

CAPITAL TRUST INC  
Form 10-Q  
August 01, 2012

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-14788

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

Maryland  
(State or other jurisdiction of  
incorporation or organization)

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

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

10022  
(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

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

Accelerated filer   
Smaller Reporting  
Company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of outstanding shares of the registrant's class A common stock, par value \$0.01 per share, as of July 20, 2012 was 22,515,107.

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CAPITAL TRUST, INC.  
INDEX

Part I. Financial Information	
Item 1:	1
<u>Financial Statements</u>	
<u>Consolidated Balance Sheets – June 30, 2012 (unaudited) and December 31, 2011</u>	
	3
<u>Consolidated Statements of Operations – Six Months Ended June 30, 2012 (unaudited) and 2011 (unaudited)</u>	
	4
<u>Consolidated Statements of Comprehensive Income – Six Months Ended June 30, 2012 (unaudited) and 2011 (unaudited)</u>	
	5
<u>Consolidated Statements of Changes in Equity (Deficit) – Six Months Ended June 30, 2012 (unaudited) and 2011 (unaudited)</u>	
	6
<u>Consolidated Statements of Cash Flows – Six Months Ended June 30, 2012 (unaudited) and 2011 (unaudited)</u>	
	7
<u>Notes to Consolidated Financial Statements (unaudited)</u>	
Item 2:	49
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
Item 3:	71
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
Item 4:	72
<u>Controls and Procedures</u>	
Part II. Other Information	
Item 1:	73
<u>Legal Proceedings</u>	
Item 1A:	73
<u>Risk Factors</u>	
Item 2:	73
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
Item 3:	73
<u>Defaults Upon Senior Securities</u>	
Item 4:	73
<u>Mine Safety Disclosures</u>	
Item 5:	73
<u>Other Information</u>	
Item 6:	74
<u>Exhibits</u>	
<u>Signatures</u>	
	76



## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

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

	June 30, 2012 (unaudited)	December 31, 2011
<b>Assets</b>		
Cash and cash equivalents	\$34,604	\$34,818
Loans receivable, net	1,619	19,282
Equity investments in unconsolidated subsidiaries	17,978	10,399
Deferred income taxes	2,727	1,268
Prepaid expenses and other assets	2,207	4,533
Subtotal	59,135	70,300
<b>Assets of Consolidated Entities</b>		
<b>CT Legacy REIT</b>		
Restricted cash	15,433	12,985
Securities held-to-maturity	—	2,602
Loans receivable, net	—	206,514
Loans held-for-sale, net	—	30,875
Investment in CT Legacy Asset, at fair value	90,700	—
Accrued interest receivable and other assets	—	2,119
Subtotal	106,133	255,095
<b>Securitization Vehicles</b>		
Securities held-to-maturity	166,630	358,972
Loans receivable, net	241,644	612,598
Real estate held-for-sale	—	10,342
Accrued interest receivable and other assets	10,695	59,009
Subtotal	418,969	1,040,921
<b>Total assets</b>	<b>\$584,237</b>	<b>\$1,366,316</b>

See accompanying notes to consolidated financial statements.

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

	June 30, 2012 (unaudited)	December 31, 2011
<b>Liabilities &amp; Equity (Deficit)</b>		
<b>Liabilities:</b>		
Accounts payable, accrued expenses and other liabilities	\$12,320	\$8,075
Secured notes	8,176	7,847
Participations sold	1,619	19,282
Subtotal	22,115	35,204
<b>Non-Recourse Liabilities of Consolidated Entities</b>		
<b>CT Legacy REIT</b>		
Accounts payable, accrued expenses and other liabilities	—	743
Repurchase obligations	—	58,464
Mezzanine loan, net of unamortized discount	—	55,111
Participations sold	—	97,465
Interest rate hedge liabilities	—	8,817
Subtotal	—	220,600
<b>Securitization Vehicles</b>		
Accounts payable, accrued expenses and other liabilities	549	3,102
Securitized debt obligations	518,140	1,211,407
Interest rate hedge liabilities	21,193	24,942
Subtotal	539,882	1,239,451
<b>Total liabilities</b>	<b>561,997</b>	<b>1,495,255</b>
<b>Commitments and contingencies</b>	<b>—</b>	<b>—</b>
<b>Equity (Deficit):</b>		
Class A common stock, \$0.01 par value, 100,000 shares authorized, 21,979 and 21,967 shares issued and outstanding as of June 30, 2012 and December 31, 2011, respectively ("class A common stock")	220	220
Restricted class A common stock, \$0.01 par value, 537 and 244 shares issued and outstanding as of June 30, 2012 and December 31, 2011, respectively ("restricted class A common stock" and together with class A common stock, "common stock")	5	2

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Additional paid-in capital	597,344	597,049
Accumulated other comprehensive loss	(33,679 )	(40,584 )
Accumulated deficit	(598,275 )	(667,111 )
Total Capital Trust, Inc. shareholders' deficit	(34,385 )	(110,424 )
Noncontrolling interests	56,625	(18,515 )
Total equity (deficit)	22,240	(128,939 )
Total liabilities and equity (deficit)	\$584,237	\$1,366,316

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Income from loans and other investments:</b>				
Interest and related income	\$6,763	\$32,554	\$21,479	\$69,545
Less: Interest and related expenses	5,413	32,296	28,754	58,543
Income from loans and other investments, net	1,350	258	(7,275 )	11,002
<b>Other revenues:</b>				
Management fees from affiliates	1,610	1,595	3,195	3,174
Servicing fees	1,365	438	3,385	748
Total other revenues	2,975	2,033	6,580	3,922
<b>Other expenses:</b>				
General and administrative	4,740	4,649	9,052	14,928
Total other expenses	4,740	4,649	9,052	14,928
Total other-than-temporary impairments of securities	—	—	—	(4,933 )
Portion of other-than-temporary impairments of securities recognized in other comprehensive income	—	—	(160 )	(3,271 )
Net impairments recognized in earnings	—	—	(160 )	(8,204 )
Recovery of provision for loan losses	—	8,088	8	17,249
Valuation allowance on loans held-for-sale	—	(224 )	—	(224 )
Gain on extinguishment of debt	—	937	—	250,976
Fair value adjustment on investment in CT Legacy Assets	3,704	—	7,657	—
Gain on deconsolidation of subsidiary	—	—	146,380	—
Income from equity investments	205	842	901	1,797
Income before income taxes	3,494	7,285	145,039	261,590
Income tax provision	143	1,061	1,066	1,450
Net income	\$3,351	\$6,224	\$143,973	\$260,140
Less: Net income attributable to noncontrolling interests	(1,068 )	(8,069 )	(75,137 )	(7,400 )
Net income (loss) attributable to Capital Trust, Inc.	\$2,283	(\$1,845 )	\$68,836	\$252,740
<b>Per share information:</b>				
Net income (loss) per share of common stock:				
Basic	\$0.10	(\$0.08 )	\$3.01	\$11.19
Diluted	\$0.09	(\$0.08 )	\$2.83	\$10.52
Weighted average shares of common stock outstanding:				



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Basic	22,893,522	22,723,146	22,865,819	22,580,143
Diluted	24,426,857	22,723,146	24,353,388	24,024,222

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$3,351	\$6,224	\$143,973	\$260,140
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative financial instruments	1,965	(999 )	3,749	3,545
Gain on interest rate swaps no longer designated as cash flow hedges	—	3,201	2,481	3,201
Amortization of unrealized gains and losses on securities	(8 )	(277 )	(765 )	(506 )
Amortization of deferred gains and losses on settlement of swaps	—	(23 )	(56 )	(47 )
Other-than-temporary impairments of securities related to fair value adjustments in excess of expected credit losses, net of amortization	(174 )	116	213	3,966
Other comprehensive income	1,783	2,018	5,622	10,159
Comprehensive income	\$5,134	\$8,242	\$149,595	\$270,299
Less: Comprehensive income attributable to noncontrolling interests	(1,068 )	(8,068 )	(75,147 )	(7,400 )
Comprehensive income attributable to Capital Trust, Inc.	\$4,066	\$174	\$74,448	\$262,899

See accompanying notes to consolidated financial statements.

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

	Restricted Class A Common Stock	Class A Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Capital Trust, Inc. Shareholders' Deficit	Noncontrolling Interests	Total
Balance at January 1, 2011	\$219	\$—	\$559,411	(\$50,462)	(\$920,355)	(\$411,187)	\$—	(\$411,187)
Net income	—	—	—	—	252,740	252,740	7,400	260,140
Other comprehensive income	—	—	—	10,159	—	10,159	—	10,159
Allocation to noncontrolling interests	—	—	37,014	—	—	37,014	(12,623)	24,391
Restricted class A common stock earned, net of shares deferred	1	2	230	—	—	233	—	233
Deferred directors' compensation	—	—	94	—	—	94	—	94
Balance at June 30, 2011	\$220	\$2	\$596,749	(\$40,303)	(\$667,615)	(\$110,947)	(\$5,223)	(\$116,734)
Balance at January 1, 2012	\$220	\$2	\$597,049	(\$40,584)	(\$667,111)	(\$110,424)	(\$18,515)	(\$128,582)
Net income	—	—	—	—	68,836	68,836	75,137	143,973
Other comprehensive income	—	—	—	5,612	—	5,612	10	5,622
Deconsolidation of CT Legacy Asset	—	—	—	1,293	—	1,293	—	1,293
Distributions to noncontrolling interests	—	—	—	—	—	—	(7)	(7)
Restricted class A common stock earned, net of shares deferred	—	3	182	—	—	185	—	185
Deferred directors' compensation	—	—	113	—	—	113	—	113
Balance at June 30, 2012	\$220	\$5	\$597,344	(\$33,679)	(\$598,275)	(\$34,385)	\$56,625	\$22,240

See accompanying notes to consolidated financial statements.

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

	2012	2011
<b>Cash flows from operating activities:</b>		
Net income	\$143,973	\$260,140
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Net impairments recognized in earnings	160	8,204
Recovery of provision for loan losses	(8 )	(17,249 )
Valuation allowance on loans held-for-sale	—	224
Gain on extinguishment of debt	—	(250,976 )
Gain on deconsolidation of CT Legacy Asset	(146,380 )	—
Fair value adjustment on CT Legacy Asset	(7,657 )	—
Income from equity investments	(901 )	(1,797 )
Distributions of income from equity investments	1,710	—
Employee stock-based compensation	210	317
Incentive awards plan expense	181	2,980
Deferred directors' compensation	113	94
Distributions from CT Legacy Assets	6,634	—
Amortization of premiums/discounts on loans and securities and deferred interest on loans	(393 )	(912 )
Amortization of deferred gains and losses on settlement of swaps	(56 )	(47 )
Amortization of deferred financing costs and premiums/discounts on debt obligations	9,846	6,648
Loss on interest rate swaps not designated as cash flow hedges	2,772	3,970
<b>Changes in assets and liabilities, net:</b>		
Accrued interest receivable	(3,785 )	2,617
Deferred income taxes	(1,458 )	(939 )
Prepaid expenses and other assets	2,622	448
Accounts payable and accrued expenses	(1,075 )	(1,283 )
Net cash provided by operating activities	6,508	12,439
<b>Cash flows from investing activities:</b>		
Principal collections and proceeds from securities	28,122	31,435
Distributions from equity investments	—	3,360
Principal collections of loans receivable	83,245	1,680,725
Proceeds from disposition of loans	—	5,750
Contributions to unconsolidated subsidiaries	(4,030 )	(1,991 )
Distributions from unconsolidated subsidiaries	677	2,869
Increase in restricted cash	(2,448 )	(10,225 )
Net cash provided by investing activities	105,566	1,711,923
<b>Cash flows from financing activities:</b>		
Borrowings under repurchase obligations	123,977	—

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Repayments under repurchase obligations	(58,464 )	(253,336 )
Repayments under senior credit facility	(63,000 )	(22,932 )
Repayment of junior subordinated notes	—	(4,640 )
Borrowing under mezzanine loan	—	83,000
Repayments under mezzanine loan	—	(20,000 )
Repayment of securitized debt obligations	(114,768 )	(1,490,715 )
Payment of financing expenses	—	(11,126 )
Purchase of and distributions to noncontrolling interests	(8 )	(142 )
Purchase of secured notes	—	(405 )
Vesting of restricted Class A common stock	(25 )	(85 )
Net cash used in financing activities	(112,288 )	(1,720,381 )
Net (decrease) increase in cash and cash equivalents	(214 )	3,981
Cash and cash equivalents at beginning of period	34,818	24,449
Cash and cash equivalents at end of period	\$34,604	\$28,430

See accompanying notes to consolidated financial statements.

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

## Note 1. Organization

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

We are a fully integrated, self-managed, real estate finance and investment management company that specializes in credit sensitive financial products. To date, our investment programs have focused on loans and securities backed by commercial real estate assets. We invest for our own account directly on our balance sheet and for third-parties through a series of investment management vehicles. Our business model is designed to produce a mix of net interest margin from our balance sheet investments, and fee income and co-investment income from our investment management vehicles. In managing our operations, we focus on originating investments, managing our portfolios and capitalizing our businesses. From the inception of our finance business in 1997 through June 30, 2012, we have completed approximately \$12.0 billion of commercial real estate debt investments. We conduct our operations as a real estate investment trust, or REIT, for federal income tax purposes. We are traded on the New York Stock Exchange, or NYSE, under the symbol “CT”, and are headquartered in New York City.

### March 2011 Restructuring

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

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

See Note 5 for further discussion of the secured notes, Note 9 for further discussion of the management incentive awards plan, and Note 6 for further discussion of the class B common stock.

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

### CT Legacy Assets Deconsolidation

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

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

### Note 2. Summary of Significant Accounting Policies

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

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

Principles of Consolidation

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

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

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

Balance Sheet Presentation

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

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

Equity Investments in Unconsolidated Subsidiaries and Fair Value Option

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

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

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



Revenue Recognition

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

- 8 -

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

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

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

#### Cash and Cash Equivalents

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

#### Restricted Cash

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

#### Securities

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

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

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

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

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

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

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

In conjunction with our quarterly loan portfolio review, management assesses the performance of each loan, and assigns a risk rating based on several factors including risk of loss, loan-to-value ratio, or LTV, collateral performance, structure, exit plan, and sponsorship. Loans are rated one through eight, which are defined as follows:

- 1 -Low Risk: A loan that is expected to perform through maturity, with relatively lower LTV, higher in-place debt yield, and stable projected cash flow.
- 2 -Average Risk: A loan that is expected to perform through maturity, with medium LTV, average in-place debt yield, and stable projected cash flow.
- 3 Acceptable Risk: A loan that is expected to perform through maturity, with relatively higher LTV, acceptable in-place debt yield, and some uncertainty (due to lease rollover or other factors) in projected cash flow.
- 4 - Higher Risk: A loan that is expected to perform through maturity, but has exhibited a material deterioration in cash flow and/or other credit factors. If negative trends continue, default could occur.
- 5 -Low Probability of Default/Loss: A loan with one or more identified weakness that we expect to have a 15% probability of default or principal loss.
- 6 -Medium Probability of Default/Loss: A loan with one or more identified weakness that we expect to have a 33% probability of default or principal loss.
- 7 High Probability of Default/Loss: A loan with one or more identified weakness that we expect to have a 67% or higher probability of default or principal loss.
- 8 - In Default: A loan which is in contractual default and/or which has a very high likelihood of principal loss.

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

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

#### Real Estate Held-for-Sale

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

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

#### Deferred Financing Costs

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

#### Repurchase Obligations

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

#### Interest Rate Derivative Financial Instruments

In the normal course of business, we use interest rate derivative financial instruments to manage, or hedge, cash flow variability caused by interest rate fluctuations. Specifically, we currently use interest rate swaps to effectively convert floating rate liabilities that are financing fixed rate assets to fixed rate liabilities. The differential to be paid or received on these agreements is recognized on the accrual basis as an adjustment to the interest expense related to the attendant liability. The interest rate swap agreements are generally accounted for on a held-to-maturity basis, and, in cases where they are terminated early, any gain or loss is generally amortized over the remaining life of the hedged item. These swap agreements must be effective in reducing the variability of cash flows of the hedged items in order to qualify for the aforementioned hedge accounting treatment. Changes in value of effective cash flow hedges are reflected on our consolidated financial statements through accumulated other comprehensive income (loss) and do not affect our net income (loss). To the extent a derivative does not qualify for hedge accounting, and is deemed a non-hedge derivative, the changes in its value are included in net income (loss).

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

#### Income Taxes

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

#### Accounting for Stock-Based Compensation

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

The fair value of the performance vesting restricted common stock is measured on the grant date using a Monte Carlo simulation to estimate the probability of the market vesting conditions being satisfied. The Monte Carlo simulation is run approximately 100,000 times. For each simulation, the payoff is calculated at the settlement date, and is then

discounted to the grant date at a risk-free interest rate. The average of the values over all simulations is the expected value of the restricted common stock on the grant date. The valuation is performed in a risk-neutral framework, so no assumption is made with respect to an equity risk premium. Significant assumptions used in the valuation include an expected term and stock price volatility, an estimated risk-free interest rate and an estimated dividend growth rate.

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

#### Comprehensive Income (Loss)

Total comprehensive income was \$149.6 million and \$270.3 million for the six months ended June 30, 2012 and 2011, respectively. The primary components of comprehensive income other than net income are the unrealized gains and losses on derivative financial instruments and the component of other-than-temporary impairments of securities related to the Valuation Adjustment.

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

Earnings per Share of Common Stock

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

Use of Estimates

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

Reclassifications

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

Segment Reporting

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

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

Fair Value of Financial Instruments

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

Recent Accounting Pronouncements

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



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

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

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

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

### Note 3. Loans Receivable, Net and Loan Participations Sold

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

Participations sold represent interests in certain loans that we originated and subsequently sold to one of our investment management vehicles or to third-parties. We present these participations sold as both assets and non-recourse liabilities because these arrangements do not qualify as sales under GAAP. Generally, participations sold are recorded as assets and liabilities in equal amounts on our consolidated balance sheets, and an equivalent amount of interest income and interest expense is recorded on our consolidated statements of operations. However, impaired loan assets must be reduced through the provision for loans losses while the associated non-recourse liability cannot be reduced until the participation has been contractually extinguished. This can result in an imbalance between the loan

participations sold asset and liability. We have no economic exposure to these liabilities.

We have one such loan participation sold with a balance of \$1.6 million, and a coupon of LIBOR + 5.00% as of June 30, 2012. The loan matures on November 6, 2013.

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

Our equity investments in unconsolidated subsidiaries consist of our co-investments in investment management vehicles that we sponsor and manage. As of June 30, 2012, we had a co-investment in two such vehicles, CT Opportunity Partners I, LP, or CTOPI, and CT High Grade Partners II, LLC, or CT High Grade II. We have a commitment to invest up to \$25.0 million in CTOPI, or 4.6% of CTOPI's total capital commitments. We have funded \$17.1 million of our commitment as of June 30, 2012 and received \$6.5 million as a return of capital, resulting in a \$10.5 million funded and a \$14.5 million unfunded commitment balance.

- 13 -

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

During April 2012, we purchased a 0.44% interest in CT High Grade II from an existing investor for \$2.8 million, representing our initial co-investment in CT High Grade II. Our co-investment represents a \$2.9 million total capital commitment to CT High Grade II, of which our unfunded commitment is \$480,000 as of June 30, 2012.

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

	CTOPI	CT High Grade II	Total
December 31, 2011	\$10,399	\$—	\$10,399
Contributions	1,241	2,789	4,030
Income from equity investments (1)	5,894	42	5,936
Distributions	(2,387 )	—	(2,387 )
June 30, 2012	\$15,147	\$2,831	\$17,978

- (1) Includes \$5.0 million of incentive income allocated to us from CTOPI under the equity method of accounting. This incentive income has not been recognized into earnings, but recorded as a deferred incentive income liability under accounts payable, accrued expenses and other liabilities on our consolidated balance sheet.

In accordance with the CTOPI management agreement, CTIMCO may earn incentive compensation when certain returns are achieved for the partners of CTOPI, which will be accrued if and when earned, and when appropriate contingencies have been eliminated. During the six months ended June 30, 2012, we were allocated \$5.0 million of such incentive compensation from CTOPI, however no cash has been collected and we have deferred recognition of all \$5.0 million of incentive income.

As of June 30, 2012, our maximum exposure to loss from CTOPI and CT High Grade II was \$8.2 million and \$2.8 million, respectively.

#### Note 5. Debt Obligations

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

In conjunction with our March 2011 restructuring and the corresponding satisfaction of our senior credit facility and junior subordinated notes, wholly-owned subsidiaries issued secured notes to these former creditors, which secured notes are non-recourse to us. The secured notes had an aggregate initial face balance of \$7.8 million and are secured by 93.5% of our equity interests in the class A-1 and class A-2 common stock of CT Legacy REIT, which represents 48.3% of the total outstanding class A-1 and class A-2 common stock of CT Legacy REIT. The secured notes mature

on March 31, 2016 and bear interest at a rate of 8.2% per annum, which interest may be deferred until maturity. All dividends we receive from our equity interests in the common stock of CT Legacy REIT which serve as collateral under the secured notes must be used to pay, or prepay, interest and principal due thereunder, and only after the notes' full satisfaction will we receive any cash flow from the common equity interests in CT Legacy REIT that serve as collateral for the notes. Any prepayment, or partial prepayment, of the secured notes will incur a prepayment premium resulting in a total payment of principal and interest under the secured notes of \$11.1 million.

We had secured notes outstanding with an accreted book value of \$8.2 million and \$7.8 million as of June 30, 2012 and December 31, 2011, respectively.

#### Note 6. CT Legacy REIT

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

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

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

As of June 30, 2012, our consolidated balance sheet includes (i) restricted cash of \$15.4 million at CT Legacy REIT, and (ii) a \$90.7 million investment in CT Legacy Assets, a 100% owned subsidiary of CT Legacy REIT. Prior to February 10, 2012, CT Legacy Assets was consolidated and therefore our consolidated balance sheet included its loans receivables, securities held-to-maturity, other assets, debt obligations and other liabilities.

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

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

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

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

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

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

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

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

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

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

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

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

#### Other-than-temporary impairments

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

	Gross Other-Than-Temporary Impairments	Credit Related Other-Than-Temporary Impairments	Non-Credit Related Other-Than-Temporary Impairments
December 31, 2011	\$26,557	\$26,105	\$452

Amortization of other-than-temporary impairments	(24 )	(11 )	(13 )
Deconsolidation of CT Legacy Assets (1)	(26,533 )	(26,094 )	(439 )
June 30, 2012	\$—	\$—	\$—

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

#### Unrealized losses and fair value of securities

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



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

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

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

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

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

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

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

#### B. Loans Receivable, Net – CT Legacy REIT

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

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

(1) Includes loans with a total principal balance of \$436.0 million as of December 31, 2011.

(2) As further described above, we deconsolidated CT Legacy Assets in the first quarter of 2012. As a result, these loans are no longer included in our consolidated financial statements.

- 17 -

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

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

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

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

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

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

Property Type	June 30, 2012		December 31, 2011	
	Book Value	Percentage	Book Value	Percentage
Office	\$—	%	\$84,519	41 %
Hotel	—	—	75,240	36
Multifamily	—	—	14,212	7
Other	—	—	32,543	16
<b>Total</b>	<b>\$—</b>	<b>%</b>	<b>\$206,514</b>	<b>100 %</b>

Geographic Location	June 30, 2012		December 31, 2011	
	Book Value	Percentage	Book Value	Percentage
Northeast	\$—	%	\$64,040	31 %
Southwest	—	—	40,353	19

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West	—	—	38,179	18	
Southeast	—	—	20,076	10	
Northwest	—	—	9,364	5	
International	—	—	34,502	17	
Total	\$—	%	\$206,514	100	%

Loan risk ratings

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

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

- 18 -

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

Risk Rating	Loans Receivable as of June 30, 2012			Loans Receivable as of December 31, 2011		
	Number of Loans	Principal Balance	Net Book Value	Number of Loans	Principal Balance	Net Book Value
1 - 3	—	\$—	\$—	5	\$91,940	\$92,333
4 - 5	—	—	—	5	64,151	64,127
6 - 8	—	—	—	7	279,882	50,054
<b>Total</b>	<b>—</b>	<b>\$—</b>	<b>\$—</b>	<b>17</b>	<b>\$435,973</b>	<b>\$206,514</b>

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

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

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

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

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

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

	Gross Book Value	Valuation Allowance	Net Book Value
December 31, 2011	\$32,331	(\$1,456 )	\$30,875
Deconsolidation of CT Legacy Assets (1)	(32,331 )	1,456	(30,875 )
June 30, 2012	\$—	\$—	\$—

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

- 19 -

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

## D. Debt Obligations – CT Legacy REIT

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

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

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

## Repurchase Obligations

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

## Mezzanine Loan

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

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

E. Participations Sold – CT Legacy REIT

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

- 20 -

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

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

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

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

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

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

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

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

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

We have elected the fair value option of accounting for CT Legacy REIT's investment in CT Legacy Assets, pursuant to which we record this investment at fair value rather than at our historical cost investment amount. Additionally, changes in the fair value of this investment are recognized in our consolidated statement of operations. The fair value of CT Legacy REIT's investment in CT Legacy Assets was \$89.7 million and \$90.7 million at February 10, 2012 and June 30, 2012, respectively.

The liabilities of CT Legacy Assets are all non-recourse to us, and we are not obligated to provide, nor have we provided, any financial support to CT Legacy Assets or CT Legacy REIT. We are only exposed to investment losses in CT Legacy Assets via our investment in CT Legacy REIT, which itself holds only two assets, cash of \$15.4 million and an investment in CT Legacy Assets of \$90.7 million. Net of noncontrolling interests, our investment in CT Legacy REIT is \$48.9 million. After giving effect to the \$11.1 million which will ultimately be payable under our secured notes and \$7.1 million payable under the CT Legacy REIT management incentive awards plan, our maximum exposure to loss from CT Legacy REIT, and therefore CT Legacy Assets, is \$30.7 million.

- 21 -

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

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

For the Period from February 11, 2012 through June 30, 2012 (1)	
<b>Income Statement</b>	
Total revenues	\$23,100
Total expenses (2)	(23,102 )
Net loss	(\$2 )
As of June 30, 2012	
<b>Balance Sheet</b>	
Total assets, net book value	\$687,058

(1) Includes activity and balances of VIEs consolidated by CT Legacy Assets.

(2) Includes interest expense, general and administrative expenses, provisions and impairments.

#### Note 7. Consolidated Securitization Vehicles

As of June 30, 2012, our consolidated balance sheet includes an aggregate \$419.0 million of assets and \$539.9 million of liabilities related to five consolidated securitization vehicles. Our consolidated securitization vehicles include two categories of entities: (i) collateralized debt obligations sponsored and issued by us, which we refer to as CT CDOs and (ii) other consolidated securitization vehicles which were not issued or sponsored by us.

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

#### CT CDOs

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

Our interest in the assets held by these CT CDOs, which are consolidated on our balance sheet, is restricted by the structural provisions of these entities, and our recovery of these assets will be limited by the CDOs' distribution provisions, which are subject to change due to covenant breaches or asset impairments, as further described below in this Note 7. The liabilities of the CT CDOs, which are also consolidated on our balance sheet, are non-recourse to us, and can generally only be satisfied from each CDOs' respective asset pool.

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

#### Other Consolidated Securitization Vehicles

As discussed above, we currently consolidate two other securitization vehicles, both of which are substantially similar to the CT CDOs. These securitization vehicles invest in commercial real estate debt instruments, which investments were not originated or transferred to the entities by us. In addition to our investment in the subordinate classes of the securities issued by these vehicles, we are named special servicer on a number of their assets. As a result of consolidation, our ownership interests in these consolidation vehicles have been eliminated, and our balance sheet reflects both the assets held and debt issued by these vehicles to third-parties. Similarly, our operating results and cash flows include the gross amounts related to the assets and liabilities of the securitization vehicles, as opposed to our net economic interests in these entities. Special servicing fees paid to us on assets owned by these vehicles are eliminated in consolidation.

Our interest in the assets held by these other securitization vehicles, which are consolidated on our balance sheet, is restricted by the structural provisions of these entities, and a recovery of our investment in the vehicles will be limited by each entity's distribution provisions. The liabilities of the securitization vehicles, which are also consolidated on our balance sheet, are non-recourse to us, and can generally only be satisfied from each vehicle's respective asset pool.

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

We are not obligated to provide, nor have we provided, any financial support to these other consolidated securitization vehicles. In addition, both of these investments have been made through our CT CDOs, which limits our exposure to loss as discussed above. We have recognized losses on collateral assets in excess of our investment in these entities, resulting in a zero net exposure to loss as of June 30, 2012.

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

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

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

	CMBS	CDOs & Other	Total Book Value (1)
December 31, 2011	\$357,037	\$1,935	\$358,972
Principal paydowns	(26,161 )	(1,935 )	(28,096 )
Discount/premium amortization & other (2)	(647 )	140	(507 )
Other-than-temporary impairments:			
Recognized in earnings	(160 )	—	(160 )
Recognized in accumulated other comprehensive income	160	—	160
Deconsolidation of CT Legacy Assets (3)	(193,737 )	29,998	(163,739 )
June 30, 2012	\$136,492	\$30,138	\$166,630

- (1) Includes securities with a total face value of \$248.9 million and \$490.9 million as of June 30, 2012 and December 31, 2011, respectively.
- (2) Includes mark-to-market adjustments on securities previously classified as available-for-sale, amortization of other-than-temporary impairments, and losses, if any
- (3) As further described above, we deconsolidated CT Legacy Assets in the first quarter of 2012. As a result, the securities owned by its consolidated securitization vehicle are no longer included in our consolidated financial statements. Also, certain securities which are owned by our consolidated securitization vehicles, that had previously been eliminated in consolidation, are now included in our consolidated financial statements. See Note 6 for additional discussion on CT Legacy Assets.

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

The following table allocates the book value of our consolidated securitization vehicles' securities as of June 30, 2012 between their amortized cost basis, amounts related to mark-to-market adjustments on securities previously classified

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as available-for-sale, and the portion of other-than-temporary impairments not related to expected credit losses (in thousands):

	CMBS	CDOs & Other	Total Securities
Amortized cost basis	\$148,978		