount of liquidity, as defined, of \$7.0 million in 2009 and \$5.0 million thereafter;
- trigger an event of default if both our chief executive officer and chief operating officer cease their current employment with us during the term of the agreement and we fail to hire a replacement acceptable to the lenders; and
- trigger an event of default, if any event or condition occurs which causes any obligation or liability of more than \$1.0 million to become due prior to its scheduled maturity or any monetary default under our restructured debt obligations if the amount of such obligation is at least \$1.0 million.

Pursuant to the restructuring, the interest rates on our secured borrowings will remain the same as those in effect as of December 31, 2008. In exchange for maintenance of these historic rates, on March 16, 2009 we issued, or irrevocably committed to issue as of such date, JPMorgan, Morgan Stanley and Citigroup warrants to purchase 3,479,691 shares of our class A common stock at an exercise price of \$1.79 per share, which is equal to the closing bid price on the New York Stock Exchange on March 13, 2009. The warrants will become exercisable on March 16, 2012 and expire on March 16, 2019, and may be exercised through a cashless exercise.

The warrants were issued, or irrevocably committed to be issued, in reliance upon the exemption provided in Section 4(2) of the Securities Act of 1933, as amended, and the safe harbor of Rule 506 under Regulation D. Any certificates representing such securities will contain restrictive legends preventing sale, transfer or other disposition, unless registered under the Securities Act of 1933. No form of general solicitation or general advertising was conducted in connection with the issuance.

The foregoing descriptions of the amendments to the secured credit facilities with the participating secured lenders, the amendment to the senior unsecured credit facility and the warrant agreement with respect to the warrants are qualified in their entirety by reference to Exhibits 10.49b, 10.46d and 10.69, respectively, to this Form 10-K.

On March 16, 2009, we also entered into an agreement to terminate the master repurchase agreement with Goldman Sachs, pursuant to which we satisfied the indebtedness due under the Goldman Sachs secured credit facility. Specifically, we: (i) pre-funded certain required advances of approximately \$2.4 million under one loan in the collateral pool, (ii) paid Goldman Sachs \$2.6 million to effect a full release to us of another loan, and (iii) transferred all of the other assets that served as collateral for Goldman Sachs to Goldman Sachs for a purchase price of \$85.7 million as payment in full for the balance remaining under the secured credit facility. Goldman Sachs agreed to release us from any further obligation under the secured credit facility. The foregoing description is qualified in its entirety by reference to Exhibit 10.47e to this Form 10-K.

Previously, on February 25, 2009, we entered into a satisfaction, termination and release agreement with UBS pursuant to which the parties terminated their right, title, interest in, to and under a master repurchase agreement. We consented to the transfer to UBS, and UBS unconditionally accepted and retained all of our rights, title and interest in a loan financed under the master repurchase agreement in complete satisfaction of all of our obligations, including all amounts due thereunder. The foregoing description is qualified in its entirety by reference to Exhibit 10.71 to this

Form 10-K.

We are currently in negotiations with Lehman Brothers to resolve the \$18.0 million outstanding balance under our secured, recourse credit facility with such firm, which finances a single asset.

#### Senior Unsecured Credit Agreement

On March 16, 2009, we entered into an amended and restated senior unsecured credit agreement governing our \$100.0 million term loan from WestLB AG, New York Branch, participant and administrative agent, Fortis Capital Corp., Wells Fargo Bank, N.A., JPMorgan Chase Bank, N.A., Morgan Stanley Bank, N.A. and Deutsche Bank Trust Company Americas, which we collectively refer to as the senior unsecured lenders. Pursuant to the amended and restated senior unsecured credit agreement, we and the senior unsecured lenders agreed to:

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- Extend the maturity date of the senior unsecured credit agreement to be co-terminus with the maturity date of the secured credit facilities with the participating secured lenders (as they may be further extended until March 16, 2012, as described above);
- Increase the cash interest rate under the senior unsecured credit agreement to LIBOR plus 3.0% per annum (from LIBOR plus 1.75%), plus an accrual rate of 7.20% per annum less the cash interest rate;
- Initiate quarterly amortization equal to the greater of: (i) \$5.0 million per annum and (ii) 25% of the annual cash flow received from our currently unencumbered collateralized debt obligation interests;
- Pledge our unencumbered collateralized debt obligation interests and provide a negative pledge with respect to certain other assets; and
- Replace all existing financial covenants with substantially identical covenants and default provisions to those described above in the participating secured credit facilities.

The foregoing description is qualified in its entirety by reference to the amended and restated credit agreement filed as Exhibit 10.70 to this Form 10-K.

#### Trust Preferred Securities

On March 16, 2009, we reached an agreement with Taberna Preferred Funding V, Ltd., Taberna Preferred Funding VI, Ltd., Taberna Preferred Funding VIII, Ltd. and Taberna Preferred Funding IX, Ltd., or collectively Taberna, to issue new junior subordinated notes in exchange for \$50.0 million face amount of trust preferred securities issued through our statutory trust subsidiary CT Preferred Trust I held by affiliates of Taberna, which we refer to as the Trust I Securities, and \$53.1 million face amount of trust preferred securities issued through our statutory trust subsidiary CT Preferred Trust II held by affiliates of Taberna, which we refer to as the Trust II Securities. We refer to the Trust I Securities and the Trust II Securities together as the Trust Securities. The Trust Securities were backed by and recorded as junior subordinated debentures issued by us with terms that mirror the Trust Securities.

Pursuant to the exchange agreement dated March 16, 2009, by and among us and Taberna, we issued \$118.6 million aggregate principal amount of new junior subordinated notes due on April 30, 2036 (an amount equal to 115% of the current aggregate face amount of the Trust Securities being exchanged). The interest rate payable under the new subordinated notes is 1% per annum from March 16, 2009, through and including April 29, 2012, which we refer to as the modification period. After the modification period, the interest rate will revert to a blended rate equal to that which was previously payable under the notes underlying the Trust Securities, a fixed rate of 7.23% per annum through and including April 29, 2016 and thereafter a floating rate, reset quarterly, equal to three month LIBOR plus 2.44% until maturity. The new junior subordinated notes will be contractually senior to the remaining trust preferred securities, will mature on April 12, 2036 and will be freely redeemable by us at par at any time. The new junior subordinated notes contain a covenant that through April 30, 2012, subject to certain exceptions, we may not declare or pay dividends or distributions on, or redeem, purchase or acquire any of our equity interests (other than remaining trust preferred securities not exchanged) except to the extent necessary to maintain our status as a REIT. Except for the foregoing, the new junior subordinated notes contain substantially similar provisions as the Trust Securities. The foregoing description is qualified in its entirety by reference to the Exchange Agreement filed as Exhibit 10.72 to this Form 10-K.

As part of the agreement with Taberna, we also agreed to pay \$750,000 to cover third party fees and costs incurred in connection with the exchange transaction.

#### Current Period Financial Statement Impact

While the restructuring of our debt obligations was finalized subsequent to December 31, 2008 and the amendments to the respective agreements and termination of our facility with UBS were executed in the first quarter of 2009, certain elements of the transaction require us to amend the presentation of certain items in our consolidated financial statements for the fiscal year ended December 31, 2008. Specifically, the aggregate \$140.4 million (face value) of loans sold to Goldman Sachs and UBS have been reclassified under the consolidated balance sheet classification, loans held-for-sale, and a valuation allowance of \$48.3 million, reflecting the difference between the carrying value of the loans and the sale price, was recorded on the consolidated statement of operations.

## Originations

We have historically allocated opportunities between our balance sheet and investment management vehicles based upon our assessment of the availability and relative cost of capital, the risk and return profiles of each investment and applicable regulatory requirements. The restructuring of our obligations due our secured and unsecured lenders has consequences for our historical business in that the new covenants we agreed to require us to effectively cease our balance sheet investment activities and not to incur any further indebtedness unless used to retire the debt due our lenders. Going forward, until these covenants are eliminated through the repayment or refinancing of the restructured debt obligations, we will continue to carry out investment activities for our investment management vehicles, consistent with our previous strategies and investment mandates for each respective vehicle.

Notwithstanding the combined capabilities of our platform in 2008, we decided to continue a defensive posture with respect to investment originations in light of the continued market volatility. The table below summarizes our gross originations and the allocation of opportunities between our balance sheet and the investment management business for the years ended December 31, 2008 and December 31, 2007.

Originations(1) (in millions)	Year ended December 31, 2008	Year ended December 31, 2007
Balance sheet(2)	\$48	\$1,454
Investment management	426	1,011
<b>Total originations</b>	<b>\$474</b>	<b>\$2,465</b>

(1) Includes total commitments, both funded and unfunded, net of any related purchase discounts.

(2) Includes \$0 and \$315 million of participations sold recorded on our balance sheet relating to participations that we sold to CT Large Loan 2006, Inc. for the years ended December 31, 2008 and December 31, 2007, respectively.

Our balance sheet investments include CMBS and commercial real estate debt and related instruments, or Loans, which we collectively refer to as our Interest Earning Assets.

Originations of Interest Earning Assets for our balance sheet for the years ended December 31, 2008 and December 31, 2007 are detailed in the table below:

Balance Sheet Originations (in millions)	Year ended December 31, 2008			Year ended December 31, 2007		
	Originations(1)	Yield(2)	Rating / LTV(3)	Originations(1)	Yield(2)	Rating / LTV(3)
CMBS	\$1	41.39%	BB+	\$111	8.92%	BB
Loans(4)	47	9.16%	53.3%	1,343	7.67%	64.4%
<b>Total / Weighted Average</b>	<b>\$48</b>	<b>9.70%</b>		<b>\$1,454</b>	<b>7.77%</b>	

(1) Includes total commitments, both funded and unfunded.

- (2) Yield on floating rate originations assumes LIBOR at December 31, 2008 and December 31, 2007, of 0.44% and 4.60%, respectively.
- (3) Weighted average ratings at origination are based on the lowest rating published by Fitch Ratings, Standard & Poor's or Moody's Investors Service for each security and exclude \$36.4 million of unrated equity investments in collateralized debt obligations originated in 2007. No unrated securities were originated in 2008. Loan to Value (LTV) is based on third party appraisals received by us when each loan was originated.
- (4) Includes \$0 and \$315 million of participations sold recorded on our balance sheet relating to participations that we sold to CT Large Loan 2006, Inc. for the year ended December 31, 2008 and the year ended December 31, 2007, respectively.

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The table below shows our Interest Earning Assets as of December 31, 2008 and December 31, 2007. In any period, the ending balance of Interest Earning Assets will be impacted not only by new balance sheet originations, but also by repayments, advances, sales and losses, if any.

Interest Earning Assets (in millions)	December 31, 2008		December 31, 2007	
	Book		Book	
	Value	Yield(1)	Value	Yield(1)
CMBS	\$852	6.87%	\$877	7.35%
Loans	1,791	4.09%	2,258	7.80%
Total / Weighted Average	\$2,643	4.99%	\$3,135	7.67%

- (1) Yield on floating rate assets assumes LIBOR at December 31, 2008 and December 31, 2007, of 0.44% and 4.60%, respectively. For \$37.9 million face value (\$37.5 million book value) of CMBS investments, calculations use an effective rate based on cash received.

In some cases our loan originations are not fully funded at closing, creating an obligation for us to make future fundings, which we refer to as Unfunded Loan Commitments. Typically, Unfunded Loan Commitments are part of construction and transitional loans. As of December 31, 2008, we had nine Unfunded Loan Commitments totaling \$54.2 million. Of the total gross Unfunded Loan Commitments, \$44.0 million will only be funded when and/or if the borrower meets certain performance hurdles with respect to the underlying collateral. As a result of the restructuring of our debt obligations described in Note 22 to the consolidated financial statements, one loan with an Unfunded Loan Commitment of \$30.6 million as of December 31, 2008 was sold on March 16, 2009, in conjunction with the termination of one of our repurchase agreements. After giving effect to the settlement of this transaction, we have Unfunded Loan Commitments of \$23.6 million. Although generally provided for in the terms of our restructured debt obligations, our ability to fund these remaining Unfunded Loan Commitments will be contingent upon our having sufficient liquidity available to us after required payments to our creditors. In the past, we were able to rely on our lenders to fund a portion of these commitments, and, subject to the recent restructuring, we no longer have that ability.

In addition to our investments in Interest Earning Assets, we have two equity investments in unconsolidated subsidiaries as of December 31, 2008. These represent our equity co-investments in private equity funds that we manage, CT Mezzanine Partners III, Inc., or Fund III, and CT Opportunity Partners I, LP, or CTOPI. The table below details the carrying value of those investments, as well as related capitalized costs.

Equity Investments (in thousands)	December 31, 2008	December 31, 2007
Fund III	\$597	\$923
CTOPI	1,782	(60 )
Capitalized costs/other	4	114
Total	\$2,383	\$977

#### Asset Management

We actively manage our balance sheet portfolio and the assets held by our investment management vehicles. While our investments are primarily in the form of debt, which generally means that we have limited influence over the

operations of the collateral securing our portfolios, we are aggressive in exercising the rights afforded to us as a lender. These rights may include collateral level budget approvals, lease approvals, loan covenant enforcement, escrow/reserve management/collection, collateral release approvals and other rights that we may negotiate.

During the fourth quarter of 2008, one loan with an outstanding balance of \$45.0 million was fully repaid. In addition, four loans with an aggregate outstanding balance of \$60.1 million as of year end were extended on modified terms at current market interest rates on existing principal balances, and twelve loans with an aggregate outstanding balance of \$344.5 million were extended pursuant to the terms of their corresponding loan agreements.

The table below details our loss experience with balance sheet Interest Earning Assets for the years ended December 31, 2008 and December 31, 2007, and the percentage of non-performing loans as of December 31, 2008 and December 31, 2007. Non-performing loans include loans which are on non-accrual status as well as those where we have foreclosed upon the underlying collateral and therefore own an equity interest in real estate. Commencing in the fourth quarter of 2008, we classified certain of our loans as Watch List Loans. These investments are currently performing loans that we actively monitor and manage to mitigate the risk of potential future non-performance.

#### Portfolio Performance(1)

(in millions, except for number of investments)

	December 31, 2008	December 31, 2007
Interest earning assets	\$2,643	\$3,135
Losses		
Principal balance	\$10	\$—
Percentage of interest earning assets	0.4%	—
Non performing loans		
Non-accrual loans, net(2)	\$24	\$6
Number of investments	5	1
Percentage of interest earning assets	0.9%	0.2%
Real estate owned, net(3)	\$10	\$—
Number of investments	1	—
Percentage of interest earning assets	0.4%	—
Watch List Loans		
Principal balance	\$377	N/A
Percentage of interest earning assets	14.3%	N/A

(1) Portfolio statistics exclude loans classified as held-for-sale.

(2) As of December 31, 2008, includes five loans with an aggregate principal balance of \$82 million, against which we have recorded a \$58 million reserve. As of December 31, 2007, includes one loan with a principal balance of \$10 million, against which we recorded a \$4 million reserve.

(3) As of December 31, 2008, includes one loan which has been transferred to Real estate held-for-sale with a gross asset balance of \$12 million, against which we have recorded a \$2 million impairment.

As of December 31, 2008, we had five loans with an aggregate net book value of \$24.5 million (\$82.1 million principal balance, net of \$57.6 million of reserves) that were classified as non-accrual. These include two loans with an aggregate principal balance of \$20.0 million which are current in their interest payments, against which we have recorded a \$7.6 million reserve, as well as three loans which are delinquent on contractual payments with an aggregate principal balance of \$62.0 million, against which we have recorded a \$50.0 million reserve. We also had 15 loans with an aggregate principal balance of \$376.8 million on Watch List status.

During the fourth quarter of 2008, the Company and its co-lender foreclosed on a loan secured by a multifamily property, and took title to the collateral securing the original loan. At the time the foreclosure occurred, the loan had a book balance of \$11.9 million which was reclassified as Real estate held-for-sale (also referred to as Real Estate Owned) on our consolidated balance sheet as of December 31, 2008 to reflect our ownership interest in the property. We have recorded a \$2.0 million impairment to reflect the property at fair value.

As of December 31, 2007, we had one non-performing loan which was on non-accrual status with a principal balance of \$10.0 million, against which we had recorded a \$4.0 million reserve. During the second quarter of 2008, this loan was deemed unrecoverable and we wrote off the entire \$10.0 million principal balance and reversed the pre-existing reserve. Simultaneously, \$6.0 million of non-recourse financing on the asset was forgiven by the lender.

In addition to our investments in loans receivable, which are a component of our interest earning assets, we also held four investments in loans which were classified as held-for-sale as of December 31, 2008. These loans had an aggregate carrying value of \$92.2 million, net of a valuation allowance of \$48.3 million as of December 31, 2008. These loans were classified as held-for-sale as a result of the restructuring of our debt obligations, as discussed in Note 22 to the consolidated financial statements.

We actively manage our CMBS investments using a combination of quantitative tools and loan/property level analysis in order to monitor the performance of the securities and their collateral versus our original expectations. Securities are analyzed on a monthly basis for delinquency, transfers to special servicing, and changes to the servicer's watch list population. Realized losses on underlying loans are tracked on a monthly basis and compared to our original loss expectations. On a periodic basis, individual loans of concern are also re-underwritten. Updated collateral loss projections are then compared to our original loss expectations to determine how each investment is performing. Based on our review of the portfolio, under the guidance of EITF 99-20, "Recognition of Interest Income and Impairment of Purchased and Retained Beneficial Interests in Securitized Financial Assets", as amended by FASB Staff Position EITF 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20", we concluded that a \$900,000 other-than-temporary impairment was warranted on one of our CMBS investments, which had a net book value of \$3.5 million as of December 31, 2008.

At year end, there were significant differences between the estimated fair value and the book value of some of our CMBS investments. We believe these differences to be related to the disruption in the capital markets and the general negative bias against structured financial products and not reflective of a change in cash flow expectations from these securities. Accordingly, we have recorded no additional other-than-temporary impairments on our CMBS portfolio.

The ratings performance of our CMBS portfolio over the years ended December 31, 2008 and December 31, 2007 is detailed below:

CMBS Rating Activity(1)		
	Year ended December 31, 2008	Year ended December 31, 2007
Securities Upgraded	6	20
Securities Downgraded	13	3

(1) Represents activity from any of Fitch Ratings, Standard & Poor's and/or Moody's Investors Service.

Three trends in asset performance that we foresee into 2009 that are likely to lead to further downgrades are (i) borrowers faced with maturities will have a more difficult time refinancing their properties in light of the volatility and lack of liquidity in the financial markets, (ii) real estate fundamentals will weaken as the U.S. economy continues to deteriorate and (iii) capitalization rates for commercial real estate will continue to increase with corresponding reductions in values. These trends may result in negotiated extensions or modifications of the terms of our investments or the exercise of foreclosure and other remedies, the effect of which on the performance and value of our investments cannot be predicted.

## Capitalization

While our balance sheet investment activities are currently prohibited by our restructured debt obligations, if they are resumed, such activities, as well as those of our investment management business, are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt sources, which we collectively refer to as Interest Bearing Liabilities, currently include repurchase agreements and secured debt, CDOs, a senior unsecured credit facility and junior subordinated debentures (which we also refer to as trust preferred securities). Our equity capital is currently comprised entirely of common equity.

Subsequent to December 31, 2008, certain of our Interest Bearing Liabilities including repurchase agreements and secured debt, our senior unsecured credit facility and our junior subordinated debentures were restructured, terminated, or otherwise satisfied pursuant to the transactions described in Note 22 to the consolidated financial statements. In addition, we are subject to certain covenants under our restructured debt obligations which, among other things, restrict our ability to incur additional indebtedness for the foreseeable future.

The table below shows our capitalization mix as of December 31, 2008 and December 31, 2007:

Capital Structure(1) (in millions)	December 31, 2008	December 31, 2007
Repurchase obligations and secured debt	\$699	\$912
Collateralized debt obligations	1,156	1,192
Senior unsecured credit facility	100	75
Junior subordinated debentures	129	129
Total interest bearing liabilities	\$2,084	\$2,308
Weighted average effective cost of debt(2)	3.48 %	5.75 %
Shareholders' equity	\$401	\$408
Ratio of interest bearing liabilities to shareholders' equity	5.2:1	5.7:1

(1) Excludes participations sold.

(2) Floating rate debt obligations assume LIBOR at December 31, 2008 and December 31, 2007, of 0.44% and 4.60%, respectively. Includes the effective cost of interest rate swaps of 1.01% and 0.09% as of December 31, 2008 and December 31, 2007, respectively.

A summary of selected structural features of our debt as of December 31, 2008 and December 31, 2007 is detailed in the table below:

Interest Bearing Liabilities	December 31, 2008	December 31, 2007
Weighted average life	4.2 yrs.	4.1 yrs.
% Recourse	44.5%	48.1%
% Subject to mark-to-market provisions	33.5%	39.5%

Our CDO liabilities as of December 31, 2008 and December 31, 2007 are described below:

Collateralized Debt Obligations

(in millions)

	Issuance Date	Type	December 31, 2008		December 31, 2007	
			Book Value	All-in Cost(1)	Book Value	All-in Cost(1)
CDO I(2)	7/20/04	Static	\$252	1.52%	\$253	5.67%
CDO II (2)	3/15/05	Reinvesting	299	1.18	299	5.32
CDO III	8/04/05	Static	257	5.27	261	5.37
CDO IV(2)	3/15/06	Static	348	1.15	379	5.11
<b>Total</b>			<b>\$1,156</b>	<b>2.15%</b>	<b>\$1,192</b>	<b>5.34%</b>

(1) Includes amortization of premiums/discounts and issuance costs.

(2) Floating rate CDO liabilities assume LIBOR at December 31, 2008 and December 31, 2007, of 0.44% and 4.60%, respectively.

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The table below summarizes our repurchase agreements and secured debt liabilities as of December 31, 2008 and December 31, 2007:

Repurchase Agreements and Secured Debt (\$ in millions)	December 31, 2008	December 31, 2007
Repurchase facility and secured debt amounts	\$1,114	\$1,600
Counterparties	6	7
Outstanding repurchase borrowings and secured debt	\$699	\$912
All-in cost	L + 1.66%	L + 1.20%

The most subordinated components of our debt capital structure are junior subordinated debentures that back trust preferred securities issued to third parties. These securities represent long-term, subordinated, unsecured financing and generally carry limited operational covenants. As of December 31, 2008, we had issued \$129 million of junior subordinated debentures that back \$125 million of trust preferred securities sold to third parties in two separate issuances. On a combined basis, the junior subordinated debentures provide us with financing at 7.20% and an all-in effective rate of 7.35%.

On March 16, 2009 we issued new junior subordinate debentures to holders of a majority of our trust preferred securities reflecting modified terms, as detailed in Note 22 to the consolidated financial statements.

Our capital raising activities included the issuance of common stock in the first quarter of 2008. On March 28, 2008, we issued 4,000,000 shares of class A common stock in a public offering underwritten by Morgan Stanley & Co. Inc. Gross proceeds were \$28.75 per share and total net proceeds were \$113 million. Changes in the number of shares also resulted from option exercises, restricted stock grants and vesting, stock unit grants, and the issuance of shares under our dividend reinvestment plan and direct stock purchase plan.

Shareholders' Equity	December 31, 2008	December 31, 2007
Book value (in millions)	\$401	\$408
Shares		
Class A common stock	21,740,152	17,165,528
Restricted stock	331,197	423,931
Stock units	215,451	94,587
Options(1)		84,743
Total	22,286,800	17,768,789
Book value per share	\$18.01	\$22.97

(1) Dilutive shares issuable upon the exercise of outstanding options assuming a December 31, 2008 and December 31, 2007 stock price, respectively, and the treasury stock method.

As of December 31, 2008, we had 22,071,349 of our class A common stock and restricted stock outstanding.

Other Balance Sheet Items

Participations sold represent participations in loans that we originated and sold to CT Large Loan 2006, Inc. and third parties. We present these sold interests as both assets and liabilities (in equal amounts) in conformity with GAAP on the basis that these arrangements do not qualify as sales under FASB Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities", or FAS 140. As of December 31, 2008, we had five such participations sold with a total book balance of \$292.7 million at a weighted average yield of LIBOR plus 3.27% (3.71% at December 31, 2008). As of December 31, 2007, we had seven such participations sold with a total book balance of \$408.4 million at a weighted average yield of LIBOR plus 3.41% (8.01% at December 31, 2008). The income earned on the loans is recorded as interest income and an identical amount is recorded as interest expense on the consolidated statements of operations.

In 2007, the Company sub-participated a \$73.4 million participation in a loan to CT Large Loan 2006, Inc. The Company recorded the sub-participation as a secured borrowing as it did not meet at least one of the criteria under FAS No. 140. In July 2008, the Company and CT Large Loan 2006, Inc. agreed to terminate the sub-participation agreement and release themselves from any further obligation to each other with respect to such sub-participation agreement. As a result of this transaction, loans receivable and participations sold decreased by \$73.4 million during the third quarter of 2008.

### Interest Rate Exposure

We endeavor to manage a book of assets and liabilities that are generally matched with respect to interest rates, typically financing floating rate assets with floating rate liabilities and fixed rate assets with fixed rate liabilities. In some cases, we finance fixed rate assets with floating rate liabilities and, in those cases, we may use interest rate derivatives, such as swaps, to effectively convert the floating rate debt to fixed rate debt. In such instances, the equity we have invested in fixed rate assets is not typically swapped, leaving a portion of our equity capital exposed to changes in value of the fixed rate assets due to interest rate fluctuations. The balance of our assets earn interest at floating rates and are financed with floating rate liabilities, leaving a portion of our equity capital exposed to cash flow variability from fluctuations in rates. Generally, these assets and liabilities earn interest at rates indexed to one month LIBOR.

Our counterparties in these transactions are large financial institutions and we are dependent upon the health of these counterparties and a functioning interest rate derivative market in order to effectively execute our hedging strategy.

The table below details our interest rate exposure as of December 31, 2008 and December 31, 2007:

Interest Rate Exposure (in millions)	December 31, 2008	December 31, 2007
Value exposure to interest rates(1)		
Fixed rate assets	\$880	\$948
Fixed rate liabilities	(395)	(403)
Interest rate swaps	(466)	(513)
Net fixed rate exposure	\$19	\$32
Weighted average life (fixed rate assets)	4.9 yrs	5.6 yrs
Weighted average coupon (fixed rate assets)	6.90%	7.10%
Cash flow exposure to interest rates(1)		
Floating rate assets	\$1,949	\$2,235
Floating rate debt less cash	(1,931)	(2,286)
Interest rate swaps	466	513
Net floating rate exposure	\$484	\$462
Weighted average life (floating rate assets)	2.9 yrs	3.4 yrs
Weighted average coupon (floating rate assets) (2)	3.52%	7.65%
Net income impact from 100 bps change in LIBOR	\$4.8	\$4.7

(1) All values are in terms of face or notional amounts, and include loans classified as held-for-sale.

(2) Weighted average coupon assumes LIBOR at December 31, 2008 and December 31, 2007 of 0.44% and 4.60%, respectively. For \$37.9 million face value (\$37.5 million book value) of CMBS investments, calculations use an effective rate based on cash received.



## Investment Management Overview

In addition to our balance sheet investment activities, we act as an investment manager for third parties. We have developed our investment management business to leverage our platform, generate fee revenue from investing third party capital and, in certain instances, earn co-investment income. Our active investment management mandates are described below:

- CT High Grade II, held its initial closing in June 2008 with \$667 million of commitments from two institutional investors. The fund targets senior debt opportunities in the commercial real estate debt sector and does not employ leverage. We earn a 0.40% per annum management fee on invested capital.
- CTOPI is a multi-investor private equity fund designed to invest in commercial real estate debt and equity, specifically taking advantage of the current dislocation in the commercial real estate capital markets. On July 14, 2008, CTOPI held its final closing completing its capital raise with \$540 million total equity commitments. We have committed to invest \$25 million in the vehicle and entities controlled by our chairman have committed to invest \$20 million. The fund's investment period expires in December 2010, and we earn base management fees as the investment manager to CTOPI (1.60% per annum of total equity commitments during the investment period and of invested capital thereafter). In addition, we earn gross incentive management fees of 20% of profits after a 9% preferred return and a 100% return of capital.
- CT High Grade closed in November 2006, with a single, related party investor committing \$250 million. This separate account targets lower risk subordinate debt investments and does not utilize leverage and we earn management fees of 0.25% per annum on invested assets. In July 2007, we upsized the account by \$100 million to \$350 million and extended the investment period to July 2008.
- CT Large Loan closed in May 2006 with total equity commitments of \$325 million from eight third party investors. The fund employs leverage and we earn management fees of 0.75% per annum of invested assets (capped at 1.5% on invested equity). The investment period ended in May 2008.
- CTX Fund I, L.P., or CTX Fund, is a single investor fund designed to invest in collateralized debt obligations, or CDOs, sponsored, but not issued, by us. We do not earn fees on the CTX Fund, however, we earn CDO management fees from the CDOs in which the CTX Fund invests. We sponsored one such CDO in 2007, a \$500 million CDO secured primarily by credit default swaps referencing CMBS.
- Fund III is a vehicle we co-sponsored with a joint venture partner that had an investment period that ran from 2003 to 2005. The fund is currently liquidating in the ordinary course. We have a co-investment in the fund, earn 100% of base management fees and we split incentive management fees with our partner, who receives 37.5% of Fund III's incentive management fees.

As of December 31, 2008, we managed five private equity funds and one separate account through our wholly-owned, taxable, investment management subsidiary, CT Investment Management Co., LLC, or CTIMCO.

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Investment Management Mandates, as of December 31, 2008  
(in millions)

		Total	Total Capital	Co-	Base	Incentive Management Fee	
	Type	Investments(1)	Commitments	Investment	Management Fee	Company	Employee
				%		%	%
<b>Investing:</b>							
CT High Grade II	Fund	\$148	\$667	—	0.40% (Assets)	N/A	N/A
CTOPI	Fund	286	540	4.63%(2)	1.60% (Equity)	100%(3)	100%(4)
<b>Liquidating:</b>							
CT High Grade	Fund	344	350	—	0.25% (Assets)	N/A	N/A
CT Large Loan	Fund	275	325	—(5)	0.75% (Assets)(6)	N/A	N/A
CTX Fund	Fund	8	10(7)	—(5)	0.75% (Assets)(8)	100%(8)	0%(8)
Fund III	Sep. Acc.	44	425	4.71%	1.42% (Equity)	57%(9)	43%(4)

- (1) Represents total investments, on a cash basis, as of period-end
- (2) We have committed to invest \$25 million in CTOPI.
- (3) CTIMCO earns gross incentive management fees of 20% of profits after a 9% preferred return on capital and a 100% return of capital, subject to a catch-up.
- (4) Portions of the Fund III incentive management fees received by us have been allocated to our employees as long-term performance awards. We have not allocated any of the CTOPI incentive management fee to employees as of December 31, 2008.
- (5) We co-invest on a pari passu, asset by asset basis with CT Large Loan and CTX Fund.
- (6) Capped at 1.5% of equity.
- (7) In 2008, we reduced the total capital commitment in the CTX Fund to \$10 million.
- (8) CTIMCO serves as collateral manager of the CDOs in which the CTX Fund invests and CTIMCO earns base and incentive management fees as CDO collateral manager. As of December 31, 2008 we manage one such \$500 million CDO and earn base management fees of 0.15% of assets and have the potential to earn incentive management fees.
- (9) CTIMCO earns gross incentive management fees of 20% of profits after a 10% preferred return on capital and a 100% return of capital, subject to a catch-up.

We expect to continue to grow our investment management business, sponsoring additional investment management vehicles consistent with the strategy of developing mandates that are compleme