

CAPITAL TRUST INC  
Form 10-Q  
November 14, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File 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)

(212) 655-0220  
(Registrant's telephone number, including area code)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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Large accelerated filer   
Non-accelerated filer  (Do not check if a smaller  
reporting company)

Accelerated filer   
Smaller Reporting  
Company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of outstanding shares of the registrant's class A common stock, par value \$0.01 per share, as of November 9, 2012 was 24,205,573.

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CAPITAL TRUST, INC.  
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## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

Capital Trust, Inc. and Subsidiaries  
 Consolidated Balance Sheets  
 September 30, 2012 and December 31, 2011  
 (in thousands, except per share data)

|   | September 30,<br>2012<br>(unaudited) | December 31,<br>2011 |
|---|--------------------------------------|----------------------|
| <b>Assets</b>                                     |                                      |                      |
| Cash and cash equivalents                         | \$38,867                             | \$34,818             |
| Loans receivable, net                             | —                                    | 19,282               |
| Equity investments in unconsolidated subsidiaries | 18,710                               | 10,399               |
| Deferred income taxes                             | 3,094                                | 1,268                |
| Prepaid expenses and other assets                 | 2,096                                | 4,533                |
| Subtotal  | 62,767                               | 70,300               |
| <b>Assets of Consolidated Entities</b>            |                                      |                      |
| <b>CT Legacy REIT</b>                             |                                      |                      |
| Restricted cash                                   | 16,145                               | 12,985               |
| Securities held-to-maturity                       | —                                    | 2,602                |
| Loans receivable, net                             | —                                    | 206,514              |
| Loans held-for-sale, net                          | —                                    | 30,875               |
| Investment in CT Legacy Asset, at fair value      | 100,100                              | —                    |
| Accrued interest receivable and other assets      | —                                    | 2,119                |
| Subtotal  | 116,245                              | 255,095              |
| <b>Securitization Vehicles</b>                    |                                      |                      |
| Securities held-to-maturity                       | 154,848                              | 358,972              |
| Loans receivable, net                             | 214,457                              | 612,598              |
| Real estate held-for-sale                         | —                                    | 10,342               |
| Accrued interest receivable and other assets      | 32,880                               | 59,009               |
| Subtotal  | 402,185                              | 1,040,921            |
| <b>Total assets</b>                               | <b>\$581,197</b>                     | <b>\$1,366,316</b>   |

See accompanying notes to consolidated financial statements.

Capital Trust, Inc. and Subsidiaries  
Consolidated Balance Sheets  
September 30, 2012 and December 31, 2011  
(in thousands, except per share data)

|  | September 30,<br>2012<br>(unaudited) | December 31,<br>2011 |
|--|--------------------------------------|----------------------|
| <b>Liabilities &amp; Equity (Deficit)</b>  |                                      |                      |
| <b>Liabilities:</b>  |                                      |                      |
| Accounts payable, accrued expenses and other liabilities   | \$17,834                             | \$8,075              |
| Secured notes  | 8,326                                | 7,847                |
| Participations sold  | —                                    | 19,282               |
| Subtotal   | 26,160                               | 35,204               |
| <b>Non-Recourse Liabilities of Consolidated Entities</b>   |                                      |                      |
| <b>CT Legacy REIT</b>  |                                      |                      |
| Accounts payable, accrued expenses and other liabilities   | —                                    | 743                  |
| Repurchase obligations   | —                                    | 58,464               |
| Mezzanine loan, net of unamortized discount  | —                                    | 55,111               |
| Participations sold  | —                                    | 97,465               |
| Interest rate hedge liabilities  | —                                    | 8,817                |
| Subtotal   | —                                    | 220,600              |
| <b>Securitization Vehicles</b>   |                                      |                      |
| Accounts payable, accrued expenses and other liabilities   | 559                                  | 3,102                |
| Securitized debt obligations   | 497,423                              | 1,211,407            |
| Interest rate hedge liabilities  | 19,089                               | 24,942               |
| Subtotal   | 517,071                              | 1,239,451            |
| <b>Total liabilities</b>   | <b>543,231</b>                       | <b>1,495,255</b>     |
| <b>Commitments and contingencies</b>   | <b>—</b>                             | <b>—</b>             |
| <b>Equity (Deficit):</b>   |                                      |                      |
| Class A common stock, \$0.01 par value, 100,000 shares authorized, 21,979 and 21,967 shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively ("class A common stock")       | 220                                  | 220                  |
| Restricted class A common stock, \$0.01 par value, 537 and 244 shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively ("restricted class A common stock" and together with | 5                                    | 2                    |

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class A common stock, "common stock")

|   |            |             |
|---|------------|-------------|
| Additional paid-in capital                      | 597,866    | 597,049     |
| Accumulated other comprehensive loss            | (31,374 )  | (40,584 )   |
| Accumulated deficit                             | (591,276 ) | (667,111 )  |
| Total Capital Trust, Inc. shareholders' deficit | (24,559 )  | (110,424 )  |
| Noncontrolling interests                        | 62,525     | (18,515 )   |
| Total equity (deficit)                          | 37,966     | (128,939 )  |
| Total liabilities and equity (deficit)          | \$581,197  | \$1,366,316 |

See accompanying notes to consolidated financial statements.

Capital Trust, Inc. and Subsidiaries  
Consolidated Statements of Operations  
Three and Nine Months Ended September 30, 2012 and  
2011  
(in thousands, except share and per share data)  
(unaudited)

|   | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|---|-------------------------------------|-----------|------------------------------------|-----------|
|   | 2012                                | 2011      | 2012                               | 2011      |
| <b>Income from loans and other investments:</b>   |                                     |           |                                    |           |
| Interest and related income   | \$6,944                             | \$25,642  | \$28,423                           | \$95,187  |
| Less: Interest and related expenses   | 5,147                               | 21,838    | 33,902                             | 80,381    |
| Income from loans and other investments, net  | 1,797                               | 3,804     | (5,479 )                           | 14,806    |
| <b>Other revenues:</b>  |                                     |           |                                    |           |
| Management fees from affiliates   | 1,546                               | 1,753     | 4,741                              | 4,927     |
| Servicing fees  | 2,206                               | 1,460     | 5,591                              | 2,208     |
| Total other revenues  | 3,752                               | 3,213     | 10,332                             | 7,135     |
| <b>Other expenses:</b>  |                                     |           |                                    |           |
| General and administrative  | 7,141                               | 4,941     | 16,193                             | 19,868    |
| Total other expenses  | 7,141                               | 4,941     | 16,193                             | 19,868    |
| Total other-than-temporary impairments of securities  | —                                   | (30,687 ) | —                                  | (35,620 ) |
| Portion of other-than-temporary impairments of securities<br>recognized in other comprehensive income | —                                   | 173       | (160 )                             | (3,098 )  |
| Impairment of real estate held-for-sale   | —                                   | (1,055 )  | —                                  | (1,055 )  |
| Net impairments recognized in earnings  | —                                   | (31,569 ) | (160 )                             | (39,773 ) |
| Recovery of provision for loan losses   | 2,811                               | 17,152    | 2,819                              | 34,401    |
| Valuation allowance on loans held-for-sale  | —                                   | —         | —                                  | (224 )    |
| Gain on extinguishment of debt  | —                                   | 20,054    | —                                  | 271,031   |
| Fair value adjustment on investment in CT Legacy Asset  | 11,987                              | —         | 19,645                             | —         |
| Gain on deconsolidation of subsidiary   | —                                   | —         | 146,380                            | —         |
| Income from equity investments in unconsolidated subsidiaries   | 411                                 | 307       | 1,312                              | 2,105     |
| Income before income taxes  | 13,617                              | 8,020     | 158,656                            | 269,613   |
| Income tax provision (benefit)  | 717                                 | (236 )    | 1,783                              | 1,214     |
| Net income  | \$12,900                            | \$8,256   | \$156,873                          | \$268,399 |
| Net (income) loss attributable to noncontrolling interests  | (5,901 )                            | 5,466     | (81,038 )                          | (1,935 )  |
| Net income attributable to Capital Trust, Inc.  | \$6,999                             | \$13,722  | \$75,835                           | \$266,464 |
| <b>Per share information:</b>   |                                     |           |                                    |           |
| Net income per share of common stock:   |                                     |           |                                    |           |
| Basic   | \$0.30                              | \$0.60    | \$3.30                             | \$11.77   |
| Diluted   | \$0.28                              | \$0.57    | \$3.10                             | \$11.08   |



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Weighted average shares of common stock outstanding:

|         |            |            |            |            |
|---------|------------|------------|------------|------------|
| Basic   | 23,173,426 | 22,730,080 | 22,969,103 | 22,630,672 |
| Diluted | 24,616,026 | 24,121,973 | 24,442,061 | 24,057,374 |

See accompanying notes to consolidated financial statements.

Capital Trust, Inc. and Subsidiaries  
Consolidated Statements of Comprehensive Income  
Three and Nine Months Ended September 30, 2012 and  
2011  
(in thousands)  
(unaudited)

|   | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|---|-------------------------------------|----------|------------------------------------|-----------|
|   | 2012                                | 2011     | 2012                               | 2011      |
| Net income  | \$12,900                            | \$8,256  | \$156,873                          | \$268,399 |
| Other comprehensive income (loss):  |                                     |          |                                    |           |
| Unrealized gain (loss) on derivative financial instruments  | 2,103                               | (633 )   | 5,853                              | 2,912     |
| Gain on interest rate swaps no longer designated as cash<br>flow hedges   | —                                   | 1,246    | 2,481                              | 4,447     |
| Amortization of unrealized gains and losses on securities   | (4 )                                | 413      | (770 )                             | (93 )     |
| Amortization of deferred gains and losses on settlement<br>of swaps   | —                                   | (28 )    | (56 )                              | (75 )     |
| Other-than-temporary impairments of securities related to<br>fair value adjustments in excess of expected credit<br>losses, net of amortization | 206                                 | 270      | 419                                | 4,236     |
| Other comprehensive income  | 2,305                               | 1,268    | 7,927                              | 11,427    |
| Comprehensive income  | \$15,205                            | \$9,524  | \$164,800                          | \$279,826 |
| Comprehensive (income) loss attributable to<br>noncontrolling interests   | (5,901 )                            | 5,466    | (81,048 )                          | (1,935 )  |
| Comprehensive income attributable to<br>Capital Trust, Inc.   | \$9,304                             | \$14,990 | \$83,752                           | \$277,891 |

See accompanying notes to consolidated financial statements.

Capital Trust, Inc. and Subsidiaries  
Consolidated Statements of Changes in Equity (Deficit)  
For the Nine Months Ended September 30, 2012 and 2011  
(in thousands)  
(unaudited)

|  | Restricted<br>Class A<br>Common<br>Stock | Class<br>A<br>Common<br>Stock | Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Loss | Accumulated<br>Deficit | Total<br>Capital<br>Trust, Inc.<br>Shareholder<br>Deficit | Noncontrolling<br>Interests |
|--|--|-------------------------------|----------------------------------|---|------------------------|---|-----------------------------|
| Balance at January 1, 2011                                     | \$219                                    | \$—                           | \$559,411                        | (\$50,462)                                    | (\$920,355)            | (\$411,187)   | \$—                         |
| Net income   | —  | —                             | —                                | —   | 266,464                | 266,464   | 1,935                       |
| Other comprehensive income                                     | —  | —                             | —                                | 11,427  | —                      | 11,427  | —                           |
| Allocation to noncontrolling interests                         | —  | —                             | 37,156                           | —   | —                      | 37,156  | (12,623)                    |
| Purchase of noncontrolling interests                           | —  | —                             | (142)                            | —   | —                      | (142)   | —                           |
| Consolidation of additional securitization vehicles            | —  | —                             | —                                | 538   | (4,898)                | (4,360)   | —                           |
| Restricted class A common stock earned, net of shares deferred | 1  | 2                             | 324                              | —   | —                      | 327   | —                           |
| Deferred directors' compensation                               | —  | —                             | 150                              | —   | —                      | 150   | —                           |
| Balance at September 30, 2011                                  | \$220                                    | \$2                           | \$596,899                        | (\$38,497)                                    | (\$658,789)            | (\$100,165)   | (\$10,688)                  |
| Balance at January 1, 2012                                     | \$220                                    | \$2                           | \$597,049                        | (\$40,584)                                    | (\$667,111)            | (\$110,424)   | (\$18,515)                  |
| Net income   | —  | —                             | —                                | —   | 75,835                 | 75,835  | 81,038                      |
| Other comprehensive income                                     | —  | —                             | —                                | 7,917   | —                      | 7,917   | 10                          |
| Deconsolidation of CT Legacy Asset                             | —  | —                             | —                                | 1,293   | —                      | 1,293   | —                           |
| Distributions to noncontrolling interests                      | —  | —                             | —                                | —   | —                      | —   | (8)                         |
| Restricted class A common stock earned, net of shares deferred | —  | 3                             | 648                              | —   | —                      | 651   | —                           |
| Deferred directors' compensation                               | —  | —                             | 169                              | —   | —                      | 169   | —                           |
| Balance at September 30, 2012                                  | \$220                                    | \$5                           | \$597,866                        | (\$31,374)                                    | (\$591,276)            | (\$24,559)  | \$62,525                    |

See accompanying notes to consolidated financial statements.

Capital Trust, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
For the Nine Months Ended September 30, 2012 and  
2011  
(in thousands)  
(unaudited)

|   | 2012       | 2011       |
|---|------------|------------|
| <b>Cash flows from operating activities:</b>  |            |            |
| Net income  | \$156,873  | \$268,399  |
| Adjustments to reconcile net income to net cash provided by operating activities:         |            |            |
| Net impairments recognized in earnings  | 160        | 39,773     |
| Recovery of provision for loan losses   | (2,819 )   | (34,401 )  |
| Valuation allowance on loans held-for-sale  | —          | 224        |
| Gain on extinguishment of debt  | —          | (271,031 ) |
| Gain on deconsolidation of CT Legacy Asset  | (146,380 ) | —          |
| Fair value adjustment on CT Legacy Asset  | (19,645 )  | —          |
| Income from equity investments in unconsolidated subsidiaries                             | (1,312 )   | (2,105 )   |
| Distributions of income from unconsolidated subsidiaries                                  | 1,933      | —          |
| Employee stock-based compensation   | 675        | 411        |
| Incentive awards plan expense   | 944        | 3,395      |
| Deferred directors' compensation  | 169        | 150        |
| Distributions from CT Legacy Asset  | 9,221      | —          |
| Amortization of premiums/discounts on loans and securities and deferred interest on loans | (669 )     | (969 )     |
| Amortization of deferred gains and losses on settlement of swaps                          | (56 )      | (75 )      |
| Amortization of deferred financing costs and premiums/discounts on debt obligations       | 10,747     | 9,304      |
| Loss on interest rate swaps not designated as cash flow hedges                            | 2,772      | 6,255      |
| Changes in assets and liabilities, net:   |            |            |
| Accrued interest receivable   | (4,765 )   | 3,406      |
| Deferred income taxes   | (1,826 )   | (1,093 )   |
| Prepaid expenses and other assets   | 2,764      | 624        |
| Accounts payable and accrued expenses   | 2,812      | (2,931 )   |
| Net cash provided by operating activities   | 11,598     | 19,336     |
| <b>Cash flows from investing activities:</b>  |            |            |
| Principal collections and proceeds from securities  | 40,344     | 70,929     |
| Distributions from equity investments   | —          | 4,345      |
| Principal collections of loans receivable   | 91,889     | 1,879,041  |
| Proceeds from disposition of loans  | —          | 5,750      |
| Contributions to unconsolidated subsidiaries  | (4,030 )   | (3,413 )   |
| Distributions from unconsolidated subsidiaries  | 1,006      | 3,839      |
| Increase in restricted cash   | (3,160 )   | (13,715 )  |
| Net cash provided by investing activities   | 126,049    | 1,946,776  |
| <b>Cash flows from financing activities:</b>  |            |            |
| Borrowings under repurchase obligations   | 123,977    | —          |

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|   |            |              |
|---|------------|--------------|
| Repayments under repurchase obligations                   | (58,464 )  | (306,042 )   |
| Repayments under senior credit facility                   | —          | (22,932 )    |
| Repayment of junior subordinated notes                    | —          | (4,640 )     |
| Borrowing under mezzanine loan                            | —          | 83,000       |
| Repayments under mezzanine loan                           | (63,000 )  | (20,000 )    |
| Repayment of securitized debt obligations                 | (136,078 ) | (1,679,970 ) |
| Payment of financing expenses                             | —          | (11,126 )    |
| Purchase of and distributions to noncontrolling interests | (8 )       | (142 )       |
| Purchase of secured notes                                 | —          | (405 )       |
| Vesting of restricted Class A common stock                | (25 )      | (85 )        |
| Net cash used in financing activities                     | (133,598 ) | (1,962,342 ) |
| Net increase in cash and cash equivalents                 | 4,049      | 3,770        |
| Cash and cash equivalents at beginning of period          | 34,818     | 24,449       |
| Cash and cash equivalents at end of period                | \$38,867   | \$28,219     |

See accompanying notes to consolidated financial statements.

Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(unaudited)

#### Note 1. Organization

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

We are a real estate finance 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 September 30, 2012, we have completed approximately \$12.1 billion of commercial real estate investments. We conduct our operations as a real estate investment trust, or REIT, for federal income tax purposes. We are traded on the New York Stock Exchange, or NYSE, under the symbol “CT”, and are headquartered in New York City.

#### Sale of Investment Management Platform

On September 27, 2012, we announced our entry into a definitive purchase and sale agreement, or Purchase Agreement, with an affiliate, which we refer to as the Purchaser, of The Blackstone Group L.P., which we refer to as Blackstone. Pursuant to the Purchase Agreement, the Purchaser will acquire our investment management and special servicing businesses, operated through our subsidiary, CT Investment Management Co., LLC, or CTIMCO, and our related private investment fund co-investments for \$20.6 million. The Purchaser will also purchase for \$10.0 million, or \$2.00 per share, 5,000,000 shares of our class A common stock that will represent approximately 17.1% of our common stock outstanding following consummation of the transactions contemplated by the Purchase Agreement, which we refer to as the Transactions. The Purchase Agreement also contemplates that we will enter into a new management agreement pursuant to which a Blackstone affiliate, which we refer to as the New CT Manager, will manage Capital Trust, Inc. following the consummation of the Transactions. Pursuant to the new management agreement, the New CT Manager will manage Capital Trust, Inc. in accordance with investment guidelines and policies approved by our board of directors. Stephen D. Plavin, Geoffrey G. Jervis and Thomas C. Ruffing will continue to serve in their current executive management roles post-transaction. Consummation of the Transactions is subject to customary closing conditions, including the approval of the Transactions by the affirmative vote of the holders of a majority of the outstanding shares of common stock at a special meeting of shareholders that will be called to approve the Transactions. W. R. Berkley and its affiliated entities, holders of approximately 15.9% of our class A common stock, have entered into a voting agreement to support the transaction.

If the Transactions are consummated, we will pay a \$2.00 per share special cash dividend to holders of our class A common stock, which will be payable as soon as practicable following closing of the Transactions to shareholders of record as of the close of business on November 12, 2012.

In accordance with NYSE procedures, from November 7, 2012 through the special dividend payment date, our class A common stock will trade with “due-bills” representing an assignment of the right to receive the special dividend. Our class A common stock will not trade ex-dividend until the first business day after the special dividend payment date. Shareholders who sell their shares on or before the special dividend payment date will not be entitled to receive the special dividend.

The sources of funds for the special dividend will be cash on hand prior to the Transactions and the proceeds from the sale of CTIMCO and our private investment fund co-investments. The Purchaser will not receive the special dividend given that its investment in our class A common stock will close after the special dividend record date.

Following the Transactions, we will continue to own our existing cash balances (as reduced to fund expenses of the Transactions and the special dividend), our interest in CT Legacy REIT (as defined below), our carried interest in CT Opportunity Partners I, LP, as well as our retained subordinate interests in our three CT CDOs.

#### March 2011 Restructuring

On March 31, 2011, we restructured, amended, or extinguished all of our outstanding recourse debt obligations, which we refer to as our March 2011 restructuring. Our March 2011 restructuring involved: (i) the contribution of certain of our legacy assets to a newly formed subsidiary, CT Legacy REIT Mezz Borrower, Inc., or CT Legacy REIT, (ii) the assumption of our legacy repurchase obligations by CT Legacy REIT, and (iii) the extinguishment of the remainder of our recourse obligations, our senior credit facility and junior subordinated notes. The restructuring was financed with a new \$83.0 million mezzanine loan obtained by CT Legacy REIT from an affiliate of Five Mile Capital, and the issuance of equity interests in the common stock of CT Legacy REIT to the former lenders under our senior credit facility and our former junior subordinated noteholders, as well as to an affiliate of Five Mile Capital.

Following the completion of our March 2011 restructuring, we no longer have any recourse debt obligations, and retain unencumbered ownership of 100% of (i) our investment management platform, CT Investment Management Co., LLC, (ii) our co-investment in CT Opportunity Partners I, LP, (iii) our residual ownership interests in three of the CDOs that we issued, CT CDOs I, II, and IV, and (iv) our tax-basis net operating losses. Furthermore, we have a 52% equity interest in the common stock of CT Legacy REIT. Our economic interest in CT Legacy REIT is, however, subject to (i) the secured notes, which are non-recourse obligations that are collateralized by certain of our retained equity interests in the common stock of CT Legacy REIT, (ii) incentive awards that provide for the participation in amounts earned from our retained equity interests in the common stock of CT Legacy REIT, and (iii) the subordinate class B common stock of CT Legacy REIT owned by our former junior subordinate noteholders.

Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
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See Note 5 for further discussion of the secured notes, Note 9 for further discussion of the management incentive awards plan, and Note 6 for further discussion of the class B common stock.

In addition to our interest in the common stock of CT Legacy REIT, we also own 100% of its outstanding class A preferred stock. The class A preferred stock initially entitles us to cumulative preferred dividends of \$7.5 million per annum, which dividends will be reduced in January 2013 to the greater of (i) 2.5% of certain of CT Legacy REIT's assets, and (ii) \$1.0 million per annum.

#### CT Legacy Asset Deconsolidation

On February 10, 2012, we refinanced CT Legacy REIT's mezzanine loan and repurchase facility with a single, new \$124.0 million repurchase facility with JPMorgan. The borrower under the new JPMorgan facility, CT Legacy Asset, LLC, or CT Legacy Asset, is a wholly owned subsidiary of CT Legacy REIT and owns all of its assets, other than cash. As a result of the refinancing, CT Legacy REIT ceased to be the primary beneficiary of CT Legacy Asset and, therefore, discontinued the consolidation of CT Legacy Asset. As a result, its assets and liabilities were deconsolidated from our financial statements as of February 10, 2012.

See Note 6 for a further discussion of CT Legacy REIT and CT Legacy Asset.

#### Note 2. Summary of Significant Accounting Policies

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP, for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the consolidated financial statements and the related management's discussion and analysis of financial condition and results of operations filed with our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. In our opinion, all material adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation, in accordance with GAAP, have been included. The results of operations for the nine months ended September 30, 2012 are not necessarily indicative of results that may be expected for the entire year ending December 31, 2012.

#### Principles of Consolidation

The accompanying financial statements include, on a consolidated basis, our accounts, the accounts of our wholly-owned subsidiaries, and variable interest entities, or VIEs, in which we are the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation.

VIEs are defined as entities in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as its primary beneficiary, and is generally the entity with (i) the power to direct the activities that most significantly impact the VIE's economic performance, and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE.

Our consolidated subsidiaries include: (i) CT Legacy REIT, and (ii) five securitization vehicles, including our three CT CDOs which were sponsored and issued by us and one other similar vehicle. See Note 6 and Note 7 for additional



information on our investments in VIEs.

#### Balance Sheet Presentation

Our consolidated balance sheets separately present: (i) our direct assets and liabilities, (ii) the direct assets and liabilities of CT Legacy REIT, and (iii) the assets and liabilities of consolidated securitization vehicles, some of which were subsidiaries of CT Legacy REIT. Assets of all consolidated VIEs can generally only be used to satisfy the obligations of those VIEs, and the liabilities of consolidated VIEs are non-recourse to us.

We have aggregated all the assets and liabilities of the consolidated securitization vehicles due to our determination that these entities are substantively similar and therefore a further disaggregated presentation would not be more meaningful. Similarly, the notes to our consolidated financial statements separately describe (i) our direct assets and liabilities, (ii) the direct assets and liabilities of CT Legacy REIT, and (iii) the assets and liabilities of consolidated securitization vehicles, some of which were subsidiaries of CT Legacy REIT.

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Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
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#### Equity Investments in Unconsolidated Subsidiaries and Fair Value Option

Our co-investment interests in the private equity funds we manage are accounted for using the equity method. These entities' assets and liabilities are not consolidated into our financial statements due to our determination that (i) these entities are not VIEs, and (ii) the investors have sufficient rights to preclude consolidation by us. As such, we report our allocable percentage of the earnings or losses of these entities on a single line item in our consolidated statements of operations as income from equity investments.

One such fund, CT Opportunity Partners I, LP, or CTOPI, maintains its financial records at fair value in accordance with GAAP. We have applied such accounting relative to our investment in CTOPI, and include any adjustments to fair value recorded at the fund level in determining the income we record on our equity investment in CTOPI.

We have elected the fair value option of accounting for CT Legacy REIT's investment in CT Legacy Asset, pursuant to which we record this investment at fair value rather than at our historical cost investment amount. Additionally, changes in the fair value of this investment are recognized in our consolidated statement of operations. We made this election due to our determination that the fair value of the investment in CT Legacy Asset, as a net liquidating portfolio of assets subject to a non-recourse repurchase obligation, is more meaningful and indicative of our interests in CT Legacy Asset than equity method accounting. See Note 6 for additional discussion of CT Legacy REIT and CT Legacy Asset.

#### Revenue Recognition

Interest income from our loans receivable is recognized over the life of the investment using the effective interest method and is recorded on the accrual basis. Fees, premiums, discounts and direct costs associated with these investments are deferred until the loan is advanced and are then recognized over the term of the loan as an adjustment to yield. For loans where we have unfunded commitments, we amortize these fees and other items on a straight line basis. Fees on commitments that expire unused are recognized at expiration. Income accrual is generally suspended for loans at the earlier of the date at which payments become 90 days past due or when, in the opinion of management, recovery of income and principal becomes doubtful. Income is then recorded on the basis of cash received until accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed.

Interest income from our securities is recognized using a level yield with any purchase premium or discount accreted through income over the life of the security. This yield is calculated using cash flows expected to be collected which are based on a number of assumptions on the underlying loans. Examples include, among other things, the rate and timing of principal payments, including prepayments, repurchases, defaults and liquidations, the pass-through or coupon rate, and interest rates. Additional factors that may affect reported interest income on our securities include interest payment shortfalls due to delinquencies on the underlying mortgage loans and the timing and magnitude of expected credit losses on the mortgage loans underlying the securities. These are impacted by, among other things, the general condition of the real estate market, including competition for tenants and their related credit quality, and changes in market rental rates. These uncertainties and contingencies are difficult to predict and are subject to future events that may alter the assumptions.

Fees from special servicing and asset management services are recorded on an accrual basis as services are rendered under the applicable agreements, and when receipt of fees is reasonably certain. We do not recognize incentive income from our investment management business until contingencies have been eliminated. Recognition of incentive income allocated or paid to us prior to that date is deferred and recorded as deferred incentive income liability under accounts payable, accrued expenses and other liabilities on our consolidated balance sheet. Depending on the structure of our investment management vehicles, certain incentive fees may be in the form of carried interest or promote

distributions.

#### Cash and Cash Equivalents

We classify highly liquid investments with original maturities of three months or less from the date of purchase as cash equivalents. We place our cash and cash equivalents with high credit quality institutions to minimize credit risk exposure. As of, and for the periods ended, September 30, 2012 and December 31, 2011, we had bank balances in excess of federally insured amounts. We have not experienced any losses on our demand deposits, commercial paper or money market investments.

#### Restricted Cash

We classify the cash balances held by CT Legacy REIT as restricted because, while these cash balances are available for use by CT Legacy REIT for operations, debt service, or other purposes, they cannot be used by us until our allocable share is distributed from CT Legacy REIT, and cannot be co-mingled with any of our other, unrestricted cash balances. See Note 6 for additional discussion of CT Legacy REIT.

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Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
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### Securities

We classify our securities as held-to-maturity, available-for-sale, or trading on the date of acquisition of the investment. Held-to-maturity investments are stated at cost, adjusted for the amortization of any premiums or discounts, which are amortized through our consolidated statements of operations using the level yield method described above. Other than in the instance of an other-than-temporary impairment, as discussed below, these held-to-maturity investments are carried on our consolidated financial statements at their amortized cost basis.

We may also invest in securities which may be classified as available-for-sale. Available-for-sale securities are carried at estimated fair value with the net unrealized gains or losses reported as a component of accumulated other comprehensive income (loss) in shareholders' equity. Changes in the valuations do not affect our reported income or cash flows, but do impact shareholders' equity and, accordingly, book value per share. On August 4, 2005, we changed the accounting classification of certain of our securities from available-for-sale to held-to-maturity. We have not designated any securities as available-for-sale since that time.

Further, as required under GAAP, when, based on current information and events, there has been an adverse change in the cash flows expected to be collected from those previously estimated for one of our securities, an other-than-temporary impairment is deemed to have occurred. A change in expected cash flows is considered adverse if the present value of the revised cash flows (taking into consideration both the timing and amount of cash flows expected to be collected) discounted using the security's current yield is less than the present value of the previously estimated remaining cash flows, adjusted for cash receipts during the intervening period.

Should an other-than-temporary impairment be deemed to have occurred, the security is written down to fair value. The total other-than-temporary impairment is bifurcated into (i) the amount related to expected credit losses, and (ii) the amount related to fair value adjustments in excess of expected credit losses, or the Valuation Adjustment. The portion of the other-than-temporary impairment related to expected credit losses is calculated by comparing the amortized cost basis of the security to the present value of cash flows expected to be collected, discounted at the security's current yield, and is recognized through earnings in the consolidated statement of operations. The remaining other-than-temporary impairment related to the Valuation Adjustment is recognized as a component of accumulated other comprehensive income (loss) in shareholders' equity. A portion of other-than-temporary impairments recognized through earnings is accreted back to the amortized cost basis of the security through interest income, while amounts recognized through other comprehensive income (loss) are amortized over the life of the security with no impact on earnings.

### Loans Receivable, Provision for Loan Losses, Loans Held-for-Sale and Related Allowance

We purchase and originate commercial real estate debt and related instruments, or Loans, generally to be held as long-term investments at amortized cost. Management is required to periodically evaluate each of these Loans for possible impairment. Impairment is indicated when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the Loan. If a Loan is determined to be impaired, we write down the Loan through a charge to the provision for loan losses. Impairment on these loans is measured by comparing the estimated fair value of the underlying collateral to the book value of the respective loan. These valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management. Actual losses, if any, could ultimately differ from these estimates.

In conjunction with our quarterly loan portfolio review, management assesses the performance of each loan, and assigns a risk rating based on several factors including risk of loss, loan-to-value ratio, or LTV, collateral

performance, structure, exit plan, and sponsorship. Loans are rated one through eight, which are defined as follows:

- 1 -Low Risk: A loan that is expected to perform through maturity, with relatively lower LTV, higher in-place debt yield, and stable projected cash flow.
- 2 -Average Risk: A loan that is expected to perform through maturity, with medium LTV, average in-place debt yield, and stable projected cash flow.
- 3 Acceptable Risk: A loan that is expected to perform through maturity, with relatively higher LTV, acceptable in-place debt yield, and some uncertainty (due to lease rollover or other factors) in projected cash flow.
- 4 - Higher Risk: A loan that is expected to perform through maturity, but has exhibited a material deterioration in cash flow and/or other credit factors. If negative trends continue, default could occur.
- 5 -Low Probability of Default/Loss: A loan with one or more identified weakness that we expect to have a 15% probability of default or principal loss.

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Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
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- 6 -Medium Probability of Default/Loss: A loan with one or more identified weakness that we expect to have a 33% probability of default or principal loss.
- 7 High Probability of Default/Loss: A loan with one or more identified weakness that we expect to have a 67% or - higher probability of default or principal loss.
- 8 - In Default: A loan which is in contractual default and/or which has a very high likelihood of principal loss.

In addition, for certain pools of smaller loans which have similar credit characteristics, primarily loans with an outstanding principal balance of \$10.0 million or less in our consolidated securitization vehicles, we have recorded a general provision for loan losses in lieu of the asset-specific provisions we record on all other loans. This general provision is based on macroeconomic data with respect to historic loan losses, vintage, property type, and other factors deemed relevant for such loan pools. These loans do not undergo the same level of asset management as our larger investments.

In certain cases, we may classify loans as held-for-sale based upon the specific facts and circumstances of particular Loans, including known or expected transactions. Loans held-for-sale are carried at the lower of their amortized cost basis and fair value. A reduction in the fair value of loans held-for-sale is recorded as a charge to our consolidated statement of operations as a valuation allowance on loans held-for-sale.

#### Real Estate Held-for-Sale

Loan investments where we have foreclosed upon the underlying collateral and own an equity interest in real estate are categorized as real estate owned. We generally do not intend to hold such foreclosed assets for long-term operations and therefore classify such assets as real estate held-for-sale on our consolidated balance sheets. Real estate held-for-sale are carried at the lower of our basis in the real estate and fair value, less cost to sell, with reductions in fair value recorded as an impairment of real estate-held-for-sale on our consolidated statements of operations.

#### Deferred Financing Costs

The deferred financing costs which are included in prepaid expenses and other assets on our consolidated balance sheets include issuance costs related to our debt obligations, and are amortized using the effective interest method, or a method that approximates the effective interest method, over the life of the related obligations.

#### Repurchase Obligations

In certain circumstances, we have financed the purchase of investments from a counterparty through a repurchase obligation with that same counterparty. We record these investments in the same manner as other investments financed with repurchase obligation, with the investment recorded as an asset and the related borrowing under any repurchase agreement recorded as a liability on our consolidated balance sheets. Interest income earned on the investments and interest expense incurred on the repurchase obligations are reported separately on our consolidated statements of operations.

#### Interest Rate Derivative Financial Instruments

In the normal course of business, we use interest rate derivative financial instruments to manage, or hedge, cash flow variability caused by interest rate fluctuations. Specifically, we currently use interest rate swaps to effectively convert floating rate liabilities that are financing fixed rate assets to fixed rate liabilities. The differential to be paid or received on these agreements is recognized on the accrual basis as an adjustment to the interest expense related to the attendant liability. The interest rate swap agreements are generally accounted for on a held-to-maturity basis, and, in cases

where they are terminated early, any gain or loss is generally amortized over the remaining life of the hedged item. These swap agreements must be effective in reducing the variability of cash flows of the hedged items in order to qualify for the aforementioned hedge accounting treatment. Changes in value of effective cash flow hedges are reflected on our consolidated financial statements through accumulated other comprehensive income (loss) and do not affect our net income (loss). To the extent a derivative does not qualify for hedge accounting, and is deemed a non-hedge derivative, the changes in its value are included in net income (loss).

To determine the fair value of interest rate derivative financial instruments, we use a third-party derivative specialist to assist us in periodically valuing our interests.

#### Income Taxes

Our financial results generally do not reflect provisions for current or deferred income taxes on our REIT taxable income. Management believes that we operate in a manner that will continue to allow us to be taxed as a REIT and, as a result, we generally do not expect to pay substantial corporate level taxes other than those payable by our taxable REIT subsidiaries. Many of these requirements, however, are highly technical and complex. If we were to fail to meet these requirements, we may be subject to federal, state and local income tax on current and past income, and penalties. See Note 10 for additional information.

Capital Trust, Inc. and Subsidiaries  
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#### Accounting for Stock-Based Compensation

Stock-based compensation expense is recognized in net income using a fair value measurement method, which we determine with the assistance of a third-party appraisal firm. Compensation expense for the time vesting of stock-based compensation grants is recognized on the accelerated attribution method and compensation expense for performance vesting of stock-based compensation grants is recognized on a straight line basis.

The fair value of the performance vesting restricted common stock is measured on the grant date using a Monte Carlo simulation to estimate the probability of the market vesting conditions being satisfied. The Monte Carlo simulation is run approximately 100,000 times. For each simulation, the payoff is calculated at the settlement date, and is then discounted to the grant date at a risk-free interest rate. The average of the values over all simulations is the expected value of the restricted common stock on the grant date. The valuation is performed in a risk-neutral framework, so no assumption is made with respect to an equity risk premium. Significant assumptions used in the valuation include an expected term and stock price volatility, an estimated risk-free interest rate and an estimated dividend growth rate.

Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by us.

#### Comprehensive Income (Loss)

Total comprehensive income was \$164.8 million and \$279.8 million for the nine months ended September 30, 2012 and 2011, respectively. The primary components of comprehensive income other than net income are the unrealized gains and losses on derivative financial instruments and the component of other-than-temporary impairments of securities related to the Valuation Adjustment.

#### Earnings per Share of Common Stock

Basic earnings per share, or EPS, is computed based on the net earnings allocable to common stock and stock units, divided by the weighted average number of shares of common stock and stock units outstanding during the period. Diluted EPS is determined using the treasury stock method, and is based on the net earnings allocable to common stock and stock units, divided by the weighted average number of shares of common stock, stock units and potentially dilutive common stock options and warrants. See Note 8 for additional discussion of earnings per share.

#### Use of Estimates

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

#### Reclassifications

Certain reclassifications have been made in the presentation of the prior period consolidated financial statements to conform to the September 30, 2012 presentation.

#### Segment Reporting

We operate in two reportable segments. We have an internal information system that produces performance and asset data for the two segments along service lines.



The Balance Sheet Investment segment includes our consolidated portfolio of interest earning assets and the financing thereof. The Investment Management segment includes the investment management activities of our wholly-owned investment management subsidiary, CT Investment Management Co., LLC, or CTIMCO, and its subsidiaries, as well as our co-investments in investment management vehicles. CTIMCO is a taxable REIT subsidiary and serves as the investment manager of Capital Trust, Inc., all of our investment management vehicles and CT CDOs, and serves as senior servicer and special servicer for certain of our investments and for third-parties.

#### Fair Value of Financial Instruments

The “Fair Value Measurements and Disclosures” Topic of the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or the Codification, defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements under GAAP. Specifically, this guidance defines fair value based on exit price, or the price that would be received upon the sale of an asset or the transfer of a liability in an orderly transaction between market participants at the measurement date. Our assets and liabilities which are measured at fair value are discussed in Note 12.

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#### Recent Accounting Pronouncements

In April 2011, the FASB issued Accounting Standards Update 2011-02, "Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring," or ASU 2011-02. ASU 2011-02 primarily clarifies when creditors should classify loan modifications as troubled debt restructurings and provides examples and factors to be considered. Loan modifications which are considered troubled debt restructurings could result in additional disclosure requirements and could impact the related provision for loan losses. ASU 2011-02 is effective for the first interim or annual period beginning after June 15, 2011, with retrospective application to the beginning of the year. The adoption of ASU 2011-02 did not have a material impact on our financial statements, however will impact how we account for loan modifications, and may result in an increase in the loan modifications we classify as troubled debt restructurings, and therefore our provision for loan losses.

In April 2011, the FASB issued Accounting Standards Update 2011-03, "Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements," or ASU 2011-03. ASU 2011-03 primarily removes certain criteria from the consideration of effective control over assets subject to repurchase agreements. The removal of these criteria will generally result in asset transfers pursuant to repurchase agreements being accounted for as secured borrowings, with both the transferred assets and repurchase liability recorded on the transferor's balance sheet. ASU 2011-03 is effective for the first interim or annual period beginning after December 15, 2011, and is to be applied prospectively to transactions which occur subsequent to the effective date. The adoption of ASU 2011-03 did not have a material impact on our financial statements.

In May 2011, the FASB issued Accounting Standards Update 2011-04, "Fair Value Measurement (Topic 860): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," or ASU 2011-04. ASU 2011-04 amends existing guidance on fair value measurements related to (i) instruments held in a portfolio, (ii) instruments classified within shareholders' equity, (iii) application of the "highest and best use" concept to nonfinancial assets, (iv) application of blockage factors and other premiums and discounts in the valuation process, and (v) other matters. In addition, ASU 2011-04 expanded the required disclosures around fair value measurements including (i) reporting the level in the fair value hierarchy used to value assets and liabilities which are not measured at fair value, but where fair value is disclosed, and (ii) qualitative disclosures about the sensitivity of Level 3 fair value measurements to changes in unobservable inputs used. ASU 2011-04 is effective for the first interim or annual period beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on our financial statements, however it did expand our disclosures related to fair value measurements.

In June 2011, the FASB issued Accounting Standards Update 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income," or ASU 2011-05. ASU 2011-05 does not change the items that must be reported in other comprehensive income, however it eliminates the option to present other comprehensive income on the statement of shareholders' equity and instead requires either (i) a continuous statement of comprehensive income which would replace the current statement of operations, or (ii) an additional statement of other comprehensive income, which would immediately follow the statement of operations, and would report the components of other comprehensive income. In December 2011, the FASB issued Accounting Standards Update 2011-12, "Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassification Items Out of Accumulated Comprehensive Income in Accounting Standards Update 2011-05," or ASU 2011-12. ASU 2011-12 maintained the presentation requirements for comprehensive income under ASU 2011-05, however deferred the requirement to present certain reclassification adjustments into and out of accumulated other comprehensive income on a gross basis. ASU 2011-05 and ASU 2011-12 are both effective for the first interim or annual period beginning after December 15, 2011, and should be applied retrospectively to all periods reported after the effective date. Our early adoption, as permitted, of ASU 2011-05 and ASU 2011-12 as of December 31, 2011 did not have a material

impact on our financial statements, other than the change in presentation of comprehensive income as a separate financial statement.

Note 3. Loans Receivable, Net and Loan Participations Sold

As described in Note 1, in conjunction with our March 2011 restructuring of our recourse debt obligations, a significant portion of our assets, including all of our loans, were transferred to a majority-owned subsidiary, CT Legacy REIT. Our only remaining loan was one which had previously been sold to a third-party and recorded as a participation sold asset and liability. In addition, as described in Note 2, our consolidated balance sheets separately state our direct assets and liabilities and certain assets and liabilities of consolidated subsidiaries. See Note 6 for disclosures regarding loans receivable that have been transferred to CT Legacy REIT, and see Note 7 for comparable disclosures regarding loans receivable that are held in consolidated securitization vehicles, as separately stated on our consolidated balance sheets.

Capital Trust, Inc. and Subsidiaries  
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Participations sold represent interests in certain loans that we originated and subsequently sold to one of our investment management vehicles or to third-parties. We have historically presented these participations sold as both assets and non-recourse liabilities because these arrangements do not qualify as sales under GAAP. Generally, participations sold are recorded as assets and liabilities in equal amounts on our consolidated balance sheets, and an equivalent amount of interest income and interest expense is recorded on our consolidated statements of operations. We have no economic exposure to these liabilities.

During September 2012, our one remaining loan participation sold was repaid.

#### Note 4. Equity Investments in Unconsolidated Subsidiaries

Our equity investments in unconsolidated subsidiaries consist of our co-investments in investment management vehicles that we sponsor and manage. As of September 30, 2012, we had a co-investment in two such vehicles, CT Opportunity Partners I, LP, or CTOPI, and CT High Grade Partners II, LLC, or CT High Grade II.

In December 2007, we made a commitment to invest up to \$25.0 million in CTOPI, or 4.6% of CTOPI's total capital commitments. We have funded \$17.1 million of our commitment as of September 30, 2012 and received \$6.9 million as a return of capital, resulting in a \$10.2 million funded and a \$14.8 million unfunded commitment balance. Subsequent to the expiration of CTOPI's investment period in September 2012, our obligation to fund additional capital to CTOPI is limited.

In accordance with the CTOPI management agreement, CTIMCO may earn incentive compensation in an amount equal to 17.7% of the fund's profits, after a 9% preferred return and 100% return of capital to the CTOPI partners. While we have not yet received any incentive distributions from CTOPI, we have been allocated \$5.9 million of incentive compensation based on a hypothetical liquidation of the fund at its net asset value as of September 30, 2012. Accordingly, we have recognized this allocation as part of our equity investment in CTOPI, however we have deferred the recognition of income until cash is collected or appropriate contingencies have been eliminated.

In April 2012, we purchased a 0.44% interest in CT High Grade II from an existing investor for \$2.8 million, representing our initial co-investment in CT High Grade II. Our co-investment represents a \$2.9 million total capital commitment to CT High Grade II, of which our unfunded commitment is \$480,000 as of September 30, 2012. As CT High Grade II's investment period expired in May 2011, our obligation to fund additional capital to CT High Grade II is limited.

Activity relating to our equity investments in unconsolidated subsidiaries for the nine months ended September 30, 2012 was as follows (in thousands):

|  | CTOPI    | CT High<br>Grade II | Total    |
|--|----------|---------------------|----------|
| December 31, 2011  | \$10,399 | \$—                 | \$10,399 |
| Contributions  | 1,241    | 2,789               | 4,030    |
| Income from equity investments in<br>unconsolidated subsidiaries (1) | 7,068    | 153                 | 7,221    |
| Distributions  | (2,940 ) | —                   | (2,940 ) |

|                    |          |         |          |
|--------------------|----------|---------|----------|
| September 30, 2012 | \$15,768 | \$2,942 | \$18,710 |
|--------------------|----------|---------|----------|

- (1) Includes \$5.9 million of incentive income allocated to us from CTOPI under the equity method of accounting. This incentive income has not been recognized into earnings, but recorded as a deferred incentive income liability under accounts payable, accrued expenses and other liabilities on our consolidated balance sheet.

As of September 30, 2012, our maximum exposure to loss from CTOPI and CT High Grade II was \$7.7 million and \$2.8 million, respectively.

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#### Note 5. Debt Obligations

As described in Note 1, on March 31, 2011, we restructured, amended, or extinguished all of our outstanding recourse debt obligations. In addition, as described in Note 1, our consolidated balance sheets separately state our direct assets and liabilities and certain assets and liabilities of consolidated subsidiaries. See Note 6 for disclosures regarding debt obligations of CT Legacy REIT, and see Note 7 for comparable disclosures regarding debt obligations of consolidated securitization vehicles, all of which are non-recourse to us, as separately stated on our consolidated balance sheets.

In conjunction with our March 2011 restructuring and the corresponding satisfaction of our senior credit facility and junior subordinated notes, wholly-owned subsidiaries issued secured notes to these former creditors, which secured notes are non-recourse to us. The secured notes had an aggregate initial face balance of \$7.8 million and are secured by 93.5% of our equity interests in the class A-1 and class A-2 common stock of CT Legacy REIT, which represents 48.3% of the total outstanding class A-1 and class A-2 common stock of CT Legacy REIT. The secured notes mature on March 31, 2016 and bear interest at a rate of 8.2% per annum, which interest may be deferred until maturity. All dividends we receive from our equity interests in the common stock of CT Legacy REIT which serve as collateral under the secured notes must be used to pay, or prepay, interest and principal due thereunder, and only after the notes' full satisfaction will we receive any cash flow from the common equity interests in CT Legacy REIT that serve as collateral for the notes. Any prepayment, or partial prepayment, of the secured notes will incur a prepayment premium resulting in a total payment of principal and interest under the secured notes of \$11.1 million.

We had secured notes outstanding with an accreted book value of \$8.3 million and \$7.8 million as of September 30, 2012 and December 31, 2011, respectively.

#### Note 6. CT Legacy REIT

As discussed in Note 1, in connection with the March 2011 restructuring, we transferred substantially all of our directly held interest earning assets to a subsidiary of CT Legacy REIT. CT Legacy REIT is beneficially owned 52% by us, 24% by an affiliate of Five Mile Capital (the former mezzanine lender to CT Legacy REIT), and 24% by the former lenders under our senior credit facility. In addition, the former holders of our junior subordinated notes received class B common stock, a subordinate class of common stock which entitles its holders to receive approximately 25% of the dividends that would otherwise be payable to us on our equity interest in the common stock of CT Legacy REIT, after aggregate cash distributions of \$50.0 million have been paid to all other classes of common stock. We manage CT Legacy REIT and CT Legacy Asset as a liquidating portfolio.

On February 10, 2012, we refinanced CT Legacy REIT's mezzanine loan and repurchase facility with a single, new \$124.0 million repurchase facility with JPMorgan. The borrower under the new JPMorgan facility, CT Legacy Asset, is a wholly owned subsidiary of CT Legacy REIT and owns all of its assets, other than cash. As a result of the refinancing, we discontinued consolidation of CT Legacy Asset. As a result, its assets and liabilities were deconsolidated from our financial statements as of February 10, 2012. We recognized a gain of \$146.4 million on the deconsolidation of CT Legacy Asset, which was primarily the reversal of charges to GAAP equity resulting from losses previously recorded in excess of our economic interests in securitization vehicles which were consolidated by CT Legacy Asset.

As of September 30, 2012, our consolidated balance sheet includes (i) restricted cash of \$16.1 million at CT Legacy REIT, and (ii) a \$100.1 million investment in CT Legacy Asset, a 100% owned subsidiary of CT Legacy REIT. Prior to February 10, 2012, CT Legacy Asset was consolidated and therefore our consolidated balance sheet included its

loans receivables, securities held-to-maturity, other assets, debt obligations and other liabilities.

The liabilities of CT Legacy Asset are all non-recourse to CT Legacy REIT and us. Neither we, nor CT Legacy REIT is obligated to provide, nor have we or CT Legacy REIT provided, any financial support to CT Legacy Asset.

As described in Note 2, our consolidated balance sheets separately present: (i) our direct assets and liabilities, (ii) the direct assets and liabilities of CT Legacy REIT, and (iii) the assets and liabilities of consolidated securitization vehicles. The following disclosures relate specifically to the direct assets and liabilities of CT Legacy REIT, as separately stated on our consolidated balance sheets.

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Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(unaudited)

## A. Securities Held-to-Maturity – CT Legacy REIT

CT Legacy REIT's securities portfolio consists of CMBS, CDOs, and other securities. Activity relating to these securities for the nine months ended September 30, 2012 was as follows (in thousands):

|  | CMBS     | CDOs & Other | Total<br>Book Value |
|--|----------|--------------|---------------------|
| December 31, 2011                      | \$1,346  | \$1,256      | \$2,602             |
| Principal paydowns                     | (17 )    | —            | (17 )               |
| Discount/premium amortization & other  | 18       | 7            | 25                  |
| Deconsolidation of CT Legacy Asset (1) | (1,347 ) | (1,263 )     | (2,610 )            |
| September 30, 2012                     | \$—      | \$—          | \$—                 |

- (1) As further described above, we deconsolidated CT Legacy Asset in the first quarter of 2012. As a result, the securities owned by CT Legacy REIT are no longer included in our consolidated financial statements.

The following table details overall statistics for CT Legacy REIT's securities portfolio as of September 30, 2012 and December 31, 2011:

|                                    | September<br>30, 2012 | December 31,<br>2011 |
|------------------------------------|-----------------------|----------------------|
| Number of securities               |                       | 6                    |
| Number of issues                   |                       | 5                    |
| Rating (1) (2)                     | N/A                   | CCC+                 |
| Fixed / Floating (in millions) (3) | \$ / \$               | \$2 / \$1            |
| Coupon (1) (4)                     | N/A                   | 5.43%                |
| Yield (1) (4)                      | N/A                   | 3.31%                |
| Life (years) (1) (5)               | N/A                   | 4.9                  |

- (1) Represents a weighted average as of December 31, 2011.
- (2) Weighted average ratings are based on the lowest rating published by Fitch Ratings, Standard & Poor's or Moody's Investors Service for each security.
- (3) Represents the aggregate net book value of the portfolio allocated between fixed rate and floating rate securities.
- (4) Coupon is based on the securities' contractual interest rates, while yield is based on expected cash flows for each security, and considers discounts/premiums and asset non-performance. Calculations for floating rate securities are based on LIBOR of 0.30% as of December 31, 2011.
- (5) Weighted average life is based on the timing and amount of future expected principal payments through the expected repayment date of each respective investment.



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The table below details the ratings and vintage distribution of CT Legacy REIT's securities as of December 31, 2011 (in thousands):

| Vintage | Rating as of December 31, 2011 |               | Total   |
|---------|--------------------------------|---------------|---------|
|         | B                              | CCC and Below |         |
| 2003    | \$—                            | \$1,256       | \$1,256 |
| 1997    | 179                            | —             | 179     |
| 1996    | —                              | 1,167         | 1,167   |
| Total   | \$179                          | \$2,423       | \$2,602 |

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Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(unaudited)

## Other-than-temporary impairments

The following table summarizes activity related to the other-than-temporary impairments of CT Legacy REIT's securities during the nine months ended September 30, 2012 (in thousands):

|  | Gross<br>Other-Than-Temporary<br>Impairments | Credit Related<br>Other-Than-Temporary<br>Impairments | Non-Credit Related<br>Other-Than-Temporary<br>Impairments |
|--|--|---|---|
| December 31, 2011                                | \$26,557                                     | \$26,105  | \$452   |
| Amortization of other-than-temporary impairments | (24 )  | (11 )   | (13 )   |
| Deconsolidation of CT Legacy Asset (1)           | (26,533 )                                    | (26,094 )   | (439 )  |
| September 30, 2012                               | \$—  | \$—   | \$—   |

- (1) As further described in Note 1 above, we deconsolidated CT Legacy Asset in the first quarter of 2012. As a result, the securities owned by CT Legacy REIT, some of which were other-than-temporarily impaired, are no longer included in our consolidated financial statements.

## Unrealized losses and fair value of securities

Certain of CT Legacy REIT's securities were carried at values in excess of their fair values. This difference can be caused by, among other things, changes in credit spreads and interest rates.

The following table shows the gross unrealized losses and fair value of securities for which the fair value is lower than their book value as of December 31, 2011, and that are not deemed to be other-than-temporarily impaired (in millions):

|                  | Less Than 12 Months     |                             | Greater Than 12 Months  |                             | Total                   |                             | Book<br>Value (1) |
|------------------|-------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|-----------------------------|-------------------|
|                  | Estimated<br>Fair Value | Gross<br>Unrealized<br>Loss | Estimated<br>Fair Value | Gross<br>Unrealized<br>Loss | Estimated<br>Fair Value | Gross<br>Unrealized<br>Loss |                   |
| Floating<br>Rate | \$—                     | \$—                         | \$0.2                   | (\$1.1 )                    | \$0.2                   | (\$1.1 )                    | \$1.3             |
| Fixed<br>Rate    | 1.2                     | —                           | —                       | —                           | 1.2                     | —                           | 1.2               |
| Total            | \$1.2                   | \$—                         | \$0.2                   | (\$1.1 )                    | \$1.4                   | (\$1.1 )                    | \$2.5             |

- (1) Excludes, as of December 31, 2011, \$179,000 of securities which were carried at or below fair value and securities against which an other-than-temporary impairment equal to the entire book value was recognized in

earnings.

As of December 31, 2011, two of CT Legacy REIT's securities with an aggregate book value of \$2.5 million were carried at a value in excess of their fair value. Fair value for these securities was \$1.4 million as of December 31, 2011. In total, as of December 31, 2011, CT Legacy REIT had six investments in securities with an aggregate book value of \$2.6 million that have an estimated fair value of \$1.6 million, including two investments in CMBS with an estimated fair value of \$1.4 million and four investments in CDOs and other securities with an estimated fair value of \$158,000.

We determine fair values using a combination of third-party dealer assessments of value and our own internal financial model-based estimations of fair value. See Note 12 for further discussion of fair value.

Our estimation of cash flows expected to be generated by our securities portfolio is based upon an internal review of the underlying loans securing our investments both on an absolute basis and compared to our initial underwriting for each investment. Our efforts are supplemented by third-party research reports, third-party market assessments and our dialogue with market participants. We attribute the difference between book value and estimated fair value to the current market dislocation and a general negative bias against structured financial products such as CMBS and CDOs.

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Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(unaudited)

B. Loans Receivable, Net – CT Legacy REIT

Activity relating to CT Legacy REIT's loans receivable for the nine months ended September 30, 2012 was as follows (in thousands):

|  | Gross Book<br>Value | Provision for<br>Loan Losses | Net Book<br>Value (1) |
|--|---------------------|------------------------------|-----------------------|
| December 31, 2011                      | \$436,314           | (\$229,800 )                 | \$206,514             |
| Principal paydowns                     | (254 )              | —                            | (254 )                |
| Discount/premium amortization & other  | 28                  | —                            | 28                    |
| Deconsolidation of CT Legacy Asset (2) | (436,088 )          | 229,800                      | (206,288 )            |
| September 30, 2012                     | \$—                 | \$—                          | \$—                   |

- (1) Includes loans with a total principal balance of \$436.0 million as of December 31, 2011.  
(2) As further described above, we deconsolidated CT Legacy Asset in the first quarter of 2012. As a result, the loans owned by CT Legacy REIT are no longer included in our consolidated financial statements.

The following table details overall statistics for CT Legacy REIT's loans receivable portfolio as of September 30, 2012 and December 31, 2011:

|                                    | September<br>30, 2012 | December 31,<br>2011 |
|------------------------------------|-----------------------|----------------------|
| Number of investments              |                       | 17                   |
| Fixed / Floating (in millions) (1) | \$ / \$               | \$56 / \$151         |
| Coupon (2) (3)                     | N/A                   | 4.59%                |
| Yield (2) (3)                      | N/A                   | 5.21%                |
| Maturity (years) (2) (4)           | N/A                   | 1.4                  |

- (1) Represents the aggregate net book value of the portfolio allocated between fixed rate and floating rate loans.  
(2) Represents a weighted average as of December 31, 2011.  
(3) Calculations for floating rate loans are based on LIBOR of 0.30% as of December 31, 2011.  
(4) Represents the final maturity of each investment assuming all extension options are executed.

Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(unaudited)

The tables below detail the types of loans in CT Legacy REIT's portfolio, as well as the property type and geographic distribution of the properties securing these loans, as of September 30, 2012 and December 31, 2011 (in thousands):

| Asset Type                         | September 30, 2012 |            | December 31, 2011 |              |
|------------------------------------|--------------------|------------|-------------------|--------------|
|                                    | Book Value         | Percentage | Book Value        | Percentage   |
| Senior mortgages                   | \$—                | %          | \$77,986          | 37 %         |
| Subordinate interests in mortgages | —                  | —          | 58,078            | 28           |
| Mezzanine loans                    | —                  | —          | 47,271            | 23           |
| Other                              | —                  | —          | 23,179            | 12           |
| <b>Total</b>                       | <b>\$—</b>         | <b>%</b>   | <b>\$206,514</b>  | <b>100 %</b> |

| Property Type | Book       |            | Book Value       |              |
|---------------|------------|------------|------------------|--------------|
|               | Value      | Percentage | Value            | Percentage   |
| Office        | \$—        | %          | \$84,519         | 41 %         |
| Hotel         | —          | —          | 75,240           | 36           |
| Multifamily   | —          | —          | 14,212           | 7            |
| Other         | —          | —          | 32,543           | 16           |
| <b>Total</b>  | <b>\$—</b> | <b>%</b>   | <b>\$206,514</b> | <b>100 %</b> |

| Geographic Location | Book       |            | Book Value       |              |
|---------------------|------------|------------|------------------|--------------|
|                     | Value      | Percentage | Value            | Percentage   |
| Northeast           | \$—        | %          | \$64,040         | 31 %         |
| Southwest           | —          | —          | 40,353           | 19           |
| West                | —          | —          | 38,179           | 18           |
| Southeast           | —          | —          | 20,076           | 10           |
| Northwest           | —          | —          | 9,364            | 5            |
| International       | —          | —          | 34,502           | 17           |
| <b>Total</b>        | <b>\$—</b> | <b>%</b>   | <b>\$206,514</b> | <b>100 %</b> |

#### Loan risk ratings

Quarterly, management evaluates CT Legacy REIT's loan portfolio for impairment as described in Note 2. In conjunction with our quarterly loan portfolio review, management assesses the performance of each loan, and assigns a risk rating based on several factors including risk of loss, LTV, collateral performance, structure, exit plan, and sponsorship. Loans are rated one (less risk) through eight (greater risk), which ratings are defined in Note 2.

The following table allocates the net book value and principal balance of CT Legacy REIT's loans receivable based on our internal risk ratings as of September 30, 2012 and December 31, 2011 (dollars in thousands):

| Risk Rating | Loans Receivable as of September 30, 2012 |                   |                | Loans Receivable as of December 31, 2011 |                   |                |
|-------------|---|-------------------|----------------|--|-------------------|----------------|
|             | Number of Loans                           | Principal Balance | Net Book Value | Number of Loans                          | Principal Balance | Net Book Value |
| 1 - 3       | —   | \$—               | \$—            | 5  | \$91,940          | \$92,333       |

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|              |   |     |     |    |           |           |
|--------------|---|-----|-----|----|-----------|-----------|
| 4 - 5        | — | —   | —   | 5  | 64,151    | 64,127    |
| 6 - 8        | — | —   | —   | 7  | 279,882   | 50,054    |
| <b>Total</b> | — | \$— | \$— | 17 | \$435,973 | \$206,514 |

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Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
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In making this risk assessment, one of the primary factors we consider is how senior or junior each loan is relative to other debt obligations of the borrower. The following tables further allocate CT Legacy REIT's loans receivable by both loan type and our internal risk ratings as of September 30, 2012 and December 31, 2011 (dollars in thousands):

Senior Mortgage Loans

| Risk Rating  | as of September 30, 2012 |                   |                | as of December 31, 2011 |                   |                 |
|--------------|--------------------------|-------------------|----------------|-------------------------|-------------------|-----------------|
|              | Number of Loans          | Principal Balance | Net Book Value | Number of Loans         | Principal Balance | Net Book Value  |
| 1 - 3        | —                        | \$—               | \$—            | 1                       | \$27,503          | \$27,503        |
| 4 - 5        | —                        | —                 | —              | 2                       | 21,000            | 20,976          |
| 6 - 8        | —                        | —                 | —              | 2                       | 42,569            | 29,507          |
| <b>Total</b> | <b>—</b>                 | <b>\$—</b>        | <b>\$—</b>     | <b>5</b>                | <b>\$91,072</b>   | <b>\$77,986</b> |

Subordinate Interests in Mortgages

| Risk Rating  | as of September 30, 2012 |                   |                | as of December 31, 2011 |                   |                 |
|--------------|--------------------------|-------------------|----------------|-------------------------|-------------------|-----------------|
|              | Number of Loans          | Principal Balance | Net Book Value | Number of Loans         | Principal Balance | Net Book Value  |
| 1 - 3        | —                        | \$—               | \$—            | 1                       | \$13,000          | \$13,000        |
| 4 - 5        | —                        | —                 | —              | 1                       | 24,531            | 24,531          |
| 6 - 8        | —                        | —                 | —              | 4                       | 85,024            | 20,547          |
| <b>Total</b> | <b>—</b>                 | <b>\$—</b>        | <b>\$—</b>     | <b>6</b>                | <b>\$122,555</b>  | <b>\$58,078</b> |

Mezzanine & Other Loans

| Risk Rating  | as of September 30, 2012 |                   |                | as of December 31, 2011 |                   |                 |
|--------------|--------------------------|-------------------|----------------|-------------------------|-------------------|-----------------|
|              | Number of Loans          | Principal Balance | Net Book Value | Number of Loans         | Principal Balance | Net Book Value  |
| 1 - 3        | —                        | \$—               | \$—            | 3                       | \$51,437          | \$51,830        |
| 4 - 5        | —                        | —                 | —              | 2                       | 18,620            | 18,620          |
| 6 - 8        | —                        | —                 | —              | 1                       | 152,289           | —               |
| <b>Total</b> | <b>—</b>                 | <b>\$—</b>        | <b>\$—</b>     | <b>6</b>                | <b>\$222,346</b>  | <b>\$70,450</b> |

C. Loans Held-for-Sale, Net – CT Legacy REIT

Activity relating to CT Legacy REIT's loans held-for-sale for the nine months ended September 30, 2012 was as follows (in thousands):

|  | Gross Book Value | Valuation Allowance | Net Book Value |
|--|------------------|---------------------|----------------|
| December 31, 2011                      | \$32,331         | (\$1,456 )          | \$30,875       |
| Deconsolidation of CT Legacy Asset (1) | (32,331 )        | 1,456               | (30,875 )      |

|                    |     |     |     |
|--------------------|-----|-----|-----|
| September 30, 2012 | \$— | \$— | \$— |
|--------------------|-----|-----|-----|

- (1) As further described above, we deconsolidated CT Legacy Asset in the first quarter of 2012. As a result, the loans held-for-sale owned by CT Legacy REIT are no longer included in our consolidated financial statements.

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Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(unaudited)

## D. Debt Obligations – CT Legacy REIT

As of September 30, 2012, CT Legacy REIT did not have any debt obligations outstanding. As of December 31, 2011, CT Legacy REIT had \$113.6 million of total debt obligations outstanding. The balances of each category of debt were as follows (in thousands):

| Debt Obligations                    | September 30,<br>2012    |                   | December 31,<br>2011 |               |
|-------------------------------------|--------------------------|-------------------|----------------------|---------------|
|                                     | Principal<br>Balance (1) | Book<br>Value (1) | Principal<br>Balance | Book<br>Value |
| Repurchase obligation<br>(JPMorgan) | \$—                      | \$—               | \$58,464             | \$58,464      |
| Mezzanine loan                      | —                        | —                 | 65,275               | 55,111        |
| Total/Weighted Average              | \$—                      | \$—               | \$123,739            | \$113,575     |

- (1) As further described above, we deconsolidated CT Legacy Asset in the first quarter of 2012. As a result, the debt obligations of CT Legacy REIT are no longer included in our consolidated financial statements.

## Repurchase Obligations

In conjunction with our restructuring on March 31, 2011, our three legacy repurchase obligations were assumed by wholly-owned subsidiaries of CT Legacy REIT, and the recourse to Capital Trust, Inc. was eliminated. On February 10, 2012, we refinanced CT Legacy REIT's one remaining repurchase facility and its mezzanine loan with a single, new \$124.0 million repurchase facility with JPMorgan. The new facility is an obligation of CT Legacy Asset, matures in December 2014, carries a rate of LIBOR+6.00% as of September 30, 2012, and has paydown hurdles and associated potential rate increases over the term of the facility. As a result of the refinancing, we discontinued consolidation of CT Legacy Asset. See Note 1 and the introduction to Note 6 for further discussion on the deconsolidation of CT Legacy Asset.

## Mezzanine Loan

On March 31, 2011, CT Legacy REIT entered into an \$83.0 million mezzanine loan with Five Mile Capital that carried an interest rate of 15.0% per annum, of which 7.0% may be deferred, and that had a maturity date of March 31, 2016. The mezzanine loan was not recourse to Capital Trust, Inc. except for certain limited non-recourse, "bad boy" carve outs.

As of December 31, 2011, the mezzanine loan had an outstanding principal balance of \$65.3 million (including deferred interest) and a book balance of \$55.1 million. As discussed above, on February 10, 2012, we refinanced CT Legacy REIT's JPMorgan repurchase facility and its mezzanine loan with a single, new \$124.0 million repurchase facility with JPMorgan. As a result of the refinancing, we discontinued consolidation of CT Legacy Asset. See Note 1 and the introduction to Note 6 for further discussion on the deconsolidation of CT Legacy Asset.

## E. Participations Sold – CT Legacy REIT

Participations sold represent interests in certain loans that we originated and subsequently sold to one of our investment management vehicles or to third-parties. We have historically presented these participations sold as both assets and non-recourse liabilities because these arrangements do not qualify as sales under GAAP. Generally, participations sold are recorded as assets and liabilities in equal amounts on our consolidated balance sheets, and an equivalent amount of interest income and interest expense is recorded on our consolidated statements of operations. However, impaired loan assets must be reduced through the provision for loans losses while the associated non-recourse liability cannot be reduced until the participation has been contractually extinguished. This can result in an imbalance between the loan participations sold asset and liability. We have no economic exposure to these liabilities.

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Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(unaudited)

The following table describes CT Legacy REIT's participations sold assets and liabilities as of December 31, 2011 (in thousands):

|  | September 30,<br>2012 | December 31,<br>2011 |
|--|-----------------------|----------------------|
| <b>Participations sold assets</b>      |                       |                      |
| Gross carrying value                   | \$—                   | \$97,465             |
| Less: Provision for loan losses        | —                     | (97,465 )            |
| Net book value of assets               | —                     | —                    |
| <b>Participations sold liabilities</b> |                       |                      |
| Net book value of liabilities          | —                     | 97,465               |
| Net impact to shareholders' equity     | \$—                   | (\$97,465 )          |

#### F. Derivative Financial Instruments – CT Legacy REIT

As discussed in Note 1, on February 10, 2012, we refinanced CT Legacy REIT's mezzanine loan and repurchase facility with a single, new \$124.0 million repurchase facility with JPMorgan. As a result of the refinancing, we discontinued consolidation of CT Legacy Asset as of February 10, 2012.

CT Legacy REIT is not party to any interest rate swap agreements. As of December 31, 2011, CT Legacy REIT's formerly consolidated subsidiary, CT Legacy Asset, was party to five interest rate swaps with a notional amount of \$60.8 million and fair value of \$8.8 million.

During the period from January 1, 2012 to February 10, 2012, while we consolidated CT Legacy Asset, it made net payments of \$262,000 under its interest rate swaps which were recorded as a component of interest expense. During the same period, we recognized \$291,000 as a component of interest expense for the change in fair value of these swaps. In addition, as a result of the deconsolidation of CT Legacy Asset, we reclassified \$1.8 million from other comprehensive income to interest expense. This amount represents the unamortized balance of prior fair value adjustments to these interest rate swaps from the second quarter of 2011, when we discontinued the designation of these swaps as cash flow hedges.

#### G. Investment in CT Legacy Asset – CT Legacy REIT

As discussed in Note 1, on February 10, 2012, we refinanced CT Legacy REIT's mezzanine loan and repurchase facility with a single, new \$124.0 million repurchase facility with JPMorgan. The borrower under the new JPMorgan facility, CT Legacy Asset, is a wholly owned subsidiary of CT Legacy REIT and owns all of its assets, other than cash. As a result of the refinancing, we discontinued consolidation of CT Legacy Asset. As a result, its assets and liabilities were deconsolidated from our financial statements as of February 10, 2012.

We have elected the fair value option of accounting for CT Legacy REIT's investment in CT Legacy Asset, pursuant to which we record this investment at fair value rather than at our historical cost investment amount. Additionally, changes in the fair value of this investment are recognized in our consolidated statement of operations. The fair value of CT Legacy REIT's investment in CT Legacy Asset was \$89.7 million and \$100.1 million at February 10, 2012 and September 30, 2012, respectively.

The liabilities of CT Legacy Asset are all non-recourse to us, and we are not obligated to provide, nor have we provided, any financial support to CT Legacy Asset or CT Legacy REIT. We are only exposed to investment losses in CT Legacy Asset via our investment in CT Legacy REIT, which itself holds only two assets, cash of \$16.1 million and an investment in CT Legacy Asset of \$100.1 million. Net of noncontrolling interests, our investment in CT Legacy REIT is \$53.1 million. After giving effect to the \$11.1 million which will ultimately be payable under our secured notes and \$7.8 million payable under the CT Legacy REIT management incentive awards plan, our maximum exposure to loss from CT Legacy REIT, and therefore CT Legacy Asset, is \$34.2 million.

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Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(unaudited)

The following table represents summarized financial information for CT Legacy Asset (in thousands):

| For the Period from February 11, 2012<br>through September 30, 2012 (1) |           |
|---|-----------|
| <b>Income Statement</b>   |           |
| Total revenues  |           |
| (2)   | \$140,741 |
| Total expenses  |           |
| (3)   | (12,001 ) |
| Net gain  | \$128,740 |
| As of September 30, 2012  |           |
| <b>Balance Sheet</b>  |           |
| Total assets  | \$615,720 |

- (1) Includes activity and balances of VIEs consolidated by CT Legacy Asset.  
(2) Includes interest income and gain on extinguishment of debt.  
(3) Includes interest expense, general and administrative expenses, provisions and impairments.

#### Note 7. Consolidated Securitization Vehicles

As of September 30, 2012, our consolidated balance sheet includes an aggregate \$402.2 million of assets and \$517.1 million of liabilities related to four consolidated securitization vehicles. Our consolidated securitization vehicles include two categories of entities: (i) collateralized debt obligations sponsored and issued by us, which we refer to as CT CDOs and (ii) other consolidated securitization vehicles which were not issued or sponsored by us.

Due to the deconsolidation of CT Legacy Asset on February 10, 2012, as discussed in Note 1, we deconsolidated one CT CDO, CT CDO III, and three other securitization vehicles that are owned by CT Legacy Asset.

#### CT CDOs

We currently consolidate three collateralized debt obligation, or CDO, entities, which are VIEs that were sponsored by us. These CT CDOs invest in commercial real estate debt instruments, some of which we originated/acquired and transferred to the CDO entities, and are financed by the debt and equity they issue. We are named as collateral manager of all three CT CDOs and are named special servicer on a number of CDO collateral assets. As a result of consolidation, our subordinate debt and equity ownership interests in these CT CDOs have been eliminated, and our balance sheet reflects both the assets held and debt issued by these CDOs to third-parties. Similarly, our operating results and cash flows include the gross amounts related to the assets and liabilities of the CT CDO entities, as opposed to our net economic interests in these entities. Fees earned by us for the management of these CDOs are eliminated in consolidation.

Our interest in the assets held by these CT CDOs, which are consolidated on our balance sheet, is restricted by the structural provisions of these entities, and our recovery of these assets will be limited by the CDOs' distribution provisions, which are subject to change due to covenant breaches or asset impairments, as further described below in

this Note 7. The liabilities of the CT CDOs, which are also consolidated on our balance sheet, are non-recourse to us, and can generally only be satisfied from each CDOs' respective asset pool.

We are not obligated to provide, nor have we provided, any financial support to these CT CDOs.

#### Other Consolidated Securitization Vehicles

As discussed above, we currently consolidate one other securitization vehicle, which is substantially similar to the CT CDOs. This securitization vehicle invests in commercial real estate debt instruments, which investments were not originated or transferred to the entity by us. In addition to our investment in the subordinate classes of the securities issued by this vehicle, we are named special servicer on its collateral assets. As a result of consolidation, our ownership interest in this consolidation vehicle has been eliminated, and our balance sheet reflects both the assets held and debt issued by this vehicle to third-parties. Similarly, our operating results and cash flows include the gross amounts related to the assets and liabilities of the securitization vehicle, as opposed to our net economic interest in this entity. Special servicing fees paid to us on assets owned by this vehicle are eliminated in consolidation.

Our interest in the assets held by this securitization vehicle, which are consolidated on our balance sheet, is restricted by the structural provisions of this entity, and a recovery of our investment in the vehicle will be limited by its distribution provisions. The liabilities of the securitization vehicle, which are also consolidated on our balance sheet, are non-recourse to us, and can generally only be satisfied from its collateral assets.

Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
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We are not obligated to provide, nor have we provided, any financial support to this consolidated securitization vehicle. In addition, this investment has been made through one of our CT CDOs, which limits our exposure to loss as discussed above. We have recognized losses on the collateral assets of this CT CDO in excess of our investment therein, resulting in a zero net exposure to loss as of September 30, 2012.

As described in Note 2, our consolidated balance sheets separately present: (i) our direct assets and liabilities, (ii) the direct assets and liabilities of CT Legacy REIT, and (iii) the assets and liabilities of consolidated securitization vehicles. The following disclosures relate specifically to the assets and liabilities of consolidated securitization vehicles, as separately stated on our consolidated balance sheets.

A. Securities Held-to-Maturity – Consolidated Securitization Vehicles

Our consolidated securitization vehicles' securities portfolio consists of CMBS, CDOs, and other securities. Activity relating to these securities for the nine months ended September 30, 2012 was as follows (in thousands):

|  | CMBS       | CDOs &<br>Other | Total<br>Book Value (1) |
|--|------------|-----------------|-------------------------|
| December 31, 2011                                    | \$357,037  | \$1,935         | \$358,972               |
| Principal paydowns                                   | (38,393 )  | (1,935 )        | (40,328 )               |
| Discount/premium amortization & other (2)            | (259 )     | 202             | (57 )                   |
| Other-than-temporary impairments:                    |            |                 |                         |
| Recognized in earnings                               | (160 )     | —               | (160 )                  |
| Recognized in accumulated other comprehensive income | 160        | —               | 160                     |
| Deconsolidation of CT Legacy Asset (3)               | (193,737 ) | 29,998          | (163,739 )              |
| September 30, 2012                                   | \$124,648  | \$30,200        | \$154,848               |

- (1) Includes securities with a total face value of \$236.4 million and \$490.9 million as of September 30, 2012 and December 31, 2011, respectively.
- (2) Includes mark-to-market adjustments on securities previously classified as available-for-sale, amortization of other-than-temporary impairments, and losses, if any.
- (3) As further described above, we deconsolidated CT Legacy Asset in the first quarter of 2012. As a result, the securities owned by its consolidated securitization vehicle are no longer included in our consolidated financial statements. Also, certain securities which are owned by our consolidated securitization vehicles, that had previously been eliminated in consolidation, are now included in our consolidated financial statements. See Note 6 for additional discussion on CT Legacy Asset.

As of both September 30, 2012 and December 31, 2011, all of our consolidated securitization vehicles' securities were classified as held-to-maturity.

Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
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The following table allocates the book value of our consolidated securitization vehicles' securities as of September 30, 2012 between their amortized cost basis, amounts related to mark-to-market adjustments on securities previously classified as available-for-sale, and the portion of other-than-temporary impairments not related to expected credit losses (in thousands):

|   | CMBS             | CDOs &<br>Other | Total<br>Securities |
|---|------------------|-----------------|---------------------|
| Amortized cost basis  | \$136,933        | \$30,200        | \$167,133           |
| Mark-to-market adjustments on securities<br>previously classified as available-for-sale     | 6                | —               | 6                   |
| Other-than-temporary impairments recognized<br>in<br>accumulated other comprehensive income | (12,291 )        | —               | (12,291 )           |
| <b>Total book value as of September 30, 2012</b>  | <b>\$124,648</b> | <b>\$30,200</b> | <b>\$154,848</b>    |

The following table details overall statistics for our consolidated securitization vehicles' securities portfolio as of September 30, 2012 and December 31, 2011:

|                                    | September 30,<br>2012 | December 31,<br>2011 |
|------------------------------------|-----------------------|----------------------|
| Number of securities               | 33                    | 52                   |
| Number of issues                   | 23                    | 36                   |
| Rating (1) (2)                     | B+                    | BB+                  |
| Fixed / Floating (in millions) (3) | \$154 / \$1           | \$358 / \$1          |
| Coupon (1) (4)                     | 6.15%                 | 6.49%                |
| Yield (1) (4)                      | 6.32%                 | 7.41%                |
| Life (years) (1) (5)               | 3.1                   | 2.5                  |

- (1) Represents a weighted average as of September 30, 2012 and December 31, 2011, respectively.
- (2) Weighted average ratings are based on the lowest rating published by Fitch Ratings, Standard & Poor's or Moody's Investors Service for each security.
- (3) Represents the aggregate net book value of the portfolio allocated between fixed rate and floating rate securities.
- (4) Coupon is based on the securities' contractual interest rates, while yield is based on expected cash flows for each security, and considers discounts/premiums and asset non-performance. Calculations for floating rate securities are based on LIBOR of 0.21% and 0.30% as of September 30, 2012 and December 31, 2011, respectively.
- (5) Weighted average life is based on the timing and amount of future expected principal payments through the expected repayment date of each respective investment.

The table below details the ratings and vintage distribution of our consolidated securitization vehicles' securities as of September 30, 2012 (in thousands):

Rating as of September 30, 2012



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| Vintage | AAA     | AA      | A        | BBB      | BB       | B       | CCC and<br>Below | Total     |
|---------|---------|---------|----------|----------|----------|---------|------------------|-----------|
| 2006    | \$—     | \$—     | \$—      | \$—      | \$—      | \$—     | \$15,130         | \$15,130  |
| 2005    | —       | —       | —        | —        | —        | —       | 36,672           | 36,672    |
| 2004    | —       | —       | —        | 24,753   | —        | —       | —                | 24,753    |
| 2003    | —       | —       | —        | 3,005    | 1,977    | —       | —                | 4,982     |
| 2002    | —       | —       | —        | —        | 6,729    | —       | 2,384            | 9,113     |
| 2001    | —       | —       | —        | —        | —        | 5,426   | 2,557            | 7,983     |
| 2000    | 2,894   | —       | —        | —        | 19,056   | —       | 3,997            | 25,947    |
| 1999    | —       | —       | 4,000    | —        | 15,023   | —       | —                | 19,023    |
| 1998    | —       | 2,160   | 7,397    | —        | 151      | —       | 1,537            | 11,245    |
| Total   | \$2,894 | \$2,160 | \$11,397 | \$27,758 | \$42,936 | \$5,426 | \$62,277         | \$154,848 |

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Capital Trust, Inc. and Subsidiaries  
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The table below details the ratings and vintage distribution of our consolidated securitization vehicles' securities as of December 31, 2011 (in thousands):

| Vintage | Rating as of December 31, 2011 |          |          |          |          |         |               | Total     |
|---------|--------------------------------|----------|----------|----------|----------|---------|---------------|-----------|
|         | AAA                            | AA       | A        | BBB      | BB       | B       | CCC and Below |           |
| 2006    | \$—                            | \$—      | \$—      | \$—      | \$—      | \$—     | \$14,884      | \$14,884  |
| 2005    | —                              | —        | —        | —        | —        | —       | 7,060         | 7,060     |
| 2004    | —                              | 24,780   | 1,935    | —        | —        | —       | —             | 26,715    |
| 2003    | 9,908                          | —        | —        | 3,011    | 1,966    | —       | —             | 14,885    |
| 2002    | —                              | —        | —        | —        | 6,712    | —       | 2,283         | 8,995     |
| 2001    | —                              | —        | —        | —        | —        | 5,426   | 1,730         | 7,156     |
| 2000    | 2,891                          | —        | —        | —        | 19,935   | —       | 3,985         | 26,811    |
| 1999    | —                              | —        | 11,233   | 1,414    | 17,380   | —       | —             | 30,027    |
| 1998    | 45,956                         | 46,315   | 37,580   | 43,607   | 11,901   | —       | 5,000         | 190,359   |
| 1997    | 4,434                          | —        | 16,159   | —        | 5,223    | 2,762   | 3,502         | 32,080    |
| Total   | \$63,189                       | \$71,095 | \$66,907 | \$48,032 | \$63,117 | \$8,188 | \$38,444      | \$358,972 |

#### Other-than-temporary impairments

Quarterly, we reevaluate our consolidated securitization vehicles' securities portfolio to determine if there has been an other-than-temporary impairment based upon expected future cash flows from each securities investment. As a result of this evaluation, under the accounting guidance discussed in Note 2, during the nine months ended September 30, 2012, we determined that \$160,000 of impairments previously recorded in other comprehensive income should be recognized as credit losses due to a decrease in cash flow expectation for one of our securities.

To determine the component of the gross other-than-temporary impairment related to expected credit losses, we compare the amortized cost basis of each other-than-temporarily impaired security to the present value of its revised expected cash flows, discounted using its pre-impairment yield. Significant judgment of management is required in this analysis that includes, but is not limited to, (i) assumptions regarding the collectability of principal and interest on the underlying loans, net of related expenses, and (ii) current subordination levels at both the individual loans which serve as collateral under these securities and at the securities themselves.

The following table summarizes activity related to the other-than-temporary impairments of our consolidated securitization vehicles' securities during the nine months ended September 30, 2012 (in thousands):

|  | Gross<br>Other-Than-Temporary<br>Impairments | Credit Related<br>Other-Than-Temporary<br>Impairments | Non-Credit Related<br>Other-Than-Temporary<br>Impairments |
|--|--|---|---|
| December 31, 2011                                    | \$130,360                                    | \$114,223   | \$16,137  |
| Additions due to change in<br>expected<br>cash flows | —<br>(373)                                   | 160<br>(128)  | (160)<br>(245)  |

Amortization of  
other-than-temporary  
impairments

|   |           |           |          |
|---|-----------|-----------|----------|
| Reductions due to realized losses         | (26,263 ) | (26,263 ) | —        |
| Deconsolidation of CT Legacy<br>Asset (1) | (25,567 ) | (22,126 ) | (3,441 ) |
| September 30, 2012                        | \$78,157  | \$65,866  | \$12,291 |

- (1) As further described in Note 1, we deconsolidated CT Legacy Asset in the first quarter of 2012. As a result, the securities owned by its consolidated securitization vehicles, some of which were other-than-temporarily impaired, are no longer included in our consolidated financial statements.

Capital Trust, Inc. and Subsidiaries  
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## Unrealized losses and fair value of securities

Certain of our consolidated securitization vehicles' securities are carried at values in excess of their fair values. This difference can be caused by, among other things, changes in credit spreads and interest rates. The following table shows the gross unrealized losses and fair value of securities for which the fair value is lower than their book value as of September 30, 2012 and that are not deemed to be other-than-temporarily impaired (in millions):

|               | Less Than 12 Months  |                       | Greater Than 12 Months |                       | Total                |                       | Book Value (1) |
|---------------|----------------------|-----------------------|------------------------|-----------------------|----------------------|-----------------------|----------------|
|               | Estimated Fair Value | Gross Unrealized Loss | Estimated Fair Value   | Gross Unrealized Loss | Estimated Fair Value | Gross Unrealized Loss |                |
| Floating Rate | \$—                  | \$—                   | \$—                    | \$—                   | \$—                  | \$—                   | \$—            |
| Fixed Rate    | 18.6                 | (11.6 )               | 57.6                   | (5.8 )                | 76.2                 | (17.4 )               | 93.6           |
| Total         | \$18.6               | (\$11.6 )             | \$57.6                 | (\$5.8 )              | \$76.2               | (\$17.4 )             | \$93.6         |

(1) Excludes, as of September 30, 2012, \$61.2 million of securities which were carried at or below fair value and securities against which an other-than-temporary impairment equal to the entire book value was recognized in earnings.

As of September 30, 2012, 16 of our consolidated securitization vehicles' securities with an aggregate book value of \$93.6 million were carried at values in excess of their fair values. Fair value for these securities was \$76.2 million as of September 30, 2012. In total, as of September 30, 2012, our consolidated securitization vehicles had 33 investments in securities with an aggregate book value of \$154.8 million that have an estimated fair value of \$144.7 million, including 29 investments in CMBS with an estimated fair value of \$126.1 million and four investments in CDOs and other securities with an estimated fair value of \$18.6 million.

The following table shows the gross unrealized losses and fair value of our consolidated securitization vehicles' securities for which the fair value is lower than our book value as of December 31, 2011 and that are not deemed to be other-than-temporarily impaired (in millions):

|               | Less Than 12 Months  |                       | Greater Than 12 Months |                       | Total                |                       | Book Value (1) |
|---------------|----------------------|-----------------------|------------------------|-----------------------|----------------------|-----------------------|----------------|
|               | Estimated Fair Value | Gross Unrealized Loss | Estimated Fair Value   | Gross Unrealized Loss | Estimated Fair Value | Gross Unrealized Loss |                |
| Floating Rate | \$—                  | \$—                   | \$—                    | \$—                   | \$—                  | \$—                   | \$—            |
| Fixed Rate    | 154.1                | (4.7 )                | 130.1                  | (11.1 )               | 284.2                | (15.8 )               | 300.0          |

|       |         |          |         |           |         |           |         |
|-------|---------|----------|---------|-----------|---------|-----------|---------|
| Total | \$154.1 | (\$4.7 ) | \$130.1 | (\$11.1 ) | \$284.2 | (\$15.8 ) | \$300.0 |
|-------|---------|----------|---------|-----------|---------|-----------|---------|

- (1) Excludes, as of December 31, 2011, \$59.0 million of securities which were carried at or below fair value and securities against which an other-than-temporary impairment equal to the entire book value was recognized in earnings.

As of December 31, 2011, 35 of our consolidated securitization vehicles' securities with an aggregate book value of \$300.0 million were carried at values in excess of their fair values. Fair value for these securities was \$284.2 million as of December 31, 2011. In total, as of December 31, 2011, our consolidated securitization vehicles had 52 investments in securities with an aggregate book value of \$359.0 million that have an estimated fair value of \$350.2 million, including 51 investments in CMBS with an estimated fair value of \$348.3 million and one investment in CDOs and other securities with an estimated fair value of \$1.9 million.

We determine fair values using a combination of third-party dealer assessments of value and our own internal financial model-based estimations of fair value. See Note 12 for further discussion of fair value. We regularly examine our consolidated securitization vehicles' securities portfolio and have determined that, despite these differences between book value and fair value, our expectations of future cash flows have only changed adversely for 11 of our consolidated securitization vehicles' securities, against which we have recognized other-than-temporary-impairments. See Note 6A for additional discussion of fair value estimations.

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### Investments in variable interest entities

Our consolidated securitization vehicles' securities portfolio includes investments in both CMBS and CDOs, which securitization structures are generally considered VIEs. We have not consolidated these VIEs due to our determination that, based on the structural provisions of each entity and the nature of our investments, we do not have the power to direct the activities that most significantly impact these entities' economic performance.

These securities were acquired through investment, and do not represent a securitization or other transfer of our assets. We are not named as special servicer for these investments.

We are not obligated to provide, nor have we provided, any financial support to these entities. As these securities are financed by our non-recourse CT CDOs, our exposure to loss is therefore limited to our interests in these consolidated entities. The notional amount of the subordinate debt and equity interests we retained in our CT CDOs is \$162.0 million. After giving effect to certain transfers of these interests, provisions for loan losses and other-than-temporary impairments recorded as of September 30, 2012, we have no remaining net exposure to loss from these entities.

### B. Loans Receivable, Net – Consolidated Securitization Vehicles

Activity relating to our consolidated securitization vehicles' loans receivable for the nine months ended September 30, 2012 was as follows (in thousands):

|  | Gross Book<br>Value | Provision for<br>Loan Losses | Net Book<br>Value (1) |
|--|---------------------|------------------------------|-----------------------|
| December 31, 2011                      | \$814,572           | (\$201,974 )                 | \$612,598             |
| Satisfactions (2)                      | (62,950 )           | —                            | (62,950 )             |
| Principal paydowns                     | (1,816 )            | —                            | (1,816 )              |
| Discount/premium amortization & other  | 156                 | —                            | 156                   |
| Recovery of provision for loan losses  | —                   | 2,819                        | 2,819                 |
| Realized loan losses                   | (22,001 )           | 22,001                       | —                     |
| Deconsolidation of CT Legacy Asset (3) | (435,744 )          | 99,394                       | (336,350 )            |
| September 30, 2012                     | \$292,217           | (\$77,760 )                  | \$214,457             |

- (1) Includes loans with a total principal balance of \$292.8 million and \$815.7 million as of September 30, 2012 and December 31, 2011, respectively.
- (2) Includes final maturities and full repayments.
- (3) As further described in Note 1, we deconsolidated CT Legacy Asset in the first quarter of 2012. As a result, the loans owned by its consolidated securitization vehicles are no longer included in our consolidated financial statements.

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The following table details overall statistics for our consolidated securitization vehicles' loans receivable portfolio as of September 30, 2012 and December 31, 2011:

|                                    | September 30,<br>2012 | December 31,<br>2011 |
|------------------------------------|-----------------------|----------------------|
| Number of investments              | 14                    | 71                   |
| Fixed / Floating (in millions) (1) | \$44 / \$170          | \$280 / \$333        |
| Coupon (2) (3)                     | 4.34%                 | 5.11%                |
| Yield (2) (3)                      | 4.63%                 | 5.72%                |
| Maturity (years) (2) (4)           | 3.0                   | 3.6                  |

- (1) Represents the aggregate net book value of the portfolio allocated between fixed rate and floating rate loans.
- (2) Represents a weighted average as of September 30, 2012 and December 31, 2011, respectively.
- (3) Calculations for floating rate loans are based on LIBOR of 0.21% and 0.30% as of September 30, 2012 and December 31, 2011, respectively.
- (4) For loans in CT CDOs, assumes all extension options are executed. For loans in other consolidated securitization vehicles, maturity is based on information provided by the trustees of each respective entity.

The tables below detail the types of loans in our consolidated securitization vehicles' loan portfolio, as well as the property type and geographic distribution of the properties securing these loans, as of September 30, 2012 and December 31, 2011 (in thousands):

| Asset Type                         | September 30, 2012 |            | December 31, 2011 |            |
|------------------------------------|--------------------|------------|-------------------|------------|
|                                    | Book Value         | Percentage | Book Value        | Percentage |
| Subordinate interests in mortgages | \$129,509          | 60 %       | \$225,773         | 36 %       |
| Senior mortgages                   | 65,000             | 30         | 241,323           | 39         |
| Mezzanine loans                    | 19,948             | 10         | 152,934           | 25         |
| Total                              | \$214,457          | 100 %      | \$620,030         | 100 %      |
| Property Type                      | Book Value         | Percentage | Book Value        | Percentage |
| Office                             | \$185,006          | 86 %       | \$317,940         | 51 %       |
| Hotel                              | 27,322             | 13         | 174,419           | 28         |
| Retail                             | —                  | —          | 72,701            | 12         |
| Healthcare                         | —                  | —          | 18,837            | 3          |
| Other                              | 2,129              | 1          | 36,133            | 6          |
| Total                              | \$214,457          | 100 %      | \$620,030         | 100 %      |
| Geographic Location                | Book Value         | Percentage | Book Value        | Percentage |
| Northeast                          | \$98,757           | 46 %       | \$199,361         | 32 %       |

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|                                     |           |     |   |           |       |
|-------------------------------------|-----------|-----|---|-----------|-------|
| West                                | 78,700    | 37  |   | 152,774   | 25    |
| Southeast                           | 21,707    | 10  |   | 124,456   | 20    |
| Southwest                           | 15,293    | 7   |   | 57,046    | 9     |
| Midwest                             | —         | —   |   | 24,957    | 4     |
| Diversified                         | —         | —   |   | 61,436    | 10    |
| Total                               | \$214,457 | 100 | % | \$620,030 | 100 % |
| Unallocated loan loss provision (1) |           |     |   |           |       |
|                                     | —         |     |   | (7,432 )  |       |
| Net book value                      | \$214,457 |     |   | \$612,598 |       |

- (1) We have recorded a general provision for loan losses against certain pools of smaller loans in our consolidated securitization vehicles. This general provision is not specifically allocable to any loan asset type, collateral property type, or geographic location, but rather to an overall pool of loans. See Note 2 for additional details.



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### Loan risk ratings

Quarterly, management evaluates our consolidated securitization vehicles' loan portfolio for impairment as described in Note 2. In conjunction with our quarterly loan portfolio review, management assesses the performance of each loan, and assigns a risk rating based on several factors including risk of loss, LTV, collateral performance, structure, exit plan, and sponsorship. Loans are rated one (less risk) through eight (greater risk), which ratings are defined in Note 2.

The following table allocates the net book value and principal balance of our consolidated securitization vehicles' loans receivable based on our internal risk ratings as of September 30, 2012 and December 31, 2011 (dollars in thousands):

| Risk Rating (1)                  | Loans Receivable as of September 30, 2012 |                   |                  | Loans Receivable as of December 31, 2011 |                   |                  |
|----------------------------------|---|-------------------|------------------|--|-------------------|------------------|
|                                  | Number of Loans                           | Principal Balance | Net Book Value   | Number of Loans                          | Principal Balance | Net Book Value   |
| 1 - 3                            | 5   | \$118,333         | \$118,006        | 22                                       | \$416,032         | \$415,661        |
| 4 - 5                            | 2   | 78,700            | 78,622           | 3  | 44,057            | 43,945           |
| 6 - 8                            | 7   | 95,795            | 17,829           | 17                                       | 271,988           | 76,784           |
| N/A                              | —   | —                 | —                | 29                                       | 83,639            | 83,640           |
| <b>Total</b>                     | <b>14</b>                                 | <b>\$292,828</b>  | <b>\$214,457</b> | <b>71</b>                                | <b>\$815,716</b>  | <b>\$620,030</b> |
| Unallocated loan loss provision: |   |                   | —                |  |                   | (7,432 )         |
| Net book value                   |   |                   | \$214,457        |  |                   | \$612,598        |

- (1) We have recorded a general provision for loan losses against certain pools of smaller loans in our consolidated securitization vehicles. These loans have not been individually risk-rated, but have been assessed for loss based on macroeconomic factors. See Note 2 for additional information.

In making this risk assessment, one of the primary factors we consider is how senior or junior each loan is relative to other debt obligations of the borrower. The following tables further allocate our consolidated securitization vehicles' loans receivable by both loan type and our internal risk ratings as of September 30, 2012 and December 31, 2011 (dollars in thousands):

| Risk Rating (1) | Number of Loans | Senior Mortgage Loans as of September 30, 2012 |                 | Number of Loans | Senior Mortgage Loans as of December 31, 2011 |                  |
|-----------------|-----------------|--|-----------------|-----------------|---|------------------|
|                 |                 | Principal Balance                              | Net Book Value  |                 | Principal Balance                             | Net Book Value   |
| 1 - 3           | —               | \$—  | \$—             | 10              | \$117,452                                     | \$117,452        |
| 4 - 5           | 1               | 65,000   | 65,000          | 1               | 12,551  | 12,551           |
| 6 - 8           | —               | —  | —               | 4               | 43,988  | 27,680           |
| N/A             | —               | —  | —               | 29              | 83,639  | 83,640           |
| <b>Total</b>    | <b>1</b>        | <b>\$65,000</b>                                | <b>\$65,000</b> | <b>44</b>       | <b>\$257,630</b>                              | <b>\$241,323</b> |

- (1) We have recorded a general provision for loan losses against certain pools of smaller loans in our consolidated securitization vehicles. These loans have not been individually risk-rated, but have been assessed for loss based on macroeconomic factors. See Note 2 for additional information.

additional details.

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| Risk Rating (1) | Number of Loans | Subordinate Interests in Mortgages |                         | Number of Loans | Principal Balance | Net Book Value   |
|-----------------|-----------------|------------------------------------|-------------------------|-----------------|-------------------|------------------|
|                 |                 | as of September 30, 2012           | as of December 31, 2011 |                 |                   |                  |
| 1 - 3           | 4               | \$98,295                           | \$98,058                | 8               | \$175,560         | \$175,314        |
| 4 - 5           | 1               | 13,700                             | 13,622                  | 2               | 31,506            | 31,394           |
| 6 - 8           | 7               | 95,795                             | 17,829                  | 9               | 122,306           | 19,065           |
| N/A             | —               | —                                  | —                       | —               | —                 | —                |
| <b>Total</b>    | <b>12</b>       | <b>\$207,790</b>                   | <b>\$129,509</b>        | <b>19</b>       | <b>\$329,372</b>  | <b>\$225,773</b> |

- (1) We have recorded a general provision for loan losses against certain pools of smaller loans in our consolidated securitization vehicles. These loans have not been individually risk-rated, but have been assessed for loss based on macroeconomic factors. See Note 2 for additional details.

| Risk Rating (1) | Number of Loans | Mezzanine & Other Loans  |                         | Number of Loans | Principal Balance | Net Book Value   |
|-----------------|-----------------|--------------------------|-------------------------|-----------------|-------------------|------------------|
|                 |                 | as of September 30, 2012 | as of December 31, 2011 |                 |                   |                  |
| 1 - 3           | 1               | \$20,038                 | \$19,948                | 4               | \$123,020         | \$122,895        |
| 4 - 5           | —               | —                        | —                       | —               | —                 | —                |
| 6 - 8           | —               | —                        | —                       | 4               | 105,694           | 30,039           |
| N/A             | —               | —                        | —                       | —               | —                 | —                |
| <b>Total</b>    | <b>1</b>        | <b>\$20,038</b>          | <b>\$19,948</b>         | <b>8</b>        | <b>\$228,714</b>  | <b>\$152,934</b> |

- (1) We have recorded a general provision for loan losses against certain pools of smaller loans in our consolidated securitization vehicles. These loans have not been individually risk-rated, but have been assessed for loss based on macroeconomic factors. See Note 2 for additional details.

#### Loan impairments

The following table describes our consolidated securitization vehicles' impaired loans as of September 30, 2012, including impaired loans that are current in their interest payments and those that are delinquent on contractual payments (dollars in thousands):

| Impaired Loans              | No. of Loans | September 30, 2012 |                         | Net Book Value |
|-----------------------------|--------------|--------------------|-------------------------|----------------|
|                             |              | Gross Book Value   | Provision for Loan Loss |                |
| Performing loans            | 1            | \$15,062           | (\$15,062 )             | \$—            |
| Non-performing loans        | 5            | 66,828             | (62,698 )               | 4,130          |
| <b>Total impaired loans</b> | <b>6</b>     | <b>\$81,890</b>    | <b>(\$77,760 )</b>      | <b>\$4,130</b> |

Capital Trust, Inc. and Subsidiaries  
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The following table details the allocation of our consolidated securitization vehicles' provision for loan losses as of September 30, 2012 (in thousands):

| Impaired Loans                     | Principal<br>Balance | September 30, 2012         |               |
|------------------------------------|----------------------|----------------------------|---------------|
|                                    |                      | Provision for<br>Loan Loss | Loss Severity |
| Subordinate interests in mortgages | \$82,094             | \$77,760                   | 95 %          |
| Total/Weighted Average             | \$82,094             | \$77,760                   | 95 %          |

Generally, we have recorded provisions for loan loss against all loans which are in maturity default, or otherwise have past-due principal payments. As of September 30, 2012, our consolidated securitization vehicles had two loans with a net book value of \$52.7 million which were in maturity default but had no provision recorded. We expect to collect all principal and interest due under this loan upon their resolution.

The following table details our consolidated securitization vehicles' average balance of impaired loans by loan type, and the income recorded on such loans subsequent to their impairment during the nine months ended September 30, 2012 (in thousands):

| Income on Impaired Loans for the Nine Months ended September 30, 2012 |                           |                        |
|---|---------------------------|------------------------|
| Asset Type  | Average Net<br>Book Value | Income<br>Recorded (1) |
| Senior Mortgage Loans   | \$4,232                   | \$168                  |
| Subordinate Interests in Mortgages                                    | 5,097                     | 404                    |
| Mezzanine & Other Loans   | 5,135                     | 210                    |
| <b>Total</b>  | <b>\$14,464</b>           | <b>\$782</b>           |

(1) Substantially all of the income recorded on impaired loans during the period was received in cash.

#### Nonaccrual loans

In accordance with our revenue recognition policies discussed in Note 2, we do not accrue interest on loans which are 90 days past due or, in the opinion of management, are otherwise uncollectable. Accordingly, we do not have any material interest receivable accrued on nonperforming loans as of September 30, 2012.

The following table details our consolidated securitization vehicles' loans receivable which are on nonaccrual status as of September 30, 2012 (in thousands):

| Nonaccrual Loans Receivable as of September 30, 2012 |                      |                   |
|--|----------------------|-------------------|
| Asset Type   | Principal<br>Balance | Net<br>Book Value |
| Subordinate Interests in Mortgages                   | \$82,094             | \$4,130           |
| <b>Total</b>   | <b>\$82,094</b>      | <b>\$4,130</b>    |

Loan modifications

During the nine months ended September 30, 2012, there was one modification of a loan in a consolidated securitization vehicle that was considered a troubled debt restructuring, as defined under GAAP. A troubled debt restructuring is generally any modification of a loan to a borrower that is experiencing financial difficulties, where a lender agrees to terms that are more favorable to the borrower than is otherwise available in the current market. This loan modification included a six-month extension of a \$6.6 million subordinate mortgage loan with no interest rate increase. This loan has been individually assessed for impairment, and no impairment beyond the existing \$4.6 million impairment was determined to be necessary.

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Capital Trust, Inc. and Subsidiaries  
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C. Real Estate Held-for-Sale – Consolidated Securitization Vehicles

Activity relating to our consolidated securitization vehicles' real estate held-for-sale for the nine months ended September 30, 2012 was as follows (in thousands):

|  | Gross Book<br>Value | Other-Than-Temporary<br>Impairment | Net Book<br>Value |
|--|---------------------|------------------------------------|-------------------|
| December 31, 2011                      | \$24,960            | (\$14,618 )                        | \$10,342          |
| Deconsolidation of CT Legacy Asset (1) | (24,960 )           | 14,618                             | (10,342 )         |
| September 30, 2012                     | \$—                 | \$—                                | \$—               |

(1) As further described in Note 1 above, we deconsolidated CT Legacy Asset in the first quarter of 2012. As a result, the real estate held-for-sale owned by its consolidated securitization vehicles is no longer included in our consolidated financial statements.

D. Debt Obligations – Consolidated Securitization Vehicles

As of September 30, 2012 and December 31, 2011, our consolidated securitization vehicles had \$497.4 million and \$1.2 billion of total non-recourse securitized debt obligations outstanding, respectively. The balances of each entity's outstanding securitized debt obligations, their respective coupons and all-in effective costs, including the amortization of fees and expenses, were as follows (in thousands):

| Non-Recourse<br>Securitized Debt Obligations | September 30,<br>2012 |                | December<br>31,<br>2011 | September 30,<br>2012 |                   | Maturity<br>Date(2)      |
|--|-----------------------|----------------|-------------------------|-----------------------|-------------------|--------------------------|
|  | Principal<br>Balance  | Book<br>Value  | Book<br>Value           | Coupon(1)             | All-In<br>Cost(1) |                          |
| <b>CT CDOs</b>                               |                       |                |                         |                       |                   |                          |
| CT CDO I                                     | \$91,044              | \$91,044       | \$121,409               | 1.26 %                | 1.28 %            | July<br>2039             |
| CT CDO II                                    | 156,900               | 156,900        | 199,751                 | 0.92 %                | 1.21 %            | March<br>2050            |
| CT CDO III                                   | —                     | —              | 199,553                 | N/A                   | N/A               | N/A                      |
| CT CDO IV (3)                                | 198,927               | 198,927        | 221,540                 | 1.07 %                | 1.23 %            | October<br>2043          |
| <b>Total CT CDOs</b>                         | <b>446,871</b>        | <b>446,871</b> | <b>742,253</b>          | <b>1.06 %</b>         | <b>1.23 %</b>     | <b>February<br/>2045</b> |
| <b>Other securitization vehicles</b>         |                       |                |                         |                       |                   |                          |
| GMACC 1997-C1                                | —                     | —              | 83,672                  | N/A                   | N/A               | N/A                      |
| GECCM 00-1 H                                 | —                     | —              | 24,847                  | N/A                   | N/A               | N/A                      |
| GSMS 2006-FL8A                               | 50,552                | 50,552         | 50,552                  | 1.06 %                | 1.06 %            | June<br>2020             |

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|                                     |           |           |             |        |            |             |
|-------------------------------------|-----------|-----------|-------------|--------|------------|-------------|
| MSC 2007-XLCA                       | —         | —         | 310,083     | N/A    | N/A        | N/A         |
| JPMCC 2004-FL1A                     | —         | —         | —           | N/A    | N/A        | N/A         |
| Total other securitization vehicles | 50,552    | 50,552    | 469,154     | 1.06 % | 1.06 %     | June 2020   |
| Total/Weighted Average              | \$497,423 | \$497,423 | \$1,211,407 | 1.06 % | 1.21 % (4) | August 2042 |

- (1) Represents a weighted average for each respective facility, assuming LIBOR of 0.21% at September 30, 2012 for floating rate debt obligations.
- (2) Maturity dates represent the contractual maturity of each securitization trust. Repayment of securitized debt is a function of collateral cash flows which are disbursed in accordance with the contractual provisions of each trust, and is generally expected to occur prior to the maturity date above.
- (3) Comprised, at September 30, 2012, of \$184.9 million of floating rate notes sold and \$14.0 million of fixed rate notes sold.
- (4) Including the impact of interest rate hedges with an aggregate notional balance of \$273.7 million as of September 30, 2012, the effective all-in cost of our consolidated securitization vehicles' debt obligations would be 4.09% per annum.

As discussed above in the introduction to this Note 7, our consolidated securitization vehicles generally include two categories of entities: (i) collateralized debt obligations sponsored and issued by us, which we refer to as CT CDOs and (ii) other consolidated securitization vehicles which were not issued or sponsored by us.

Capital Trust, Inc. and Subsidiaries  
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## CT CDOs

As of September 30, 2012, our consolidated CT CDOs, CT CDO I, CT CDO II, and CT CDO IV, included three separate issuances with a total face value of \$446.9 million. As of September 30, 2012, loans receivable and securities with a book balance of \$149.5 million and \$154.8 million, respectively, were financed by our three consolidated CT CDOs. As of December 31, 2011, loans receivable and securities with a book balance of \$208.3 million and \$359.0 million, respectively, were financed by our four consolidated CT CDOs, one of which was deconsolidated as of February 10, 2012.

CT CDO I and CT CDO II each have interest coverage and overcollateralization tests, which, when breached, provide for hyper-amortization of the senior notes sold by a redirection of cash flow that would otherwise have been paid to the subordinate classes, some of which are owned by us. Furthermore, all three of our consolidated CT CDOs provide for the re-classification of interest proceeds from impaired collateral as principal proceeds, which also serve to hyper-amortize the senior notes sold.

During 2009, we were informed by our CDO trustee of impairments due to rating agency downgrades of certain of the securities which serve as collateral in all of our CT CDOs. These impairments, combined with the non-performance of certain loan collateral, resulted in breaches of interest coverage and overcollateralization tests at CT CDO I and CT CDO II, as well as the reclassification of interest proceeds from the impaired collateral as principal proceeds in all three of our consolidated CT CDOs. Other than collateral management fees, we currently do not receive any cash payments from these consolidated CDOs.

Further, due to the hyper-amortization of senior notes, certain subordinate classes are accruing unpaid interest, resulting in an increased liability to these classes. As senior notes which carry a lower rate of interest continue to hyper-amortize, and certain subordinate notes continue to accrue deferred interest, the weighted average cost of debt for our consolidated CT CDOs has and will continue to increase.

In March 2012, the trustee for CT CDO II informed us of an event of default resulting from a failure of CT CDO II to pay the full amount of interest due to its Class B Notes, which failure resulted from a shortage of funds available to the CDO for such payments. We are not obligated to, nor have we, provided any financial support to CT CDO II to rectify this event of default.

When we formed (and reinvested) our four CT CDOs, we made certain representations and warranties with respect to Capital Trust, Inc. and the loans and securities that we contributed as collateral to these CT CDOs. In the event that these representations or warranties are proved to have been untrue at the time that the respective collateral was contributed, we may be required to repurchase certain of those loans and securities. These representations and warranties generally relate to specific corporate and asset related subjects, including, among other things, proper corporate authorization; compliance with laws and regulations; ownership of the assets; title to, lack of liens encumbering, and adequate insurance covering the underlying collateral properties; and the lack of existing loan defaults.

The maximum potential amount of future payment we may be required to make to repurchase assets is \$722.5 million, the current face amount of all loans and securities in our four CT CDOs. In certain cases, we may be able to reduce the impact of any such purchase obligation through recoveries from the exercise of remedies against the institution from which we acquired the asset and received substantially the same representations and warranties. This potential recoverable amount is not currently estimable and would depend on the nature of the representation and warranty



breached and the circumstances under which each asset was transferred to the CT CDO. Since inception, we have not been required to repurchase any assets nor have we received any notice of assertion of a potential breach of any representation or warranty. Any payment required to repurchase a loan or security could materially impact our liquidity.

#### Other Consolidated Securitization Vehicles

In addition to the CT CDOs sponsored by us, which are discussed above, we also consolidate one other securitization vehicle which was not sponsored or issued by us. The debt obligations of this entity are separately presented on our consolidated balance sheet along with the CT CDOs issued by us, as they are also securitized, non-recourse obligations. These obligations will generally be satisfied with the repayment of assets in the entity's collateral pool, or will be discharged when losses are realized.

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Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
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As of September 30, 2012, loans receivable with an aggregate book value of \$65.0 million serve as collateral for the securities issued by this other consolidated securitization vehicle. As of December 31, 2011, loans receivable with an aggregate book value of \$404.3 million serve as collateral for the securities issued by these five other consolidated securitization vehicles, three of which was deconsolidated as of February 10, 2012.

#### E. Derivative Financial Instruments – Consolidated Securitization Vehicles

The following table summarizes the notional amounts and fair values of our consolidated securitization vehicles' interest rate swaps as of September 30, 2012 and December 31, 2011 (in thousands). The notional amount provides an indication of the extent of our involvement in the instruments at that time, but does not represent exposure to credit or interest rate risk.

| Counterparty              | September 30,<br>2012 |                   |          | September 30,<br>2012 | December 31,<br>2011 |
|---------------------------|-----------------------|-------------------|----------|-----------------------|----------------------|
|                           | Notional<br>Amount    | Interest Rate (1) | Maturity | Fair Value            | Fair Value           |
| Swiss RE Financial        | \$223,802             | 5.10 %            | 2015     | (\$15,631 )           | (\$20,540 )          |
| Bank of America           | 34,270                | 4.58 %            | 2014     | (1,499 )              | (2,368 )             |
| Bank of America           | 10,535                | 5.05 %            | 2016     | (1,387 )              | (1,461 )             |
| Bank of America           | 5,104                 | 4.12 %            | 2016     | (572 )                | (573 )               |
| Total/Weighted<br>Average | \$273,711             | 5.01 %            | 2015     | (\$19,089 )           | (\$24,942 )          |

- (1) Represents the gross fixed interest rate we pay to our counterparties under these derivative instruments. We receive an amount of interest indexed to one-month LIBOR on all of our interest rate swaps.

As of both September 30, 2012 and December 31, 2011, all of the derivative financial instruments of our consolidated securitization vehicles were classified as cash flow hedges, and recorded at fair value as interest rate hedge liabilities on our consolidated balance sheet.

The table below shows amounts recorded to other comprehensive income and amounts recorded to interest expense from other comprehensive income for the nine months ended September 30, 2012 and 2011 (in thousands):

| Hedge                  | Amount of net loss recognized<br>in OCI for the nine months ended (1) |                       | Amount of loss reclassified from OCI<br>to income for the nine months ended (2) |                       |
|------------------------|---|-----------------------|---|-----------------------|
|                        | September 30,<br>2012   | September 30,<br>2011 | September 30,<br>2012   | September 30,<br>2011 |
| Interest rate<br>swaps | (\$5,853 )  | \$1,980               | (\$10,182 )   | (\$11,512 )           |

- (1) Represents the amount of unrealized gains and losses recorded to other comprehensive income during the period, net of the amount reclassified to interest expense.
- (2) Represents net amounts paid to swap counterparties during the period, which are included in interest expense, offset by an immaterial amount of non-cash swap amortization.

All of our consolidated securitization vehicles' interest rate swaps were classified as highly effective for all of the periods presented. Over the next twelve months, as we make payments under our hedge agreements, we expect approximately \$9.8 million to be reclassified from other comprehensive income to interest expense. This amount is generally equal to the present value of expected payments under the respective derivative contracts.

As of September 30, 2012, our consolidated securitization vehicles have not posted any assets as collateral under derivative agreements.

#### Note 8. Shareholders' Equity

##### Authorized Capital

We have the authority to issue up to 200,000,000 shares of stock, consisting of 100,000,000 shares of class A common stock and 100,000,000 shares of preferred stock. Subject to applicable NYSE listing requirements, our board of directors is authorized to issue additional shares of authorized stock without shareholder approval. In addition, to the extent not issued, currently authorized stock may be reclassified between class A common stock and preferred stock.

##### Common Stock

Shares of class A common stock are entitled to vote on all matters presented to a vote of shareholders, except as provided by law or subject to the voting rights of any outstanding preferred stock. Holders of record of shares of class A common stock on the record date fixed by our board of directors are entitled to receive such dividends as may be declared by the board of directors subject to the rights of the holders of any outstanding preferred stock. A total of 23,191,622 shares of class A common stock and stock units were issued and outstanding as of September 30, 2012.

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We did not repurchase any of our class A common stock during the nine months ended September 30, 2012, other than the 6,959 shares we acquired 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 class A common stock.

Preferred Stock

We have not issued any shares of preferred stock since we repurchased all of the previously issued and outstanding preferred stock in 2001.

Warrants

In conjunction with the March 2009 restructuring of our legacy repurchase obligations, we issued to our former repurchase lenders warrants to purchase an aggregate 3,479,691 shares of our class A common stock at an exercise price of \$1.79 per share. The warrants became exercisable on March 16, 2012, will expire on March 16, 2019, and may be exercised in a cashless manner at the option of the warrant holders. The fair value assigned to these warrants, totaling \$940,000, has been recorded as an increase to additional paid-in capital, and was amortized into interest expense over the term of the related debt obligations. The warrants were valued using the Black-Scholes valuation method.

On November 8, 2012, all of our outstanding warrants were exercised in a cashless manner. See Note 16 for further discussion.

Dividends

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 GAAP) to our shareholders to comply with the REIT provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code.

In addition, 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 as our board of directors deems relevant.

No dividends were declared during the nine months ended September 30, 2012 or 2011.

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### Accumulated Other Comprehensive Loss

The following table details the primary components of accumulated other comprehensive loss as of September 30, 2012, and significant activity for the nine months ended September 30, 2012 (in thousands):

| Accumulated Other Comprehensive Loss                          | Market on Interest Rate Hedges | Deferred Gains on Settled Hedges | Other-than-Temporary Impairments | Unrealized Gains on Securities | Total       |
|---|--------------------------------|----------------------------------|----------------------------------|--------------------------------|-------------|
| Total as of December 31, 2011                                 | (\$27,423 )                    | \$56                             | (\$16,578 )                      | \$3,361                        | (\$40,584 ) |
| Unrealized gain on derivative financial instruments           | 5,853                          | —                                | —                                | —                              | 5,853       |
| Ineffective portion of cash flow hedges (1)                   | 2,481                          | —                                | —                                | —                              | 2,481       |
| Amortization of net unrealized gains on securities            | —                              | —                                | —                                | (770 )                         | (770 )      |
| Amortization of net deferred gains on settlement of swaps     | —                              | (56 )                            | —                                | —                              | (56 )       |
| Other-than-temporary impairments of securities (2)            | —                              | —                                | 409                              | —                              | 409         |
| Deconsolidation of CT Legacy Asset (3)                        | —                              | —                                | 3,879                            | (2,586 )                       | 1,293       |
| Total as of September 30, 2012                                | (\$19,089 )                    | \$—                              | (\$12,290 )                      | \$5                            | (\$31,374 ) |
| Allocation to non-controlling interest (3)                    |                                |                                  |                                  |                                | —           |
| Accumulated other comprehensive loss as of September 30, 2012 |                                |                                  |                                  |                                | (\$31,374 ) |

- (1) As a result of the deconsolidation of CT Legacy Asset in the first quarter of 2012, the balance of accumulated other comprehensive income related to cash flow hedges of CT Legacy Asset was reclassified to interest expense.
- (2) Represents other-than-temporary impairments of securities in excess of credit losses, including amortization of prior other-than-temporary impairments of \$248,000.
- (3) As further described in Note 1 above, we deconsolidated CT Legacy Asset in the first quarter of 2012. As a result, the balances of accumulated other comprehensive income related to CT Legacy Asset, including those allocable to noncontrolling interests are no longer included in our consolidated financial statements.

### Noncontrolling Interests

The noncontrolling interests included on our consolidated balance sheet represent the equity interests in CT Legacy REIT which are not owned by us, as described in Note 6. CT Legacy REIT's outstanding common stock includes class A-1 common stock, class A-2 common stock, and subordinate class B common stock. A portion of CT Legacy REIT's consolidated equity and results of operations are allocated to these noncontrolling interests based on their pro-rata ownership of CT Legacy REIT.

The following table describes activity relating to noncontrolling interests for the nine months ended September 30, 2012 (in thousands):

|   | Noncontrolling<br>Interests |
|---|-----------------------------|
| December 31, 2011   | (\$18,515 )                 |
| Net income attributable to noncontrolling interests                 | 81,038                      |
| Other comprehensive income attributable to noncontrolling interests | 10                          |
| Distributions to noncontrolling interests                           | (8 )                        |
| September 30, 2012  | \$62,525                    |

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As of December 31, 2011, the noncontrolling interests recorded on our consolidated balance sheet was a deficit, which reflected the consolidated book value of CT Legacy REIT, including certain securitization vehicles in which losses had been recorded in excess of CT Legacy REIT's net investment. As a result of our deconsolidation of CT Legacy Asset during the first quarter of 2012, the impact of these excess losses has been reversed, resulting in a positive allocation to noncontrolling interests as of September 30, 2012.

#### Earnings Per Share

The following table sets forth the calculation of Basic and Diluted earnings per share, or EPS, based on the weighted average of both restricted and unrestricted class A common stock outstanding, for the three and nine months ended September 30, 2012 (in thousands, except share and per share amounts):

|  | Three Months Ended<br>September 30, 2012 |                     |                     | Nine Months Ended<br>September 30, 2012 |                     |                     |
|--|--|---------------------|---------------------|---|---------------------|---------------------|
|  | Net<br>Income                            | Wtd. Avg.<br>Shares | Per Share<br>Amount | Net<br>Income                           | Wtd. Avg.<br>Shares | Per Share<br>Amount |
| Basic EPS:   |  |                     |                     |   |                     |                     |
| Net income allocable to common stock                         | \$6,999                                  | 23,173,426          | \$0.30              | \$75,835                                | 22,969,103          | \$3.30              |
| Effect of Dilutive Securities:                               |  |                     |                     |   |                     |                     |
| Warrants outstanding for the purchase of common stock        | —  | 1,442,600           |                     | —                                       | 1,472,958           |                     |
| Diluted EPS:   |  |                     |                     |   |                     |                     |
| Net income per share of common stock and assumed conversions | \$6,999                                  | 24,616,026          | \$0.28              | \$75,835                                | 24,442,061          | \$3.10              |

The following table sets forth the calculation of Basic and Diluted EPS based on the weighted average of both restricted and unrestricted class A common stock outstanding, for the three and nine months ended September 30, 2011 (in thousands, except share and per share amounts):

|  | Three Months Ended<br>September 30, 2011 |                     |                     | Nine Months Ended<br>September 30, 2011 |                     |                     |
|--|--|---------------------|---------------------|---|---------------------|---------------------|
|  | Net<br>Income                            | Wtd. Avg.<br>Shares | Per Share<br>Amount | Net<br>Income                           | Wtd. Avg.<br>Shares | Per Share<br>Amount |
| Basic EPS:   |  |                     |                     |   |                     |                     |
| Net income allocable to common stock                         | \$13,722                                 | 22,730,080          | \$0.60              | \$266,464                               | 22,630,672          | \$11.77             |
| Effect of Dilutive Securities:                               |  |                     |                     |   |                     |                     |
| Warrants outstanding for the purchase of common stock        | —  | 1,391,893           |                     | —                                       | 1,426,702           |                     |
| Diluted EPS:   |  |                     |                     |   |                     |                     |
| Net income per share of common stock and assumed conversions | \$13,722                                 | 24,121,973          | \$0.57              | \$266,464                               | 24,057,374          | \$11.08             |





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Note 9. General and Administrative Expenses

General and administrative expenses for the nine months ended September 30, 2012 and 2011 consisted of the following (in thousands):

| General and Administrative Expenses               | Nine Months Ended September 30, |          |
|---|---------------------------------|----------|
|   | 2012                            | 2011     |
| Personnel costs                                   | \$7,642                         | \$7,162  |
| Restructuring awards                              | —                               | 2,750    |
| Professional services                             | 2,468                           | 3,914    |
| Pending sale of investment management platform    | 2,135                           | —        |
| Operating and other costs                         | 2,267                           | 1,617    |
| Subtotal  | 14,512                          | 15,443   |
| Non-cash personnel costs                          |                                 |          |
| Management incentive awards plan - CT Legacy REIT | 944                             | 3,395    |
| Employee stock-based compensation                 | 675                             | 411      |
| Subtotal  | 1,619                           | 3,806    |
| Expenses of consolidated securitization vehicles  | 62                              | 619      |
| Total   | \$16,193                        | \$19,868 |

Management Incentive Awards Plan

Upon completion of our March 2011 restructuring, we granted senior level employees incentive awards issued under our long term incentive plan that participate in amounts earned from our retained equity interest in CT Legacy REIT. The awards provide payments to an employee pool of an amount equal to as much as 6.75% of the dividends paid (subject to certain caps) to the common equity holders of CT Legacy REIT's obligations, when and if distributed to us as dividends. See Note 11 for further discussion.

Note 10. Income Taxes

Capital Trust, Inc. has made an election to be taxed as a REIT under Section 856(c) of the Internal Revenue Code, commencing with the tax year ending December 31, 2003. As a REIT, we generally are not subject to federal, state, and local income taxes except for the operations of our taxable REIT subsidiary, CTIMCO. The primary benefit from this election is that we are able to deduct dividends paid to our shareholders from the calculation of taxable income, effectively eliminating corporate taxes on the operations of the REIT. In order to qualify as a REIT, our activities must focus on real estate investments and we must meet certain asset, income, ownership and distribution requirements. These qualifications have become more difficult to meet in light of the transfer of our legacy portfolio to CT Legacy REIT in conjunction with our March 2011 restructuring, and the lack of new, replacement investment activity. If we fail to maintain our qualification as a REIT, we may be subject to material penalties as well as federal, state and local income tax on our taxable income at regular corporate rates. As of September 30, 2012 and December 31, 2011, Capital Trust, Inc. was in compliance with all REIT requirements.

In addition, Capital Trust, Inc. includes in its taxable income the income generated by investments in our CT CDOs. Due to the redirection provisions of our consolidated CT CDOs, which reallocate principal proceeds and interest otherwise distributable to us to repay senior noteholders, assets financed through our CT CDOs may generate current taxable income without a corresponding cash distribution to us. See Note 7 for further discussion of these redirection provisions.

As of December 31, 2011, Capital Trust, Inc. had net operating losses, or NOLs, of approximately \$161.5 million and net capital losses, or NCLs, of approximately \$120.8 million available to be carried forward and utilized in current or future periods. The utilization of NOLs to offset our taxable income or distribution requirements will require us to pay alternative minimum taxes.

Deferred income taxes recorded on our consolidated balance sheets reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and the amounts used in the computation of our current income tax obligations.

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Note 11. Employee Benefit and Incentive Plans

Stock-Based Incentive Plans

We had stock-based incentive awards outstanding under three benefit plans as of September 30, 2012: (i) our amended and restated 1997 non-employee director stock plan, or 1997 Director Plan, (ii) our 2007 long term incentive plan, or 2007 Plan, and (iii) our 2011 long term incentive plan, or 2011 Plan. The 1997 Director Plan and the 2007 Plan expired in 2007 and 2011, respectively and no new awards may be issued under them. In March 2011, in addition to the 300,000 shares awarded to our three named executive officers, our board's compensation committee authorized our chief executive officer to grant 100,000 shares under the 2007 Plan to other officers and employees designated by him. These 100,000 shares were awarded to employees in January 2012.

Under the 2011 Plan, a maximum of 1.0 million shares of class A common stock may be issued. Shares canceled under previous plans are available to be reissued under the 2011 Plan. As of September 30, 2012, there were 615,000 shares available under the 2011 Plan.

Under these plans, our employees are issued shares of our restricted class A common stock. We record grant date fair value of these shares as an expense over their vesting period. These shares vest either (i) pro-rata over a three-year service period, or (ii) upon the attainment of certain pre-specified performance measures within a prescribed timeframe subject to continued employment.

As of September 30, 2012, unvested share-based compensation consisted of 536,536 shares of restricted class A common stock with an unamortized value of \$686,000. Subject to vesting conditions and the continued employment of certain employees, \$465,000 of these costs will be recognized as compensation expense during the fourth quarter of 2012 and the remainder will be recognized over the next two years.

Activity under these three plans for the nine months ended September 30, 2012 is summarized in the table below in share and share equivalents:

| Benefit Type (1)                       | 1997 Director<br>Plan | 2007 Plan      | 2011 Plan      | Total            |
|--|-----------------------|----------------|----------------|------------------|
| <b>Restricted Class A Common Stock</b> |                       |                |                |                  |
| Beginning balance                      | —                     | 244,424        | —              | 244,424          |
| Granted                                | —                     | 100,000        | 275,000        | 375,000          |
| Vested, deferred or forfeited          | —                     | (82,888 )      | —              | (82,888 )        |
| Ending balance (2)                     | —                     | 261,536        | 275,000        | 536,536          |
| <b>Stock Units (3)</b>                 |                       |                |                |                  |
| Beginning balance                      | 68,544                | 438,260        | 55,531         | 562,335          |
| Granted and deferred                   | —                     | 60,000         | 54,180         | 114,180          |
| Ending balance                         | 68,544                | 498,260        | 109,711        | 676,515          |
| <b>Total outstanding</b>               | <b>68,544</b>         | <b>759,796</b> | <b>384,711</b> | <b>1,213,051</b> |

(1) No stock options are outstanding under any of our plans.

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- (2) Includes (i) 275,000 performance based awards that contingently vest upon the attainment of certain pre-specified performance measures, and (ii) 250,000 time based awards that vest based upon an employee's continued employment on pre-established vesting dates.
- (3) Stock units are granted to certain members of our board of directors in lieu of cash compensation for services and in lieu of dividends earned on previously granted stock units. In addition, certain of our employees have elected to defer the vesting of their restricted shares.

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Capital Trust, Inc. and Subsidiaries  
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A summary of the unvested restricted class A common stock as of and for the nine months ended September 30, 2012 was as follows:

|                                | Restricted Class A Common Stock |                       |
|--------------------------------|---------------------------------|-----------------------|
|                                | Shares                          | Grant Date Fair Value |
| Unvested at January 1, 2012    | 244,424                         | \$2.65                |
| Granted                        | 375,000                         | 2.77                  |
| Vested, deferred or forfeited  | (82,888 )                       | 3.56                  |
| Unvested at September 30, 2012 | 536,536                         | \$2.64                |

A summary of the unvested restricted class A common stock as of and for the nine months ended September 30, 2011 was as follows:

|                                | Restricted Class A Common Stock |                       |
|--------------------------------|---------------------------------|-----------------------|
|                                | Shares                          | Grant Date Fair Value |
| Unvested at January 1, 2011    | 32,785                          | \$5.67                |
| Granted                        | 300,000                         | 2.29                  |
| Vested                         | (88,361 )                       | 2.62                  |
| Unvested at September 30, 2011 | 244,424                         | \$2.65                |

The total grant date fair value of restricted shares that vested during the nine months ended September 30, 2012 and 2011 was \$184,000 and \$231,000, respectively.

#### CTOPI Incentive Management Fee Grants

In addition to the equity interests detailed above, we may grant percentage interests in the incentive compensation received by us from certain of our investment management vehicles. In January 2011, we created a pool for employees equal to 45% of the CTOPI incentive management fee received by us. As of September 30, 2012, we had granted 92.5% of the pool to our employees and the remainder remains unallocated. These grants have the following employment-based vesting schedule: (i) one-third on the date of grant, (ii) one-third on September 13, 2012, and (iii) the remainder vests upon our receipt of incentive management fees from CTOPI.

#### CT Legacy REIT Management Incentive Awards Plan

In conjunction with our March 2011 restructuring, we created an employee pool for up to 6.75% of the dividends paid to the common equity holders of CT Legacy REIT (subject to certain caps and priority distributions). As of September 30, 2012, incentive awards for 83.5% of the pool were granted to our employees and the remainder remains unallocated. Approximately 90% of these grants have the following employment-based vesting schedule: (i) 25% vests on the date of grant, (ii) 25% vests in March 2013, (iii) 25% vests in March 2014, and (iv) the remainder vests upon our receipt of dividends from CT Legacy REIT. The remaining 10% of these grants vest upon our receipt of dividends from CT Legacy REIT.

#### Strategic Transaction Related Awards

On June 27, 2012, our compensation committee authorized contingent awards in the form of restricted class A common stock and cash bonuses to our chief executive officer, Stephen D. Plavin, chief financial officer, Geoffrey G.

Jervis, and our chief credit officer, Thomas C. Ruffing. Subject to their continued employment, these awards vest if a strategic transaction has been consummated, or definitive documentation governing a strategic transaction has been entered into, prior to December 31, 2012.

These awards provided for grants of 125,000, 100,000 and 50,000 shares of restricted common stock to Messrs. Plavin, Jervis, and Ruffing, respectively.

#### Note 12. Fair Values

##### Assets and Liabilities Recorded at Fair Value

Certain of our assets and liabilities are measured at fair value either (i) on a recurring basis, as of each quarter-end, or (ii) on a nonrecurring basis, as a result of impairment or other events. Generally, loans held-for-sale, real estate held-for-sale, the investment in CT Legacy Asset, and interest rate swaps are measured at fair value on a recurring basis, while impaired loans and securities are measured at fair value on a nonrecurring basis. These fair values are determined using a variety of inputs and methodologies, which are detailed below.

Capital Trust, Inc. and Subsidiaries  
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As discussed in Note 2, the “Fair Value Measurement and Disclosures” Topic of the Codification establishes a fair value hierarchy that prioritizes the inputs used in determining fair value under GAAP, which includes the following classifications, in order of priority:

- Level 1 generally includes only unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date.
- Level 2 inputs are those which, other than Level 1 inputs, are observable for identical or similar assets or liabilities.
- Level 3 inputs generally include anything which does not meet the criteria of Levels 1 and 2, particularly any unobservable inputs.

The following table summarizes our assets and liabilities, including those of CT Legacy REIT and our consolidated securitization vehicles, which are recorded at fair value as of September 30, 2012 (in thousands):

|  | Total<br>Fair Value at<br>September 30,<br>2012 | Fair Value Measurements Using                         |  |  |
|--|---|---|--|--|
|  |   | Quoted<br>Prices<br>in Active<br>Markets<br>(Level 1) | Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Measured on a recurring basis:                           |   |   |  |  |
| Investment in CT Legacy Asset                            | \$100,100                                       | \$—   | \$—  | \$100,100  |
| Securitization vehicles' interest rate hedge liabilities | (\$19,089 )                                     | \$—   | (\$19,089 )                                | \$—  |
| Measured on a nonrecurring basis:                        |   |   |  |  |
| Securitization vehicles' impaired loans receivable (1) : |   |   |  |  |
| Subordinate interests in mortgages                       | \$4,130   | \$—   | \$—  | \$4,130  |

(1) Loans receivable against which we have recorded a provision for loan losses as of September 30, 2012.

The following table reconciles the beginning and ending balances of assets measured at fair value on a recurring basis using Level 3 inputs (in thousands):

|                                    | Loans<br>Held-for-Sale | Real Estate<br>Held-for-Sale | Investment in<br>CT Legacy Assets |
|------------------------------------|------------------------|------------------------------|-----------------------------------|
| December 31, 2011                  | \$30,875               | \$10,342                     | \$—                               |
| Deconsolidation of CT Legacy Asset | (30,875 )              | (10,342 )                    | 89,676                            |
| Contributions to CT Legacy Asset   | —                      | —                            | 73,064                            |
| Distributions from CT Legacy Asset | —                      | —                            | (82,285 )                         |

Adjustments to fair value included in earnings:

|  |     |     |           |
|--|-----|-----|-----------|
| Fair value adjustment on investment in CT Legacy Asset | —   | —   | 19,645    |
| September 30, 2012                                     | \$— | \$— | \$100,100 |

The fair values of each type of asset recorded at fair value using Level 3 inputs are determined by an internal committee comprised of senior management including our chief executive officer, chief financial officer and our chief credit officer and head of asset management. The following methods and assumptions were used to estimate the fair value of each type of asset and liability which was recorded at fair value as of September 30, 2012:

Investment in CT Legacy Asset: We have elected the fair value option of accounting for CT Legacy REIT's investment in CT Legacy Asset, pursuant to which we record this investment at fair value rather than at our historical cost investment amount. We made this election due to our determination that the fair value of the investment in CT Legacy Asset, as a net liquidating portfolio of assets subject to a non-recourse repurchase facility, is more meaningful and indicative of our interests in CT Legacy Asset than equity method accounting. Consequently, we arrive at the fair value of our Investment in CT Legacy Asset by discounting expected cash flows after the repayment of the repurchase facility. To determine the expected cash flows of CT Legacy Asset, management estimates the timing and recovery amount for each of its assets, and then applies the proceeds to first satisfy the repurchase facility. The remaining cash flows are discounted to their present value to arrive at the fair value of CT Legacy Asset. The key assumptions for significant unobservable inputs are: (i) a discount rate of 20%, and (ii) loss severities ranging from 0% to 100% against the underlying assets. A change in the discount rate used by 100 basis points would change the fair value of CT Legacy REIT's investment in CT Legacy Asset by approximately \$2.3 million.



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**Interest rate hedge liabilities:** Interest rate hedges are valued using advice from a third-party derivative specialist, based on a combination of observable market-based inputs, such as interest rate curves, and unobservable inputs such as credit valuation adjustments due to the risk of non-performance by both us and our counterparties. See Note 7 for additional details on our interest rate hedges. We have made an accounting policy decision to utilize the so-called “portfolio exception” under ASC paragraph 820-10-35-18D, and have valued our interest rate hedge liabilities, as applicable, on a net basis.

**Impaired securities held-to-maturity:** Securities which are other-than-temporarily impaired are generally valued by a combination of (i) obtaining assessments from third-party dealers and, (ii) in cases where such assessments are unavailable or, in the opinion of management, deemed not to be indicative of fair value, discounting expected cash flows using internal cash flow models and estimated market discount rates. In the case of internal models, expected cash flows of each security are based on management’s assumptions regarding the collection of principal and interest on the underlying loans and securities. There were no securities which were impaired during the three months ended September 30, 2012. Previously impaired securities have been subsequently adjusted for amortization, and are therefore no longer reported at fair value as of September 30, 2012.

**Impaired loans:** The loans identified for impairment are collateral dependent loans. Impairment on these loans is measured by comparing management’s estimation of fair value of the underlying collateral to the book value of the respective loan. These valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management. The table above includes all impaired loans, regardless of the period in which impairment was recognized.

Additional details of our consolidated securitization vehicles’ loans which were recorded at fair value as of September 30, 2012 are described below:

**Subordinate interests in mortgages:** Six of our consolidated securitization vehicles’ subordinate interests in mortgage loans with an aggregate principal balance of \$82.1 million are reported at fair value as of September 30, 2012, including three hotel loans (\$60.9 million), one office loan (\$6.6 million), one retail loan (\$4.4 million) and one mixed-use/other loan (\$10.2 million). The loans have a weighted average maturity of February 2012 and a weighted average coupon of 3.7% per annum as of September 30, 2012.

The following table lists the range of key assumptions used for arriving at the fair value of each of these types of loans.

| Collateral Type   | Assumption Ranges for Significant Unobservable Inputs (Level 3) |           |                   |
|-------------------|---|-----------|-------------------|
|                   | Capitalization Rate   | Occupancy | Loss Severity (1) |
| Office            | N/A   | N/A       | 70%               |
| Hotel             | 9% - 15%  | 75% - 83% | N/A               |
| Retail            | 10%   | 90%       | N/A               |
| Mixed Use / Other | N/A   | N/A       | 79%               |

- (1) In certain cases a loss severity based on inputs from third-parties including appraisals on, and bids for, underlying collateral were utilized to compute the fair value of the impaired loans.

#### Fair Value of Financial Instruments

In addition to the above disclosures for assets and liabilities which are recorded at fair value, GAAP also requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial position, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are estimated using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the estimated market discount rate and the estimated future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate settlement of the instrument. Rather, these fair values reflect the amounts that management believes are realizable in an orderly transaction among willing parties. These disclosure requirements exclude certain financial instruments and all non-financial instruments.

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Capital Trust, Inc. and Subsidiaries  
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The following table details the carrying amount, face amount, and approximate fair value of the financial instruments described above (in thousands). All fair value estimates are measured using significant unobservable inputs, or Level 3 inputs as further described above.

## Fair Value of Financial Instruments

|                                | September 30, 2012 |                |               | December 31, 2011  |                |               |
|--------------------------------|--------------------|----------------|---------------|--------------------|----------------|---------------|
|                                | Carrying<br>Amount | Face<br>Amount | Fair<br>Value | Carrying<br>Amount | Face<br>Amount | Fair<br>Value |
| <b>Financial assets:</b>       |                    |                |               |                    |                |               |
| Cash and cash equivalents      | \$38,867           | \$38,867       | \$38,867      | \$34,818           | \$34,818       | \$34,818      |
| Loans receivable, net          | —                  | —              | —             | 19,282             | 19,282         | 17,354        |
| <b>CT Legacy REIT</b>          |                    |                |               |                    |                |               |
| Restricted cash                | 16,145             | 16,145         | 16,145        | 12,985             | 12,985         | 12,985        |
| Securities held-to-maturity    | N/A                | N/A            | N/A           | 2,602              | 29,251         | 1,638         |
| Loans receivable, net          | N/A                | N/A            | N/A           | 206,514            | 435,973        | 180,439       |
| Investment in CT Legacy Asset  | 100,100            | N/A            | 100,100       | N/A                | N/A            | N/A           |
| <b>Securitization Vehicles</b> |                    |                |               |                    |                |               |
| Securities held-to-maturity    | 154,848            | 236,390        | 144,742       | 358,972            | 490,940        | 350,180       |
| Loans receivable, net          | 214,457            | 292,828        | 200,028       | 612,598            | 815,716        | 570,936       |
| <b>Financial liabilities:</b>  |                    |                |               |                    |                |               |
| Secured notes                  | 8,326              | 8,326          | 7,158         | 7,847              | 7,847          | 6,436         |
| Participations sold            | —                  | —              | —             | 19,282             | 19,282         | 17,354        |
| <b>CT Legacy REIT</b>          |                    |                |               |                    |                |               |
| Repurchase obligations         | N/A                | N/A            | N/A           | 58,464             | 58,464         | 54,556        |
| Mezzanine loan                 | N/A                | N/A            | N/A           | 55,111             | 55,111         | 71,475        |
| Participations sold            | N/A                | N/A            | N/A           | 97,465             | 97,465         | —             |
| <b>Securitization Vehicles</b> |                    |                |               |                    |                |               |
| Securitized debt obligations   | 497,423            | 497,423        | 302,698       | 1,211,407          | 1,210,992      | 767,619       |

The following methods and assumptions were used to estimate the fair value of each class of financial instruments, excluding those described above that are carried at fair value, for which it is practicable to estimate that value:

**Cash and cash equivalents:** The carrying amount of cash on deposit and in money market funds is considered to be a reasonable estimate of fair value.

**Loans receivable, net:** Other than impaired loans, these assets are recorded at their amortized cost and not at fair value. The fair values presented above were estimated by management taking into consideration factors including capitalization rates, leasing, occupancy rates, availability and cost of financing, exit plan, sponsorship, actions of other lenders and indications of market value from other market participants.

**Restricted cash:** The carrying amount of restricted cash is considered to be a reasonable estimate of fair value.

Securities held-to-maturity: These investments, other than securities that have been other-than-temporarily impaired, are recorded on an amortized cost basis and not at fair value. The fair values presented above have been estimated by a combination of (i) obtaining assessments from third-party dealers and, (ii) in cases where such assessments are unavailable or, in the opinion of management, deemed not to be indicative of fair value, discounting expected cash flows using internal cash flow models and estimated market discount rates. The expected cash flows of each security are based on management's assumptions regarding the collection of principal and interest on the underlying loans and securities.

Secured notes: These notes are recorded at their aggregate principal balance and not at fair value. The fair value was estimated based on the rate at which a similar credit facility would be priced today.

Participations sold: These liabilities are recorded at their amortized cost and not at fair value. The fair values presented above are consistent with those presented for the related loan assets.

Repurchase obligations: These facilities were recorded at their aggregate principal balance and not at fair value. The fair value was estimated based on the rate at which a similar credit facility would be priced today.

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Mezzanine loan: This instrument was recorded at its amortized cost and not at fair value. The fair value was estimated based on the rate at which a similar credit facility would be priced today.

Securitized debt obligations: These obligations are recorded at the face value of outstanding obligations to third-parties and not at fair value. The fair values presented above have been estimated by obtaining assessments from third-party dealers.

Note 13. Supplemental Disclosures for Consolidated Statements of Cash Flows

As described in Note 2, following the deconsolidation described in Note 1, our financial statements include five consolidated securitization vehicles. The consolidation of these entities has materially impacted our statement of cash flows, primarily the amounts reported as principal collections of loans and repayments of securitized debt obligations. Notwithstanding the gross presentation on our consolidated statement of cash flows, the consolidation of these entities has no impact on our net cash flow.

Interest paid on our outstanding debt obligations during the nine months ended September 30, 2012 and 2011 was \$21.9 million and \$85.2 million, respectively. This includes interest paid by consolidated variable interest entities. The difference between interest expense on our consolidated statement of operations and interest paid is primarily due to non-cash interest expense recorded on amortization of discount of the Five Mile Capital mezzanine loan, interest rate swaps, loan participations sold and deferred interest on various debt obligations.

Net taxes paid by us during the nine months ended September 30, 2012 and 2011 were \$788,000 and \$2.4 million, respectively. The taxes paid in 2012 relate primarily to the investment management activities of our taxable REIT subsidiary, CTIMCO.

Significant non-cash investing and financing activities, which are not presented on our consolidated statements of cash flows, primarily includes the repayments of our loan participations sold assets and liabilities.

Note 14. Transactions with Related Parties

We earn base management and incentive fees in our capacity as investment manager for multiple vehicles which we have sponsored. Due to the nature of our relationship with these vehicles, all management fees are considered revenue from related parties under GAAP. In addition, we have investments which are senior, junior, or pari passu to investments in our investment management vehicles, which could produce conflicts of interest between our direct portfolio and those of our managed accounts.

On November 9, 2006, we commenced our CT High Grade Mezzanine<sup>SM</sup>, or CT High Grade I, investment management initiative and entered into three separate account agreements with affiliates of W. R. Berkley Corporation, or WRBC, with an aggregate commitment of \$250.0 million, which was subsequently increased to \$350.0 million in July 2007. Subsequent to the expiration of the CT High Grade I investment period, we continued to invest on behalf of WRBC under the CT High Grade I platform on a non-discretionary basis, bringing CT High Grade I's total investments to \$594.0 million as of September 30, 2012. Pursuant to these agreements, we invested capital on behalf of WRBC in commercial real estate mortgages, mezzanine loans and participations therein. The separate accounts are entirely funded with committed capital from WRBC and are managed by a subsidiary of CTIMCO. CTIMCO earns a management fee equal to 0.25% per annum on invested assets.

WRBC beneficially owned common stock representing approximately 15.4% of our outstanding common stock and stock units as of November 9, 2012, and a member of our board of directors is an employee of WRBC. In addition, wholly-owned subsidiaries of WRBC are investors in certain private funds under Five Mile Capital's management. As discussed in Notes 1 and 7, Five Mile Capital provided an \$83.0 million mezzanine loan to CT Legacy REIT in connection with our March 2011 restructuring, and holds a significant interest in the common equity of CT Legacy REIT. In February 2012 we refinanced CT Legacy REIT's Five Mile Capital mezzanine loan and repurchase facility with a single, new \$124.0 million repurchase facility with JPMorgan.

In July 2008, CTOPI, a private equity fund that we manage, held its final closing completing its capital raise with \$539.9 million total equity commitments. EGI-Private Equity II, L.L.C., an affiliate under common control of the chairman of our board of directors, owns a 3.7% limited partner interest in CTOPI. During the nine months ended September 30, 2012, we recorded \$2.0 million of fees from CTOPI, \$80,000 of which were attributable to EGI-Private Equity II, L.L.C.

CTOPI has purchased \$75.5 million face value of our CT CDO notes in the open market for \$40.4 million. These purchases were from third-parties, and were not sold by us.

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Note 15. Segment Reporting

We operate in two reportable segments. We have an internal information system that produces performance and asset data for our two segments along service lines.

The Balance Sheet Investment segment includes our consolidated portfolio of interest earning assets and the financing thereof. The Investment Management segment includes the investment management activities of our wholly-owned investment management subsidiary, CT Investment Management Co., LLC, or CTIMCO, and its subsidiaries, as well as our co-investments in investment management vehicles. CTIMCO is a taxable REIT subsidiary and serves as the investment manager of Capital Trust, Inc., all of our investment management vehicles and CT CDOs, and serves as senior servicer and special servicer for certain of our investments and for third-parties.

The following table details each segment's contribution to our operating results and the identified assets attributable to each such segment for the nine months ended, and as of, September 30, 2012 (in thousands):

|  | Balance<br>Sheet<br>Investment | Investment<br>Management | Inter-Segment<br>Activities | Total    |
|--|--------------------------------|--------------------------|-----------------------------|----------|
| <b>Income from loans and other investments:</b>  |                                |                          |                             |          |
| Interest and related income  | \$28,423                       | \$—                      | \$—                         | \$28,423 |
| Less: Interest and related expenses  | 33,902                         | —                        | —                           | 33,902   |
| Income from loans and other investments, net   | (5,479 )                       | —                        | —                           | (5,479 ) |
| <b>Other revenues:</b>   |                                |                          |                             |          |
| Management fees from affiliates  | —                              | 6,597                    | (1,856 )                    | 4,741    |
| Servicing fees   | —                              | 6,991                    | (1,400 )                    | 5,591    |
| Total other revenues   | —                              | 13,588                   | (3,256 )                    | 10,332   |
| <b>Other expenses</b>  |                                |                          |                             |          |
| General and administrative   | 6,551                          | 11,498                   | (1,856 )                    | 16,193   |
| Servicing fees expense   | 1,400                          | —                        | (1,400 )                    | —        |
| Total other expenses   | 7,951                          | 11,498                   | (3,256 )                    | 16,193   |
| Total other-than-temporary impairments of securities   | —                              | —                        | —                           | —        |
| Portion of other-than-temporary impairments of securities recognized in other comprehensive income | (160 )                         | —                        | —                           | (160 )   |
| Net impairments recognized in earnings   | (160 )                         | —                        | —                           | (160 )   |
| Recovery of provision for loan losses  | 2,819                          | —                        | —                           | 2,819    |
| Fair value adjustment on investment in CT Legacy Asset   | 19,645                         | —                        | —                           | 19,645   |
| Gain on deconsolidation of subsidiary  | 146,380                        | —                        | —                           | 146,380  |
| Income from equity investments in unconsolidated subsidiaries                                      | —                              | 1,312                    | —                           | 1,312    |
| Income before income taxes   | 155,254                        | 3,402                    | —                           | 158,656  |

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|   |           |          |     |           |
|---|-----------|----------|-----|-----------|
| Income tax provision                                | 467       | 1,316    | —   | 1,783     |
| Net income  | \$154,787 | \$2,086  | \$— | \$156,873 |
| Net income attributable to noncontrolling interests | (81,038 ) | —        | —   | (81,038 ) |
| Net income attributable to Capital Trust, Inc.      | \$73,749  | \$2,086  | \$— | \$75,835  |
| Total assets  | \$556,003 | \$25,194 | \$— | \$581,197 |

All revenues were generated from external sources within the United States. The Investment Management segment received intercompany preferred dividend income of \$1.9 million from the Balance Sheet segment for the nine months ended September 30, 2012. In addition, the Investment Management segment earned fees of \$1.4 million for serving as collateral manager of the CT CDOs consolidated under our Balance Sheet Investment segment as well as special servicing activity for certain CT CDO assets for the nine months ended September 30, 2012.



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The following table details each segment's contribution to our operating results and the identified assets attributable to each such segment for the nine months ended, and as of, September 30, 2011 (in thousands):

|  | Balance<br>Sheet<br>Investment | Investment<br>Management | Inter-Segment<br>Activities | Total       |
|--|--------------------------------|--------------------------|-----------------------------|-------------|
| <b>Income from loans and other investments:</b>  |                                |                          |                             |             |
| Interest and related income  | \$95,187                       | \$—                      | \$—                         | \$95,187    |
| Less: Interest and related expenses  | 80,381                         | —                        | —                           | 80,381      |
| Income from loans and other investments, net   | 14,806                         | —                        | —                           | 14,806      |
| <b>Other revenues:</b>   |                                |                          |                             |             |
| Management fees from affiliates  | —                              | 6,171                    | (1,244 )                    | 4,927       |
| Servicing fees   | —                              | 2,840                    | (632 )                      | 2,208       |
| Total other revenues   | —                              | 9,011                    | (1,876 )                    | 7,135       |
| <b>Other expenses:</b>   |                                |                          |                             |             |
| General and administrative   | 5,372                          | 15,740                   | (1,244 )                    | 19,868      |
| Servicing fee expense  | 632                            | —                        | (632 )                      | —           |
| Total other expenses   | 6,004                          | 15,740                   | (1,876 )                    | 19,868      |
| Total other-than-temporary impairments of securities   | (35,620 )                      | —                        | —                           | (35,620 )   |
| Portion of other-than-temporary impairments of securities recognized in other comprehensive income | (3,098 )                       | —                        | —                           | (3,098 )    |
| Impairment of real estate held-for-sale  | (1,055 )                       | —                        | —                           | (1,055 )    |
| Net impairments recognized in earnings   | (39,773 )                      | —                        | —                           | (39,773 )   |
| Recovery of provision for loan losses  | 34,401                         | —                        | —                           | 34,401      |
| Valuation allowance on loans held-for-sale   | (224 )                         | —                        | —                           | (224 )      |
| Gain on extinguishment of debt   | 271,031                        | —                        | —                           | 271,031     |
| Income from equity investments in unconsolidated subsidiaries                                      | —                              | 2,105                    | —                           | 2,105       |
| Income (loss) before income taxes  | 274,237                        | (4,624 )                 | —                           | 269,613     |
| Income tax provision (benefit)   | 2,615                          | (1,401 )                 | —                           | 1,214       |
| Net income (loss)  | \$271,622                      | (\$3,223 )               | \$—                         | \$268,399   |
| Net income attributable to noncontrolling interests  | (1,935 )                       | —                        | —                           | (1,935 )    |
| Net income (loss) attributable to Capital Trust, Inc.  | \$269,687                      | (\$3,223 )               | \$—                         | \$266,464   |
| Total assets   | \$1,528,441                    | \$11,448                 | \$—                         | \$1,539,889 |

All revenues were generated from external sources within the United States. The Investment Management segment received intercompany preferred dividend income of \$1.2 million from the Balance Sheet segment for the nine months ended September 30, 2011. In addition, the Investment Management segment earned fees of \$632,000 for serving as

collateral manager of the CT CDOs consolidated under our Balance Sheet Investment segment as well as special servicing activity for certain CT CDO assets for the nine months ended September 30, 2011.

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Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(unaudited)

The following table details each segment's contribution to our operating results and the identified assets attributable to each such segment for the three months ended, and as of, September 30, 2012 (in thousands):

|   | Balance<br>Sheet<br>Investment | Investment<br>Management | Inter-Segment<br>Activities | Total     |
|---|--------------------------------|--------------------------|-----------------------------|-----------|
| <b>Income from loans and other investments:</b>               |                                |                          |                             |           |
| Interest and related income                                   | \$6,944                        | \$—                      | \$—                         | \$6,944   |
| Less: Interest and related expenses                           | 5,147                          | —                        | —                           | 5,147     |
| Income from loans and other investments, net                  | 1,797                          | —                        | —                           | 1,797     |
| <b>Other revenues:</b>  |                                |                          |                             |           |
| Management fees from affiliates                               | —                              | 2,165                    | (619 )                      | 1,546     |
| Servicing fees  | —                              | 3,237                    | (1,031 )                    | 2,206     |
| Total other revenues  | —                              | 5,402                    | (1,650 )                    | 3,752     |
| <b>Other expenses</b>   |                                |                          |                             |           |
| General and administrative                                    | 3,381                          | 4,379                    | (619 )                      | 7,141     |
| Servicing fees expense  | 1,031                          | —                        | (1,031 )                    | —         |
| Total other expenses  | 4,412                          | 4,379                    | (1,650 )                    | 7,141     |
| Recovery of provision for loan losses                         | 2,811                          | —                        | —                           | 2,811     |
| Fair value adjustment on investment in CT Legacy Asset        | 11,987                         | —                        | —                           | 11,987    |
| Income from equity investments in unconsolidated subsidiaries | —                              | 411                      | —                           | 411       |
| Income before income taxes                                    | 12,183                         | 1,434                    | —                           | 13,617    |
| Income tax provision  | 167                            | 550                      | —                           | 717       |
| Net income  | \$12,016                       | \$884                    | \$—                         | \$12,900  |
| Net income attributable to noncontrolling interests           | (5,901 )                       | —                        | —                           | (5,901 )  |
| Net income attributable to Capital Trust, Inc.                | \$6,115                        | \$884                    | \$—                         | \$6,999   |
| Total assets  | \$556,003                      | \$25,194                 | \$—                         | \$581,197 |

All revenues were generated from external sources within the United States. The Investment Management segment received intercompany preferred dividend income of \$619,000 million from the Balance Sheet segment for the three months ended September 30, 2012. In addition, the Investment Management segment earned fees of \$1.0 million for serving as collateral manager of the CT CDOs consolidated under our Balance Sheet Investment segment as well as special servicing activity for certain CT CDO assets for the three months ended September 30, 2012.

Capital Trust, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(unaudited)

The following table details each segment's contribution to our operating results and the identified assets attributable to each such segment for the three months ended, and as of, September 30, 2011 (in thousands):

|  | Balance<br>Sheet<br>Investment | Investment<br>Management | Inter-Segment<br>Activities | Total       |
|--|--------------------------------|--------------------------|-----------------------------|-------------|
| <b>Income from loans and other investments:</b>  |                                |                          |                             |             |
| Interest and related income  | \$25,642                       | \$—                      | \$—                         | \$25,642    |
| Less: Interest and related expenses  | 21,838                         | —                        | —                           | 21,838      |
| Income from loans and other investments, net   | 3,804                          | —                        | —                           | 3,804       |
| <b>Other revenues:</b>   |                                |                          |                             |             |
| Management fees from affiliates  | —                              | 2,372                    | (619 )                      | 1,753       |
| Servicing fees   | —                              | 1,671                    | (211 )                      | 1,460       |
| Total other revenues   | —                              | 4,043                    | (830 )                      | 3,213       |
| <b>Other expenses:</b>   |                                |                          |                             |             |
| General and administrative   | 2,427                          | 3,344                    | (830 )                      | 4,941       |
| Total other expenses   | 2,427                          | 3,344                    | (830 )                      | 4,941       |
| Total other-than-temporary impairments of securities   | (30,687 )                      | —                        | —                           | (30,687 )   |
| Portion of other-than-temporary impairments of securities recognized in other comprehensive income | 173                            | —                        | —                           | 173         |
| Impairment of real estate held-for-sale  | (1,055 )                       | —                        | —                           | (1,055 )    |
| Net impairments recognized in earnings   | (31,569 )                      | —                        | —                           | (31,569 )   |
| Recovery of provision for loan losses  | 17,152                         | —                        | —                           | 17,152      |
| Gain on extinguishment of debt   | 20,054                         | —                        | —                           | 20,054      |
| Income from equity investments in unconsolidated subsidiaries                                      | —                              | 307                      | —                           | 307         |
| Income before income taxes   | 7,014                          | 1,006                    | —                           | 8,020       |
| Income tax provision (benefit)   | 703                            | (939 )                   | —                           | (236 )      |
| Net income   | \$6,311                        | \$1,945                  | \$—                         | \$8,256     |
| Net loss attributable to noncontrolling interests  | 5,466                          | —                        | —                           | 5,466       |
| Net income attributable to Capital Trust, Inc.   | \$11,777                       | \$1,945                  | \$—                         | \$13,722    |
| Total assets   | \$1,528,441                    | \$11,448                 | \$—                         | \$1,539,889 |

All revenues were generated from external sources within the United States. The Investment Management segment received intercompany preferred dividend income of \$619,000 from the Balance Sheet segment for the three months ended September 30, 2011. In addition, the Investment Management segment earned fees of \$211,000 for serving as collateral manager of the CT CDOs consolidated under our Balance Sheet Investment segment as well as special servicing activity for certain CT CDO assets for the three months ended September 30, 2011.

Note 16. Subsequent Events

Subsequent to quarter end, on November 8, 2012, the holders of our outstanding warrants exercised on a cashless basis all of the outstanding warrants. As a result, we issued 1,690,466 shares of our class A common stock pursuant to the terms of the warrants.

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

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

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this quarterly report on Form 10-Q. Historical results set forth are not necessarily indicative of our future financial position and results of operations.

#### Introduction

We are a real estate finance 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 September 30, 2012, we have completed approximately \$12.1 billion of commercial real estate investments. We conduct our operations as a real estate investment trust, or REIT, for federal income tax purposes. We are traded on the New York Stock Exchange, or NYSE, under the symbol “CT”, and are headquartered in New York City.

#### Sale of Investment Management Platform

On September 27, 2012, we announced our entry into a definitive purchase and sale agreement, or Purchase Agreement, with an affiliate, which we refer to as the Purchaser, of The Blackstone Group L.P., which we refer to as Blackstone. Pursuant to the Purchase Agreement, the Purchaser will acquire our investment management and special servicing businesses, operated through our subsidiary, CT Investment Management Co., LLC, or CTIMCO, and our related private investment fund co-investments for \$20.6 million. The Purchaser will also purchase for \$10.0 million, or \$2.00 per share, 5,000,000 shares of our class A common stock that will represent approximately 17.1% of our common stock outstanding following consummation of the transactions contemplated by the Purchase Agreement, which we refer to as the Transactions. The Purchase Agreement also contemplates that we will enter into a new management agreement pursuant to which a Blackstone affiliate, which we refer to as the New CT Manager, will manage Capital Trust, Inc. following the consummation of the Transactions. Pursuant to the new management agreement, the New CT Manager will manage Capital Trust, Inc. in accordance with investment guidelines and policies approved by our board of directors. Stephen D. Plavin, Geoffrey G. Jervis and Thomas C. Ruffing will continue to serve in their current executive management roles post-transaction. Consummation of the Transactions is subject to customary closing conditions, including the approval of the Transactions by the affirmative vote of the holders of a majority of the outstanding shares of common stock at a special meeting of shareholders that will be called to approve the Transactions. W. R. Berkley and its affiliated entities, holders of approximately 15.9% of our class A common stock, have entered into a voting agreement to support the transaction.

If the Transactions are consummated, we will pay a \$2.00 per share special cash dividend to holders of our class A common stock, which will be payable as soon as practicable following closing of the Transactions to shareholders of record as of the close of business on November 12, 2012.

In accordance with NYSE procedures, from November 7, 2012 through the special dividend payment date, our class A common stock will trade with “due-bills” representing an assignment of the right to receive the special dividend. Our class A common stock will not trade ex-dividend until the first business day after the special dividend payment date. Shareholders who sell their shares on or before the special dividend payment date will not be entitled to receive the special dividend.

The sources of funds for the special dividend will be cash on hand prior to the Transactions and the proceeds from the sale of CTIMCO and our private investment fund co-investments. The Purchaser will not receive the special dividend

given that its investment in our class A common stock will close after the special dividend record date.

Following the Transactions, we will continue to own our existing cash balances (as reduced to fund expenses of the Transactions and the special dividend), our interest in CT Legacy REIT (as defined below), our carried interest in CT Opportunity Partners I, LP, as well as our retained subordinate interests in our three CT CDOs.

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### March 2011 Restructuring

On March 31, 2011, we restructured, amended, or extinguished all of our outstanding recourse debt obligations, which we refer to as our March 2011 restructuring. Our March 2011 restructuring involved: (i) the contribution of certain of our legacy assets to a newly formed subsidiary, CT Legacy REIT Mezz Borrower, Inc., or CT Legacy REIT, (ii) the assumption of our legacy repurchase obligations by CT Legacy REIT, and (iii) the extinguishment of the remainder of our recourse obligations, our senior credit facility and junior subordinated notes. The restructuring was financed with a new \$83.0 million mezzanine loan obtained by CT Legacy REIT from an affiliate of Five Mile Capital, and the issuance of equity interests in the common stock of CT Legacy REIT to the former lenders under our senior credit facility and our former junior subordinated noteholders, as well as to an affiliate of Five Mile Capital.

Following the completion of our March 2011 restructuring, we no longer have any recourse debt obligations, and retain unencumbered ownership of 100% of (i) our investment management platform, CT Investment Management Co., LLC, (ii) our co-investment in CT Opportunity Partners I, LP, (iii) our residual ownership interests in three of the CDOs that we issued, CT CDOs I, II, and IV, and (iv) our tax-basis net operating losses. Furthermore, we have a 52% equity interest in the common stock of CT Legacy REIT. Our economic interest in CT Legacy REIT is, however, subject to (i) the secured notes, which are non-recourse obligations that are collateralized by certain of our retained equity interests in the common stock of CT Legacy REIT, (ii) incentive awards that provide for the participation in amounts earned from our retained equity interests in the common stock of CT Legacy REIT, and (iii) the subordinate class B common stock of CT Legacy REIT owned by our former junior subordinate noteholders. In addition to our interest in the common stock of CT Legacy REIT, we also own 100% of its outstanding class A preferred stock.

### Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The preparation of these financial statements requires our management to make estimates and assumptions with regard to the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Actual results could differ from these estimates. There have been no material changes to our Critical Accounting Policies described in our annual report on Form 10-K filed with the Securities and Exchange Commission on February 14, 2012.

### Principles of Consolidation and Balance Sheet Presentation

The accompanying financial statements include, on a consolidated basis, our accounts, the accounts of our wholly-owned subsidiaries, and variable interest entities, or VIEs, in which we are the primary beneficiary, prepared in accordance with GAAP. All significant intercompany balances and transactions have been eliminated in consolidation.

Our consolidated balance sheets separately present: (i) our direct assets and liabilities, (ii) the direct assets and liabilities of CT Legacy REIT, and (iii) the assets and liabilities of consolidated securitization vehicles. Assets of all consolidated VIEs can generally only be used to satisfy the obligations of those VIEs, and the liabilities of consolidated VIEs are non-recourse to us. Similarly, the following discussion separately describes (i) our direct assets and liabilities, (ii) the direct assets and liabilities of CT Legacy REIT, and (iii) the assets and liabilities of consolidated securitization vehicles.

Beginning in the first quarter of 2012, CT Legacy REIT no longer consolidates one of its subsidiaries, CT Legacy Asset, LLC, or CT Legacy Asset, and instead accounts for its net equity investment in CT Legacy Asset on a fair value basis. See Note 1 to our consolidated financial statements for additional discussion.

### Discussion of Operations



We include below in our discussion of operations: (i) an overview of the operations of our parent company, Capital Trust, Inc., including its wholly-owned investment management subsidiary, CTIMCO, (ii) a discussion of the consolidated balance sheet and operating results of Capital Trust, Inc. prepared in accordance with GAAP, (iii) a discussion of the adjusted balance sheet of Capital Trust, Inc., and (iv) a discussion of CT Legacy REIT.

We believe that our adjusted balance sheet provides meaningful information to consider, in addition to our consolidated balance sheet prepared in accordance with GAAP. This adjusted measure helps us to evaluate our financial position and performance without the effects of certain transactions and GAAP adjustments that are not necessarily indicative of our current investment portfolio, operations, capitalization, or equity.

See section III below for a presentation and discussion of our adjusted balance sheet.

#### I. Capital Trust, Inc.

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Subsequent to our March 2011 restructuring, our business has focused on managing the operations of our investment management and special servicing platform, and the recovery from the legacy investments within CT Legacy REIT's portfolio. Our investment management business is operated through our wholly-owned taxable subsidiary, CT Investment Management Co., LLC, or CTIMCO, and includes: (i) management of our public company parent, Capital Trust, Inc.; (ii) collateral management of the four CT CDOs which we have sponsored; (iii) special servicing of investments within both our public company and private equity portfolios, as well as for third-parties; and (iv) sponsorship and management of our private equity management mandates, which are described below.

## Investment Management Overview

We act as an investment manager for ourselves and third-parties and as special servicer for certain of our loan investments, as well as for third-parties. The table below details investment management and special servicing fee revenue generated by CTIMCO for the nine months ended September 30, 2012 and 2011 (in thousands):

| Investment Management Revenues | September 30, 2012 | September 30, 2011 |
|--------------------------------|--------------------|--------------------|
| Fees generated as:             |                    |                    |
| Public company manager         | \$1,856            | \$1,244            |
| Private equity manager         | 4,741              | 4,927              |
| CDO collateral manager         | 433                | 598                |
| Special servicer               | 6,558              | 2,242              |
| Total fees                     | \$13,588           | \$9,011            |
| Eliminations (1)               | (3,256 )           | (1,876 )           |
| Total fees, net                | \$10,332           | \$7,135            |

(1) Fees received by CTIMCO from Capital Trust, Inc., or other consolidated subsidiaries, have been eliminated in consolidation.

We have developed our investment management business in order to create operating leverage within our platform, generating fee revenue from investing third-party capital and, in certain instances, earning co-investment income. Our active investment management mandates are described below:

- CT Opportunity Partners I, LP, or CTOPI, is no longer investing capital (its investment period expired in September 2012). The fund held its final closing in July 2008 with \$539.9 million in total equity commitments from 28 institutional and individual investors. We have a \$25.0 million commitment to invest in the fund, of which \$10.2 million is currently funded. Subsequent to the investment period expiration, our obligation to fund additional capital to CTOPI is limited. The fund targeted opportunistic investments in commercial real estate, specifically high yield debt, equity and hybrid instruments, as well as non-performing and sub-performing loans and securities. We earn base management fees of 1.3% per annum of invested capital, as well as net incentive management fees of 17.7% of profits after a 9% preferred return and a 100% return of capital. As of September 30, 2012, CTOPI has invested \$491.5 million in 39 transactions, of which \$212.8 million remains outstanding.
- CT High Grade Partners II, LLC, or CT High Grade II, is no longer investing capital (its investment period expired in May 2011). The fund closed in June 2008 with \$667 million of commitments from two institutional investors. The fund targeted senior debt opportunities in the commercial real estate sector and did not employ leverage. We earn a base management fee of 0.40% per annum on invested capital. In conjunction with the transfer of interests from one of CT High Grade II's investors to the other in April 2012, we made a \$2.8 million (0.44%) co-investment in CT High Grade II. As of September 30, 2012, CT High Grade II has invested \$588.1 million in 33 transactions, of which \$551.1 million remains outstanding.
- CT High Grade Mezzanine<sup>SM</sup>, or CT High Grade I, is no longer formally investing capital (its investment period officially expired in July 2008), however we have continued investing the "high grade" strategy through CT High Grade I on a non-discretionary basis since the end of the CT High Grade II investment period in May 2011. The

separate account closed in November 2006, with a single, related party institutional investor committing \$250 million, which was subsequently increased to \$350 million in July 2007. As a result of the re-opening of the platform in May 2011 and the reinvesting of certain realized assets, as of September 30, 2012, we have invested \$594.0 million for this account. This separate account has a single investor, W. R. Berkley Corporation, or WRBC, which is our largest shareholder and designates an appointee to our board of directors. CT High Grade I targets lower LTV subordinate debt investments without leverage and invested \$420.9 million in 12 transactions during its initial investment period, as well as \$173.1 million in five transactions since the platform was re-opened in May 2011. We generally earn management fees of 0.25% per annum on invested capital for substantially all of CT High Grade I's investments. As of September 30, 2012, \$273.3 million of these investments remain outstanding.

- CT Large Loan 2006, Inc., or CT Large Loan, is no longer investing capital (its investment period expired in May 2008). The fund closed in May 2006 with total equity commitments of \$325 million from eight institutional investors. In light of the performance of this fund, we do not charge the full management fee of 0.75% per annum of fund assets (capped at 1.5% on invested equity), and instead voluntarily capped our fee at \$805,000 per annum.

The table below provides additional information regarding the three private equity funds and one separate account we managed as of September 30, 2012.

Investment Management Mandates, as of September 30, 2012  
(in millions)

|                     | Type      | Total Investments(1) | Total Capital Commitments | Co-Investment % | Base Management Fee | Incentive Management Fee |
|---------------------|-----------|----------------------|---------------------------|-----------------|---------------------|--------------------------|
| <b>Investing:</b>   |           |                      |                           |                 |                     |                          |
| CT High Grade I     | Sep. Acc. | \$298                | \$581 (2)                 | —%              | 0.25% (Assets)(3)   | N/A                      |
| <b>Liquidating:</b> |           |                      |                           |                 |                     |                          |
| CTOPI               | Fund      | \$213                | \$540                     | 4.63% (4)       | 1.28% (Assets)      | (5)                      |
| CT High Grade II    | Fund      | \$551                | \$667                     | 0.44% (6)       | 0.40% (Assets)      | N/A                      |
| CT Large Loan       | Fund      | \$172                | \$325                     | —% (7)          | 0.75% (Assets)(8)   | N/A                      |

- (1) Represents total investments, on a cash basis, as of period-end.
- (2) CT High Grade I ultimately closed with capital commitments of \$350 million. Subsequent to the expiration of the CT High Grade I investment period, we continued to invest on behalf of WRBC under the CT High Grade I platform on a non-discretionary basis, bringing WRBC's total allocated capital to \$581 million as of September 30, 2012.
- (3) We generally earn fees equal to 0.25% per annum of invested capital, however due to the non-discretionary nature of this investment vehicle, in certain cases we earn fees which may be greater or less than 0.25% per annum.
- (4) We have committed to invest \$25.0 million in CTOPI.
- (5) CTIMCO earns net incentive management fees of 17.7% of profits after a 9% preferred return on capital and a 100% return of capital, subject to a catch-up. We have allocated 45% of the CTOPI incentive management fees to our employees as long-term performance awards.
- (6) In conjunction with the transfer of interests from one of CT High Grade II's investors to the other in April 2012, we purchased a 0.44% interest in CT High Grade II for \$2.8 million, representing a \$2.9 million capital commitment.
- (7) We have co-invested on a pari passu, asset by asset basis with CT Large Loan.
- (8) Capped at 1.5% of equity. In light of the performance of this fund, we do not charge the full management fee, and instead we have voluntarily capped our fee at \$805,000 per annum.

As of September 30, 2012, we held co-investments in two of the private equity funds that we manage, CTOPI and CT High Grade II. These investments totaled \$18.7 million as of September 30, 2012, and were recorded as equity investments in unconsolidated subsidiaries on our consolidated balance sheet. Our investment in CTOPI includes a \$5.9 million incentive allocation to CTIMCO as the general partner of CTOPI, however our ability to ultimately collect these incentive allocations is contingent upon the performance of CTOPI's current and future investments. Accordingly, we have deferred recognition of income from such incentive allocations and have recognized an equivalent \$5.9 million unearned revenue liability as a component of accounts payable, accrued expenses and other

liabilities on our consolidated balance sheet. See Note 4 to our consolidated financial statements for additional discussion.

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### Originations

We have historically allocated investment opportunities between our balance sheet and investment management vehicles based upon our assessment of risk and return profiles, the availability and cost of capital, and applicable regulatory restrictions associated with each opportunity. Currently, we are originating investments only for our investment management business, which are summarized in the table below for the nine months ended September 30, 2012 and for the year ended December 31, 2011.

| Originations(1)<br>(\$ in millions) | Nine months<br>ended<br>September 30,<br>2012 | Year ended<br>December 31,<br>2011 |
|-------------------------------------|---|------------------------------------|
|                                     | # / \$  | # / \$                             |
| Investment<br>management            | 6 / \$123                                     | 11 / \$219                         |

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

### Asset Management

We actively manage the CT Legacy REIT portfolio and the assets held by our investment management vehicles with our in-house team of asset managers. While these investments are primarily in the form of debt, 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. In light of the recent deterioration in property level performance, property valuation, and the real estate capital markets, a significant number of our loans are either non-performing and/or on our watch list. This requires intensive efforts on the part of our asset management team to maximize the recovery of those investments.

We actively manage our various securities portfolios using a combination of quantitative tools and loan/property level analysis to monitor the performance of the securities and their collateral against original expectations. Securities are analyzed to monitor underlying loan delinquencies, transfers to special servicing, and changes to the servicer's watch list. Realized losses on underlying loans are tracked and compared to original loss expectations. On a periodic basis, individual loans of concern are also re-underwritten.

### Investment in CT Legacy REIT

Following the completion of our March 2011 restructuring, we retained a 52% equity interest in the class A common stock of CT Legacy REIT, comprised of 4.4 million shares of class A-1 common stock and 775,000 shares of class A-2 common stock. Also, in April 2011, we purchased 118,651 shares of class B common stock of CT Legacy REIT for an average price of \$1.20 per share. The outstanding common stock of CT Legacy REIT is comprised of 4.4 million shares of class A-1 common stock, 5.6 million shares of class A-2 common stock, and 1.5 million shares of class B common stock. We also own 100% of the outstanding class A preferred stock of CT Legacy REIT, which initially entitles us to cumulative preferred dividends of \$7.5 million per annum. These dividends will be reduced in January 2013 to the greater of (i) 2.5% of certain of CT Legacy REIT's assets, and (ii) \$1.0 million per annum. As a result of our consolidation of CT Legacy REIT, these shares of class A preferred stock are not represented on our financial statements.



The following table details the allocation of CT Legacy REIT's adjusted equity by class of common stock, and Capital Trust Inc.'s aggregate investment in the common stock of CT Legacy REIT on an adjusted basis as of September 30, 2012. The adjusted equity balance is used to evaluate our investment in CT Legacy REIT because it excludes from GAAP equity items which are not indicative of our economic interests in the recovery of our legacy portfolio. See section III below for a presentation of CT Legacy REIT's adjusted balance sheet.

Capital Trust, Inc.'s Investment in CT Legacy REIT as of September 30, 2012  
(in thousands)

|  |           |   |
|--|-----------|---|
| CT Legacy REIT total adjusted assets (at fair value) (1) | \$116,245 |   |
| CT Legacy REIT total adjusted liabilities (1)            | (625      | ) |
| Total CT Legacy REIT adjusted equity (1)                 | \$115,620 |   |
| CT Legacy REIT equity:                                   |           |   |
| Allocable to Class A-1 common stock                      | \$43,551  |   |
| Allocable to Class A-2 common stock                      | 64,749    |   |
| Allocable to Class B common stock                        | 7,195     |   |
| Allocable to Class B preferred stock                     | 125       |   |
|  | \$115,620 |   |
| Capital Trust, Inc. ownership by class:                  |           |   |
| Class A-1 common stock                                   | 100       | % |
| Class A-2 common stock                                   | 14        | % |
| Class B common stock (2)                                 | 8         | % |
| Capital Trust, Inc. adjusted equity allocation:          |           |   |
| Class A-1 common stock                                   | \$43,551  |   |
| Class A-2 common stock                                   | 8,951     |   |
| Class B common stock (2)                                 | 583       |   |
| Total Capital Trust investment in CT Legacy REIT         | \$53,085  |   |

- (1) See section III below for a presentation and discussion of CT Legacy REIT's adjusted balance sheet. See Note 12 to our consolidated financial statements for discussion of the discounted cash flow valuation of CT Legacy Asset, the largest asset of CT Legacy REIT.
- (2) The class B common stock is a subordinate class that entitles its holders to receive approximately 25% of the dividends that would otherwise be payable to the class A-1 common stock, after aggregate cash distributions of \$50.0 million have been paid to all other classes of common stock.

Our \$53.1 million interest in the common stock of CT Legacy REIT is subject to (i) the secured notes, which are collateralized by certain of our equity interests in the common stock of CT Legacy REIT, and (ii) incentive awards that provide for the participation in amounts earned from our retained equity interests in the common stock of CT Legacy REIT.





The following table details our interest in CT Legacy REIT's adjusted equity, net of the secured notes and management incentive awards as of September 30, 2012 (in thousands):

Capital Trust, Inc.'s Net Investment in CT Legacy REIT as of September 30, 2012

|   |                 |
|---|-----------------|
| Gross investment in CT Legacy REIT (1)                | \$53,085        |
| Secured notes, including prepayment premium<br>(2)    | (11,059 )       |
| Management incentive awards plan, fully vested<br>(3) | (7,805 )        |
| <b>Investment in CT Legacy REIT, net</b>              | <b>\$34,221</b> |

- (1) Gross investment in CT Legacy REIT is calculated on an adjusted basis as detailed in the preceding table. See section III below for a presentation and discussion of CT Legacy REIT's adjusted balance sheet.
- (2) Includes the full potential prepayment premium on secured notes, as described below. We carry this liability at its amortized basis of \$8.3 million on our balance sheet as of September 30, 2012. The remaining interest and prepayment premium will be recognized, as applicable, over the term of the secured notes as a component of interest expense.
- (3) Assumes full payment of the management incentive awards plan, as described below, based on the hypothetical GAAP liquidation value of CT Legacy REIT as of September 30, 2012. We periodically accrue a payable for the management incentive awards plan based on the vesting schedule for the awards and continued employment of the award recipients. As of September 30, 2012, our balance sheet includes \$4.0 million in accounts payable and accrued expenses for the management incentive awards plan.

#### Secured Notes

In conjunction with our March 2011 restructuring and the corresponding satisfaction of our senior credit facility and junior subordinated notes, wholly-owned subsidiaries issued secured notes to these former creditors, which secured notes are non-recourse to us. The secured notes had an aggregate initial face balance of \$7.8 million and are secured by 93.5% of our equity interests in the class A-1 and class A-2 common stock of CT Legacy REIT, which represents 48.3% of the total outstanding class A-1 and class A-2 common stock of CT Legacy REIT. The secured notes mature on March 31, 2016 and bear interest at a rate of 8.2% per annum, which interest may be deferred until maturity. All dividends we receive from our equity interests in the common stock of CT Legacy REIT which serve as collateral under the secured notes must be used to pay, or prepay, interest and principal due thereunder, and only after the notes' full satisfaction will we receive any cash flow from the common equity interests in CT Legacy REIT that serve as collateral for the notes. Any prepayment, or partial prepayment, of the secured notes will incur a prepayment premium resulting in a total payment of principal and interest under the secured notes of \$11.1 million.

In April 2011, we purchased \$405,000 of the secured notes at par.

#### Management Incentive Awards Plan

Upon completion of our March 2011 restructuring, we granted senior level employees incentive awards issued under our long term incentive plan that participate in amounts earned from our retained equity interest in CT Legacy REIT. The awards provide payments to certain senior level employees equal to as much as 6.75% of the total recovery

(subject to certain caps) of our legacy assets, net of CT Legacy REIT's obligations, when and if distributed to us as dividends.

#### Class A Preferred Stock

In addition to our interest in the common stock of CT Legacy REIT, we also own 100% of its outstanding class A preferred stock, which initially entitles us to cumulative preferred dividends of \$7.5 million per annum. These dividends will be reduced in January 2013 to the greater of (i) 2.5% of certain of CT Legacy REIT's assets, and (ii) \$1.0 million per annum. As a result of our consolidation of CT Legacy REIT, these shares of class A preferred stock are not represented on our balance sheet.

#### Taxes

Capital Trust, Inc. has made a tax election to be treated as a REIT, and therefore generally is not subject to federal, state, and local income taxes except for the operations of its taxable REIT subsidiary, CTIMCO. The primary benefit from this election is that we are able to deduct dividends paid to our shareholders from the calculation of taxable income, effectively eliminating corporate taxes on the operations of the REIT. In order to qualify as a REIT, our activities must focus on real estate investments and we must meet certain asset, income, ownership and distribution requirements. These qualifications have become more difficult to meet in light of the transfer of our legacy portfolio to CT Legacy REIT in conjunction with our March 2011 restructuring, and the lack of new, replacement investment activity. If we fail to maintain our qualification as a REIT, we may be subject to material penalties and potentially subject to past and future taxes. As of September 30, 2012 and December 31, 2011, we were in compliance with all REIT requirements.

We have net operating losses, or NOLs, and net capital losses, or NCLs, available to be carried forward and utilized in current or future periods. As of December 31, 2011, these included NOLs of approximately \$161.5 million and NCLs of approximately \$120.8 million at Capital Trust, Inc. The utilization of NOLs to offset our taxable income or distribution requirements will require us to pay alternative minimum taxes.

## II. Discussion of Consolidated Operations of Capital Trust, Inc.

### Balance Sheet Investments

Our consolidated balance sheet investments include various types of commercial mortgage backed securities and collateralized debt obligations, or Securities, and commercial real estate loans and related instruments, or Loans, all of which are assets of either CT Legacy REIT or consolidated securitization vehicles. We collectively refer to these as Interest Earning Assets. The table below shows our Interest Earning Assets as of September 30, 2012 and December 31, 2011 (in millions):

| Consolidated Interest Earning Assets | September 30, 2012 |          |   | December 31, 2011 |          |   |
|--------------------------------------|--------------------|----------|---|-------------------|----------|---|
|                                      | Book Value         | Yield(1) |   | Book Value        | Yield(1) |   |
| <b>CT Legacy REIT</b>                |                    |          |   |                   |          |   |
| <b>Securities</b>                    |                    |          |   |                   |          |   |
| held-to-maturity                     | \$—                |          | % | \$3               | 3.31     | % |
| Loans receivable, net (2)            | —                  | —        |   | 207               | 5.21     |   |
| Loans held-for-sale, net             | —                  | —        |   | 31                | 6.26     |   |
| Subtotal / Weighted Average          | \$—                | —        | % | \$241             | 5.32     | % |
| <b>Securitization Vehicles</b>       |                    |          |   |                   |          |   |
| <b>Securities</b>                    |                    |          |   |                   |          |   |
| held-to-maturity                     | \$155              | 6.32     | % | \$359             | 7.41     | % |
| Loans receivable, net                | 214                | 4.63     |   | 613               | 5.72     |   |
| Subtotal / Weighted Average          | \$369              | 5.34     | % | \$972             | 6.34     | % |
| Total / Weighted Average             | \$369              | 5.34     | % | \$1,213           | 6.14     | % |

- (1) Yield on floating rate assets assumes LIBOR of 0.21% and 0.30% at September 30, 2012 and December 31, 2011, respectively.
- (2) Excludes, as of December 31, 2011, loan participations sold with a net book value of zero that are net of \$97.5 million of provisions for loan losses as of December 31, 2011.

## Asset Management

The table below details the overall credit profile of Interest Earning Assets held in consolidated securitization vehicles, which includes: (i) Loans where we have foreclosed upon the underlying collateral and own an equity interest in real estate, (ii) Loans against which we have recorded a provision for loan losses, or reserves, (iii) Securities which have been other-than-temporarily impaired, and (iv) Loans and Securities that are categorized as Watch List Assets, which are currently performing but pose a higher risk of non-performance and/or loss. We actively monitor and manage Watch List Assets to mitigate these risks in our portfolio.

| Portfolio Performance - Consolidated Securitization Vehicles<br>(in millions, except for number of<br>investments) | September 30,<br>2012 | December 31,<br>2011 |
|--|-----------------------|----------------------|
| Interest earning assets of consolidated<br>securitization vehicles (\$ / #)  | \$369 / 47            | \$972 / 123          |
| Real estate owned (\$ / #)   | \$ /                  | \$10 / 2             |
| Percentage of interest earning assets  | %                     | 1.1 %                |
| Impaired Loans (1)   |                       |                      |
| Performing loans (\$ / #)  | \$ / 1                | \$17 / 4             |
| Non-performing loans (\$ / #)  | \$4 / 5               | \$26 / 7             |
| Total (\$ / #)   | \$4 / 6               | \$43 / 11            |
| Percentage of interest earning assets  | 1.1 %                 | 4.4 %                |
| Impaired Securities (1) (\$ / #)   | \$12 / 11             | \$16 / 14            |
| Percentage of interest earning assets  | 3.4 %                 | 1.6 %                |
| Watch List Assets (2)  |                       |                      |
| Watch list loans (\$ / #)  | \$92 / 3              | \$78 / 6             |
| Watch list securities (\$ / #)   | \$40 / 6              | \$16 / 5             |
| Total (\$ / #)   | \$132 / 9             | \$94 / 11            |
| Percentage of interest earning assets  | 35.8 %                | 9.7 %                |

- (1) Amounts represent net book value after provisions for loan losses, valuation allowances on loans-held-for-sale and other-than-temporary impairments of securities.
- (2) Watch List Assets exclude Loans against which we have recorded a provision for loan losses or valuation allowances, and Securities which have been other-than-temporarily impaired.

As of September 30, 2012, there were significant differences between the estimated fair value and the book value of some of the Securities in our consolidated securitization vehicles portfolio. We believe these differences to be related to the high degree of structural complexity combined with poor reporting available on these securities and a general negative bias against structured financial products and not reflective of a change in cash flow expectations from these securities. Accordingly, we have not recorded any additional other-than-temporary impairments against such Securities. See note 7 to our consolidated financial statements for additional discussion of securities with unrealized losses.

The ratings activity of our consolidated Securities portfolio over the nine months ended September 30, 2012 and the year ended December 31, 2011 is detailed below:

| Rating Activity(1)       | Nine<br>months<br>ended<br>September<br>30, 2012 | Year ended<br>December<br>31, 2011 |
|--------------------------|--|------------------------------------|
| Securities<br>Upgraded   | 4  | 5                                  |
| Securities<br>Downgraded | 10   | 22                                 |

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

## Capitalization

We capitalize our business with a combination of debt and equity which has included common equity, preferred equity, unsecured debt, and secured debt. As of September 30, 2012, our consolidated debt obligations, which are all non-recourse to us, include (i) our secured notes, which are secured only by certain of our equity interests in the common stock of CT Legacy REIT, and (ii) securitized debt obligations of consolidated securitization vehicles. Our equity capital is currently comprised entirely of common stock. From March 31, 2011 through February 10, 2012, we consolidated the debt obligations of CT Legacy REIT, including its repurchase facility and mezzanine loan, which were also non-recourse to us.

The table below describes our consolidated debt liabilities including those of CT Legacy REIT and our consolidated securitization vehicles, as of September 30, 2012 and December 31, 2011:

| Consolidated Interest Bearing Liabilities (1)<br>(Principal balance, in millions) | September 30, 2012 |   | December 31, 2011 |   |
|---|--------------------|---|-------------------|---|
| <b>Non-Recourse debt obligations</b>  |                    |   |                   |   |
| Capital Trust, Inc.   |                    |   |                   |   |
| Secured notes   | \$8                |   | \$8               |   |
| <b>Weighted average effective cost of Capital Trust, Inc. debt</b>                |                    |   |                   |   |
|   | 8.19               | % | 8.19              | % |
| <b>CT Legacy REIT</b>   |                    |   |                   |   |
| Repurchase obligations (2)  | \$—                |   | \$58              |   |
| Mezzanine loan (2)  | —                  |   | 65                |   |
| Total CT Legacy REIT debt obligations   | \$—                |   | \$123             |   |
| <b>Weighted average effective cost of CT Legacy REIT debt (3) (4)</b>             |                    |   |                   |   |
|   | N/A                |   | 11.14             | % |
| <b>Consolidated Securitization Vehicles</b>                                       |                    |   |                   |   |
| CT collateralized debt obligations  | \$447              |   | \$742             |   |
| Other consolidated securitization vehicles  | 51                 |   | 469               |   |
| Total securitization vehicles debt obligations                                    | \$498              |   | \$1,211           |   |
| <b>Weighted average effective cost of securitization vehicles debt (3) (5)</b>    |                    |   |                   |   |
|   | 1.21               | % | 2.68              | % |
| <b>Total interest bearing liabilities</b>   | <b>\$498</b>       |   | <b>\$1,334</b>    |   |

(1) Excludes loan participations sold.

(2) As further described in Note 6 to our consolidated financial statements, we deconsolidated CT Legacy Asset, a wholly-owned subsidiary of CT Legacy REIT, in the first quarter of 2012. As a result, its debt obligations are no longer included in our consolidated financial statements.

(3) Floating rate debt obligations assume LIBOR of 0.21% and 0.30% at September 30, 2012 and December 31, 2011, respectively.

(4) Including the impact of interest rate hedges with an aggregate notional balance of \$60.8 million as of December 31, 2011, the effective all-in cost of CT Legacy REIT's debt obligations would be 13.46% per annum.

(5)

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Including the impact of interest rate hedges with an aggregate notional balance of \$273.7 and \$296.6 million as of September 30, 2012 and December 31, 2011, respectively, the effective all-in cost of our consolidated securitization vehicles' debt obligations would be 4.09% and 3.98% per annum, respectively.

### Secured Notes

In conjunction with our March 2011 restructuring and the corresponding satisfaction of our senior credit facility and junior subordinated notes, wholly-owned subsidiaries issued secured notes to these former creditors, which secured notes are non-recourse to us. The secured notes had an aggregate initial face balance of \$7.8 million and are secured by 93.5% of our equity interests in the class A-1 and A-2 common stock of CT Legacy REIT, which represents 48.3% of the total outstanding class A-1 and A-2 common stock of CT Legacy REIT. The secured notes mature on March 31, 2016 and bear interest at a rate of 8.2% per annum, which interest may be deferred until maturity. All dividends we receive from our equity interests in the common stock of CT Legacy REIT which serve as collateral under the secured notes must be used to pay, or prepay, interest and principal due thereunder, and only after the notes' full satisfaction will we receive any cash flow from the common equity interests in CT Legacy REIT that serve as collateral for the notes. Any prepayment, or partial prepayment, of the secured notes will incur a prepayment premium resulting in a total payment of principal and interest under the secured notes of \$11.1 million.

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During the second quarter of 2011, we purchased \$405,000 of the secured notes at par.

#### Repurchase Obligations

As of December 31, 2011, CT Legacy REIT was party to one repurchase obligation with JPMorgan, which was non-recourse to Capital Trust, Inc., had an outstanding balance of \$58.5 million, and an all-in cost of LIBOR plus 2.50% per annum.

In February 2012, CT Legacy REIT refinanced its repurchase facility and its mezzanine loan with a single, new \$124.0 million repurchase facility from JPMorgan, obtained by its subsidiary CT Legacy Asset. This refinancing resulted in the deconsolidation of CT Legacy Asset and with it, the repurchase facility. See Note 6 to our consolidated financial statements for further discussion.

#### Mezzanine Loan

As of December 31, 2011, CT Legacy REIT was party to a mezzanine loan with Five Mile Capital, which was non-recourse to Capital Trust, Inc., had an outstanding balance of \$65.3 million, and an all-in cost of 18.61% per annum.

In February 2012, CT Legacy REIT refinanced the mezzanine loan and its JPMorgan repurchase facility with a single, new \$124.0 million repurchase facility from JPMorgan, obtained by its subsidiary CT Legacy Asset.

#### Securitized Debt Obligations

Non-recourse debt obligations of consolidated securitization vehicles include our CT CDOs, as well as securities issued by other consolidated securitization vehicles which are not sponsored by us.

These consolidated non-recourse securitized debt obligations are described below (in millions):

#### Non-Recourse Securitized Debt Obligations

|  | September 30, 2012 |                   |          | December 31, 2011 |                   |          |
|--|--------------------|-------------------|----------|-------------------|-------------------|----------|
|  | Book Value         | All-in<br>Cost(1) |          | Book Value        | All-in<br>Cost(1) |          |
| <b>CT CDOs</b>                             |                    |                   |          |                   |                   |          |
| CT CDO I                                   | \$91               | 1.3               | %        | \$121             | 1.2               | %        |
| CT CDO II                                  | 157                | 1.2               |          | 200               | 1.2               |          |
| CT CDO III                                 | —                  | —                 |          | 200               | 5.2               |          |
| CT CDO IV                                  | 199                | 1.2               |          | 222               | 1.2               |          |
| Total CT CDOs                              | \$447              | 1.2               | %        | \$743             | 2.3               | %        |
| <b>Other securitization vehicles</b>       |                    |                   |          |                   |                   |          |
| GSMS 2006-FL8A                             | \$51               | 1.1               | %        | \$51              | 1.4               | %        |
| GMACC 1997-C1                              | —                  | —                 |          | 84                | 7.1               |          |
| GECMC 00-1 H                               | —                  | —                 |          | 25                | 5.5               |          |
| MSC 2007-XLCA                              | —                  | —                 |          | 310               | 2.4               |          |
| Total other securitization vehicles        | \$51               | 1.1               | %        | \$470             | 3.3               | %        |
| <b>Total non-recourse debt obligations</b> | <b>\$498</b>       | <b>1.2</b>        | <b>%</b> | <b>\$1,213</b>    | <b>2.7</b>        | <b>%</b> |

- (1) Includes amortization of premiums and issuance costs of CT CDOs. Floating rate debt obligations assume LIBOR of 0.21% and 0.30% at September 30, 2012 and December 31, 2011, respectively.

#### Shareholders' Equity

We did not issue any new shares of class A common stock during the nine months ended September 30, 2012. Changes in the number of outstanding shares during the nine months ended September 30, 2012 resulted from employee restricted common stock grants, forfeitures and vesting, as well as stock unit grants to our board of directors.

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The following table calculates our book value per share as of September 30, 2012 and December 31, 2011:

| Shareholders' Equity    | September 30, 2012 | December 31, 2011 |
|-------------------------|--------------------|-------------------|
| Shareholders equity     | (\$24,559,202)     | (\$110,423,805)   |
| Shares:                 |                    |                   |
| Class A common stock    | 21,978,571         | 21,966,684        |
| Restricted common stock | 536,536            | 244,424           |
| Stock units             | 676,515            | 562,335           |
| Dilutive Warrants       | —                  | —                 |
| Total                   | 23,191,622         | 22,773,443        |
| Book value per share    | (\$1.06 )          | (\$4.85 )         |

As of September 30, 2012, there were 22,515,107 shares of our class A common stock and restricted common stock outstanding. There were also outstanding warrants to purchase 3,479,691 shares of our class A common stock at an exercise price of \$1.79 per share. The warrants became exercisable on March 16, 2012, will expire on March 16, 2019, and may be exercised in a cashless manner.

On November 8, 2012, all of our outstanding warrants were exercised in a cashless manner. See Note 16 to our consolidated financial statements for further discussion.

#### Other Balance Sheet Items

Participations sold represent interests in certain loans that we originated and subsequently sold to one of our investment management vehicles or to third-parties. We have historically presented these participations sold as both assets and non-recourse liabilities because these arrangements do not qualify as sales under GAAP. Generally, participations sold are recorded as assets and liabilities in equal amounts on our consolidated balance sheets, and an equivalent amount of interest income and interest expense is recorded on our consolidated statements of operations. We have no economic exposure to these liabilities.

During September 2012, our one remaining loan participation sold was repaid.

#### 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 financial 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 September 30, 2012 and December 31, 2011:

| Interest Rate Exposure<br>(in millions)                   | September 30, 2012 | December 31, 2011 |
|---|--------------------|-------------------|
| <b>Value exposure to interest rates(1)</b>                |                    |                   |
| Fixed rate assets   | \$277              | \$844             |
| Fixed rate debt   | (22 )              | (394 )            |
| Interest rate swaps                                       | (274 )             | (357 )            |
| Net fixed rate exposure                                   | (\$19 )            | \$93              |
| <b>Weighted average coupon (fixed rate assets)</b>        | 6.30 %             | 7.29 %            |
| <b>Cash flow exposure to interest rates(1)</b>            |                    |                   |
| Floating rate assets                                      | \$253              | \$863             |
| Floating rate debt  | (483 )             | (901 )            |
| Interest rate swaps                                       | 274                | 357               |
| Net floating rate exposure                                | \$44               | \$319             |
| <b>Weighted average coupon (floating rate assets) (2)</b> | 3.63 %             | 3.59 %            |
| <b>Net income impact from 100 bps change in LIBOR</b>     | \$0.4              | \$3.2             |

(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 of 0.21% and 0.30% at September 30, 2012 and December 31, 2011, respectively.

## Results of Operations

Comparison of Results of Operations: Three Months Ended September 30, 2012 vs. September 30, 2011  
(in thousands, except per share data)

|   | 2012     | 2011      | Change      | %<br>Change |
|---|----------|-----------|-------------|-------------|
| <b>Income from loans and other investments:</b>   |          |           |             |             |
| Interest and related income   | \$6,944  | \$25,642  | (\$18,698 ) | (72.9 %)    |
| Less: Interest and related expenses   | 5,147    | 21,838    | (16,691 )   | (76.4 %)    |
| Income from loans and other investments, net  | 1,797    | 3,804     | (2,007 )    | (52.8 %)    |
| <b>Other revenues:</b>  |          |           |             |             |
| Management fees from affiliates   | 1,546    | 1,753     | (207 )      | (11.8 %)    |
| Servicing fees  | 2,206    | 1,460     | 746         | 51.1 %      |
| Total other revenues  | 3,752    | 3,213     | 539         | 16.8 %      |
| <b>Other expenses:</b>  |          |           |             |             |
| General and administrative  | 7,141    | 4,941     | 2,200       | 44.5 %      |
| Total other expenses  | 7,141    | 4,941     | 2,200       | 44.5 %      |
| Total other-than-temporary impairments of securities  | —        | (30,687 ) | 30,687      | (100.0 %)   |
| Portion of other-than-temporary impairments of securities<br>recognized in other comprehensive income | —        | 173       | (173 )      | (100.0 %)   |
| Impairment of real estate held-for-sale   | —        | (1,055 )  | 1,055       | (100.0 %)   |
| Net impairments recognized in earnings  | —        | (31,569 ) | 31,569      | (100.0 %)   |
| Recovery of provision for loan losses   | 2,811    | 17,152    | (14,341 )   | (83.6 %)    |
| Gain on extinguishment of debt  | —        | 20,054    | (20,054 )   | (100.0 %)   |
| Fair value adjustment on investment in CT Legacy Asset  | 11,987   | —         | 11,987      | 100.0 %     |
| Income from equity investments in unconsolidated subsidiaries   | 411      | 307       | 104         | 33.9 %      |
| Income before income taxes  | 13,617   | 8,020     | 5,597       | 69.8 %      |
| Income tax provision (benefit)  | 717      | (236 )    | 953         | N/A         |
| Net income  | \$12,900 | \$8,256   | \$4,644     | 56.3 %      |
| Net (income) loss attributable to noncontrolling interests  | (5,901 ) | 5,466     | (11,367 )   | N/A         |
| Net income (loss) attributable to Capital Trust, Inc.   | \$6,999  | \$13,722  | (\$6,723 )  | (49.0 %)    |
| Net income (loss) per share - diluted   | \$0.28   | \$0.57    | (\$0.28 )   | (50.0 %)    |
| Dividend per share  | \$0.00   | \$0.00    | \$0.00      | N/A         |
| Average LIBOR   | 0.24%    | 0.22%     | 0.01%       | 5.5%        |

Income from loans and other investments, net

As discussed in Note 1 to our consolidated financial statements, we deconsolidated the assets and liabilities of CT Legacy Asset in the first quarter of 2012. As a result of this and repayments in our portfolio, interest income decreased

\$18.7 million, or 73%, and interest expense decreased by \$16.7 million, or 76%, during the three months ended September 30, 2012 compared to the three months ended September 30, 2011. On a net basis, net interest income decreased by \$2.0 million as the decrease in interest income was more than the reduction in interest expense.

Management fees from affiliates

Base management fees from our investment management business decreased \$207,000, or 12%, during the third quarter of 2012 compared to the third quarter of 2011. The decrease was attributable to repayment activity in our investment management vehicles.

Servicing fees

Servicing fees increased \$746,000 during the third quarter of 2012 compared to 2011. The increase in fees was primarily due to modification activity on loans for which we are named special servicer.

#### General and administrative expenses

General and administrative expenses include personnel costs, operating expenses, professional fees, and expenses associated with consolidated securitization vehicles. General and administrative expenses increased \$2.2 million during the third quarter of 2012 compared to 2011. This increase was primarily due to expenses associated with the pending sale of our investment management platform.

#### Net impairments recognized in earnings

There were no impairments recognized in earnings during the third quarter of 2012. During the third quarter of 2011, we recorded \$30.7 million of other-than-temporary impairments of securities on one of our securities that had an adverse change in cash flow expectations. Of this amount, \$30.5 million was included in earnings and the remainder, \$173,000, was recorded in other comprehensive income. In addition, we recorded a \$1.1 million impairment on real estate held-for-sale to reflect the property at fair value.

#### Recovery of provision for loan losses

During the third quarter of 2012, we recorded a \$2.8 million net recovery of loan losses. This net recovery included a \$4.1 million recovery of one loan that had previously been impaired, offset by a \$1.3 million provision against another loan.

During the third quarter of 2011, we recorded a \$17.2 million recovery of provisions for loan losses. The recovery was primarily related to two loans that had previously been impaired.

#### Gain on extinguishment of debt

There were no gains on extinguishment of debt during the third quarter of 2012. During the third quarter of 2011, we recorded a \$20.1 million gain on the extinguishment of debt due to realized losses from collateral assets held by consolidated securitization vehicles.

#### Fair value adjustment on investment in CT Legacy Asset

We have elected the fair value option of accounting for CT Legacy REIT's investment in CT Legacy Asset, pursuant to which we record this investment at fair value rather than at our historical cost investment amount. During the third quarter of 2012, we recognized \$12.0 million of fair value adjustments on our investment in CT Legacy Asset. See Note 6 to our consolidated financial statements for further discussion. We recorded no such fair value adjustments in 2011.

#### Income from equity investments in unconsolidated subsidiaries

The income from equity investments during the third quarter of 2012 of \$411,000 was comprised of income from our co-investments in CTOPI and CT High Grade II. CTOPI's income was largely driven by income from operations, while CT High Grade II's income was the result of positive fair value adjustments on its investment portfolio.

Similarly, the income from equity investments during the third quarter of 2011 of \$307,000 was from our co-investment in CTOPI. CTOPI's income for the quarter was primarily comprised of investment income and fair value adjustments. We did not have a co-investment in CT High Grade II in the third quarter of 2011.

#### Income tax provision



During the third quarter of 2012, we recorded an income tax provision of \$717,000 comprised of an estimated income tax liability of \$918,000 at our taxable REIT subsidiary, CTIMCO, and a \$166,000 provision at Capital Trust associated with our use of NOLs. This was offset by a \$367,000 non-cash income tax benefit due to an increase in the deferred tax asset of CTIMCO.

During the third quarter of 2011, we recorded a net income tax benefit of \$236,000 which is primarily comprised of an increase of our deferred tax asset at CTIMCO.

#### Net income attributable to noncontrolling interests

The net income attributable to noncontrolling interests recorded during the third quarter of 2012 and 2011 represents the pro-rata share of CT Legacy REIT's net income for the quarter allocable to equity interests not owned by us.

#### Dividends

We did not pay any dividends on our class A common stock in the third quarter of 2012 or 2011.

Comparison of Results of Operations: Nine Months Ended September 30, 2012 vs. September 30, 2011  
(in thousands, except per share data)

|   | 2012      | 2011      | Change       | %<br>Change |
|---|-----------|-----------|--------------|-------------|
| <b>Income from loans and other investments:</b>   |           |           |              |             |
| Interest and related income   | \$28,423  | \$95,187  | (\$66,764 )  | (70.1 %)    |
| Less: Interest and related expenses   | 33,902    | 80,381    | (46,479 )    | (57.8 %)    |
| Income from loans and other investments, net  | (5,479 )  | 14,806    | (20,285 )    | N/A         |
| <b>Other revenues:</b>  |           |           |              |             |
| Management fees from affiliates   | 4,741     | 4,927     | (186 )       | (3.8 %)     |
| Servicing fees  | 5,591     | 2,208     | 3,383        | 153.2 %     |
| Total other revenues  | 10,332    | 7,135     | 3,197        | 44.8 %      |
| <b>Other expenses:</b>  |           |           |              |             |
| General and administrative  | 16,193    | 19,868    | (3,675 )     | (18.5 %)    |
| Total other expenses  | 16,193    | 19,868    | (3,675 )     | (18.5 %)    |
| Total other-than-temporary impairments of securities  | —         | (35,620 ) | 35,620       | (100.0 %)   |
| Portion of other-than-temporary impairments of securities<br>recognized in other comprehensive income | (160 )    | (3,098 )  | 2,938        | (94.8 %)    |
| Impairment of real estate held-for-sale   | —         | (1,055 )  | 1,055        | (100.0 %)   |
| Net impairments recognized in earnings  | (160 )    | (39,773 ) | 39,613       | (99.6 %)    |
| Recovery of provision for loan losses   | 2,819     | 34,401    | (31,582 )    | (91.8 %)    |
| Valuation allowance on loans held-for-sale  | —         | (224 )    | 224          | (100.0 %)   |
| Gain on extinguishment of debt  | —         | 271,031   | (271,031 )   | (100.0 %)   |
| Fair value adjustment on investment in CT Legacy Asset  | 19,645    | —         | 19,645       | 100.0 %     |
| Gain on deconsolidation of subsidiary   | 146,380   | —         | 146,380      | 100.0 %     |
| Income from equity investments in unconsolidated<br>subsidiaries                                      | 1,312     | 2,105     | (793 )       | (37.7 %)    |
| Income before income taxes  | 158,656   | 269,613   | (110,957 )   | (41.2 %)    |
| Income tax provision  | 1,783     | 1,214     | 569          | 46.9 %      |
| Net income  | \$156,873 | \$268,399 | (\$111,526 ) | (41.6 %)    |
| Net income attributable to noncontrolling interests   | (81,038 ) | (1,935 )  | (79,103 )    | N/A         |
| Net income attributable to Capital Trust, Inc.  | \$75,835  | \$266,464 | (\$190,629 ) | (71.5 %)    |
| Net income per share - diluted  | \$3.10    | \$11.08   | (\$7.98 )    | (72.0 %)    |
| Dividend per share  | \$0.00    | \$0.00    | \$0.00       | N/A         |
| Average LIBOR   | 0.24%     | 0.21%     | 0.03%        | 16.6%       |

Income from loans and other investments, net

As discussed in Note 1 to our consolidated financial statements, we deconsolidated the assets and liabilities of CT Legacy Asset in the first quarter of 2012. As a result of this and repayments in our portfolio, interest income decreased \$66.8 million, or 71%, and interest expense decreased by \$46.5 million, or 58%, during the first nine months of 2012 compared to the first nine months of 2011. On a net basis, net interest income decreased by \$20.3 million as the decrease in interest income was more than the reduction in interest expense.

#### Management fees from affiliates

Base management fees from our investment management business decreased \$186,000, or 4%, during the first nine months of 2012 compared to the first nine months of 2011. The increase was attributable to net repayment activity in our investment management vehicles.

#### Servicing fees

Servicing fees increased \$3.4 million during the first nine months of 2012 compared to the first nine months of 2011. The increase in fees was primarily due to modification activity on loans for which we are named special servicer.

#### General and administrative expenses

General and administrative expenses include personnel costs, operating expenses, professional fees and expenses associated with consolidated securitization vehicles. General and administrative expenses decreased by \$3.7 million between the first nine months of 2012 and the first nine months of 2011. The decrease was primarily due to (i) \$2.9 million of one-time restructuring bonuses paid in 2011 and (ii) a \$2.8 million decrease in expenses recognized under the CT Legacy REIT management incentive awards plan. This was offset by \$2.1 million of additional 2012 expenses associated with the pending sale of our investment management platform.

#### Net impairments recognized in earnings

During the first nine months of 2012, we recognized a \$160,000 impairment, representing additional credit loss on one of the securities in our consolidated securitization vehicles.

During the nine months ended September 30, 2011, we recorded a gross other-than-temporary impairment of \$35.6 million on seven securities that had an adverse change in cash flow expectations. In addition, we recognized \$3.1 million of previous other-than-temporary impairments from other comprehensive income into earnings, to reflect additional credit impairments on these securities. We also recorded a \$1.1 million impairment on real estate held-for-sale to reflect the property at fair value.

#### Recovery of provision for loan losses

During the first nine months of 2012, we recorded a \$2.8 million net recovery of provisions for loan losses. This net recovery included a \$4.1 million recovery of one loan that had previously been impaired, offset by a \$1.3 million provision against another loan.

During the nine months ended September 30, 2011, we recorded a net \$34.4 million recovery of provisions for loan losses. The net recovery included \$43.8 million of recoveries on previously impaired loans, offset by \$9.4 million of additional loan loss provisions against three loans.

#### Valuation allowance on loans held-for-sale

There were no valuation allowances on loans held-for-sale during the first nine months of 2012. During the nine months ended September 30, 2011, we recorded a valuation allowance of \$224,000 against one loan we classified as held-for-sale.

#### Gain on extinguishment of debt

There were no gains on extinguishment of debt during the first nine months of 2012. During the nine months ended September 30, 2011, we recorded \$271.0 million of gain on the extinguishment of debt. This was primarily comprised of (i) a \$174.8 million gain on extinguishment of our senior credit facility and junior subordinated notes, (ii) a \$75.0 million gain associated with the elimination of a loan participation sold liability, and (iii) \$20.1 million of gains on the extinguishment of debt due to realized losses from collateral assets held by consolidated securitization vehicles.

#### Fair value adjustment on investment in CT Legacy Asset

We have elected the fair value option of accounting for CT Legacy REIT's investment in CT Legacy Asset, pursuant to which we record this investment at fair value rather than at our historical cost investment amount. During the first nine months of 2012, we recognized \$19.6 million of fair value adjustments on our investment in CT Legacy Asset. See

Note 6 to our consolidated financial statements for further discussion. We recorded no such fair value adjustments in 2011.

#### Gain on deconsolidation of subsidiary

During the first quarter of 2012, we recognized a gain of \$146.4 million on the deconsolidation of CT Legacy Asset, which was primarily the result of a reversal of charges to GAAP equity resulting from losses previously recorded in excess of our economic interests in securitization vehicles which were consolidated by CT Legacy Asset. See Note 6 to our consolidated financial statements for additional discussion. We recorded no such gains in 2011.

#### Income from equity investments in unconsolidated subsidiaries

The income from equity investments during the first nine months of 2012 of \$1.3 million was comprised of income from our co-investments in CTOPI and CT High Grade II. CTOPI's income was largely the result of fair value adjustments on its investment portfolio, the recognition of income on investments purchased at a discount, and income from operations. CT High Grade II's income was the result of positive fair value adjustments on its investment portfolio

Similarly, income from equity investments during the nine months ended September 30, 2011 of \$2.1 million was largely the result of investment income and fair value adjustments on the CTOPI portfolio. We did not have a co-investment in CT High Grade II in 2011.

#### Income tax provision

During the first nine months of 2012, we recorded an income tax provision of \$1.8 million comprised of (i) an estimated income tax liability of \$3.1 million at our taxable REIT subsidiary, CTIMCO, and (ii) a \$467,000 estimated alternative minimum tax liability at Capital Trust, Inc., offset by a \$1.8 million non-cash income tax benefit due to an increase in the deferred tax asset of CTIMCO.

During the nine months ended September 30, 2011, we recorded an income tax provision of \$1.2 million comprised of a \$2.3 million current income tax expense, offset by a \$1.1 million income tax benefit due to an increase in the deferred tax asset of CTIMCO.

#### Net income attributable to noncontrolling interests

The net income attributable to noncontrolling interests recorded during the first nine months of 2012 and 2011 represents the pro-rata share of CT Legacy REIT's net income for the quarter allocable to equity interests not owned by us.

#### Dividends

We did not pay any dividends on our class A common stock during the first nine months of 2012 or 2011.

#### Liquidity and Capital Resources

##### Liquidity

As of September 30, 2012, our primary sources of liquidity include: (i) \$38.9 million of cash on deposit at Capital Trust, Inc. and CTIMCO; (ii) the class A preferred stock dividends we receive from CT Legacy REIT; (iii) management fees we earn from private equity funds and CDOs we manage; and (iv) fees earned from special servicing assignments. Uses of liquidity include operating expenses; various capital commitments to our managed funds; taxes; and any dividends necessary to maintain our REIT status. We have no obligations to provide financial support to CT Legacy REIT or our consolidated securitization vehicles, and all debt obligations of such entities, some of which are consolidated onto our financial statements, are non-recourse to us. In addition, we have the ability to obtain additional liquidity through the issuance of stock, incurrence of debt, or other capital raising activities.

As discussed in Note 1 to our consolidated financial statements, we have entered into an agreement with an affiliate of the Blackstone Group L.P. to sell our investment management platform. While the sale would result in a significant one-time increase to our cash on deposit, we intend to pay a \$2.00 per share special dividend that will reduce our cash balance to a level that is expected to be sufficient to meet our near-term liquidity needs. Moreover, as a result of this transaction we will no longer have access to a significant portion of our current sources of liquidity, almost all of which presently comes from CTIMCO, our investment management subsidiary. Conversely, upon the consummation of the sale transaction, we will no longer incur any of the operating expenses related to our investment management platform, which is currently our most significant use of liquidity.

We currently do not have access to liquidity from our portfolio of Interest Earning Assets. CT Legacy REIT owns a substantial portion of our Interest Earning Assets, the proceeds of which will not be distributed to CT Legacy REIT's

common shareholders, including us, until the related repurchase obligation has been repaid. In addition, the first \$11.1 million of distributions we receive from CT Legacy REIT must be used to repay our secured notes before any cash flow is available to us. Accordingly, other than the preferred dividends discussed above, we will not receive distributions from CT Legacy REIT in the near term. We will, however, receive our proportionate share of the proceeds generated from the CT Legacy REIT portfolio, subject to repayment of our secured notes, once CT Legacy REIT's leverage has been repaid.

In addition, as described in Note 7 to our consolidated financial statements, covenant breaches in our CT CDOs have resulted in a redirection of cash flow to amortize senior noteholders, which amounts would otherwise have been available to us. The additional principal amortization to senior CT CDO notes are a function of cash received under each respective collateral pool, and are only required to the extent there is cash flow in excess of the interest expense otherwise due under each respective vehicle. Accordingly, these redirection provisions cannot result in a cash outflow from us to our CT CDOs, only a diminution of liquidity available to us.

## Cash Flows

Our consolidated statements of cash flows include the cash inflows and outflows of the consolidated subsidiaries described in Note 2 to our consolidated financial statements. While this does not impact our net cash flow, it does increase certain gross cash flow disclosures.

We experienced a net increase in cash of \$4.0 million for the nine months ended September 30, 2012, compared to a net increase of \$3.8 million for the nine months ended September 30, 2011.

Cash provided by operating activities during the nine months ended September 30, 2012 was \$11.6 million, compared to \$19.3 million cash provided during the nine months ended September 30, 2011. The decrease was primarily due to the deconsolidation of CT Legacy Asset on February 10, 2012.

During the nine months ended September 30, 2012, cash provided by investing activities was \$126.0 million, compared to \$1.9 billion provided by investing activities during the first nine months ended September 30, 2011. The decrease was primarily due to significant loan repayment activity inside of consolidated securitization vehicles in the first nine months of 2011.

During the nine months ended September 30, 2012, cash used in financing activities was \$133.6 million, compared to \$2.0 billion during the same period in 2011. This decrease was primarily due to significant repayments of securitized debt obligations of consolidated securitized vehicles during 2011.

## Capitalization

Our authorized capital stock consists of 100,000,000 shares of class A common stock, of which 22,515,107 shares were issued and outstanding as of September 30, 2012, and 100,000,000 shares of preferred stock, none of which were outstanding as of September 30, 2012.

Pursuant to the terms of our prior debt restructuring completed on March 16, 2009, we issued to 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, the closing bid price on the New York Stock Exchange on March 13, 2009. The warrants became exercisable on March 16, 2012, will expire on March 16, 2019, and may be exercised in a cashless manner.

On November 8, 2012, all of our outstanding warrants were exercised in a cashless manner. See Note 16 to our consolidated financial statements for further discussion.

## Secured Notes

As of September 30, 2012, we had non-recourse notes outstanding with a face balance of \$8.3 million which are secured by 93.5% of our equity interests in the class A-1 and class A-2 common stock of CT Legacy REIT. The terms of these agreements are described in Note 5 to our consolidated financial statements.

## Consolidated Securitization Vehicles

As of September 30, 2012, our consolidated securitization vehicles had non-recourse securitized debt obligations with a total face value of \$497.4 million. The terms of these obligations are described in Note 7 to our consolidated financial statements.





**Contractual Obligations**

The following table sets forth information about certain of our contractual obligations as of September 30, 2012 (in millions):

**Contractual Obligations(1)**

|   | Total        | Payments due by period |            |             |                   |
|---|--------------|------------------------|------------|-------------|-------------------|
|   |              | Less than 1 year       | 1-3 years  | 3-5 years   | More than 5 years |
| <b>Parent Level</b>                         |              |                        |            |             |                   |
| Secured notes (2)                           | \$11         | \$—                    | \$—        | \$11        | \$—               |
| Equity investments(3)(4)                    | 15           | —                      | —          | —           | 15                |
| Operating lease obligations(5)              | 6            | 1                      | 2          | 2           | 1                 |
| <b>Subtotal</b>                             | <b>32</b>    | <b>1</b>               | <b>2</b>   | <b>13</b>   | <b>16</b>         |
| <b>Consolidated Securitization Vehicles</b> |              |                        |            |             |                   |
| CT CDOs                                     | 447          | —                      | —          | —           | 447               |
| Other securitization vehicles               | 51           | —                      | —          | —           | 51                |
| <b>Subtotal</b>                             | <b>498</b>   | <b>—</b>               | <b>—</b>   | <b>—</b>    | <b>498</b>        |
| <b>Total contractual obligations</b>        | <b>\$530</b> | <b>\$1</b>             | <b>\$2</b> | <b>\$13</b> | <b>\$514</b>      |

(1) We are also subject to interest rate swaps for which we cannot estimate future payments due.

(2) The secured notes mature on March 31, 2016. As of September 30, 2012, \$8.3 million of principal is outstanding; however we will ultimately pay \$11.1 million at maturity.

(3) CTOPI's investment period expired in September 2012, subsequent to which our obligation to fund capital to CTOPI is limited. Therefore, our entire unfunded commitment is assumed funded in more than five years for purposes of the above table.

(4) In April 2012 we purchased a 0.44% interest in CT High Grade II from an existing investor, representing our initial co-investment in CT High Grade II. Our co-investment represents a \$2.9 million total capital commitment to CT High Grade II, of which our unfunded commitment is \$480,000 as of September 30, 2012. As CT High Grade II's investment period has expired, our entire unfunded commitment is assumed funded in more than five years for purposes of the above table.

(5) As discussed in Note 1 to our consolidated financial statements, we have entered into an agreement with an affiliate of the Blackstone Group L.P. to sell our investment management platform. As a result of this transaction, our operating lease will be assumed, and we will no longer have any obligation for future lease payments. The above table does not reflect this lease assumption as the sale transaction remains subject to shareholder approval.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

**III. Non-GAAP Disclosures: Adjusted Balance Sheet**

We believe that our adjusted balance sheet provides meaningful information to consider, in addition to our consolidated balance sheet prepared in accordance with GAAP. This adjusted measure helps us to evaluate our financial position and performance without the effects of certain transactions and GAAP adjustments that are not necessarily indicative of our current investment portfolio, operations, capitalization, or shareholders' equity.

We believe that the consolidation of VIEs, in particular the consolidation of non-recourse securitization vehicles, while in accordance with GAAP, has resulted in a presentation of gross assets and liabilities, provisions/impairments, and operations being recorded in excess of our economic interests in such entities. Accordingly, our adjusted balance sheet deconsolidates securitization vehicles which are presented gross in accordance with GAAP, and shows instead our cash investment in these non-recourse entities, adjusted for losses expected or incurred. Due to the non-recourse nature of these entities, our investment amount cannot be less than zero on a cash basis. We also separately show our financial position from that of CT Legacy REIT.

In addition, beginning in the first quarter of 2012 we ceased consolidation of CT Legacy Asset, a subsidiary of CT Legacy REIT, in our GAAP financial statements and instead record a net investment in that pool of assets and liabilities on a fair value basis. See Note 7 to our consolidated financial statements for further discussion. Consistent with this fair value presentation in our consolidated financial statements, we have adjusted the liabilities we would incur under our secured notes and management incentive awards plan based on the valuation of CT Legacy REIT as of September 30, 2012.

Our adjusted balance sheet is not an alternative or substitute for our consolidated balance sheet prepared in accordance with GAAP as a measure of our financial position. Rather, we believe that our adjusted balance sheet is an additional measure that is a valuable tool for analyzing our business. Our adjusted balance sheet should not be viewed as an alternative measure of shareholders' equity, and we may not prepare our adjusted balance sheet in the same manner as other companies that use a similarly titled measure.

As a result of the changes in our consolidated financial statements following the deconsolidation of CT Legacy Asset described above, we no longer present adjusted operating results. We no longer review these adjusted operating results in monitoring our business, and with their exclusion from our consolidated statement of operations do not believe they would provide additional meaningful information about our business.

The following table details the transition from our consolidated balance sheet prepared in accordance with GAAP to the adjusted balance sheets of Capital Trust, Inc. and CT Legacy REIT, as of September 30, 2012:

## Adjusted Balance Sheet as of September 30, 2012

(in thousands, except per share data)

|  | Consolidated<br>GAAP<br>Capital<br>Trust, Inc. | Adjustments<br>(1)(2)(3) | Adjusted Balance Sheet<br>CT<br>Legacy<br>REIT | Capital<br>Trust, Inc. |
|--|--|--------------------------|--|------------------------|
| <b>Assets</b>  |  |                          |  |                        |
| Cash and cash equivalents                                | \$38,867                                       | \$—                      | \$—  | \$38,867               |
| Equity investments in unconsolidated subsidiaries        | 18,710   | (4,534 )                 | —  | 14,176                 |
| Investment in CT Legacy REIT                             | —  | 53,085                   | —  | 53,085                 |
| Deferred income taxes                                    | 3,094  | —                        | —  | 3,094                  |
| Prepaid expenses and other assets                        | 2,096  | 625                      | —  | 2,721                  |
| Subtotal   | 62,767   | 49,176                   | —  | 111,943                |
| <b>Assets of Consolidated Entities</b>                   |  |                          |  |                        |
| CT Legacy REIT   |  |                          |  |                        |
| Restricted cash  | 16,145   | —                        | 16,145   | —                      |
| Investment in CT Legacy Asset, at fair value             | 100,100  | —                        | 100,100  | —                      |
| Subtotal   | 116,245  | —                        | 116,245  | —                      |
| Assets of consolidated securitization vehicles           | 402,185  | (402,185 )               | —  | —                      |
| Total/adjusted assets                                    | \$581,197                                      | (\$353,009)              | \$116,245                                      | \$111,943              |
| <b>Liabilities &amp; Shareholders' Equity</b>            |  |                          |  |                        |
| Accounts payable, accrued expenses and other liabilities | \$17,834                                       | (\$727 )                 | \$—  | \$17,107               |
| Secured notes  | 8,326  | 2,733                    | —  | 11,059                 |
| Subtotal   | 26,160   | 2,006                    | —  | 28,166                 |
| <b>Non-Recourse Liabilities of Consolidated Entities</b> |  |                          |  |                        |
| CT Legacy REIT   |  |                          |  |                        |
| Accounts payable, accrued expenses and other liabilities | —  | 625                      | 625  | —                      |
| Subtotal   | —  | 625                      | 625  | —                      |
| Liabilities of consolidated securitization vehicles      | 517,071  | (517,071 )               | —  | —                      |

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|   |           |             |           |           |
|---|-----------|-------------|-----------|-----------|
| Total/adjusted liabilities                                    | 543,231   | (514,440 )  | 625       | 28,166    |
| Total/adjusted equity   | (24,559 ) | 223,956     | 115,620   | 83,777    |
| Noncontrolling interests                                      | 62,525    | (62,525 )   | —         | —         |
| Total/adjusted liabilities and shareholders' equity           | \$581,197 | (\$353,009) | \$116,245 | \$111,943 |
| Capital Trust, Inc. book value/adjusted book value per share: |           |             |           |           |
| Basic   | (\$1.06 ) |             |           | \$3.61    |
| Diluted   | (\$1.06 ) |             |           | \$3.36    |

- (1) All securitization vehicles have been deconsolidated and reported at our cash investment amount, adjusted for current losses relative to our equity investment in each vehicle. Due to the non-recourse nature of these entities, our investment cannot be less than zero on a cash basis. See note 7 to our consolidated financial statements for discussion of consolidated securitization vehicles.
- (2) Incentive allocations to CTIMCO from our investment management vehicles have been excluded from our adjusted balance sheet. These incentive allocations will only be paid to CTIMCO in the future contingent on the ultimate performance of such vehicles.
- (3) Liabilities under our secured notes and the management incentive awards, the payments of which are linked to our gross recovery from CT Legacy REIT, have been adjusted to reflect what would be paid in a liquidation of CT Legacy REIT based on its adjusted balance sheet as of September 30, 2012.

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## Quarterly Performance

The following table describes the activity in Capital Trust, Inc.'s balance sheet accounts, on an adjusted basis, during the third quarter of 2012:

Comparison of adjusted balance sheet of Capital Trust, Inc: As of September 30, 2012 vs. June 30, 2012  
(in thousands)

|  | September<br>30,<br>2012 | June 30,<br>2012 | Change  | %<br>Change |
|--|--------------------------|------------------|---------|-------------|
| <b>Assets:</b>   |                          |                  |         |             |
| Cash and cash equivalents                                | \$38,867                 | \$34,604         | \$4,263 | 12.3 %      |
| Equity investments in unconsolidated subsidiaries        | 14,176                   | 14,318           | (142 )  | (1.0 %)     |
| Investment in CT Legacy REIT                             | 53,085                   | 48,883           | 4,202   | 8.6 %       |
| Deferred income taxes                                    | 3,094                    | 2,727            | 367     | 13.5 %      |
| Prepaid expenses and other assets                        | 2,721                    | 2,832            | (111 )  | (3.9 %)     |
| Total adjusted assets                                    | \$111,943                | \$103,364        | \$8,579 | 8.3 %       |
| <b>Liabilities and Shareholders' Equity</b>              |                          |                  |         |             |
| <b>Liabilities:</b>                                      |                          |                  |         |             |
| Accounts payable, accrued expenses and other liabilities | \$17,107                 | \$12,545         | \$4,562 | 36.4 %      |
| Secured notes  | 11,059                   | 11,059           | —       | %           |
| Total adjusted liabilities                               | 28,166                   | 23,604           | 4,562   | 19.3 %      |
| <b>Total Adjusted Shareholders' Equity</b>               |                          |                  |         |             |
| Total Adjusted Shareholders' Equity                      | 83,777                   | 79,760           | 4,017   | 5.0 %       |
| Total adjusted liabilities and shareholders' equity      | \$111,943                | \$103,364        | \$8,579 | 8.3 %       |

## Cash and cash equivalents

Cash and cash equivalents increased by \$4.3 million during the third quarter of 2012. This was primarily due to (i) \$3.5 million of special servicing fees, (ii) \$1.9 million of preferred dividend distributions received from CT Legacy REIT, (iii) \$1.7 million of investment management and CDO collateral management fees received from affiliates, and (iv) a distribution of \$553,000 from CTOPI. This was offset by payments of \$3.4 million of general and administrative expenses.

## Equity investments in unconsolidated subsidiaries

The decrease of \$142,000 was due to a distribution of \$553,000 from CTOPI, offset by \$411,000 of income recognized from our co-investments in CTOPI and CT High Grade II.

## Investment in CT Legacy REIT

The increase of \$4.2 million represents our allocable share of the increase in the adjusted equity of CT Legacy REIT. CT Legacy REIT's equity increased during the period as a result of a \$9.4 million increase in the fair value of CT Legacy Asset and \$712,000 of net cash collections.

Deferred income taxes

The increase in deferred income taxes was primarily due to the timing difference between GAAP and tax in connection with the recognition of expenses related to our CT Legacy REIT management incentive awards plan.

Prepaid expenses and other assets

The decrease in prepaid expenses and other assets was primarily due to the collection of special servicing fees that were earned and accrued during the second quarter. This was offset by the payment of certain annual insurance premiums.

Accounts payable, accrued expenses and other liabilities

The increase in accounts payable, accrued expenses and other liabilities was primarily due to (i) the accrual of \$1.9 million of expenses related to the pending sale of our investment management platform, (ii) \$1.8 million of various corporate expense accruals, and (iii) \$899,000 of accrued income taxes.

#### IV. CT Legacy REIT

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As further discussed above, in conjunction with our March 2011 restructuring, we have transferred a significant portion of our legacy portfolio to CT Legacy Asset, a wholly owned subsidiary of CT Legacy REIT. Subsequent to our March 2011 restructuring, the CT Legacy Asset portfolio received principal repayments of \$338.6 million, which repayments represent approximately 68% of the initial net book value of the portfolio. Proceeds from these repayments have primarily been used to repay debt, including (i) a \$20.0 million repayment of the mezzanine loan at CT Legacy REIT, and (ii) repayments of \$310.5 million of legacy repurchase obligations. In the aggregate, 85% of the debt obligations of CT Legacy REIT and its subsidiaries have been repaid since our March 2011 restructuring.

In addition, in February 2012, we refinanced CT Legacy Asset's repurchase facility and CT Legacy REIT's mezzanine loan with a single, new \$124.0 million repurchase facility with JPMorgan, obtained by its subsidiary CT Legacy Asset. The new facility matures in December 2014, and carries a rate of LIBOR+6.00% as of September 30, 2012. Periodic repayment targets must be met under the facility, which require the outstanding balance be reduced to: \$100.0 million by December 31, 2012, \$80.0 million by June 30, 2013, and \$40.0 million by December 31, 2013. In addition, the facility's interest rate is subject to increase by 0.50% per annum if the outstanding balance of the facility has not been reduced to \$60.0 million as of December 31, 2012. As of September 30, 2012, the outstanding balance of the facility was \$57.2 million and it was collateralized by the majority of CT Legacy Asset's investment portfolio, including loans with an aggregate principal balance of \$304.3 million and securities with an aggregate face balance of \$135.4 million.

#### Note on Forward-Looking Statements

Except for historical information contained herein, this quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Section 21E of the Securities Exchange Act of 1934, as amended, which involve certain risks and uncertainties. Forward-looking statements are included with respect to, among other things, our current business plan, business and investment strategy, access to capital and portfolio management. These forward-looking statements are identified by their use of such terms and phrases as "intend," "goal," "estimate," "expect," "project," "projections," "plans," "seeks," "anticipates," "should," "could," "may," "designed to," "foreseeable future," "believe" 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.

Important factors that we believe might cause actual results to differ from any results expressed or implied by these forward-looking statements are discussed in the risk factors contained in Exhibit 99.1 to this Form 10-Q, which are incorporated herein by reference. In assessing forward-looking statements contained herein, readers are urged to read carefully all cautionary statements contained in this Form 10-Q.



## ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

## Interest Rate Risk

The principal objective of our asset and liability management activities is to maximize net interest income while minimizing levels of interest rate risk. Interest income and interest expense are subject to the risk of interest rate fluctuations. In certain instances, to mitigate the impact of fluctuations in interest rates, we use interest rate swaps to effectively convert floating rate liabilities to fixed rate liabilities for proper matching with fixed rate assets. Each derivative used as a hedge is matched with a liability with which it is expected to have a high correlation. The swap agreements are generally held-to-maturity and we do not use interest rate derivative financial instruments for trading purposes. The differential to be paid or received on these agreements is recognized as an adjustment to interest expense and is recognized on the accrual basis.

As of September 30, 2012, a 100 basis point change in LIBOR would impact our net income (loss) by approximately \$429,000.

## Credit Risk

Our loans and investments, including our fund investments, are also subject to credit risk. The ultimate performance and value of our loans and investments depends upon the owners' ability to operate the properties that serve as our collateral so that they produce cash flows adequate to pay interest and principal due to us. To monitor this risk, our asset management team continuously reviews our investment portfolio and in certain instances is in constant contact with our borrowers, monitoring performance of the collateral and enforcing our rights as necessary.

The following table provides information about our financial instruments that are sensitive to changes in interest rates as of September 30, 2012, including instruments in consolidated securitization vehicles. For financial assets and debt obligations, the table presents face balance and weighted average interest rates. For interest rate swaps, the table presents notional amounts and weighted average fixed pay and floating receive interest rates. These notional amounts are used to calculate the contractual cash flows to be exchanged under each contract.

Financial Assets and Liabilities Sensitive to Changes in Interest Rates as of September 30, 2012  
(in thousands)

## Capital Trust, Inc. Debt Obligations:

|                    | Secured Notes |
|--------------------|---------------|
| Fixed rate debt    | \$8,326       |
| Interest rate(1)   | 8.19%         |
| Floating rate debt | \$—           |
| Interest rate(1)   | —             |

## Assets of Consolidated Securitization Vehicles:

|                      | Securities | Loans<br>Receivable | Total     |
|----------------------|------------|---------------------|-----------|
| Fixed rate assets    | \$227,855  | \$48,731            | \$276,586 |
| Interest rate(1)     | 6.03%      | 7.53%               | 6.30%     |
| Floating rate assets | \$8,535    | \$244,096           | \$252,631 |
| Interest rate(1)     | 1.61%      | 3.70%               | 3.63%     |

## Non-Recourse Debt Obligations of Consolidated Securitization Vehicles:

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|                    | CT CDOs   | Other Vehicles | Total     |
|--------------------|-----------|----------------|-----------|
| Fixed rate debt    | \$14,011  | \$—            | \$14,011  |
| Interest rate(1)   | 6.83%     | %              | 6.83%     |
| Floating rate debt | \$432,860 | \$50,552       | \$483,412 |
| Interest rate(1)   | 0.87%     | 1.06%          | 0.89%     |

Derivative Financial Instruments of Consolidated Securitization Vehicles:

|                          |           |
|--------------------------|-----------|
| Notional amounts         | \$273,711 |
| Fixed pay rate(1)        | 5.01%     |
| Floating receive rate(1) | 0.21%     |

- (1) Represents weighted average rates where applicable. Floating rates are based on LIBOR of 0.21%, which is the rate as of September 30, 2012.

ITEM 4.

Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of our “disclosure controls and procedures” (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), as of the end of the period covered by this quarterly report was made under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (a) are effective to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by Securities and Exchange Commission rules and forms and (b) include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls over Financial Reporting

There have been no significant changes in our “internal control over financial reporting” (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

## ITEM 1: Legal Proceedings

We prevailed on our motion and were dismissed from the previously disclosed lawsuit commenced by Philips International Investments, LLC.

On October 5, 2012, Landesbank Baden-Wuerttemberg, as plaintiff, commenced a lawsuit in Delaware Chancery Court against Walton Seattle Mezz Holdings VI-B, L.L.C. and our wholly-owned subsidiary, CT Investment Management Co., LLC, solely in its capacity as the special servicer of a loan under the Amended and Restated Participation and Servicing Agreement, dated October 23, 2007. On October 12, 2011, Walton Seattle Mezz Holdings VI-B, L.L.C., as controlling holder of the loan, appointed CT Investment Management Co., LLC as the special servicer of the loan which is held by a securitization vehicle. Plaintiff seeks (i) declaratory judgment that the Walton defendant should be disqualified from exercising any control rights with respect to the defaulted mortgage loan pursuant to the terms of the Amended and Restated Participation and Servicing Agreement and (ii) an injunction enjoining CT Investment Management Co., LLC from acting upon any direction of the Walton defendant without the consent of the plaintiff. Our motion to dismiss is currently pending before the court.

## ITEM 1A: Risk Factors

The following risk factors amend the risk factors contained in our Form 10-K for the year ended December 31, 2011, or our 2011 Form 10-K. Other than risk factors added below, there have been no material changes to the risk factors previously disclosed in our 2011 Form 10-K.

In addition to the other information discussed in this quarterly report on Form 10-Q, please consider the risk factors provided below and in our updated risk factors attached as Exhibit 99.1 hereto, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we deem to be immaterial may adversely affect our business, financial condition, or operating results.

If we invest in certain “swaps”, failure to obtain and maintain an exemption from being regulated as a commodity pool operator could subject us to additional regulation and compliance requirements which could materially adversely affect our business and financial condition.

Recently adopted regulations implementing the Dodd-Frank Act of 2010 establish a comprehensive new regulatory framework for derivative contracts commonly referred to as “swaps.” Under these recently adopted rules, among other things, a private fund or other vehicle that trades in certain swaps, such as interest rate swaps, may be considered a “commodity pool,” which would cause its manager to be regulated as “commodity pool operator” or “CPO”. CT Legacy REIT and certain of our CT CDOs are party to interest rate swaps as a hedge against certain interest rate risk which may render them commodity pools even though the entry into the swaps was not used for trading purposes. Under the new regulations, unless an exemption is available, a CPO must register with the U.S. Commodity Futures Trading Commission, or CFTC, and become a member of the National Futures Association, or NFA, by the end of 2012, which will require compliance with NFA’s rules, and render such CPO subject to regulation by the CFTC, including with respect to disclosure, reporting, recordkeeping and business conduct. The CFTC staff has recently issued an interpretative letter that excludes from the definition of commodity pools certain securitization vehicles, such as our CT CDOs, that satisfy the criteria set forth in the letter. CT Legacy REIT currently qualifies for a de minimis exemption from such registration contained in CFTC regulations. If the securitization related interpretative relief is rescinded or CT Legacy REIT no longer satisfies the de minimis exemption, CTIMCO would be required to register as a CPO and become a member of the NFA and, as a result, would be subject to regulation by the CFTC with respect to disclosure, reporting, recordkeeping and business conduct.

If we resume our balance sheet investment activity, and use interest rate swaps in connection with our balance sheet investments and related borrowings, we may be considered a commodity pool. We would not use such swaps for the purpose of trading in commodity interests, and we would not consider our company or its operations to be a commodity pool as to which CPO regulation or compliance is required. We would submit a no-action letter request to the CFTC seeking exemptive relief for our directors from CPO registration under these new rules. There can be no assurance that any such relief will be granted. If exemptive relief is granted, we may be restricted to operating within certain parameters discussed in the no-action letter we submitted to the CFTC.

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The CFTC has substantial enforcement power with respect to violations of the laws over which it has jurisdiction, including their anti-fraud and anti-manipulation provisions. Among other things, CFTC may suspend or revoke the registration of a person who fails to comply, prohibit such a person from trading or doing business with registered entities, impose civil money penalties, require restitution and seek fines or imprisonment for criminal violations. Additionally, a private right of action exists against those who violate the laws over which CFTC has jurisdiction or who willfully aid, abet, counsel, induce or procure a violation of those laws. In the event we fail to receive exemptive relief from the CFTC on this matter and our directors fail to comply with the regulatory requirements of these new rules, we may be subject to significant fines, penalties and other civil or governmental actions or proceedings, any of which could have a materially adverse effect on our business, financial condition and results of operations.

Capital Trust, Inc. and its shareholders are exposed to several risks relating to the Transactions contemplated by the Purchase Agreement with the Purchaser, an affiliate of The Blackstone Group, L.P., or Blackstone, including the following:

- The market price of our Common Stock may decline as a result of the Transactions.
- We will become externally managed and advised as result of the Transactions and will no longer have employees to manage our day-to-day activities.
- Blackstone will have the ability to influence our affairs and the outcome of matters submitted to a vote of shareholders.
- In the event we experience an “ownership change” for purposes of Section 382 of the Internal Revenue Code of 1986, as amended, our ability to utilize our net operating losses and net capital losses against future taxable income will be limited, increasing our dividend distribution requirement for which we may not have sufficient cash flow.
- We have agreed to exempt the Purchaser, Blackstone and their respective affiliates from certain statutory antitakeover protections.
  - Shares eligible for sale in the near future may cause the market price for our Common Stock to decline.
- Our shareholders will not have the right to appraisal of their investment in our Common Stock in connection with the Transactions.
- The amendments to our charter reflected in the Charter Amendment Proposal contain provisions that reduce or eliminate duties of Blackstone and our directors with respect to corporate opportunities and competitive activities.
- The personnel of the New CT Manager, as our external manager, will not be required to dedicate a specific portion of their time to the management of our business.
- The New CT Manager manages our portfolio pursuant to very broad investment guidelines and our board of directors will not approve each investment decision made by the New CT Manager, which may result in our making riskier investments with which you may not agree and which could cause our operating results and the value of our Common Stock to decline.
- The New CT Manager’s fee structure may not create proper incentives or may induce the New CT Manager and its affiliates to make certain investments, including speculative investments, which increase the risk of our investment portfolio.
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We may compete with existing and future private and public investment vehicles established and/or managed by Blackstone or its affiliates, which may present various conflicts of interest that restrict our ability to pursue certain investment opportunities or take other actions that are beneficial to our business and result in decisions that are not in the best interests of our stockholders.

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- Termination of the New Management Agreement would be costly.
- The New CT Manager maintains a contractual as opposed to a fiduciary relationship with us. The New CT Manager's liability is limited under the New Management Agreement and we have agreed to indemnify the New CT Manager against certain liabilities.

Each of the risks mentioned above is described in detail in the definitive proxy statement filed under Schedule 14A with the SEC on November 9, 2012, under the heading "RISK FACTORS – Risk Factors Related to the Transactions". The Schedule 14A is filed as exhibit 99.2 and incorporated herein by reference.

ITEM 2: Unregistered Sales of Equity Securities and Use of Proceeds  
None.

ITEM 3: Defaults Upon Senior Securities  
None.

ITEM 4: Mine Safety Disclosures  
None.

ITEM 5: Other Information  
None.

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## ITEM 6:

## Exhibits

- 2.1 Purchase and Sale Agreement, dated as of September 27, 2012, by and between Capital Trust, Inc. and Huskies Acquisition LLC (filed as Exhibit 2.1 to Capital Trust, Inc.'s Current Report on Form 8-K (File No. 1-14788) filed on October 3, 2012 and incorporated herein by reference).
- 3.1a Charter of Capital Trust, Inc. (filed as Exhibit 3.1.a to Capital Trust, Inc.'s Current Report on Form 8-K (File No. 1-14788) filed on April 2, 2003 and incorporated herein by reference).
- 3.1b Certificate of Notice (filed as Exhibit 3.1 to Capital Trust, Inc.'s Current Report on Form 8-K (File No. 1-14788) filed on February 27, 2007 and incorporated herein by reference).
- 3.2a Second Amended and Restated By-Laws of Capital Trust, Inc. (filed as Exhibit 3.2 to Capital Trust, Inc.'s Current Report on Form 8-K (File No. 1-14788) filed on February 27, 2007 and incorporated herein by reference).
- 3.2b First Amendment to the Second Amended and Restated By-Laws of Capital Trust, Inc. (filed as Exhibit 3.1 to Capital Trust, Inc.'s Current Report on Form 8-K (File No. 1-14788) filed on July 26, 2011 and incorporated herein by reference).
- 3.2c Second Amendment to Second Amended and Restated Bylaws of Capital Trust, Inc. (filed as Exhibit 3.1 to Capital Trust, Inc.'s Current Report on Form 8-K (File No. 1-14788) filed on October 3, 2012 and incorporated herein by reference).
- 10.1 Letter Agreement, dated September 27, 2012, between W. R. Berkley Corporation and Capital Trust, Inc. (filed as Exhibit 10.3 to Capital Trust, Inc.'s Current Report on Form 8-K (File No. 1-14788) filed on October 3, 2012 and incorporated herein by reference).
- 31.1 Certification of Stephen D. Plavin, Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Geoffrey G. Jervis, Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- + 32.1 Certification of Stephen D. Plavin, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- + 32.2 Certification of Geoffrey G. Jervis, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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- 99.1 Updated Risk Factors from Capital Trust, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011, filed on February 14, 2012 with the Securities and Exchange Commission.
- 99.2 Capital Trust, Inc. Schedule 14A containing Definitive Proxy Statement, dated November 12, 2012 (as filed on November 9, 2012 and incorporated herein by reference).
- \* 101.INS XBRL Instance Document
- \* 101.SCH XBRL Taxonomy Extension Schema Document
- \* 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- \* 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- \* 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- \* 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

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Filed herewith

+This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or otherwise subject to the liability of that Section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act.

- \* Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following materials, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets at September 30, 2012 and December 31, 2011; (ii) the Consolidated Statements of Operations for the three and nine months ended September 30, 2012 and 2011; (iii) the Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2012 and 2011; (iv) the Consolidated Statements of Changes in Equity (Deficit) for the nine months ended September 30, 2012 and 2011; (v) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011; and (vi) Notes to Consolidated Financial Statements.

Pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not “filed” or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act, is deemed not “filed” for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CAPITAL TRUST, INC.

November 14, 2012  
Date

By: /s/ Stephen D. Plavin  
Stephen D. Plavin  
Chief Executive Officer  
(Principal executive officer)

November 14, 2012  
Date

By: /s/ Geoffrey G. Jervis  
Geoffrey G. Jervis  
Chief Financial Officer  
(Principal financial officer and  
Principal accounting officer)