FIRST CASH FINANCIAL SERVICES INC
Form 11-K
June 25, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 11-K

(Mark One):

þ ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

OR

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

For the transition period from ____________ to ____________

Commission file number: 0-19133

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

FIRST CASH 401(k) PROFIT SHARING PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

FIRST CASH FINANCIAL SERVICES, INC.

690 East Lamar Boulevard, Suite 400

Arlington, Texas 76011

FIRST CASH 401(k) PROFIT SHARING PLAN

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Investment Committee

First Cash 401(k) Profit Sharing Plan

Arlington, Texas

We have audited the accompanying statements of net assets available for benefits of the First Cash 401(k) Profit Sharing Plan (the Plan) as of December 31, 2011 and 2010, and the related statements of changes in net assets available for benefits for the years ended December 31, 2011 and 2010. First Cash 401(k) Profit Sharing Plan s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the net assets available for benefits of the First Cash 401(k) Profit Sharing Plan as of December 31, 2011 and 2010, and the related statements of changes in its net assets available for benefits for the years ended December 31, 2011 and 2010, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets held for investment purposes at December 31, 2011, is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken

as a whole.

/S/ STOVALL GRANDEY & ALLEN LLP

Fort Worth, Texas

June 25, 2012

FIRST CASH 401(k) PROFIT SHARING PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

	December 31, 2011	December 31, 2010
ASSETS:		
Investments, at fair value:		
Money market funds	$ 995,171	$ 771,232
Mutual funds	3,174,345	3,253,990
Common/collective trust funds	6,240,806	5,792,639
First Cash Financial Services, Inc. common stock	5,614,891	5,559,172
Total investments	16,025,213	15,377,033
Notes receivable from participants	991,997	879,189
Contributions receivable:		
Participant	-	66,348
Employer	15,068	21,004
Total contributions receivable	15,068	87,352
Total assets	17,032,278	16,343,574
LIABILITIES:		
Other liabilities	17,208	66
Total liabilities	17,208	66
Net assets available for benefits	$ 17,015,070	$ 16,343,508

See accompanying notes to these financial statements.

FIRST CASH 401(k) PROFIT SHARING PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	Year Ended December 31,	
	2011	2010
ADDITIONS TO NET ASSETS ATTRIBUTABLE TO:		
Investment income:		
Net appreciation in fair value of investments	$ 454,858	$ 2,674,951
Interest and dividends	67,490	57,318
Net investment gain	522,348	2,732,269
Contributions:		
Participant, including rollovers	1,699,526	1,501,362
Employer	491,065	402,908
Total contributions	2,190,591	1,904,270
Assets transferred from King Pawn, Inc. 401(k) Plan (Note 1)	-	283,785
Interest, notes receivable from participants	36,501	34,705
Other	25,143	20,828
Total additions	2,774,583	4,975,857
DEDUCTIONS FROM NET ASSETS ATTIBUTABLE TO:		
Benefits paid directly to participants	1,985,951	1,172,784
Loans paid off as part of a distribution	-	13,889
Investment management fees	60,265	59,768
Administrative fees	45,858	35,854
Custody fees	10,947	12,691
Total deductions	2,103,021	1,294,986
INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	671,562	3,680,871
NET ASSETS AVAILABLE FOR BENEFITS:		
Beginning of year	16,343,508	12,662,637
End of year	$ 17,015,070	$ 16,343,508

See accompanying notes to these financial statements.

FIRST CASH 401(k) PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

1.

DESCRIPTION OF PLAN

The following brief description of the First Cash 401(k) Profit Sharing Plan (the Plan) provides only general information. Participants should refer to the Plan document for complete information regarding the Plan s definitions, benefits, eligibility and other matters.

General

The Plan is a salary deferral plan covering substantially all U.S.-based employees of First Cash Financial Services, Inc. and its wholly-owned subsidiaries (the Company or the Employer) who have completed six months of service with the Company and have reached age 21. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The trustee and custodian of the Plan is TD Ameritrade Trust Company.

Plan Merger

In July 2010, First Cash Financial Services, Inc. acquired King Pawn, Inc., the plan sponsor of the King Pawn, Inc. 401(k) Plan. Effective October 1, 2010, the King Pawn, Inc. 401(k) Plan was merged into the Plan. Participant account balances in the King Pawn, Inc. 401(k) Plan totaling $283,785 were transferred into the Plan during 2010.

Contributions

Each year, participants may contribute to the Plan an amount up to 100% of their annual compensation. However, each participant s annual contribution shall not exceed the maximum amount allowed for deferral for U.S. federal income taxes, which was $16,500 for both 2011 and 2010. In addition, participants over age 50 are allowed to contribute an additional $5,500 for 2011 and 2010. The amount of a participant s annual compensation that may be taken into account for purposes of determining the Company s matching contribution for any purpose under the Plan shall not exceed an amount prescribed annually by the IRS. Unless they elect otherwise, employees are automatically

enrolled and contribute 3% of their compensation beginning six months after their date of hire. The Company contributes to the Plan a matching amount equal to 40% of the first 6% of the participant s annual compensation that is contributed to the Plan. Participants are eligible to receive Company match contributions after twelve months of service with the Company. In addition, a special discretionary contribution, as determined by the Company, may be contributed, pro rata, based upon each participating employee s compensation to the total compensation of all participating employees. No such contribution was made in 2011 or 2010.

The Company also made a qualified non-elective contribution (QNEC) to the Plan of $15,068 and $2,816 for the plan years ended December 31, 2011 and 2010, respectively.

If a participant makes a contribution during any year in an amount which exceeds the maximum amount allowed under IRS rules pertaining to highly compensated employees, the contribution is refunded and the matching Company contribution on such additional participant contribution may be forfeited by the participant and applied to reduce the employer s matching contribution to the Plan for the following year. Management believes that the Plan is in compliance with the funding requirements of ERISA.

Participant Accounts

Each participant s account is credited with the participant s contribution, allocations of the Company s matching contributions and profit sharing contributions, if applicable. Forfeitures of the non-vested portion of terminated participants accounts will be used to reduce future Company contributions to the Plan. The various participant allocations are based on a percentage of the participant s elective deferral or compensation in relation to total compensation of participants, as defined in the Plan agreement.

Vesting

Participants are immediately vested in their contributions (including rollovers) plus actual earnings thereon. Vesting in the remainder of their accounts is generally based on years of continuous service with the Company, which is determined as a twelve consecutive month period ending on each anniversary of a participant s date of hire. Participants become 25% vested in employer contributions after two years, and an additional 25% each year thereafter until 100% vested upon five years of credited service. A participant is also 100% vested upon reaching retirement age or if employment is terminated by reason of total and permanent disability or death.

Investment Options

Upon enrollment into the Plan, a participant may direct their contributions to the Company s common stock or any of the investment options offered by TD Ameritrade Trust Company, the trustee of the Plan. Participant contributions directed to purchase the Company s common stock are limited to 20% of the participant s total contributions. Participants may change the allocation of their existing funds and future contributions at any time.

Payment of Benefits

Participants whose employment terminates for any reason (except death or disability) are generally entitled to receive the vested portion of their account in the form of a lump sum distribution payable in cash. If a terminated participant s vested balance is $5,000 or less, and the participant does not consent to a distribution of the vested account balance; the vested benefit is automatically rolled over to an IRA provider. If the participant s vested balance exceeds $5,000, no distribution is made from the Plan without the participant s consent. There were no benefits payable to participants at December 31, 2011 and 2010.

Participant Loans

A participant may apply to the plan administrator for a loan under the Plan. All loans made by the trustees shall be subject to the terms and conditions set forth in the Plan Document and Trust Agreement. Participants may borrow up to one-half of their vested account balance or $50,000, whichever is less. The loans will bear a reasonable rate of interest based upon prevailing commercial rates for loans of similar types. Repayments of the loan balance, plus interest, are paid ratably through bi-weekly after-tax payroll deductions, not to exceed five years, unless the loan was obtained to acquire a home, then over a reasonable period of time as determined by the trustee, but not to exceed 20 years. A participant may have only one loan outstanding at any one time. Participant loans are collateralized by their respective participant accounts.

Forfeitures

Participants who terminate employment prior to being fully vested in the Company s matching contributions forfeit the non-vested contributions and related earnings. At December 31, 2011 and 2010, there were approximately $45,000 and $49,000, respectively, of forfeited non-vested accounts. Forfeitures of Company matching contributions may be used to reduce future Company contributions to the Plan. In 2011 and 2010, Company matching contributions were reduced by approximately $49,000 and $95,000, respectively, from forfeited, non-vested accounts. Forfeitures of discretionary Company contributions are reallocated among all remaining participants.

Administrative Fees

The Company has paid, at its discretion, certain of the administrative expenses of the Plan. Administrative expenses paid by the Company in 2011 and 2010 were approximately $81,000 and $104,000, respectively.

Tax Status

The Internal Revenue Service (IRS) has determined and informed the Company by a letter dated March 31, 2008, that the Plan is designed in accordance with applicable sections of the Internal Revenue Code. Although the Plan has subsequently been amended, the Investment Committee believes the Plan is still in compliance with IRS regulations.

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service and Department of Labor. The plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The plan administrator believes it is no longer subject to income tax examinations for years prior to 2008.

2.

SUMMARY OF ACCOUNTING POLICIES

Basis of Accounting

The financial statements and supplemental schedule are prepared on the accrual basis of accounting.

Valuation of Investments

Shares of registered investment companies are valued at quoted market prices which represent the net asset value of shares held by the Plan at year-end. Common collective trust funds are valued using the net asset value quoted on a private market; however the unit price is based on underlying investments which are traded on an active market. Equity securities are valued at fair value using quoted market prices. Investments in money market funds are stated at cost, which approximates fair value. Reinvested income, accrued interest and dividends are reflected as additions to the cost basis of the investments. Investment transactions are recorded on a trade-date basis.

Notes Receivable from Participants

Loans to participants are reported at their principal balances plus any accrued but unpaid interest. Loans that are not repaid within 180 days of termination with the Company are considered as defaulted and recorded as a deemed distribution, which is a taxable event for the participant.

Payment of Benefits

Benefits are recorded when paid. Benefits due to participants who have elected to withdraw from the Plan, but have not been paid, are deducted from net assets available for benefits.

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles, as applied to defined contribution employee benefit plans, requires the Plan s management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent Events

The Plan has evaluated subsequent events from December 31, 2011 through June 25, 2012, the date the financial statements were issued.

Recent Accounting Pronouncements

In January 2010, the FASB issued revised guidance intended to improve disclosures related to fair value measurements. The revised guidance, which was issued as ASU 2010-6, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements, was adopted into the Accounting Standards Codification in subtopic 820-10, which requires new disclosures as well as clarifies certain existing disclosure requirements. New disclosures under this guidance require separate information about significant transfers in and out of Level 1 and Level 2 and the reason for such transfers, and also require purchases, sales, issuances, and settlements information for Level 3 measurement to be included in the roll-forward of activity on a gross basis. The guidance also clarifies the requirement to determine the level of disaggregation for fair value measurement disclosures and the requirement to disclose valuation techniques and inputs used for both recurring and nonrecurring fair value measurements in either Level 2 or Level 3. ASU 2010-06 was effective for reporting periods beginning after December 15, 2009, except for the roll-forward of activity on a gross basis for Level 3 fair value measurement, which will be effective for reporting periods beginning after December 15, 2010. The adoption of ASU 2010-6 did not have a material effect on the Plan s financial statements.

In September 2010, the FASB issued ASU 2010-25, Reporting Loans to Participants by Defined Contribution Pension Plans. ASU 2010-25 changed the reporting of loans to participants. Prior to ASU 2010-25, loans to participants were reported as investments at fair value. ASU 2010-25 requires that loans to participants be reported as notes receivable from participants at the unpaid principal balance plus any accrued but unpaid interest. ASU 2010-25 is effective for periods ending after December 15, 2010. The Plan adopted ASU 2010-25 in the 2010 financial statements, applied retrospectively for all periods presented. The adoption of ASU 2010-25 did not have a material effect on the Plan s financial statements as the unpaid principal balance plus accrued interest of loans to participants approximated fair value.

3.

INVESTMENTS

Investments representing 5% or more of the Plan s net assets, at fair value, consisted of the following as of December 31:

	2011	2010
Money market fund:		
TD Bank USA Institutional MMDA	$ 834,654	$ 715,859
Mutual funds:		
Dimensional Fund Advisors US Large Cap Value Fund	*	801,792
American Funds EuroPacific Growth Fund	*	869,108
Common/collective trust funds:		
TD Ameritrade Trust Company StarCore II Fund	3,412,511	3,238,591
First Cash Financial Services, Inc. common stock	5,614,891	5,559,172

* Balance was less than 5% of the Plan s net assets.

The Plan s investments (including gains and losses on investments, bought and sold, as well as held during the year) appreciated/(depreciated) in value as follows:

	Year Ended December 31,	
	2011	2010
Mutual funds	$ (184,319)	$ 363,996
Common/collective trust funds	(128,528)	727,981
First Cash Financial Services, Inc. common stock	767,705	1,582,974
	$ 454,858	$ 2,674,951

According to the FASB, participant loans are to be classified on the statement of net assets available for benefit as notes receivable from participants and measured at their unpaid principal balance, plus any accrued but unpaid interest. According to the Department of Labor, participant loans are considered an investment and measured at their fair value, and are required to be included as supplemental information in the schedule of assets held for investment purposes at end of year. The following is a reconciliation of the schedule of assets held for investment purposes to the financial statements as of December 31:

	2011	2010
Investments per schedule of investments held for investment purposes at end of year	$ 17,017,210	$ 16,256,222
Less: Notes receivable from participants	(991,997)	(879,189)
Investments per financial statements	$ 16,025,213	$ 15,377,033

4.

PLAN TERMINATION

Although it has not expressed any intent to do so, the Company has the right under the Plan agreement to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants become 100% vested in their accounts.

5.

PARTIES - IN INTEREST

First Cash Financial Services, Inc. common stock and notes receivable from participants are considered parties-in-interest to the Plan. The investment in First Cash Financial Services, Inc. common stock was $5,614,891 and $5,559,172 at December 31, 2011 and 2010, respectively, and appreciated in value by $767,705 and $1,582,974 during 2011 and 2010, respectively. The balance of notes receivable from participants was $991,997 and $879,189 at December 31, 2011 and 2010, respectively, and interest income was $36,501 and $34,705 during 2011 and 2010, respectively.

The trustee of the Plan, TD Ameritrade Trust Company, is a party-in-interest as defined by ERISA. The trustee invests certain Plan assets in common/collective trust funds and money market funds and such transactions qualify as party-in-interest transactions permitted by the Department of Labor.

6.

CONCENTRATION OF MARKET RISK

At December 31, 2011 and 2010, approximately 33% and 34%, respectively, of the Plan s assets were invested in the common stock of the Company. The underlying value of the Company s common stock is dependent upon the performance of the Company, the market s evaluation of such performance and overall market conditions. Investment securities, in general, are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of

risk associated with investment securities, it is at least reasonably possible that changes in the values of the investment securities will occur in the near term and that such changes could materially affect the participant s account balances and the amounts reported in the statement of assets available for benefits and the statement of changes in net assets available for benefits. Participant contributions directed to purchase the Company s common stock are limited to 20% of the participant s total contributions**.**

7.

RECONCILIATION TO FORM 5500

Benefit claims payable are reported as a liability on Form 5500 but are not recorded as a liability on the financial statements prepared in accordance with GAAP. Excess contributions are recorded as a liability on the financial statements in accordance with GAAP, but not recorded as a liability on Form 5500.

The reconciliation of change in net assets per Schedule H of the Form 5500 to the financial statements is as follows:

	Year Ended December 31,	
	2011	2010
Change in Net Assets per Form 5500 - Schedule H	$ 671,562	$ 3,378,162
Transfers to this plan - Line 21(1) - Schedule H	-	283,785
Benefits to participants paid in 2010	-	(6,982)
Excess contributions to be refunded in 2010	-	25,906
Change in Net Assets per financial statements	$ 671,562	$ 3,680,871

8.

FAIR VALUE MEASUREMENTS

In accordance with Accounting Standards Codification (ASC) 820-10-20, *Fair Value Measurements and Disclosures* (ASC 820-10-20), the Plan s assets and liabilities, which are carried at fair value, are classified in one of the following three categories:

Level 1 Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;

Level 2 Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and

Level 3 Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

A financial instrument s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for instruments measured at fair value.

Money Market Funds

These investments are public investment vehicles valued using $1 for the net asset value, or its equivalent (NAV). The money market funds are classified within level 1 of the valuation hierarchy.

Mutual Funds

These investments are valued at the NAV of shares held by the Plan at year end. The mutual funds are classified within level 1 of the valuation hierarchy.

Common/Collective Trust Funds

These investments are public investment vehicles valued using the NAV provided by the administrator of the fund. The NAV is classified within level 2 of the valuation hierarchy because the NAV s unit price is quoted on a private market that is not active; however, the unit price is based on underlying investments which are traded on an active market.

First Cash Financial Services, Inc. Common Stock

First Cash Financial Services, Inc. common stock is valued at the closing price reported on the Nasdaq Global Select Market and is classified within level 1 of the valuation hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

There were no assets or liabilities measured at fair value on a nonrecurring basis as of December 31, 2011, or December 31, 2010, and there were no changes in the valuation methodologies between these periods. In addition, there were no significant transfers between Level 1 or 2 for the year ended December 31, 2011.

The following tables present the fair value of financial instruments, measured on a recurring basis, as of December 31, 2011 and 2010, respectively, by risk classification and by the ASC 820-10-20 valuation hierarchy described above. The Plan had no assets or liabilities classified as Level 3 at December 31, 2011 or 2010.

Interest and related income	$	44,141	$	64,712	$	149,725	$	190,959
Less: Interest and related expenses		28,175		43,716		98,918		120,008
Income from loans and other investments, net		15,966		20,996		50,807		70,951
Other revenues:								
Management fees		3,477		1,115		9,827		2,446
Incentive management fees		—		—		—		962
Servicing fees		116		173		337		285
Other interest income		483		173		1,307		754
Total other revenues		4,076		1,461		11,471		4,447
Other expenses:								
General and administrative		5,711		6,840		18,819		21,483
Depreciation and amortization		13		61		140		1,450
Total other expenses		5,724		6,901		18,959		22,933
Gain on extinguishment of debt		—		—		6,000		—
(Provision for)/recovery of losses on loan impairment		—		—		(56,000)		4,000
Gain on sale of investments		—		—		374		—
Loss from equity investments		(625)		(109)		(549)		(1,042)
Income (loss) before income taxes		13,693		15,447		(6,856)		55,423
Income tax provision (benefit)		26		(50)		(475)		(304)
Net income (loss)	$	13,667	$	15,497	$	(6,381)	$	55,727

Per share information:								
Net income (loss) earnings per share of common stock:								
Basic	$	0.61	$	0.88	$	(0.31)	$	3.17
Diluted	$	0.61	$	0.87	$	(0.31)	$	3.14
Weighted average shares of common stock outstanding:								
Basic		22,247,042		17,594,047		20,707,262		17,555,724
Diluted		22,250,631		17,717,282		20,707,262		17,719,881
Dividends declared per share of common stock	$	0.60	$	0.80	$	2.20	$	2.40

See accompanying notes to consolidated financial statements.

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Capital Trust, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Nine Months Ended September 30, 2008 and 2007
(in thousands)
(unaudited)

	Comprehensive Income (Loss)	Class A Common Stock	Restricted Class A Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income/(Loss)	Accumulated Deficit	Total
Balance at January 1, 2007		$ 169	$ 5	$ 417,641	$ 12,717	$ (4,260)	$ 426,272
Net income	$ 55,727	—	—	—	—	55,727	55,727
Unrealized loss on derivative financial instruments	(4,158)	—	—	—	(4,158)	—	(4,158)
Unrealized gain on available for sale security	108	—	—	—	108	—	108
Amortization of unrealized gain on securities	(1,259)	—	—	—	(1,259)	—	(1,259)
Currency translation adjustments	810	—	—	—	810	—	810
Issuance of stock relating to asset purchase	—	—	—	707	—	—	707
Amortization of deferred gains and losses on settlement of swaps	—	—	—	—	(353)	—	(353)
Sale of shares of class A common stock under stock option agreement	—	—	—	952	—	—	952
Restricted class A common stock earned	—	2	(1)	3,570	—	—	3,571
Dividends declared on common stock	—	—	—	—	—	(41,983)	(41,983)
Balance at September 30, 2007	$ 51,228	$ 171	$ 4	$ 422,870	$ 7,865	$ 9,484	$ 440,394
Balance at January 1, 2008		$ 172	$ 4	$ 426,113	$ (8,684)	$ (9,368)	$ 408,237
Net loss	$ (6,381)					(6,381)	(6,381)
Unrealized loss on derivative financial instruments	(1,233)	—	—	—	(1,233)	—	(1,233)
Unrealized gain on available for sale security	277	—	—	—	277	—	277
Reclassification to gain on sale of investments	(482)	—	—	—	(482)	—	(482)

Amortization of unrealized gain on securities	(1,278)	—	—	—	(1,278)	—	(1,278)
Deferred loss on settlement of swap	(612)	—	—	—	(612)	—	(612)
Amortization of deferred gains and losses on settlement of swaps	(140)	—	—	—	(140)	—	(140)
Shares of class A common stock issued in public offering	—	40	—	112,567	—	—	112,607
Shares of class A common stock issued under dividend reinvestment plan and stock purchase plan	—	5	—	12,835	—	—	12,840
Sale of shares of class A common stock under stock option agreement	—	—	—	180	—	—	180
Restricted class A common stock earned	—	—	—	2,759	—	—	2,759
Dividends declared on common stock	—	—	—	—	—	(48,294)	(48,294)
Balance at September 30, 2008	$ (9,849)	$ 217	$ 4	$ 554,454	$ (12,152)	$ (64,043)	$ 478,480

See accompanying notes to consolidated financial statements.

Capital Trust, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2008 and 2007
(in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2008	2007
Cash flows from operating activities:		
Net (loss) income	$ (6,381)	$ 55,727
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	140	1,450
Gain on extinguishment of debt	(6,000)	—
Provision for losses	56,000	—
Gain on sale of investment	(374)	—
Loss from equity investments	549	1,042
Distributions of income from equity investments in unconsolidated subsidiaries	—	425
Restricted class A common stock earned	2,759	3,570
Amortization of premiums and discounts on loans/CMBS, and debt, net and deferred interest on loans	(8,050)	(1,542)
Amortization of deferred gains and losses on settlement of swaps	(140)	(200)
Amortization of finance costs	4,003	4,134
Changes in assets and liabilities, net:		
Deposits and other receivables	3,442	1,909
Accrued interest receivable	3,026	(383)
Prepaid and other assets	544	(404)
Deferred income taxes	(501)	(50)
Deferred origination fees and other revenue	(1,047)	(1,897)
Accounts payable and accrued expenses	(4,662)	3,701
Net cash provided by operating activities	43,308	67,482
Cash flows from investing activities:		
Purchases of CMBS	(660)	(110,550)
Principal collections on and proceeds from CMBS	27,896	37,089
Origination, purchase and fundings of loans receivable	(115,344)	(869,623)
Principal collections on and proceeds from loans receivable	206,008	620,189
Equity investments in unconsolidated subsidiaries	(3,473)	(9,122)
Return of capital from equity investments in unconsolidated subsidiaries	—	1,616
Proceeds from total return swaps	—	1,815
Purchase of equipment and leasehold improvements	(43)	(546)
Payments for business purchased	—	(1,853)
Payment of capitalized costs	—	(115)
Increase in restricted cash	(12,535)	(2,034)
Net cash provided by (used in) investing activities	101,849	(333,134)
Cash flows from financing activities:		
Proceeds from repurchase obligations and secured debt	184,025	1,307,512
Repayment of repurchase obligations and secured debt	(273,674)	(1,123,078)

Proceeds from credit facilities		25,000		125,000
Repayment of credit facilities		—		(50,000)
Issuance of junior subordinated debentures		—		77,325
Purchase of common equity in CT Preferred Trust I & CT Preferred Trust II		—		(2,325)
Repayment of collateralized debt obligations		(33,274)		(17,017)
Settlement of interest rate hedges		(612)		(153)
Payment of financing costs		(306)		(2,474)
Sale of class A common stock upon stock option exercise		180		952
Dividends paid on common stock		(82,532)		(52,355)
Proceeds from sale of shares of class A common stock		123,108		—
Proceeds from dividend reinvestment plan		2,339		—
Net cash (used in) provided by financing activities		(55,746)		263,387
Net increase (decrease) in cash and cash equivalents		89,411		(2,265)
Cash and cash equivalents at beginning of year		25,829		26,142
Cash and cash equivalents at end of period	$	115,240	$	23,877

See accompanying notes to consolidated financial statements.

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

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 fully integrated, self-managed finance and investment management company that specializes in credit-sensitive structured 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 commencement of our finance business in 1997 through September 30, 2008, we have completed over $11.0 billion of investments in the commercial real estate debt arena. We conduct our operations as a real estate investment trust, or REIT, for federal income tax purposes and we are headquartered in New York City.

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 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 footnotes required by accounting principles generally accepted in the United States for complete financial statements. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the 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, 2007. In our opinion, all material adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the nine months ended September 30, 2008 are not necessarily indicative of results that may be expected for the entire year ending December 31, 2008. Our accounting and reporting policies conform in all material respects to generally accepted accounting principles, or GAAP, in the United States.

Principles of Consolidation
The accompanying unaudited consolidated interim financial statements include, on a consolidated basis, our accounts, the accounts of our wholly-owned subsidiaries and our interests in variable interest entities in which we are the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation. Our interests in CT Preferred Trust I and CT Preferred Trust II, the issuers of trust securities backed by our junior subordinated debentures, are accounted for using the equity method and their assets and liabilities are not consolidated into our financial statements due to our determination that CT Preferred Trust I and CT Preferred Trust II are variable interest entities in which we are not the primary beneficiary under Financial Accounting Standards Board, or FASB, Interpretation No. 46(R) "Consolidation of Variable Interest Entities", or FIN 46R. We account for our co-investment interest in the private equity funds we manage, CT Mezzanine Partners III, Inc., or Fund III, and CT Opportunity Partners I, LP, or CTOPI, under the equity method of accounting. We also accounted for our investment in Bracor Investimentos Imobiliarios Ltda., or Bracor, under the equity method of accounting until we sold our investment in December 2007. As such, we report a percentage of the earnings or losses of the companies in which we have such investments equal to our ownership percentage on a single line item in the consolidated statement of income as income from equity investments. CTOPI is an investment company (under the American Institute of Certified Public Accountants Investment Company Guide) and therefore it maintains its financial records on a fair value basis. We have applied such accounting relative to our investment in CTOPI pursuant to the Emerging Issues Task Force, or EITF, Issue No. 85-12 "Retention of Specialized Accounting for Investments in Consolidation."

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 in connection 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. Fees on commitments that expire unused are recognized at expiration. For loans where we have unfunded commitments, we amortize the appropriate items on a straight line basis. Income recognition 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, a full recovery of income and principal becomes doubtful. Income recognition is resumed when the loan becomes contractually current and performance is demonstrated to be resumed.

Fees from special servicing and asset management services are recognized as services are rendered. We account for incentive fees we earn from our investment management business in accordance with Method 1 of EITF D-96, “Accounting for Management Fees Based on a Formula”. Under Method 1, no incentive income is recorded until all contingencies have been eliminated.

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

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. At September 30, 2008 and December 31, 2007, a majority of the cash and cash equivalents consisted of overnight deposits in demand deposit and money market accounts. As of, and for the periods ended, September 30, 2008 and December 31, 2007, 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
Restricted cash at September 30, 2008 was comprised of $18.2 million that is on deposit with the trustee for our collateralized debt obligations, or CDOs, and is expected to be used to pay contractual interest and principal and to purchase replacement collateral for our reinvesting CDOs during their respective reinvestment periods. Restricted cash at December 31, 2007 was $5.7 million.

Commercial Mortgage Backed Securities
We classify our commercial mortgage backed securities, or CMBS, pursuant to FASB Statement of Financial Accounting Standards No. 115, “Accounting for Certain Investments in Debt and Equity Securities”, or FAS 115, on the date of acquisition of the investment. On August 4, 2005, we decided to change the accounting classification of our CMBS investments from available-for-sale to held-to-maturity. Held-to-maturity investments are stated at cost adjusted for the amortization of any premiums or discounts and any premiums or discounts are amortized through the consolidated statements of income using the effective interest method. Other than in the instance of impairment, these held-to-maturity investments are shown in our financial statements at their adjusted values pursuant to the methodology described above.

We may also invest in CMBS and certain other 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. Many of these investments are relatively illiquid and management must estimate their values. In making these estimates, management utilizes market prices provided by dealers who make markets in these securities, but may, under certain circumstances, adjust these valuations based on management’s judgment. Changes in the valuations do not affect our reported income or cash flows, but impact shareholders’ equity and, accordingly, book value per share.

Income on these securities is recognized based upon a number of assumptions that are subject to uncertainties and contingencies. 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 our reported interest income on our mortgage backed securities include interest payment shortfalls due to delinquencies on the underlying mortgage loans and the timing and magnitude of credit losses on the mortgage loans underlying the securities that 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.

We account for CMBS under EITF 99-20, “Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets”, or EITF 99-20. Under EITF 99-20, when significant changes in estimated cash flows from the cash flows previously estimated occur due to actual prepayment and credit loss experience and the present value of the revised cash flows using the current expected yield is less than the present value of the previously estimated remaining cash flows, adjusted for cash receipts during the intervening period, an

other than temporary impairment is deemed to have occurred. Accordingly, the security is written down to fair value with the resulting charge being included in income and a new cost basis established with the original discount or premium written off when the new cost basis is established. In accordance with this guidance, on a quarterly basis, when significant changes in estimated cash flows from the cash flows previously estimated occur due to actual prepayment and credit loss experience, we calculate a revised yield based upon the current amortized cost of the investment, including any other than temporary impairments recognized to date, and the revised cash flows. The revised yield is then applied prospectively to recognize interest income. Management must also assess whether unrealized losses on securities reflect a decline in value that is other than temporary, and, accordingly, write down the impaired security to its fair value, through a charge to income. Significant judgment of management is required in this analysis that includes, but is not limited to, making assumptions regarding the collectability of the principal and interest, net of related expenses, on the underlying loans.

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

During the fourth quarter of 2004, we concluded that two of our CMBS investments had incurred other-than-temporary impairment and we incurred a charge of $5.9 million through the income statement. At September 30, 2008, we believe there has not been any adverse change in estimated cash flows relating to existing CMBS investments; therefore we did not recognize any additional other than temporary impairment on any CMBS investments. Significant judgment of management is required in this analysis that includes, but is not limited to, making assumptions regarding the collectability of the principal and interest, net of related expenses, on the underlying loans.

From time to time we purchase CMBS and other investments in which we have a level of control over the issuing entity; we refer to these investments as controlling class investments. The presentation of controlling class investments in our financial statements is governed in part by FIN 46R. FIN 46R could require that certain controlling class investments be presented on a consolidated basis. Based upon the specific circumstances of certain of our CMBS investments that are controlling class investments and our interpretation of FIN 46R, specifically the exemption for qualifying special purpose entities as defined under FASB Statements of Financial Accounting Standard No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", or FAS 140, we have concluded that the entities that have issued the controlling class investments should not be presented on a consolidated basis. We are aware that FAS 140 is currently under review by standard setters and that, as a result of this review, our current interpretation of FIN 46R and FAS 140 may change.

Loans Receivable and Reserve for Possible Credit Losses

We purchase and originate commercial real estate debt and related instruments, or Loans, to be held as long-term investments at amortized cost. Management must 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 were determined to be permanently impaired, we would write down the Loan through a charge to the reserve for possible credit losses. Given the nature of our Loan portfolio and the underlying commercial real estate collateral, significant judgment on the part of management is required in determining permanent impairment and the resulting charge to the reserve, which includes but is not limited to making assumptions regarding the value of the real estate that secures the loan. Each Loan in our portfolio is evaluated at least quarterly using our loan risk rating system which considers loan-to-value, debt yield, cash flow stability, exit plan, loan sponsorship, loan structure and other factors deemed necessary by management to assess the likelihood of delinquency or default. If we believe that there is a potential for delinquency or default, a downside analysis is prepared to estimate the value of the collateral underlying our Loan, and this potential loss is multiplied by the default likelihood to determine the size of the reserve. Actual losses, if any, could ultimately differ from these estimates.

Deferred Financing Costs

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

Repurchase Obligations

In certain circumstances, we have financed the purchase of investments from a counterparty through a repurchase agreement with that same counterparty. We currently record these investments in the same manner as other investments financed with repurchase agreements, with the investment recorded as an asset and the related borrowing under any repurchase agreement 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 the consolidated statements of income. In February 2008, the FASB issued FASB Staff Position 140-3, "Accounting for Transfers of

Financial Assets and Repurchase Financing Transactions, or FSP 140-3, which provides guidance on accounting for transfers of financial assets and repurchase financings. FSP 140-3 presumes that an initial transfer of a financial asset and a repurchase financing shall not be evaluated as a linked transaction and shall be evaluated separately under FAS 140. If the linked transaction does not meet the requirements for sale accounting, the linked transaction shall generally be accounted for as a forward contract, as opposed to the current presentation, where the purchased asset and the repurchase liability are reflected separately on the balance sheet.

FSP 140-3 is effective on a prospective basis for fiscal years beginning after November 15, 2008, with earlier application not permitted. Given that FSP 140-3 is to be applied prospectively, we do not expect that the adoption of FSP 140-3 will have a material impact on our financial statements with respect to our existing transactions. New transactions entered into after December 31, 2008, that are subject to FSP 140-3 may be presented differently on our financial statements.

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

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 variable 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 in our financial statements through accumulated other comprehensive income/(loss) and do not affect our net income. 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.

To determine the fair value of derivative instruments, we use third parties to periodically value 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, do not expect to pay substantial corporate level taxes (other than taxes payable by our taxable REIT subsidiaries which are accounted for in accordance with FASB Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", or FAS 109). 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 we may also be subject to penalties.

In September 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109", or FIN 48. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FAS 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation was effective January 1, 2007. The adoption of FIN 48 did not have a material impact on our financial results.

Accounting for Stock-Based Compensation
We account for stock-based compensation in accordance with FASB Statement of Financial Accounting Standards No. 123(R) "Share Based Payment," or FAS 123(R). Upon adoption of FAS 123(R), as of January 1, 2006, we have elected to utilize the modified prospective method, and there was no impact from this adoption. 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. Compensation expense relating to stock-based compensation is recognized in net income using a fair value measurement method.

Comprehensive Income
We comply with the provisions of the FASB Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", or FAS 130, in reporting comprehensive income and its components in the full set of general purpose financial statements. Total comprehensive (loss)/income was ($9.8) million and $51.2 million, for the periods ended September 30, 2008 and 2007, respectively. The primary components of comprehensive income other than net

loss for the nine months ended September 30, 2008 were the unrealized gain/(loss) on derivative financial instruments and CMBS. At September 30, 2008, accumulated other comprehensive loss was $12.2 million, comprised of unrealized gains on CMBS of $7.0 million, unrealized losses on cash flow swaps of $19.9 million, and $736,000 of deferred realized gains on the settlement of cash flow swaps.

Earnings per Share of Common Stock

Earnings per share of common stock are presented based on the requirements of the FASB Statement of Financial Accounting Standards No. 128, “Earnings per Share”, or FAS 128. Basic EPS is computed based on the net earnings applicable to common stock and stock units divided by weighted average number of shares of common stock and stock units outstanding during the period. Diluted EPS is based on the net earnings allocable to common stock and stock units, divided by weighted average number of shares of common stock and stock units and potentially dilutive common stock options.

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

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 periods consolidated financial statements to conform to the September 30, 2008 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 portfolio of interest earning assets (including our co-investments in investment management vehicles) and the financing thereof.

The “Investment Management” segment includes the activities of our wholly-owned investment management subsidiary, CT Investment Management Co. LLC, or CTIMCO, and its subsidiaries. CTIMCO is a taxable REIT subsidiary and serves as the investment manager of Capital Trust, Inc., all of our investment management vehicles and all of our CDOs and serves as senior servicer and special servicer on certain of our investments and for third parties. In addition, CTIMCO owns certain of our assets.

Business Combination
On June 15, 2007, we purchased a healthcare loan origination platform, located in Birmingham, Alabama. We paid a $2.6 million initial purchase price ($1.9 million in cash and $707,000 in common stock), and we have a contingent obligation to pay up to an additional $1.8 million ($1.1 million in cash and $700,000 in common stock) on March 15, 2009, if the acquired business meets certain performance criteria. We have recorded $2.1 million of goodwill associated with the initial purchase price.

Goodwill
Goodwill represents the excess of acquisition costs over the fair value of net assets of businesses acquired. Goodwill is reviewed annually in the fourth quarter to determine if there is impairment at a reporting unit level or more frequently if an indication of impairment exists. No impairment charges for goodwill were recorded during the nine months ended September 30, 2008.

New Accounting Pronouncements
In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements”, or FAS 157. FAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. FAS 157 applies to reporting periods beginning after November 15, 2007. As discussed above, we report the changes in the value of effective cash flow hedges and our available for sale securities through accumulated other comprehensive income/(loss). We adopted FAS 157 as of January 1, 2008. As a result of the adoption of FAS 157, the fair value of our interest rate hedge liabilities decreased by $961,000 due to the valuation adjustment related to our credit.

Capital Trust, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
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The table below details the fair value measurements at September 30, 2008 (in millions):

		Fair Value Measurements at Reporting Date Using		
Description	Fair Value at September 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate hedge assets	$ —	$ —	$ —	$ —
Interest rate hedge liabilities	(19.9)	—	(19.9)	—
Total	$ (19.9)	$ —	$ (19.9)	$ —

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities", or FAS 159. FAS 159 permits entities to choose to measure many financial instruments, and certain other items, at fair value. FAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. FAS 159 applies to reporting periods beginning after November 15, 2007. We adopted FAS 159 as of January 1, 2008. Adoption of FAS 159 had no impact on the consolidated financial statements as we did not elect to measure any financial instruments at fair value.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133", or FAS 161. The use and complexity of derivative instruments and hedging activities have increased significantly over the past several years. Constituents have expressed concerns that the existing disclosure requirements in FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", do not provide adequate information about how derivative and hedging activities affect an entity's financial position, financial performance, and cash flows. Accordingly, FAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. FAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We are currently evaluating the potential effect of the adoption of FAS 161 on our consolidated financial statements.

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

3. Commercial Mortgage Backed Securities

Activity relating to our CMBS investments for the nine months ended September 30, 2008 was as follows ($ values in thousands):

						Weighted Average		
Asset Type	Face Value	Book Value	Number of Securities	Number of Issues	Rating (1)	Coupon(2)	Yield(2)	Maturity (Years)(3)
December 31, 2007								
Floating Rate	$ 171,620	$ 170,543	14	11	BB	8.16%	8.19%	2.6
Fixed Rate	744,790	706,321	65	45	BB+	6.69%	7.14%	7.5
Total/Weighted Average	916,410	876,864	79	56	BB+	6.97%	7.35%	6.5
Originations								
Floating Rate	3,300	660	1	—	BB+	8.93%	43.92%	8.8
Fixed Rate	—	—	—	—	—	—	—	—
Total/Weighted Average	3,300	660	1	—	BB+	8.93%	43.92%	8.8
Repayments & Other (4)								
Floating Rate	121	(301)	—	—	N/A	N/A	N/A	N/A
Fixed Rate	32,662	26,454	3	1	N/A	N/A	N/A	N/A
Total/Weighted Average	32,783	26,153	3	1	N/A	N/A	N/A	N/A
September 30, 2008								
Floating Rate	174,799	171,504	15	11	BB	7.45%	7.57%	2.0
Fixed Rate	712,128	679,867	62	44	BB	6.68%	7.07%	7.0
Total/Weighted Average	$ 886,927	$ 851,371	77	55	BB	6.83%	7.17%	6.0

(1) Weighted average ratings are based on the lowest rating published by Fitch Ratings, Standard & Poor's or Moody's Investors Service for each security and exclude $37.9 million face value ($37.5 million book value) of unrated equity investments in collateralized debt obligations.
(2) Calculations based on LIBOR of 3.93% as of September 30, 2008 and LIBOR of 4.60% as of December 31, 2007.
(3) Represents the maturity of the investment assuming all extension options are executed.
(4) Includes full repayments, sales, partial repayments, mark-to-market adjustments on available for sale securities, and the impact of premium and discount amortization and losses, if any. The figures shown in "Number of Securities" and "Number of Issues" represent only the full repayments/sales, if any.

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

The tables below detail the ratings, vintage, property type and geographic distribution of the collateral securing our CMBS at September 30, 2008 (in thousands):

Ratings		Book Value	Percentage
AAA	$	162,268	19%
AA		24,775	3%
A		158,823	19%
BBB		237,266	27%
BB		113,503	13%
B		58,277	7%
CCC		5,019	1%
CC		5,363	1%
D		48,617	6%
NR		37,460	4%
Total	$	851,371	100%

Vintage		Book Value	Percentage
2007	$	110,291	13%
2006		48,755	6%
2005		61,768	7%
2004		89,388	10%
2003		29,607	3%
2002		19,710	2%
2001		18,972	2%
2000		41,504	5%
1999		30,186	4%
1998		302,321	36%
1997		72,995	9%
1996		25,874	3%
Total	$	851,371	100%

Property Type		Book Value	Percentage
Retail	$	272,439	32%
Office		178,788	21%
Hotel		148,990	18%
Multi-Family		106,421	12%
Other		65,556	8%
Healthcare		41,717	5%
Industrial		37,460	4%
Total	$	851,371	100%

Geographic Location		Book Value	Percentage
Southeast	$	233,276	28%
Northeast		204,329	24%
West		154,950	18%
Southwest		118,341	14%

Midwest		107,273	13%
Northwest		20,433	2%
Other		12,769	1%
Total	$	851,371	100%

As detailed in Note 2, on August 4, 2005, pursuant to the provisions of FAS 115, we decided to change the accounting classification of our then portfolio of CMBS investments from available-for-sale to held-to-maturity.

While we typically account for our CMBS investments on a held-to-maturity basis, under certain circumstances we will account for CMBS on an available-for-sale basis. At December 31, 2007, we had one CMBS investment that we designated and accounted for on an available-for-sale basis with a face value of $7.7 million. The security earned interest at a coupon of 8.34% as of December 31, 2007. During the second quarter of 2008 we sold the security for a gain of $374,000.

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

Quarterly, we reevaluate our CMBS portfolio to determine if there has been an other-than-temporary impairment based upon our assessment of future cash flow receipts. We believe that there has not been any adverse change in estimated cash flows in our CMBS portfolio and, therefore, did not recognize any other-than-temporary impairments. Significant judgment of management is required in this analysis that includes, but is not limited to, making assumptions regarding the collectability of principal and interest, net of related expenses, on the underlying loans.

Certain of our CMBS investments are carried at values in excess of their market values. This difference can be caused by, among other things, changes in interest rates, changes in credit spreads, realized/unrealized losses in the underlying securities and general market conditions. At September 30, 2008, 72 CMBS investments with an aggregate carrying value of $791.3 million were carried at values in excess of their market values. Market value for these CMBS investments was $607.2 million at September 30, 2008. In total, we had 77 CMBS investments with an aggregate carrying value of $851.4 million that have an estimated market value of $673.2 million (this valuation does not include the value of interest rate swaps entered into in conjunction with the purchase/financing of these investments). We determine fair values using third party dealer assessments of value, supplemented in certain cases with our own internal estimations of fair value. We regularly examine the CMBS portfolio and have determined that, despite changes in fair value, there have been no changes in our expectations of estimated cash flows from our CMBS portfolio since our last financial report. Our estimation of cash flows expected to be generated by our CMBS portfolio is based upon an internal review of the underlying mortgage 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. Our assessment of cash flows combined with our ability and intent to hold our CMBS investments to maturity (at which point we expect to recover book value plus amortized discounts/premiums, which may be at maturity), is the basis for our conclusion that these investments are not impaired despite the differences between estimated fair value and book value. We attribute the difference between book value and estimated fair value to the current market dislocation and a general negative bias for structured financial products such as CMBS and CDOs.

The following table shows the gross unrealized losses and fair value of our CMBS with unrealized losses as of September 30, 2008 that are not deemed to be other-than-temporarily impaired (in millions):

	Less Than 12 Months			Greater Than 12 Months			Total		
	Book Value	Estimated Fair Value	Gross Unrealized Loss	Book Value	Estimated Fair Value	Gross Unrealized Loss	Book Value	Estimated Fair Value	Gross Unrealized Loss
Floating Rate	$ 0.7	$ 0.5	$ (0.2)	$ 170.8	$ 88.3	$ (82.5)	$ 171.5	$ 88.8	$ (82.7)
Fixed Rate	202.4	181.0	(21.4)	417.4	337.4	(80.0)	619.8	518.4	(101.4)
Total	$ 203.1	$ 181.5	$ (21.6)	$ 588.2	$ 425.7	$ (162.5)	$ 791.3	$ 607.2	$ (184.1)

Capital Trust, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
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4. Loans Receivable

Activity relating to our loans receivable for the nine months ended September 30, 2008 was as follows (in thousands):

				Weighted Average		
Asset Type	Face Value	Book Value	Number of Investments	Coupon(1)	Yield(1)	Maturity (Years)(2)
December 31, 2007						
Floating rate(3)						
Mortgage loans	$ 620,586	$ 620,586	17	6.93%	7.23%	3.6
Subordinate mortgage interests	515,797	508,900	28	7.31%	7.37%	3.7
Mezzanine loans	939,038	937,209	26	8.19%	8.22%	3.5
Total/Weighted Average	2,075,421	2,066,695	71	7.59%	7.71%	3.6
Fixed rate						
Mortgage loans	—	—	—	—	—	—
Subordinate mortgage interests	29,779	29,094	2	7.92%	8.09%	24.2
Mezzanine loans	160,984	161,774	8	8.85%	8.84%	4.2
Total/Weighted Average	190,763	190,868	10	8.70%	8.73%	7.3
Total/Weighted Average - December 31, 2007	2,266,184	2,257,563	81	7.69%	7.80%	3.9
Originations(4)						
Floating rate						
Mortgage loans	42,282	42,282	—	6.36%	6.47%	2.6
Subordinate mortgage interests	25,744	25,744	—	9.02%	9.43%	1.5
Mezzanine loans	28,783	26,022	2	4.88%	5.32%	3.2
Total/Weighted Average	96,809	94,048	2	6.63%	6.97%	2.5
Fixed rate						
Mortgage loans	—	—	—	—	—	—
Subordinate mortgage interests	—	—	—	—	—	—
Mezzanine loans	27,738	25,972	1	8.39%	8.92%	7.7
Total/Weighted Average	27,738	25,972	1	8.39%	8.92%	7.7
Total/Weighted Average	124,547	120,020	3	7.02%	7.39%	3.6
Repayments & Other(5)						
Floating rate						
Mortgage loans	120,758	120,758	1	N/A	N/A	N/A
Subordinate mortgage interests	4,076	(1,056)	1	N/A	N/A	N/A
Mezzanine loans	116,562	165,491	1	N/A	N/A	N/A
Total/Weighted Average	241,396	285,193	3	N/A	N/A	N/A
Fixed rate						
Mortgage loans	—	—	—	N/A	N/A	N/A
Subordinate mortgage interests	62	(1)	—	N/A	N/A	N/A
Mezzanine loans	47,921	47,983	1	N/A	N/A	N/A
Total/Weighted Average	47,983	47,982	1	N/A	N/A	N/A

Total/Weighted Average	289,379	333,175	4	N/A	N/A	N/A
September 30, 2008						
Floating rate						
Mortgage loans	542,110	542,110	16	6.26%	6.32%	2.9
Subordinate mortgage interests	537,465	535,700	27	6.75%	6.79%	2.9
Mezzanine loans	851,259	797,740	27	7.33%	7.38%	3.3
Total/Weighted Average	1,930,834	1,875,550	70	6.87%	6.91%	3.1
Fixed rate						
Mortgage loans	—	—	—	—	—	—
Subordinate mortgage interests	29,717	29,095	2	7.91%	8.07%	23.7
Mezzanine loans	140,801	139,763	8	7.81%	7.86%	5.2
Total/Weighted Average	170,518	168,858	10	7.83%	7.90%	8.4
Total/Weighted Average - September 30, 2008	$ 2,101,352	$ 2,044,408	80	6.95%	6.99%	3.5

(1) Calculations based on LIBOR of 3.93% as of September 30, 2008 and LIBOR of 4.60% as of December 31, 2007.

(2) Represents the maturity of the investment assuming all extension options are executed.

(3) During the first quarter of 2008, one subordinate mortgage interest with a book value of $12.4 million switched from a fixed rate loan to a floating rate.

(4) Includes additional fundings on prior period originations. The figures shown in “Number of Investments” represent the actual number of originations during the period.

(5) Includes full repayments, sales, partial repayments and the impact of premium and discount amortization and reserves/losses, if any. The figures shown in “Number of Investments” represent only the full repayments/sales, if any.

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Capital Trust, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
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The tables below detail the property type and geographic distribution of the properties securing our loans receivable at September 30, 2008 (in thousands).

Property Type	Book Value		Percentage
Office	$	768,281	38%
Hotel		688,134	34%
Healthcare		147,566	7%
Multi-Family		124,210	6%
Condominium		111,401	5%
Retail		68,982	3%
Mixed Use		12,450	1%
Industrial		4,658	0%
Other		118,726	6%
Total	$	2,044,408	100%

Geographic Location	Book Value		Percentage
Various	$	748,838	36%
North East		565,269	28%
West		209,749	10%
South East		194,300	9%
South West		183,775	9%
North West		81,456	4%
Mid West		6,089	1%
Other		54,932	3%
Total	$	2,044,408	100%

Quarterly, management reevaluates the reserve for possible credit losses based upon our current portfolio of loans. Each loan in our portfolio is evaluated using our loan risk rating system which considers loan-to-value, debt yield, cash flow stability, exit plan, loan sponsorship, loan structure and other factors necessary to assess the likelihood of delinquency or default. If we believe that there is a potential for delinquency or default, a downside analysis is prepared to estimate the value of the collateral underlying our loan, and this potential loss is multiplied by the default likelihood.

At quarter end, a $5.5 million subordinate mortgage loan secured by a multifamily property was classified as non performing. Although the loan continues to pay interest, the borrower failed to meet certain conditions required to exercise an option to extend the maturity date. We did not record a provision for loan loss against this loan due to our expectation that we will have a full recovery. As of September 30, 2008, including the aforementioned loan, we had three loans with aggregate net book balances of $17.3 million ($67.3 million gross book value, net of $50 million of reserves) that were classified as non performing. The two pre-existing non performing loans are: (i) a $50 million mezzanine loan secured by a portfolio of office properties that matured during the first quarter of 2008 and was extended for one year. Management made the decision in the second quarter of 2008 to record a $50 million reserve against the asset based upon conclusions reached with respect to the probability of recovery on the loan; and (ii) an $11.8 million parri passu participation in a first mortgage loan secured by a multifamily property that ceased making payments in the first quarter of 2008. Subsequent to September 30, 2008, we foreclosed on the collateral. We have not recorded a provision for loan loss against this investment given our expectation for a full recovery. We did not accrue interest on the two pre-existing non performing loans in the third quarter.

During the second quarter, a $10 million second mortgage loan secured by land, against which we had previously (during the fourth quarter of 2007) recorded a $4 million reserve, was deemed unrecoverable and we wrote off the entire $10 million and reversed the pre-existing reserve. Simultaneously, $6 million of non recourse financing on the asset was forgiven by the lender.

Capital Trust, Inc. and Subsidiaries
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The following is a reconciliation of the provision for loan losses for the nine months ended September 30, 2008 (in thousands):

Balance at December 31, 2007	$	4,000
Provision for loan losses		56,000
Realized (losses) gains		(10,000)
Balance at September 30, 2008	$	50,000

In some cases our loan originations are not fully funded at closing, creating an obligation for us to make future fundings, which we refer to as Unfunded Loan Commitments. Typically, Unfunded Loan Commitments are part of construction and transitional loans. At September 30, 2008, our ten Unfunded Loan Commitments totaled $73.9 million and, net of in place financing commitments from our lenders, our net Unfunded Loan Commitments were $21.3 million.

In connection with the loan portfolio, at September 30, 2008, we have deferred origination fees, net of direct costs of $1.3 million which are being amortized into income over the life of the loans.

At September 30, 2008, we had $7,000 included in deposits and other receivables which represented a partial repayment that was paid prior to September 30, the proceeds of which had not been remitted to us by our servicers at quarter end.

5. Total Return Swaps

Total return swaps are derivative contracts in which one party agrees to make payments that replicate the total return of a defined underlying asset, typically in return for another party agreeing to bear the risk of performance of the defined underlying asset. Under total return swaps, we bear the risk of performance of the underlying asset and receive payments from our counterparty as compensation. In effect, these total return swaps allow us to receive the leveraged economic benefits of asset ownership without our acquiring, or our counterparty selling, the actual underlying asset. Our total return swaps reference commercial real estate loans and contain a put provision whereby our counterparty has the right to require us to buy the entire reference loan at its par value under certain reference loan performance scenarios. The put obligation imbedded in these arrangements constitutes a recourse obligation for us to perform under the terms of the contract.

Activity relating to our total return swaps for the nine months ended September 30, 2008 was as follows (in thousands):

	Fair Market Value (Book Value)	Cash Collateral	Reference/Loan Participation	Number of Investments	Weighted Average Yield	Weighted Average Maturity (Years)
December 31, 2007	—	—	$20,000	1	—	—
Originations- Six Months	—	—	—	—	—	—
Repayments- Six Months	—	—	20,000	1	—	—
September 30, 2008	$ —	$ —	$ —	—	—	—

The total return swaps are treated as non-hedge derivatives for accounting purposes and, as such, changes in their market value are recorded through the consolidated statements of income. As of September 30, 2008, the reference/loan participation was satisfied.

6. Equity Investment in Unconsolidated Subsidiaries

Our equity investments in unconsolidated subsidiaries consist primarily of our co-investments in investment management vehicles that we sponsor and manage. At September 30, 2008, we had co-investments in two such vehicles, Fund III and CTOPI. In addition to our co-investments, we record capitalized costs associated with these vehicles in equity investments in unconsolidated subsidiaries.

Capital Trust, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
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Activity relating to our equity investment in unconsolidated subsidiaries for the nine months ended September 30, 2008 was as follows (in thousands):

	Fund III	CTOPI	Other and Capitalized Costs	Total
Equity Investment				
Beginning balance	$ 923	$ (60)	$ 35	$ 898
Equity investment	—	3,473	—	3,473
Loss from equity investments	(306)	(214)	(29)	(549)
Ending balance	$ 617	$ 3,199	$ 6	$ 3,822
Capitalized Costs				
Beginning balance	$ 79	$ —	$ —	$ 79
Amortization of capitalized costs	(79)	—	—	(79)
Ending balance	$ —	$ —	$ —	$ —
Total Balance	$ 617	$ 3,199	$ 6	$ 3,822

In accordance with the management agreements with Fund III and CTOPI, CTIMCO may earn incentive compensation when certain returns are achieved for the shareholders/partners of Fund III and CTOPI, which will be accrued if and when earned.

7. Debt

At September 30, 2008 and December 31, 2007, we had $2.2 billion and $2.3 billion of total debt outstanding, respectively. The balances of each category of debt and their respective coupons and all-in effective costs, including the amortization of fees and expenses were as follows (in thousands):

	September 30, 2008				December 31, 2007			
	Face Value	Book Value	Coupon (1)	All-In Cost	Face Value	Book Value	Coupon (1)	All-In Cost
Repurchase obligations and secured debt	$ 816,208	$ 816,208	5.20%	5.46%	$ 911,857	$ 911,857	5.56%	5.80%
Collateralized debt obligations								
CDO I (Floating)	252,214	252,214	4.55%	5.01%	252,778	252,778	5.22%	5.67%
CDO II (Floating)	298,913	298,913	4.42%	4.65%	298,913	298,913	5.09%	5.32%
CDO III (Fixed)	256,252	257,864	5.22%	5.37%	259,803	261,654	5.22%	5.37%

CDO IV (Floating)(2)	349,796	349,796	4.40%	4.51%	378,954	378,954	5.04%	5.11%
Total CDOs	1,157,175	1,158,787	4.62%	4.85%	1,190,448	1,192,299	5.12%	5.34%
Senior unsecured credit facility	100,000	100,000	5.68%	5.96%	75,000	75,000	6.10%	6.40%
Junior subordinated debentures	128,875	128,875	7.20%	7.30%	128,875	128,875	7.20%	7.30%
Total/Weighted Average	$ 2,202,258	$ 2,203,870	5.03%	5.27%	$ 2,306,180	$ 2,308,031	5.45%	5.66%

(1) Calculations based on LIBOR of 3.93% as of September 30, 2008 and LIBOR of 4.60% as of December 31, 2007.
(2) Comprised of $336.2 million of floating rate notes sold and $13.6 million of fixed rate notes sold.

Capital Trust, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
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Repurchase Obligations and Secured Debt
Our total borrowings at September 30, 2008 under master repurchase agreements, asset specific arrangements and our loan and security agreement were $816.2 million, and we had the ability to borrow an additional $42.2 million without pledging additional collateral. Loans and CMBS with a carrying value of $1.3 billion are pledged as collateral for our repurchase agreements.

In April 2008, we terminated the $6 million loan specific repurchase agreement with Lehman Brothers related to the SunCal loan eliminating our obligation thereunder. According to the termination agreement, Lehman Brothers retained possession of the loan and we extinguished the debt for no further consideration.

In May 2008, we entered into a new loan and security agreement with Lehman Brothers. The agreement provides for an $18.0 million loan to us with a maturity date in September 2013. The loan is designed to finance an individual asset on a recourse basis at a cash cost of LIBOR plus 1.50%.

In June 2008, we amended our master repurchase agreements with the former Bear Stearns entities by extending the termination date of each obligation to October 2008, making them concurrent with the existing termination date under our master repurchase agreement with JPMorgan.

In June 2008, we terminated our master repurchase agreement with Bank of America, which was originally designed to finance on a recourse basis assets designated for our second CDO. We had no obligations outstanding under the agreement at the time of termination and the termination eliminated the payment of unused fees associated with the line.

In July 2008, we extended the availability period under our $250 million master repurchase agreement with Citigroup to July 28, 2009. As part of the extension agreement, the repurchase dates for certain outstanding borrowings were extended to July 29, 2010 with the remainder retaining their October 11, 2011 final maturities.

In July 2008, we extended the purchase period of our $300 million master repurchase agreement with Morgan Stanley to July 29, 2009. We also terminated an un-utilized $50 million master repurchase facility with Morgan Stanley which was originally designed to warehouse finance CDO eligible assets.

On October 24, 2008, we extended $355 million of master repurchase agreements with JP Morgan (and the legacy Bear Stearns subsidiaries) to October 23, 2010. The weighted average advance rate under the agreements is 79% and pricing is LIBOR plus 1.49% on a blended basis. In connection with the extension, we eliminated the excess availability under these agreements and agreed to reduce the outstanding borrowings by $30 million in return for cushion from future margin calls.

Collateralized Debt Obligations
At September 30, 2008, we had CDOs outstanding from four separate issuances with a total face value of $1.2 billion. Our CDOs are financing vehicles for our assets and, as such, are consolidated on our balance sheet representing the amortized sales price of the securities we sold to third parties. Our one reinvesting CDO provides us with $298.9 million of debt financing at a cash cost of LIBOR plus 0.49% (4.42% at September 30, 2008) and an all-in effective interest rate (including the amortization of issuance costs) of LIBOR plus 0.73% (4.66% at September 30, 2008). Our three static CDOs provide us with $859.9 million of financing with a cash cost of 4.69% and an all-in effective interest rate of 4.91% at September 30, 2008. On a combined basis, our CDOs provide us with $1.2 billion of non-recourse, non-mark-to-market, index matched financing at a weighted average cash cost of 0.53% over the

applicable indices (4.62% at September 30, 2008) and a weighted average all-in cost of 0.76% over the applicable indices (4.85% at September 30, 2008). During the quarter, we received four downgrades to classes of our third CDO, CT CDO III.

Senior Unsecured Credit Facility

In March 2007, we closed a $50.0 million senior unsecured revolving credit facility with WestLB AG, which was amended in September 2007 to increase the size to $100.0 million and add new lenders to the syndicate. In March 2008, we exercised our term-out option under the agreement, extending the maturity date of the $100 million principal balance outstanding to March 2009 as a non revolving term loan. The loan bears interest at a cost of LIBOR plus 1.75% (LIBOR plus 2.03% on an all-in basis).

Junior Subordinated Debentures

At September 30, 2008, we had a total of $128.9 million of junior subordinated debentures outstanding (securing $125 million of trust preferred securities sold to third parties). Junior subordinated debentures are comprised of two issuances of debentures, $77 million of debentures (securing $75 million of trust preferred securities) issued in March 2007 and $52 million of debentures (securing $50 million of trust preferred securities) issued in 2006. On a combined basis the securities provide us with $125 million of financing at a cash cost of 7.20% and an all-in effective rate of 7.30%.

Capital Trust, Inc. and Subsidiaries
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Our interests in the two issuing entities, CT Preferred Trust I and CT Preferred Trust II, are accounted for using the equity method and the assets and liabilities are not consolidated into our financial statements due to our determination that CT Preferred Trust I and CT Preferred Trust II are variable interest entities under FIN 46R and that we are not the primary beneficiary of the entities. Interest on the junior subordinated debentures is included in interest and related expenses on our consolidated statements of income while the junior subordinated debentures are presented as a separate item in our consolidated balance sheet.

8. Participations Sold

Participations sold represent interests in certain loans that we originated and subsequently sold to CT Large Loan 2006, Inc. (a fund that we manage) and third parties. We present these sold interests as both assets and liabilities (in equal amounts) in conformity with GAAP on the basis that these arrangements do not qualify as sales under FAS 140. At September 30, 2008, we had six such participations sold with a total book balance of $337.0 million at a weighted average coupon of LIBOR plus 3.29% (7.22% at September 30, 2008) and a weighted average yield of LIBOR plus 3.30% (7.23% at September 30, 2008).

In 2007, the Company sub-participated a $73 million participation in a loan to CT Large Loan 2006, Inc. The Company recorded the sub-participation as a secured borrowing as it did not meet at least one of the criteria under FAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. In July 2008, the Company and CT Large Loan 2006, Inc. agreed to terminate the sub-participation agreement and release themselves from any further obligation to each other with respect to such sub-participation agreement. As a result of this transaction, loans receivable and participations sold decreased by $73 million during the third quarter of 2008.

The income earned on the loans is recorded as interest income and an identical amount is recorded as interest expense on the consolidated statements of income.

9. Derivative Financial Instruments

To manage interest rate risk, we typically employ interest rate swaps or other arrangements, to convert a portion of our floating rate debt to fixed rate debt in order to index match our assets and liabilities. The net payments due under these swap contracts are recognized as interest expense over the life of the contracts.

The following table summarizes the notional and fair values of our derivative financial instruments as of September 30, 2008. The notional value 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 (in thousands):

Hedge	Type	Notional Value	Interest Rate	Maturity	Fair Value
Swap	Cash Flow Hedge	$ 300,336	5.10%	2015	$ (13,044)
Swap	Cash Flow Hedge	73,683	4.58%	2014	(1,450)
Swap	Cash Flow Hedge	18,509	3.95%	2011	(222)
Swap	Cash Flow Hedge	18,130	5.14%	2014	(1,057)

Swap	Cash Flow Hedge	18,014	4.48%	2016	(501)
Swap	Cash Flow Hedge	16,894	4.83%	2014	(730)
Swap	Cash Flow Hedge	16,377	5.52%	2018	(1,487)
Swap	Cash Flow Hedge	12,310	5.02%	2009	(188)
Swap	Cash Flow Hedge	12,129	5.05%	2016	(584)
Swap	Cash Flow Hedge	7,062	5.11%	2016	(257)
Swap	Cash Flow Hedge	5,104	4.12%	2016	13
Swap	Cash Flow Hedge	3,303	5.45%	2015	(263)
Swap	Cash Flow Hedge	2,861	5.08%	2011	(114)
Swap	Cash Flow Hedge	780	5.31%	2011	(34)
Total/Weighted Average		$ 505,492	4.95%	2015	$ (19,918)

As of September 30, 2008, the derivative financial instruments were reported at their fair value of $13,000 as interest rate hedge assets and $19.9 million as interest rate hedge liabilities. Income and expense associated with these instruments is recorded as interest expense on our consolidated statements of income. The amount of hedge ineffectiveness was not material during any of the periods presented.

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

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10. Earnings Per Share

The following table sets forth the calculation of Basic and Diluted EPS for the nine months ended September 30, 2008 and 2007 (in thousands, except share and per share amounts):

	Nine Months Ended September 30, 2008			Nine Months Ended September 30, 2007		
	Net Loss	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic EPS:						
Net (loss) earnings allocable to common stock	$(6,381)	20,707,262	$(0.31)	$55,727	17,555,724	$3.17
Effect of Dilutive Securities:						
Options outstanding for the purchase of common stock	—	—		—	164,157	
Diluted EPS:						
Net (loss) earnings per share of common stock and assumed conversions	$(6,381)	20,707,262	$(0.31)	$55,727	17,719,881	$3.14

The following table sets forth the calculation of Basic and Diluted EPS for the three months ended September 30, 2008 and 2007 (in thousands, except share and per share amounts):

	Three Months Ended September 30, 2008			Three Months Ended September 30, 2007		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic EPS:						
Net earnings allocable to common stock	$13,667	22,247,042	$0.61	$15,497	17,594,047	$0.88
Effect of Dilutive Securities:						
Options outstanding for the purchase of common stock	—	3,589		—	123,235	
Diluted EPS:						
	$13,667	22,250,631	$0.61	$15,497	17,717,282	$0.87

Net earnings per share of common stock and assumed conversions

11. Income Taxes

We made an election to be taxed as a REIT under Section 856(c) of the Internal Revenue Code of 1986, as amended, commencing with the tax year ended 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 and its subsidiaries. To maintain qualification as a REIT, we must distribute at least 90% of our REIT taxable income to our shareholders and meet certain other requirements. If we fail to qualify as a REIT in any taxable year, we may be subject to federal, state and local income taxes on our taxable income at regular corporate rates. At September 30, 2008, we were in compliance with all REIT requirements.

We did not pay any taxes at the REIT level during the periods ended September 30, 2008 or 2007. However, CTIMCO, our investment management subsidiary, is a taxable REIT subsidiary and subject to taxes on its earnings. During the period ended September 30, 2008, CTIMCO recorded operating income before income taxes of $1.7 million, which when combined with GAAP to tax differences and changes in valuation allowances, resulted in an income tax benefit of $475,000.

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12. Shareholders' Equity

On January 15, 2008, we issued 53,192 shares of class A common stock under our dividend reinvestment plan. Net proceeds totaled approximately $1.5 million.

On March 4, 2008, we declared a dividend of $0.80 per share of class A common stock applicable to the three-month period ended March 31, 2008, which was paid on April 15, 2008 to shareholders of record on March 31, 2008.

On March 28, 2008, we closed a public offering of 4,000,000 shares of class A common stock. We received net proceeds of approximately $113.0 million. Morgan Stanley & Co. Incorporated acted as the sole underwriter of the offering.

On April 15, 2008, we issued 28,426 shares of class A common stock under our dividend reinvestment plan. Net proceeds totaled approximately $799,000.

In June 2008, we issued 401,577 shares of class A common stock under our direct stock purchase plan. Net proceeds totaled approximately $10.5 million.

On June 16, 2008, we declared a dividend of $0.80 per share of class A common stock applicable to the three-month period ended June 30, 2008, which was paid on July 16, 2008 to shareholders of record on June 30, 2008.

On September 16, 2008, we declared a dividend of $0.60 per share of class A common stock applicable to the three-month period ended September 30, 2008, which was paid on October 15, 2008 to shareholders of record on September 30, 2008.

On October 15, 2008, we issued 5,368 shares of class A common stock under our dividend reinvestment plan. Net proceeds totaled approximately $47,000.

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13. Employee Benefit and Incentive Plans

We had four benefit plans in effect at September 30, 2008: (1) the second amended and restated 1997 long-term incentive stock plan, or 1997 Employee Plan, (2) the amended and restated 1997 non-employee director stock plan, or 1997 Director Plan, (3) the amended and restated 2004 long-term incentive plan, or 2004 Plan, and (4) the 2007 long-term incentive plan, or 2007 Plan. The 1997 plans expired in 2007 and no new awards may be issued under them and no further grants will be made under the 2004 Plan. Under the 2007 Plan, a maximum of 700,000 shares of class A common stock may be issued. At September 30, 2008, there were 606,156 shares available under the 2007 Plan.

Activity under these four plans for the nine months ended September 30, 2008 is summarized in the table below in share and share equivalents:

Benefit Type	1997 Employee Plan	1997 Director Plan	2004 Plan	2007 Plan	Total
Options(1)					
Beginning Balance	223,811	16,667	—	—	240,478
Expired	(53,334)	(16,667)	—	—	(70,001)
Ending Balance	170,477	—	—	—	170,477
Restricted Stock(2)					
Beginning Balance	—	—	423,931	—	423,931
Granted	—	—	—	44,550	44,550
Vested	—	—	(108,224)	—	(108,224)
Forfeited	—	—	(414)	—	(414)
Ending Balance	—	—	315,293	44,550	359,843
Stock Units(3)					
Beginning Balance	—	80,017	—	14,570	94,587
Granted	—	—	—	71,797	71,797
Ending Balance	—	80,017	—	86,367	166,384
Total Outstanding Shares	170,477	80,017	315,293	130,917	696,704

(1) All options are fully vested as of September 30, 2008.
(2) Comprised of both performance based awards that vest upon the attainment of certain common equity return thresholds and time based awards that vest based upon an employee's continued employment on 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. Under the terms of certain deferral agreements,

certain shares of restricted stock converted to deferred stock units upon their initial vesting.

Capital Trust, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
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The following table summarizes the outstanding options as of September 30, 2008:

Exercise Price per Share	Options Outstanding		Weighted Average Exercise Price per Share		Weighted Average Remaining Life	
	1997 Employee Plan	1997 Director Plan	1997 Employee Plan	1997 Director Plan	1997 Employee Plan	1997 Director Plan
$10.00 - $15.00	43,530	—	$13.41	$ —	2.26	—
$15.00 - $20.00	126,947	—	16.38	—	2.77	—
Total/Weighted Average	170,477	—	$15.62	$ —	2.64	—

In addition to the equity interests detailed above, we have granted percentage interests in the incentive compensation received by us from the private equity funds we manage. At September 30, 2008, we had granted, net of forfeitures, 43% of the Fund III incentive compensation received by us.

A summary of the unvested restricted shares as of and for the nine month period ended September 30, 2008 was as follows:

	Restricted Shares	
	Shares	Grant Date Fair Value
Unvested at January 1, 2008	423,931	$ 30.96
Granted	44,550	27.44
Vested	(108,224)	28.96
Forfeited	(414)	51.25
Unvested at September 30, 2008	359,843	$ 30.53

A summary of the unvested restricted shares as of and for the nine month period ended September 30, 2007 was as follows:

	Restricted Shares	
	Shares	Grant Date Fair Value
Unvested at January 1, 2007	480,967	$ 29.56
Granted	23,015	51.25
Vested	(80,051)	28.38
Forfeited	—	—
Unvested at September 30, 2007	423,931	$ 30.96

The total fair value of restricted shares which vested during the nine month periods ended September 30, 2008 and 2007 was $2.1 million and $3.3 million, respectively.

14. Supplemental Disclosures for Consolidated Statements of Cash Flows

Interest paid on our outstanding debt during the nine months ended September 30, 2008 and 2007 was $84.5 million and $100.9 million, respectively, which excludes non-cash items. Income taxes recovered by us during the nine

months ended September 30, 2008 and 2007 were $677,000 and $1.5 million, respectively. Non-cash investing and financing activity during the nine months ended September 30, 2008 resulted from our investments in loans where we sold participations.

At September 30, 2008, we had $544,000 included in deposits and other receivables which represented loans and CMBS that had partial repayments on or prior to September 30, 2008, the proceeds of which had not been remitted to us by our servicers. The reclassification from loans receivable and CMBS to deposits and other receivables resulted in a non-cash investing activity.

Capital Trust, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
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15. Segment Reporting

We have 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 all activities related to direct investment activities (including direct investments in Funds) and the financing thereof.

The "Investment Management" segment includes all activities related to investment management services provided to us and third party funds under management and includes our taxable REIT subsidiary, CTIMCO and its subsidiaries.

The following table details each segment's contribution to our overall profitability and the identified assets attributable to each such segment for the nine months ended, and as of, September 30, 2008, respectively (in thousands):

	Balance Sheet Investment	Investment Management	Inter-Segment Activities	Total
Income from loans and other investments:				
Interest and related income	$ 149,725	$ —	$ —	$ 149,725
Less: Interest and related expenses	98,918	—	—	98,918
Income from loans and other investments, net	50,807	—	—	50,807
Other revenues:				
Management fees	—	15,137	(5,310)	9,827
Servicing fees	—	337	—	337
Other interest income	1,391	24	(108)	1,307
Total other revenues	1,391	15,498	(5,418)	11,471
Other expenses				
General and administrative	8,517	15,612	(5,310)	18,819
Other interest expense	—	108	(108)	—
Depreciation and amortization	—	140	—	140
Total other expenses	8,517	15,860	(5,418)	18,959
Gain on extinguishment of debt	6,000	—	—	6,000
Provision for losses on loan impairment	(56,000)	—	—	(56,000)
Gain on sale of investments	374	—	—	374
Loss from equity investments	(515)	(34)	—	(549)
Loss before income taxes	(6,460)	(396)	—	(6,856)
Benefit for income taxes	—	475	—	475

Net (loss) income allocable to class A common stock	$	(6,460)	$	79	$	—	$	(6,381)
Total assets	$	3,060,233	$	10,521	$	(3,035)	$	3,067,719

All revenues were generated from external sources within the United States. The "Investment Management" segment earned fees of $5.3 million for management of the "Balance Sheet Investment" segment and was charged $108,000 for inter-segment interest for the nine months ended September 30, 2008 which is reflected as offsetting adjustments to other interest income and other interest expense in the inter-segment activities column in the table above.

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

The following table details each segment's contribution to our overall profitability and the identified assets attributable to each such segment for the nine months ended, and as of, September 30, 2007, respectively (in thousands):

	Balance Sheet Investment	Investment Management	Inter-Segment Activities	Total
Income from loans and other investments:				
Interest and related income	$ 189,801	$ 1,158	$ —	$ 190,959
Less: Interest and related expenses	120,008	—	—	120,008
Income from loans and other investments, net	69,793	1,158	—	70,951
Other revenues:				
Management and advisory fees	—	11,787	(9,341)	2,446
Incentive management fees	—	962	—	962
Special servicing fees	—	285	—	285
Other interest income	1,095	54	(395)	754
Total other revenues	1,095	13,088	(9,736)	4,447
Other expenses				
General and administrative	12,812	18,012	(9,341)	21,483
Other interest expense	—	395	(395)	—
Depreciation and amortization	1,264	186	—	1,450
Total other expenses	14,076	18,593	(9,736)	22,933
Recovery of losses on loan impairment	4,000	—	—	4,000
Loss from equity investments	(508)	(534)	—	(1,042)
Income (loss) before income taxes	60,304	(4,881)	—	55,423
Benefit for income taxes	254	50	—	304
Net income (loss) allocable to class A common stock	$ 60,558	$ (4,831)	$ —	$ 55,727
Total assets	$ 3,059,131	$ 52,349	$ (11,933)	$ 3,099,547

All revenues, except for $4.3 million included in interest and related income, were generated from external sources within the United States. The “Investment Management” segment earned fees of $9.3 million for management of the “Balance Sheet Investment” segment and was charged $395,000 for inter-segment interest for the nine months ended September 30, 2007 which is reflected as offsetting adjustments to other interest income and other interest expense in the inter-segment activities column in the table above.

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

The following table details each segment's contribution to our overall profitability and the identified assets attributable to each such segment for the three months ended, and as of, September 30, 2008, respectively (in thousands):

	Balance Sheet Investment	Investment Management	Inter-Segment Activities	Total
Income from loans and other investments:				
Interest and related income	$ 44,141	$ —	$ —	$ 44,141
Less: Interest and related expenses	28,175	—	—	28,175
Income from loans and other investments, net	15,966	—	—	15,966
Other revenues:				
Management fees	—	5,303	(1,826)	3,477
Servicing fees	—	116	—	116
Other interest income	505	9	(31)	483
Total other revenues	505	5,428	(1,857)	4,076
Other expenses				
General and administrative	2,808	4,729	(1,826)	5,711
Other interest expense	—	31	(31)	—
Depreciation and amortization	—	13	—	13
Total other expenses	2,808	4,773	(1,857)	5,724
Loss from equity investments	(589)	(36)	—	(625)
Income before income taxes	13,074	619	—	13,693
Provision for income taxes	—	26	—	26
Net income allocable to class A common stock	$ 13,074	$ 593	$ —	$ 13,667
Total assets	$ 3,060,233	$ 10,521	$ (3,035)	$ 3,067,719

All revenues were generated from external sources within the United States. The “Investment Management” segment earned fees of $1.8 million for management of the “Balance Sheet Investment” segment and was charged $31,000 for inter-segment interest for the three months ended September 30, 2008 which is reflected as offsetting adjustments to other revenues and other expenses in the inter-segment activities column in the table above.

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

The following table details each segment's contribution to our overall profitability and the identified assets attributable to each such segment for the three months ended, and as of, September 30, 2007, respectively (in thousands):

	Balance Sheet Investment	Investment Management	Inter-Segment Activities	Total
Income from loans and other investments:				
Interest and related income	$ 63,554	$ 1,158	$ —	$ 64,712
Less: Interest and related expenses	43,716	—	—	43,716
Income from loans and other investments, net	19,838	1,158	—	20,996
Other revenues:				
Management fees	—	2,663	(1,548)	1,115
Servicing fees	—	173	—	173
Other interest income	304	8	(139)	173
Total other revenues	304	2,844	(1,687)	1,461
Other expenses				
General and administrative	2,619	5,769	(1,548)	6,840
Other interest expense	—	139	(139)	—
Depreciation and amortization	—	61	—	61
Total other expenses	2,619	5,969	(1,687)	6,901
Loss from equity investments	(109)	—	—	(109)
Income (loss) before income taxes	17,414	(1,967)	—	15,447
Benefit for income taxes	—	50	—	50
Net income (loss) allocable to class A common stock	$ 17,414	$ (1,917)	$ —	$ 15,497
Total assets	$ 3,059,131	$ 52,349	$ (11,933)	$ 3,099,547

All revenues were generated from external sources within the United States. The “Investment Management” segment earned fees of $1.5 million for management of the “Balance Sheet Investment” segment and $139,000 for inter-segment interest for the three months ended September 30, 2007.

16. Related Party Transactions

On November 9, 2006, we commenced our CT High Grade MezzanineSM investment management initiative and entered into three separate account agreements with affiliates of W. R. Berkley Corporation, or WRBC, for an aggregate of $250 million. On July 25, 2007, we amended the agreements to increase the aggregate commitment of the WRBC affiliates to $350 million. Pursuant to these agreements, we invest, on a discretionary basis, capital on behalf of WRBC in low risk 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. Each separate account has a one-year investment period with extension provisions. CTIMCO earns a management fee equal to 0.25% per annum on invested assets.

On April 27, 2007, we purchased a $20 million subordinated interest in a mortgage from a dealer. Proceeds from the mortgage financing provide for the construction and leasing of an office building in Washington, D.C. that is owned by a joint venture. WRBC has a substantial economic interest in one of the joint venture partners.

Capital Trust, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)
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WRBC beneficially owned approximately 17.4% of our outstanding class A common stock as of September 30, 2008, and a member of our board of directors is an employee of WRBC.

On March 28, 2008 we announced the closing of our public offering of 4,000,000 shares of our class A common stock. We received net proceeds of approximately $113 million. Morgan Stanley & Co. Incorporated acted as the sole underwriter of the offering. Affiliates of Samuel Zell, our chairman of the board, and WRBC purchased a number of shares in the offering sufficient to maintain their pro rata ownership interests in the company.

During the third quarter of 2008, CTOPI purchased $18.2 million face value of our CDO debt in the open market for $9.8 million.

Affiliates of Samuel Zell own interests in Fund III and CTOPI, two investment management vehicles that we manage and within which we also have ownership interests.

We believe that the terms of the foregoing transactions are no less favorable than could be obtained by us from unrelated parties on an arm’s length basis.

17. Subsequent Events

On October 3, 2008, the Company and its co-lender foreclosed on a loan with an outstanding balance of $11.8 million and secured by a multifamily property, and took title to the collateral securing the original loan.

On October 24, 2008, we extended $355 million of master repurchase agreements with JP Morgan (and the legacy Bear Stearns subsidiaries) to October 23, 2010. The weighted average advance rate under the agreements is 79% and pricing is LIBOR plus 1.49% on a blended basis. In connection with the extension, we eliminated the excess availability under these agreements and agreed to reduce the outstanding borrowings by $30 million in return for cushion from future margin calls.

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.

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. The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Our accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements. Actual results could differ from these estimates. Other than the adoption of FAS 157, 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 28, 2008.

Introduction

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

Current Market Conditions

During the first nine months of 2008, the global capital markets continued to experience tremendous volatility and a wide-ranging lack of liquidity. The impact of the global credit crisis on our sector has been acute. Transaction volume has declined significantly, credit spreads for all forms of mortgage debt have reached all-time highs, issuance levels of commercial mortgage backed securities, or CMBS, have ground to a halt, and other forms of financing from the debt markets have been dramatically curtailed. Financial institutions still hold significant inventories of unsold loans and CMBS, creating a further overhang on the markets. We believe that the continuing dislocation in the debt capital markets, coupled with a slowdown in the U.S. economy, has already reduced property valuations and will ultimately impact real estate fundamentals. These developments can impact the performance of our existing portfolio of assets. Furthermore, the volatility in the capital markets has caused stress to all financial institutions and, our business is dependent upon these counterparties for, among other things, financing and interest rate derivatives.

In response to these conditions, we have continued our cautious approach, choosing to maintain our liquidity and exercise patience until the markets have settled. We believe that ultimately this environment will create new opportunities in our markets for investors with credit and financial structuring expertise. We believe that our balance sheet and investment management businesses will benefit from a market environment where assets are priced and structured more conservatively and there is less competition among investors.

Originations

We allocate 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. The combination of balance sheet and investment management capabilities allows us to maximize the scope of opportunities upon which we can capitalize. Notwithstanding the combined capabilities of our platform, we decided to continue a defensive posture in light of the continued volatility. The table below summarizes our gross originations and the allocation of opportunities between our balance sheet and the investment management business for the nine month period ended September 30, 2008 and the year ended December 31, 2007.

Gross Originations(1) (2) (in millions)	Nine months ended September 30, 2008	Year ended December 31, 2007
Balance sheet	$48	$1,454
Investment management	404	1,011
Total originations	$452	$2,465

(1) Includes total commitments both funded and unfunded.

(2) Includes $0 and $315 million of participations sold recorded on our balance sheet relating to participations that we sold to CT Large Loan 2006, Inc. for the nine months ended September 30, 2008 and the year ended December 31, 2007, respectively. We have included these originations in balance sheet originations and not in investment management originations in order to avoid double counting.

Our balance sheet investments include CMBS and commercial real estate debt and related instruments, or Loans, which we collectively refer to as our Interest Earning Assets. Originations of Interest Earning Assets for our balance sheet for the nine months ended September 30, 2008 and the year ended December 31, 2007 are detailed in the table below:

Balance Sheet Originations (in millions)	Nine months ended September 30, 2008			Year ended December 31, 2007		
	Originations(1)	Yield(2)	LTV / Rating(3)	Originations(1)	Yield(2)	LTV / Rating(3)
CMBS	$1	45.02%	BB+	$111	8.92%	BB-
Loans(4)	47	7.10	55.8%	1,343	7.67	64.4%
Total / Weighted Average	$48	7.62%		$1,454	7.77%	

(1) Includes total commitments both funded and unfunded.
(2) Yield on floating rate originations assumes LIBOR at September 30, 2008 and December 31, 2007, of 3.93% and 4.60%, respectively.
(3) Weighted average ratings are based on the lowest rating published by Fitch Ratings, Standard & Poor's or Moody's Investors Service for each security and exclude $3.0 million face value ($1.0 million book value) at September 30, 2008 and $36.4 million face value ($36.4 million book value) at December 31, 2007 of unrated equity investments in collateralized debt obligations. Loan to Value (LTV) is based on third party appraisals received by us when each loan is originated.
(4) Includes $0 and $315 million of participations sold recorded on our balance sheet relating to participations that we sold to CT Large Loan 2006, Inc. for the nine months ended September 30, 2008 and the year ended December 31, 2007, respectively. We have included these originations in balance sheet originations and not in investment management originations in order to avoid double counting.

The table below shows our Interest Earning Assets at September 30, 2008 and December 31, 2007. In any period, the ending balance of Interest Earning Assets will be impacted not only by new balance sheet originations, but also by repayments, advances, sales and losses, if any.

Interest Earning Assets (in millions)	September 30, 2008			December 31, 2007		
	Book Value	Yield(1)	LTV / Rating(2)	Book Value	Yield(1)	LTV / Rating(2)
CMBS	$851	7.17%	BB	$877	7.35%	BB+
Loans	2,044	6.99	64.9%	2,258	7.80	66.5%
Total / Weighted Average	$2,895	7.04%		$3,135	7.67%	

(1) Yield on floating rate Interest Earning Assets assumes LIBOR at September 30, 2008 and December 31, 2007, of 3.93% and 4.60%, 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 and exclude $37.9 million face value ($37.5 million book value) of unrated equity investments in collateralized debt obligations. LTV is based on third party appraisals received by us when each loan is originated.

In some cases our loan originations are not fully funded at closing, creating an obligation for us to make future fundings, which we refer to as Unfunded Loan Commitments. Typically, Unfunded Loan Commitments are part of construction and transitional loans. At September 30, 2008, our ten Unfunded Loan Commitments were $74 million and, net of in place financing commitments from our lenders, our net Unfunded Loan Commitments were $21 million.

In addition to our investments in Interest Earning Assets, we have two equity investments in unconsolidated subsidiaries as of September 30, 2008. The first is an equity co-investment in a private equity fund that we manage, CT Mezzanine Partners III, Inc., or Fund III. The second is an equity co-investment in another private equity fund formed in 2007 that we manage, CT Opportunity Partners I, LP, or CTOPI.

The table below details the carrying value of those investments, as well as their capitalized costs.

Equity Investments (in thousands)	September 30, 2008	December 31, 2007
Fund III	$617	$923
CTOPI	3,199	(60)
Capitalized costs/other	6	114
Total	$3,822	$977

Asset Management
We actively manage our balance sheet portfolio and the assets held by our investment management vehicles. While our investments are primarily in the form of debt, which generally means that we have limited influence over the operations of the collateral securing our portfolios, we are aggressive in exercising the rights afforded to us as a lender. These rights can include collateral level budget approvals, lease approvals, loan covenant enforcement, escrow/reserve management/collection, collateral release approvals and other rights that we may negotiate. The table below details balance sheet Interest Earning Assets loss experience for the nine months ended September 30, 2008 and the twelve months ended December 31, 2007, and the percentage of non-performing and/or impaired investments at September 30, 2008 and December 31, 2007.

Portfolio Performance (in millions)	September 30, 2008	December 31, 2007
Interest Earning Assets	$2,895	$3,135
Losses		
Principal Balance	$10	$0
Percentage of Interest Earnings Assets	0.3%	0.0%
Non-performing/impaired loans		
Principal Balance, net	$17(1)	$6(2)
Percentage of Interest Earnings Assets	0.61%	0.2%

(1) At September 30, 2008, includes one first mortgage loan with a principal balance of $12 million and a subordinate mortgage loan with a principal balance of $5 million against which we have no reserves and a $50 million mezzanine loan against which we reserved $50 million in the second quarter. The principal balance gross of reserves was $67 million or 2.3% of Interest Earning Assets.

(2) At December 31, 2007, includes one second mortgage loan with a principal balance of $10 million against which we had reserved $4 million. The principal balance gross of reserves was $10 million or 0.3% of Interest Earning Assets.

At quarter end, a $5.5 million subordinate mortgage loan secured by a multifamily property was classified as non performing. Although the loan continues to pay interest, the borrower failed to meet certain conditions required to exercise an option to extend the maturity date. We did not record a provision for loan loss against this loan due to our expectation that we will have a full recovery. As of September 30, 2008, including the aforementioned loan, we had three loans with aggregate net book balances of $17.3 million ($67.3 million gross book value, net of $50.0 million of reserves) that were classified as non performing. The two pre-existing non performing loans are: (i) a $50.0 million mezzanine loan secured by a portfolio of office properties that matured during the first quarter of 2008 and was extended for one year. Management made the decision in the second quarter of 2008 to record a $50.0 million reserve against the asset based upon conclusions reached with respect to the probability of recovery on the loan; and (ii) an $11.8 million parri passu participation in a first mortgage loan secured by a multifamily property that ceased making payments in the first quarter of 2008. Subsequent to September 30, 2008, we foreclosed on the collateral. We have not recorded a provision for loan loss against this investment given our expectation for a full recovery. We did not

accrue interest on the two pre-existing non performing loans in the third quarter.

We actively manage our CMBS investments using a combination of quantitative tools and loan/property level analysis in order to monitor the performance of the securities and their collateral versus our original expectations. Securities are analyzed on a monthly basis for delinquency, transfers to special servicing, and changes to the servicer's watchlist population. Realized loan losses are tracked on a monthly basis and compared to our original loss expectations. On a periodic basis, individual loans of concern are also re-underwritten. Updated collateral loss projections are then compared to our original loss expectations to determine how each investment is performing. Based on our review of the portfolio, we concluded that no impairments were warranted in the nine months ended September 30, 2008. At quarter end, there were significant differences between the estimated fair value and the book value of some of our CMBS investments. We believe these differences to be related to the disruption in the capital markets and the general negative bias toward structured financial products and not reflective of a change in cash flow expectations from these securities.

The ratings performance of our CMBS portfolio over the nine months ended September 30, 2008 and the year ended December 31, 2007 is detailed below:

CMBS Rating Activity(1)

	Nine months ended September 30, 2008	Year ended December 31, 2007
Upgrades	7	24
Downgrades	7	3

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

Two trends in asset performance that we foresee for the fourth quarter of 2008 and into 2009 are (i) borrowers faced with maturities will have a more difficult time refinancing their properties in light of the volatility and lack of liquidity in the capital markets, (ii) real estate fundamentals will deteriorate as the U.S. economy continues to slow and (iii) capitalization rates for commercial real estate will continue to increase.

Capitalization

Our balance sheet investment activities are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt sources, which we refer to as Interest Bearing Liabilities, currently include repurchase agreements and secured debt, CDOs, a senior unsecured credit facility, and junior subordinated debentures (which we also refer to as trust preferred securities). Our equity capital is currently comprised entirely of common equity. The table below shows our capitalization mix as of September 30, 2008 and December 31, 2007:

Capital Structure(1)

(in millions)	September 30, 2008	December 31, 2007
Repurchase obligations and secured debt	$816	$912
Collateralized debt obligations	1,159	1,192
Senior unsecured credit facility	100	75
Junior subordinated debentures	129	129
Total Interest Bearing Liabilities	$2,204	$2,308
All-in cost of Debt(2)	5.27%	5.66%
Shareholders' Equity	$478	$408
Ratio of Interest Bearing Liabilities to Shareholders' Equity	4.6:1	5.7:1

(1) Excludes participations sold.
(2) Floating rate liabilities assume LIBOR at September 30, 2008 and December 31, 2007, of 3.93% and 4.60%, respectively.

We use leverage to enhance our returns on equity by attempting to: (i) maximize the differential between the yield of our Interest Earning Assets and the cost of our Interest Bearing Liabilities, and (ii) optimize the amount of leverage employed. The use of leverage, however, adds risk to our business, magnifying our shareholders' exposure to asset level risk by subordinating our equity interests to our debt capital providers. The level of leverage we utilize is based upon what we believe to be the risk associated with our assets, as well as the structure of our liabilities. In general, we will apply greater amounts of leverage to lower risk assets and vice versa. In addition, structural features of our

leverage, such as recourse, collateral mark-to-market provisions and duration, factor into the amounts of leverage we are comfortable applying to our Interest Earning Assets. Our sources of recourse financing generally require financial covenants, including restrictions on corporate guarantees, the maintenance of certain financial ratios (such as specified debt-to-equity and debt service coverage ratios) as well as the maintenance of a minimum net worth.

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A summary of selected structural features of our debt as of September 30, 2008 and December 31, 2007 is detailed in the table below:

Interest Bearing Liabilities	September 30, 2008	December 31, 2007
Weighted average maturity (1)	4.0 yrs.	4.1 yrs.
% Recourse	47.5%	48.1%
% Subject to mark-to-market provisions	37.1%	39.5%

(1) Based upon balances as of September 30, 2008 and December 31, 2007.

Over the past few years, we have used CDOs as one method to finance our business. While we expect to continue to utilize CDOs and other structured products to finance both our balance sheet and our investment management businesses going forward, the current state of the debt capital markets makes it unlikely that, in the near term, we will be able to issue CDO liabilities similar to our existing CDOs. The lack of a CDO or similar structured product market makes us more reliant on other financing options such as our repurchase facilities. Unlike our CDOs, our repurchase facilities are shorter term, mark-to-market, recourse liabilities. Given the additional liquidity risks associated with a portfolio of assets financed with these types of liabilities, we believe that a higher degree of balance sheet liquidity is necessary to manage these liabilities.

Our CDOs are non-recourse, non-mark-to-market, index matched financings that generally carry a lower cost of debt and allow for higher levels of leverage than our other financing sources. During the first nine months of 2008, we did not issue any new CDOs for our balance sheet, however, we continued contributing assets to our previously issued reinvesting CDOs, CDO I with a reinvestment period that expired in July 2008, and CDO II with a reinvestment period that expires in April 2010. Our CDO liabilities as of September 30, 2008 and December 31, 2007 are described below:

Collateralized Debt Obligations (in millions)			September 30, 2008		December 31, 2007	
	Issuance Date	Type	Book Value	All in Cost(1)	Book Value	All in Cost(1)
CDO I(2)	7/20/04	Static	$252	5.01%	$253	5.67%
CDO II (2)	3/15/05	Reinvesting	299	4.65	299	5.32
CDO III	8/04/05	Static	258	5.37	261	5.37
CDO IV(2)	3/15/06	Static	350	4.51	379	5.11
Total			$1,159	4.85%	$1,192	5.34%

(1) Includes amortization of premiums and issuance costs.

(2) Floating rate CDO liabilities assume LIBOR at September 30, 2008 and December 31, 2007, of 3.93% and 4.60%, respectively.

Repurchase obligation and secured loan agreement financings provide us with an important revolving component to our liability structure. Our repurchase agreements provide stand alone financing for certain assets and interim, or warehouse, financing for assets that we plan to contribute to our CDOs. At any point in time, the amounts and the cost of our repurchase and secured loan borrowings are based upon the assets being financed – higher risk assets will attract lower levels of leverage at higher costs and vice versa. The table below summarizes our repurchase agreement liabilities as of September 30, 2008 and December 31, 2007:

Repurchase Agreements ($ in millions)	September 30, 2008	December 31, 2007
Repurchase facility and secured debt amounts	$1,478	$1,600
Counterparties	6	5
Outstanding repurchase borrowings and secured debt	$816	$912
All-in cost	L + 1.53%	L + 1.20%

Our repurchase obligations and secured loan agreements generally include collateral mark-to-market features. The mark-to-market provisions in our repurchase facilities and secured loan agreements are designed to keep our lenders' credit exposure constant as a percentage of the market value of the assets pledged as security to them. As market credit spreads have increased and asset values have declined, the gross amount of leverage available to us has been reduced as our assets have been marked-to-market. The impact to date from these marks to market has been a reduction in our liquidity. In addition, our repurchase agreements are not term matched financings and mature from time to time. In 2008, we have experienced lower advance rates and higher pricing under these agreements as we negotiate renewals and extensions of these liabilities. Furthermore, the volatility in the capital markets has caused stress to all financial institutions and, our business is dependent upon these counterparties for, among other things, financing and interest rate derivatives.

Our total borrowings at September 30, 2008 under master repurchase agreements, asset specific arrangements and our secured loan agreement were $816.2 million, and we had the ability to borrow an additional $42.2 million without pledging additional collateral. Loans and CMBS with a carrying value of $1.3 billion are pledged as collateral for our repurchase agreements.

In April 2008, we terminated the $6 million loan specific repurchase agreement with Lehman Brothers related to the SunCal loan, eliminating our obligation thereunder. According to the termination agreement, Lehman Brothers retained possession of the loan and we extinguished the debt for no further consideration.

In May 2008, we entered into a new loan and security agreement with Lehman Brothers. The agreement provides for an $18.0 million loan to us with a maturity date in September 2013. The loan is designed to finance an individual asset on a recourse basis at a cash cost of LIBOR plus 1.50%.

In June 2008, we amended our master repurchase agreements with the former Bear Stearns entities by extending the termination date of each obligation to October 2008, making them concurrent with the existing termination date under our master repurchase agreement with JPMorgan.

In June 2008, we terminated our master repurchase agreement with Bank of America, which was originally designed to finance on a recourse basis assets designated for our second CDO. We had no obligations outstanding under the agreement at the time of termination and the termination eliminated the payment of unused fees associated with the line.

In July 2008, we extended the availability period under our $250 million master repurchase agreement with Citigroup to July 28, 2009. As part of the extension agreement, the repurchase dates for certain outstanding borrowings were extended to July 29, 2010 with the remainder retaining their October 11, 2011 final maturities.

In July 2008, we extended the purchase period of our $300 million master repurchase agreement with Morgan Stanley to July 29, 2009. We also terminated an un-utilized $50 million master repurchase facility with Morgan Stanley which was originally designed to warehouse finance CDO eligible assets.

On October 24, 2008, we extended $355 million of master repurchase agreements with JP Morgan (and the legacy Bear Stearns subsidiaries) to October 23, 2010. The weighted average advance rate under the agreements is 79% and pricing is LIBOR plus 1.49% on a blended basis. In connection with the extension, we eliminated the excess availability under these agreements and agreed to reduce the outstanding borrowings by $30 million in return for cushion from future margin calls.

In March 2007, we closed a $50.0 million senior unsecured revolving credit facility with WestLB AG, which we amended in September 2007, increasing the size to $100 million and adding new lenders to the syndicate. In March 2008, we exercised our term-out option under the agreement, extending the maturity date of the $100 million principal balance outstanding to March 2009 as a non-revolving term loan. The loan bears interest at a cost of LIBOR plus 1.75% (LIBOR plus 2.03% on an all-in basis).

The most subordinated components of our debt capital structure are junior subordinated debentures that back trust preferred securities issued to third parties. These securities represent long-term, subordinated, unsecured financing and generally carry limited operational covenants. At September 30, 2008, we had issued $129 million of junior subordinated debentures that back $125 million of trust preferred securities sold to third parties in two separate issuances. On a combined basis, the junior subordinated debentures provide us with financing at a cash cost of 7.20% and an all-in effective rate of 7.30%.

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

Shareholders' Equity

	September 30, 2008	December 31, 2007
Book value (in millions)	$478	$408
Shares		
Class A common stock	21,730,288	17,165,528
Restricted stock	359,843	423,931
Stock units	166,384	94,587
Options(1)	5,544	84,743
Total	22,262,059	17,768,789
Book value per share	$21.49	$22.97

(1) Dilutive shares issuable upon the exercise of outstanding options assuming a September 30, 2008 and December 31, 2007 stock price, respectively, and the treasury stock method.

At September 30, 2008, we had 22,090,131 of our class A common stock and restricted stock outstanding.

Other Balance Sheet Items

Participations sold represent participations in loans that we originated and sold to CT Large Loan 2006, Inc. and third parties. We present these sold interests as both assets and liabilities (in equal amounts) in conformity with GAAP on the basis that these arrangements do not qualify as sales under FAS 140. At September 30, 2008, we had six such participations sold with a total book balance of $337 million at a weighted average yield of LIBOR plus 3.30% (7.23% at September 30, 2008). The income earned on the loans is recorded as interest income and an identical amount is recorded as interest expense on the consolidated statements of income.

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

The table below details our interest rate exposure as of September 30, 2008 and December 31, 2007:

Interest Rate Exposure (in millions)	September 30, 2008		December 31, 2007	
Value Exposure to Interest Rates(1)				
Fixed rate assets	$883		$948	
Fixed rate liabilities		(400)		(403)
Interest rate swaps		(505)		(513)
Net fixed rate exposure	$(22	)	$32	
Weighted average maturity (assets)		7.2 yrs		7.4 yrs

Weighted average coupon (assets)		6.90%		7.10%
Cash Flow Exposure to Interest Rates(1)				
Floating rate assets	$2,044		$2,235	
Floating rate debt less cash		(2,007)		(2,280)
Interest rate swaps		505		513
Net floating rate exposure	$542		$468	
Net income impact from 100 bps change in LIBOR	$5.4		$4.7	

(1) All values are in terms of face or notional amounts.

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Investment Management Overview

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

- CTOPI is a multi-investor private equity fund designed to invest in commercial real estate debt and equity, specifically taking advantage of the current dislocation in the commercial real estate capital markets. On July 14, 2008, CTOPI held its final closing with $540 million total equity commitments. We have committed to invest $25 million in the vehicle and entities controlled by our chairman have committed to invest $20 million. The fund's investment period expires in December 2010, and we earn base management fees as the investment manager to CTOPI (1.60% of available equity commitments during the investment period and of invested capital thereafter). In addition, we earn gross incentive management fees of 20% of profits after a 9% preferred return and a 100% return of capital.

- CT High Grade Partners II, LLC held its initial closing in June 2008 with $667 million of commitments from two institutional investors. The fund targets senior debt opportunities in the commercial real estate debt sector and does not employ leverage. We earn a 0.40% management fee on invested capital.

- CT High Grade closed in November 2006, with a single, related party investor committing $250 million. This separate account targets low risk subordinate debt investments and does not utilize leverage and we earn management fees of 0.25% per annum of invested assets. In July 2007, we upsized the account by $100 million to $350 million and extended the investment period to July 2008.

- CT Large Loan closed in May 2006 with total equity commitments of $325 million from eight third party investors. The fund employs leverage and we earn management fees of 0.75% per annum of invested assets (capped at 1.5% on invested equity). The investment period ended in May 2008.

- CTX Fund I, L.P., or CTX Fund, is a single investor fund designed to invest in collateralized debt obligations, or CDOs, sponsored, but not issued, by us. We do not earn fees on the CTX Fund, however, we earn CDO management fees from the CDOs in which the CTX Fund invests. We sponsored one such CDO in 2007, a $500 million CDO secured primarily by credit default swaps referencing CMBS.

- Fund III is a co-sponsored vehicle with a joint venture partner that closed in August of 2003, invested from 2003 to 2005 and is currently liquidating in the ordinary course. We have a co-investment in the fund, earn 100% of base management fees and we split incentive management fees with our partner – our partner receives 37.5% of Fund III incentive management fees.

At September 30, 2008, we managed five private equity funds and one separate account through our wholly-owned, taxable, investment management subsidiary, CT Investment Management Co., LLC, or CTIMCO.

Investment Management Mandates

	Type	Total Equity Commitments ($ in millions)	Co-Investment%	Base Management Fee	Incentive Management Fee Company %	Incentive Management Fee Employee %
Investing:						
CTOPI	Fund	$540	4.63%(1)	1.60% (Equity)	100%(2)(3)	0%(3)
CT High Grade II	Fund	667	0%	0.40% (Assets)	N/A	N/A
CT High Grade	Sep. Acct.	350	0%	0.25% (Assets)	N/A	N/A
Liquidating:						
CT Large Loan	Fund	325	(4)	0.75% (Assets) (5)	N/A	N/A
CTX Fund	Fund	10(6)	(4)	(7)	100%(7)	0%(7)
Fund III	Fund	425	4.71%	1.42% (Equity)	57%(8)	43%(9)

(1) We have committed to invest $25 million in CTOPI.
(2) CTIMCO earns gross incentive management fees of 20% of profits after a 9% preferred return on capital and a 100% return of capital, subject to a catch-up.
(3) We have not allocated any of the CTOPI incentive management fee to employees as of September 30, 2008.
(4) We co-invest on a pari passu, asset by asset basis with CT Large Loan and CTX Fund.
(5) Capped at 1.5% of equity.
(6) In 2008, we reduced the total capital commitment in the CTX Fund to $10 million.
(7) CTIMCO serves as collateral manager of the CDOs in which the CTX Fund invests and CTIMCO earns base and incentive management fees as CDO collateral manager. At September 30, 2008 we manage one such $500 million CDO and earn base management fees of 0.15% of assets and have the potential to earn incentive management fees.
(8) CTIMCO earns gross incentive management fees of 20% of profits after a 10% preferred return on capital and a 100% return of capital, subject to a catch up.
(9) Portions of the Fund III incentive management fees received by us have been allocated to our employees as long-term performance awards.

The table below describes the status of our investment management vehicles as of September 30, 2008 and December 31, 2007.

Investment Management Snapshot (in millions)	September 30, 2008	December 31, 2007
CTOPI		
Assets	$286	$69
Equity commitments(1)	$540	$314
Incentive fees collected	$—	$—
Incentive fees projected(2)	$—	$—
Status(3)	Investing	Investing
CT High Grade II		
Assets	$133	$—
Equity commitments	$667	$—
Status(3)	Investing	N/A
CT High Grade		
Assets	$344	$305
Equity	$344	$305
Status(3)	Investing	Investing
CT Large Loan		
Assets	$251	$323
Equity	$55	$130
Status(4)	Liquidating	Investing
CTX Fund		
Assets(5)	$500	$500
Equity	$8	$7
Status(4)	Liquidating	Investing
Fund III		
Assets	$41	$47
Equity	$10	$15
Incentive fees collected(6)	$5.6	$5.6
Incentive fees projected(2)	$1.9	$2.6
Status(4)	Liquidating	Liquidating

(1) On July 14, 2008, CTOPI held its final closing with $540 million of committed equity.

(2) Assumes assets were sold and liabilities were settled on October 1, 2008 and January 1, 2008, respectively, at the recorded book value, and the fund's equity and income was

distributed for the respective period ends.

(3) CTOPI, CT High Grade II, and CT High Grade investment periods expire in December 2010, June 2009 and July 2008, respectively.

(4) Fund III's investment period ended in June 2005. The CTX Fund's investment period ended February 2008. CT Large Loan's investment period expired May 2008.

(5) Represents the total notional cash exposure to CTX CDO I collateral.

(6) CTIMCO received $5.6 million of incentive fees from Fund III in 2007 of which $372,000 may have to be returned under certain circumstances. Accordingly, we only recorded $5.2 million as revenue for the year ended December 31, 2007.

We expect to continue to grow our investment management business, sponsoring additional investment management vehicles consistent with the strategy of developing mandates that are complementary to our balance sheet activities.

Comparison of Results of Operations: Three Months Ended September 30, 2008 vs. September 30, 2007
(in thousands, except per share data)

	2008	2007	$ Change	% Change
Income from loans and other investments:				
Interest and related income	$ 44,141	$ 64,712	$ (20,571)	(31.8%)
Interest and related expenses	28,175	43,716	(15,541)	(35.5%)
Income from loans and other investments, net	15,966	20,996	(5,030)	(24.0%)
Other revenues:				
Management fees	3,477	1,115	2,362	211.8%
Servicing fees	116	173	(57)	(32.9%)
Other	483	173	310	179.2%
Total other revenues	4,076	1,461	2,615	179.0%
Other expenses:				
General and administrative	5,711	6,840	(1,129)	(16.5%)
Depreciation and amortization	13	61	(48)	(78.7%)
Total other expenses	5,724	6,901	(1,177)	(17.1%)
Loss from equity investments	(625)	(109)	(516)	473.4%
Provision (benefit) for income taxes	26	(50)	76	(152.0%)
Net income	$ 13,667	$ 15,497	$ (1,830)	(11.8%)
Net income per share - diluted	$0.61	$0.87	$(0.26)	(29.9%)
Dividend per share	$0.60	$0.80	$(0.20)	(25.0%)
Average LIBOR	2.62%	5.43%	(2.81%)	(51.7%)

Income from loans and other investments

A decline in Interest Earning Assets ($89 million or 3% from September 30, 2007 to September 30, 2008) and a 52% decrease in average LIBOR contributed to a $20.6 million (32%) decrease in interest income between the third quarter of 2007 and the third quarter of 2008. Lower LIBOR and lower levels of leverage resulted in a $15.5 million, or 36%, decrease in interest expense for the period. On a net basis, net interest income decreased by $5.0 million, or 24%.

Management fees

Base management fees from our investment management business increased $2.4 million (212%) during the third quarter of 2008 compared with the third quarter of 2007. The increase was attributed primarily to $2.4 million of new fee revenue earned from CTOPI.

Servicing fees

Servicing fees declined $57,000 or 33% from the third quarter of 2007 to 2008.

Other revenue

Other revenue increased by $310,000, or 179%, from the third quarter of 2007 to the third quarter of 2008 primarily from investing our higher levels of cash in interest bearing accounts.

General and administrative expenses

General and administrative expenses include compensation and benefits for employees, operating expenses and professional fees. Total general and administrative expenses decreased 17% between the third quarter of 2007 and the third quarter of 2008. The decrease was a result of lower levels of employment costs.

Depreciation and amortization

Depreciation and amortization decreased by $48,000 or 79% between the third quarter of 2007 and the third quarter of 2008 due primarily to the capitalized costs associated with Fund III being fully amortized during the first quarter of 2008.

Loss from equity investments

The loss from equity investments in the third quarter of 2008 resulted primarily from our share of operating losses at Fund III and CTOPI. The loss from equity investments in the third quarter of 2007 resulted primarily from our portion of operating losses of $157,000 at Bracor offset by $48,000 of income from Fund III. We sold our investment in Bracor during the fourth quarter of 2007.

Income taxes

We did not pay any taxes at the REIT level in either the third quarter of 2007 or 2008. However, CTIMCO, our investment management subsidiary, is a taxable REIT subsidiary and subject to taxes on its earnings. In the third quarter of 2008, CTIMCO recorded operating income before income taxes of $1.3 million, which when combined with GAAP to tax differences and changes in valuation allowances resulted in a provision for income taxes of $26,000. In the third quarter of 2007, CTIMCO recorded an operating loss before income taxes of $2.0 million, which resulted in an income tax benefit of $955,000, $905,000 of which we reserved and $50,000 of which we recorded.

Net income

Net income decreased by $1.8 million from the third quarter of 2007 to the third quarter of 2008. The decrease in net income was primarily attributed to a $5.0 million decrease in net interest margin offset by an increase of $2.4 million in management fees. On a diluted per share basis, net income was $0.61 and $0.87 in the third quarter of 2008 and 2007, respectively.

Dividends

Our dividend for the third quarter of 2008 was $0.60 per share, a decline of $0.20 per share from the third quarter of 2007.

Comparison of Results of Operations: Nine Months Ended September 30, 2008 vs. September 30, 2007
(in thousands, except per share data)

	2008	2007	$ Change	% Change
Income from loans and other investments:				
Interest and related income	$ 149,725	$ 190,959	$ (41,234)	(21.6%)
Interest and related expenses	98,918	120,008	(21,090)	(17.6%)
Income from loans and other investments, net	50,807	70,951	(20,144)	(28.4%)
Other revenues:				
Management fees	9,827	2,446	7,381	301.8%
Incentive management fees	—	962	(962)	(100.0%)
Servicing fees	337	285	52	18.2%
Other	1,307	754	553	73.3%
Total other revenues	11,471	4,447	7,024	157.9%
Other expenses:				
General and administrative	18,819	21,483	(2,664)	(12.4%)
Depreciation and amortization	140	1,450	(1,310)	(90.3%)
Total other expenses	18,959	22,933	(3,974)	(17.3%)
Gain on extinguishment of debt	6,000	—	6,000	N/A
(Provision for)/recovery of losses on loan impairment	(56,000)	4,000	(60,000)	(1,500.0%)
Gain on sale of investments	374	—	374	N/A
Loss from equity investments	(549)	(1,042)	493	(47.3%)
Benefit for income taxes	475	304	171	56.25%
Net (loss) income	$ (6,381)	$ 55,727	$ (62,108)	(111.5%)
Net income per share - diluted	$(0.31)	$3.14	$(3.45)	(109.8%)
Dividend per share	$2.20	$2.40	$(0.20)	(8.3%)
Average LIBOR	2.84%	5.36%	(2.52%)	(47.0%)

Income from loans and other investments

Inter period changes in Interest Earning Assets, a 47% decrease in average LIBOR, a write off of $776,000 of accrued interest receivable in the second quarter of 2008, and a $4.3 million interest payment in the second quarter of 2007 from the successful resolution of a non performing loan, contributed to a $41.2 million (22%) decrease in interest income between the first nine months of 2007 and the first nine months of 2008. Lower LIBOR and lower levels of leverage resulted in a $21.1 million, or 18%, decrease in interest expense for the period. On a net basis, net interest income decreased by $20.1 million, or 28%.

Management fees

Base management fees from our investment management business increased $7.4 million (302%) during the first nine months of 2008 compared with the first nine months of 2007. The increase was attributed primarily to $6.8 million of new fee revenue earned from CTOPI.

Incentive management fees

Incentive management fees from the investment management business decreased by $962,000 as no incentive fee income was recorded in the first nine months of 2008 and $962,000 of incentive management fees from CT Mezzanine Partners II LP, or Fund II, were recognized in the first nine months of 2007.

Servicing fees

Servicing fee income during the first nine months of 2008 was $337,000 compared with $285,000 in the first nine months of 2007. The 18% increase in servicing fee revenue was a result of recognizing revenue relating to the servicing contracts acquired as part of our purchase of the healthcare origination platform in June 2007.

Other revenue

Other revenue increased by $553,000, or 73%, from the first nine months of 2007 to the first nine months of 2008 primarily from investing our higher levels of cash in interest bearing accounts.

General and administrative expenses

General and administrative expenses include compensation and benefits for employees, operating expenses and professional fees. Total general and administrative expenses decreased 12% between the first nine months of 2007 and the first nine months of 2008. The decrease was a result of lower levels of base employment costs.

Depreciation and amortization

Depreciation and amortization decreased by $1.3 million or 90% between the first nine months of 2007 and the first nine months of 2008 due primarily to the write off of $1.3 million of capitalized costs related to the liquidation of Fund II in the first quarter of 2007.

Gain on extinguishment of debt

$6.0 million of debt forgiveness by a creditor was recorded as a gain on extinguishment of debt in the second quarter of 2008. We recorded no such gains for the nine months ended September 30, 2007.

(Provision for) recovery of losses

During the second quarter of 2008, we recorded a $50.0 million provision for loss against a loan that we classified as non performing.

During the second quarter of 2008, we also recorded an additional $6.0 million charge on one loan that was classified as non performing at March 31, 2008. The loan was subsequently written off during the second quarter and the $6.0 million liability collateralized by the loan was forgiven by the creditor. The $4.0 million recovery recorded in the second quarter of 2007 related to the successful resolution of a non performing loan.

Gain on sale of investments

At December 31, 2007, we had one CMBS investment that we designated and accounted for on an available-for-sale basis with a face value of $7.7 million. The security earned interest at a weighted average coupon of 8.34% at December 31, 2007. During the second quarter of 2008 the security was sold for a gain of $374,000.

Loss from equity investments

The loss from equity investments in the first nine months of 2008 resulted primarily from our share of operating losses at Fund III and CTOPI. The loss from equity investments in the first nine months of 2007 resulted primarily from the amortization of $384,000 of capitalized costs passed through to us from the general partner of Fund II, our portion of operating losses at Fund II (as it paid incentive management fees during the period) and our portion of operating losses of $641,000 at Bracor. We sold our investment in Bracor during the fourth quarter of 2007.

Income taxes

We did not pay any taxes at the REIT level in either the first nine months of 2007 or 2008. However, CTIMCO, our investment management subsidiary, is a taxable REIT subsidiary and subject to taxes on its earnings. In the nine

months ended September 30, 2008, CTIMCO recorded operating income before income taxes of $1.7 million, which when combined with GAAP to tax differences and changes in valuation allowances resulted in an income tax benefit of $475,000. $254,000 of the tax benefit recorded for the nine months ended September 30, 2007 was a result of the reversal of a tax liability reserve at Capital Trust, Inc. In the nine months ended September 30, 2007, CTIMCO recorded an operating loss before income taxes of $4.9 million, which resulted in an income tax benefit of $3.1 million, $2,950,000 of which we reserved and $304,000 of which we recorded.

Net income

Net income decreased by $62.1 million from the nine months ended September 30, 2007 to the nine months ended September 30, 2008. The decrease in net income was primarily attributed to a $60 million increase in provision for losses and a $20.1 million decrease in net interest income, partially offset by a $7.4 million increase in management fees and a $6.0 million gain on the forgiveness of debt. On a diluted per share basis, net (loss) income was ($0.31) and $3.14 in the nine months ended September 30, 2008 and 2007, respectively.

Dividends

Our dividends declared for the nine months ended September 30, 2008 were $2.20 per share, a decline of $0.20 per share from the nine months ended September 30, 2007.

Liquidity and Capital Resources

We expect to use our available capital resources to make additional investments in our existing portfolios and, eventually, to invest in new opportunities for our balance sheet. We intend to continue to employ leverage on our balance sheet to enhance our return on equity. At September 30, 2008, our net liquidity was as follows:

Net Liquidity (in millions)	September 30, 2008	
Available cash	$133	
Available borrowings		42
Total immediate liquidity		175
Net unfunded commitments(1)		(43)
Net liquidity	$132	

(1) Represents gross unfunded commitments of $74 million less respective in place financing commitments from our lenders of $53 million and our commitments ($22 million) to our active investment management funds.

At September 30, 2008, we had total immediate liquidity of $175 million comprised of $115 million in cash, $18 million in restricted cash and $42 million of immediately available liquidity from our repurchase agreements. Our primary sources of liquidity during the next 12 months are expected to be cash on hand, cash generated from operations, principal and interest payments received on loans and investments, additional borrowings under our repurchase agreements, stock offerings, proceeds from our direct stock purchase plan and dividend reinvestment plan, and other capital raising activities. We believe these sources of capital will be adequate to meet both short-term and medium-term cash requirements.

Cash Flows

We experienced a net increase in cash of $89.4 million for the nine months ended September 30, 2008, compared to a net decrease of $2.3 million for the nine months ended September 30, 2007.

Cash provided by operating activities during the nine months ended September 30, 2008 was $43 million, compared to cash provided by operating activities of $68 million during the same period of 2007. The change was primarily due to lower levels of income from loans and other investments, net.

For the nine months ended September 30, 2008, cash provided by investing activities was $102 million, compared to $333 million used in investing activities during the same period in 2007. The change was primarily due to a decrease in originations, acquisitions, and additional fundings of $864 million during the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007, and a decrease in principal repayments of $423 million for the same periods.

For the nine months ended September 30, 2008, cash used by financing activities was $56 million, compared to $263 million provided by financing activities during the same period in 2007. The change was primarily due to proceeds from and repayments on repurchase obligations and the issuance of junior subordinated debentures and activity on other debt in the nine months ended September 30, 2007.

Capitalization

Our authorized capital stock consists of 100,000,000 shares of $.01 par value class A common stock, of which 22,090,131 shares were issued and outstanding at September 30, 2008 and 100,000,000 shares of preferred stock, none of which were outstanding at September 30, 2008.

On January 15, 2008, we issued 53,192 shares of class A common stock under our dividend reinvestment plan. Net proceeds totaled approximately $1.5 million.

On March 4, 2008, we declared a dividend of $0.80 per share of class A common stock applicable to the three-month period ended March 31, 2008, which was paid on April 15, 2008 to shareholders of record on March 31, 2008.

On March 28, 2008, we closed a public offering of 4,000,000 shares of class A common stock. We received net proceeds of approximately $113.0 million. Morgan Stanley & Co. Incorporated acted as the sole underwriter of the offering.

On April 15, 2008, we issued 28,426 shares of class A common stock under our dividend reinvestment plan. Net proceeds totaled approximately $799,000.

In June 2008, we issued 401,577 shares of class A common stock under our direct stock purchase plan. Net proceeds totaled approximately $10.5 million.

On September 16, 2008, we declared a dividend of $0.60 per share of class A common stock applicable to the three-month period ended September 30, 2008, which was paid on October 15, 2008 to shareholders of record on September 30, 2008.

On October 15, 2008, we issued 5,368 shares of class A common stock under our dividend reinvestment plan. Net proceeds totaled approximately $47,000.

Repurchase Obligations and Secured Debt

At September 30, 2008, we were party to nine master repurchase agreements with four counterparties with total facility amounts of $1.5 billion. We were also a party to asset specific repurchase obligations and a secured loan agreement. At September 30, 2008, these asset specific borrowings totaled $37.9 million. Our total borrowings at September 30, 2008 under master repurchase agreements, asset specific arrangements and our secured loan agreement were $816.2 million, and we had the ability to borrow an additional $42.2 million without pledging additional collateral. Loans and CMBS with a carrying value of $1.3 billion are pledged as collateral for our repurchase agreements.

The terms of these agreements are described in Note 7 of the consolidated financial statements and in the capitalization discussion above in this Item 2.

Collateralized Debt Obligations

At September 30, 2008, we had CDOs outstanding from four separate issuances with a total face value of $1.2 billion. Our CDOs are financing vehicles for our assets and, as such, are consolidated on our balance sheet representing the amortized sales price of the securities we sold to third parties. Our one reinvesting CDO provides us with $298.9 million of debt financing at a cash cost of LIBOR plus 0.49% (4.42% at September 30, 2008) and an all-in effective interest rate (including the amortization of issuance costs) of LIBOR plus 0.73% (4.66% at September 30, 2008). Our three static CDOs provide us with $859.9 million of financing with a cash cost of 4.69% and an all-in effective interest rate of 4.91% at September 30, 2008. On a combined basis, our CDOs provide us with $1.2 billion of non-recourse, non-mark-to-market, index matched financing at a weighted average cash cost of 0.53% over the applicable indices (4.62% at September 30, 2008) and a weighted average all-in cost of 0.76% over the applicable indices (4.85% at September 30, 2008). Additional liquidity will be generated when assets that are currently pledged under repurchase obligations are contributed to our reinvesting CDO as the difference between the repurchase price under our repurchase agreements is generally less than the leverage available to us in our CDOs. At September 30, 2008, we had additional liquidity of $18 million in our CDOs in the form of restricted cash.

Senior Unsecured Credit Facility

In March 2007, we closed a $50.0 million senior unsecured revolving credit facility with WestLB AG, which was amended in September 2007 to increase the size to $100.0 million and add new lenders to the syndicate. In March 2008, we exercised our term-out option under the agreement, extending the maturity date of the $100 million principal balance outstanding to March 2009 as a non revolving term loan. The loan bears interest at a cost of LIBOR plus 1.75% (LIBOR plus 2.03% on an all in basis).

Junior Subordinated Debentures

At September 30, 2008, we had a total of $129 million of junior subordinated debentures outstanding (securing $125 million of trust preferred securities sold to third parties). Junior subordinated debentures are comprised of two issuances of debentures, $77 million of debentures (securing $75 million of trust preferred securities) issued in March 2007 and $52 million of debentures (securing $50 million of trust preferred securities) issued in 2006. On a combined basis the securities provide us with $125 million of financing at a cash cost of 7.20% and an all-in effective rate of 7.30%.

Contractual Obligations

The following table sets forth information about certain of our contractual obligations as of September 30, 2008:

Contractual Obligations
(in millions)

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations					
Repurchase obligations and secured debt	$ 816	$ 718	$ 80	$ 18	$ —
Collateralized debt obligations	1,157	—	—	—	1,157
Participations sold	337	—	56	281	—
Senior unsecured credit facility	100	100	—	—	—
Junior subordinated debentures	129	—	—	—	129
Total long-term debt obligations	2,539	818	136	299	1,286
Unfunded commitments					
Loans	74	—	17	57	—
Equity investments	22	—	22	—	—
Total unfunded commitments	96	—	39	57	—
Operating lease obligations	14	1	3	3	7
Total	$ 2,649	$ 819	$ 178	$ 359	$ 1,293

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Impact of Inflation

Our operating results depend in part on the difference between the interest income earned on our interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities. Changes in the general level of interest rates prevailing in the economy in response to changes in the rate of inflation or otherwise can affect our income by affecting the absolute yield on our assets, as well as potentially impacting the spread between our interest-earning assets and interest-bearing liabilities, as well as, among other things, the value of our interest-earning assets and the average life of our interest-earning assets. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, and other factors beyond our control. We employ a hedging strategy to limit the effects of changes in interest rates on our operations, including engaging in interest rate swaps in order to better match the cost of our liabilities with the yield of our assets. There can be no assurance that we will be able to adequately protect against the foregoing risks or that we will ultimately realize an economic benefit from any hedging contract into which we enter.

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 and 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 and portfolio management. These forward-looking statements are identified by their use of such terms and phrases as "intends," "intend," "intended," "goal," "estimate," "estimates," "expects," "expect," "expected," "project," "projected," "projections," "plans," "anticipates," "anticipated," "should," "designed to," "foreseeable future," "believe," "believes" and "scheduled" and similar expressions. Our actual results or outcomes may differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. We assume no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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 cautionary statements 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/liability management activities is to maximize net interest income, while managing levels of interest rate risk. Net 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 variable rate liabilities to fixed rate liabilities for proper matching with fixed rate assets. 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 the interest expense related to debt and is recognized on the accrual basis.

As of September 30, 2008, a 100 basis point change in LIBOR would impact our net income by approximately $5.4 million.

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 owner’s ability to operate the properties that serve as our collateral so that they produce cash flows adequate to pay interest and principal due us. To monitor this risk, our asset management team continuously reviews the 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 and credit spreads at September 30, 2008. For financial assets and debt obligations, the table presents cash flows (in the cases of CMBS and Loans) to the expected maturity and weighted average interest rates. For interest rate swaps, the table presents notional amounts and weighted average fixed pay and variable receive interest rates by contractual maturity dates. Notional amounts are used to calculate the contractual cash flows to be exchanged under the contract. Weighted average variable rates are based on rates in effect as of the reporting date.

	Expected Maturity/Repayment Dates (dollars in thousands)					
	Fourth Quarter 2008	2009	2010	2011	2012	Thereafter
Assets:						
CMBS						
Fixed Rate	$32,277	$5,842	$12,902	$70,856	$192,229	$395,183
Interest Rate(1)	6.15%	7.61%	7.23%	7.62%	7.16%	6.29%
Variable Rate	$110	$44,020	$83,164	$1,975	$5,840	$39,689
Interest Rate(1)	7.83%	6.05%	7.26%	5.93%	7.47%	9.45%
Loans						
Fixed Rate	$444	$17,967	$1,997	$24,864	$2,124	$123,121
Interest Rate(1)	8.27%	8.52%	8.23%	8.42%	7.76%	7.61%
Variable Rate	$22,413	$30,405	$176,243	$834,702	$804,072	$13,000
Interest Rate(1)	7.77%	7.48%	6.91%	6.64%	7.07%	5.89%
Interest rate swaps						
Notional Amounts	$21,600	$48,733	$13,383	$46,400	$81,887	$293,489
Fixed Pay Rate(1)	5.47%	4.77%	5.06%	4.65%	4.98%	5.01%
Variable Receive Rate(1)	3.93%	3.93%	3.93%	3.93%	3.93%	3.93%
Liabilities:						
Repurchase obligations and secured debt						
Variable Rate	$388,236	$340,436	$69,522	—	—	$18,014
Interest Rate(1)	4.76%	5.57%	5.20%	—	—	5.43%
CDOs						
Fixed Rate	$2,419	$3,042	$5,541	$41,593	$68,965	$148,273
Interest Rate(1)	5.18%	6.22%	5.21%	5.10%	5.16%	5.42%
Variable Rate	$3,050	$60,837	$46,479	$260,462	$207,616	$308,898
Interest Rate(1)	4.29%	4.29%	4.26%	4.29%	4.52%	4.48%
Senior unsecured credit facility						
Fixed Rate	—	$100,000	—	—	—	—
Interest Rate(1)	—	5.68%	—	—	—	—
Junior subordinated debt						
Fixed Rate	—	—	—	—	—	$128,875
Interest Rate(1)	—	—	—	—	—	7.20%
Participations sold						

Variable Rate	—	—	—	$91,258	$245,823	—
Interest Rate(1)	—	—	—	5.79%	7.76%	—

(1) Represents weighted average rates where applicable.

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 Securities 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 Securities 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

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 is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1: Legal Proceedings

None

ITEM 1A: Risk Factors

In addition to the other information discussed in this quarterly report on Form 10-Q, please consider the risk factors provided in our updated risk factors attached as Exhibit 99.1, which could materially affect our business, financial condition or future results.

Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition or operating results.

ITEM 2: Unregistered Sales of Equity Securities and Use of Proceeds

None.

ITEM 3: Defaults Upon Senior Securities

None.

ITEM 4: Submission of Matters to a Vote of Security Holders

None.

ITEM 5: Other Information

None.

ITEM 6: Exhibits

- · 31.1 Certification of John R. Klopp, 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 John R. Klopp, 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.
- · 99.1 Updated Risk Factors from the Company's Annual Report on Form 10-K for the year ended December 31, 2007, filed on March 4, 2008 with the Securities and Exchange Commission.

· Filed herewith

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.

October 30, 2008	/s/ John R. Klopp
Date	John R. Klopp
	Chief Executive Officer
October 30, 2008	/s/ Geoffrey G. Jervis
Date	Geoffrey G. Jervis
	Chief Financial Officer