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CAPITAL TRUST INC  
Form PRE 14A  
April 28, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934, as amended

Filed by the Registrant  [X]

Filed by a Party other than the Registrant  [ ]

Check the appropriate box:

- [X] Preliminary Proxy Statement
- [ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- [ ] Definitive Proxy Statement
- [ ] Definitive Additional Materials
- [ ] Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

CAPITAL TRUST, INC.

.....  
(Name of Registrant as Specified In Its Charter)

.....  
(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- [X] No fee required
- [ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
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- [ ] Fee paid previously with preliminary materials.
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Preliminary Proxy Materials April \_\_, 2004

CAPITAL TRUST, INC.  
410 Park Avenue, 14th Floor  
New York, New York 10022

April , 2004

Dear Shareholder:

You are cordially invited to attend the 2004 annual meeting of shareholders of Capital Trust, Inc., which will be held at 10:00 a.m., local time, on Thursday, June 17, 2004, at the offices of Paul, Hastings, Janofsky & Walker LLP, 75 East 55th Street, New York, New York 10022. At the meeting, shareholders will be asked to elect directors, approve our 2004 long-term incentive plan, approve a proposed direct public offering of shares of our class A common stock, ratify the appointment of Ernst & Young LLP as our independent auditors for 2004 and act upon such other business as may properly come before the meeting, all as described in the attached notice of annual meeting of shareholders and proxy statement.

It is important that your shares be represented at the meeting and voted in accordance with your wishes. Whether or not you plan to attend the meeting, we urge you to complete, date, sign and return your proxy card in the enclosed prepaid envelope as promptly as possible so that your shares will be voted at the annual meeting. This will not limit your right to vote in person or to attend the meeting.

Sincerely,

/s/ SAMUEL ZELL

Samuel Zell  
Chairman of the Board

Preliminary Proxy Materials April \_\_, 2004

CAPITAL TRUST, INC.  
410 Park Avenue, 14th Floor  
New York, New York 10022  
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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To our Shareholders:

We hereby notify you that we are holding our 2004 annual meeting of shareholders at the offices of Paul, Hastings, Janofsky & Walker LLP, 75 East 55th Street, New York, New York 10022, on Thursday, June 17, 2004, at 10:00 a.m., New York City time, for the following purposes:

1. To elect eight directors to serve until our next annual meeting of shareholders and until such directors' successors are duly elected and qualify.

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2. To approve our 2004 long-term incentive plan.
3. To approve, for purposes of the New York Stock Exchange listing standards, the issuance of up to 2,000,000 of our class A common stock in a proposed direct public offering that would exceed 20% of the number of such shares outstanding.
4. To ratify the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2004.
5. To transact such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

You can vote your shares of class A common stock if our records show that you owned the shares as of the close of business on April 27, 2004, the record date for the annual meeting.

We have enclosed a proxy statement and a proxy card solicited by our board of directors.

To assure your representation at the annual meeting, please vote. Whether or not you plan to attend the annual meeting, please complete, date, sign and return the enclosed proxy card promptly in the enclosed prepaid envelope. This will help ensure that your vote is counted. If you fail to return your card, your vote will not be counted, unless you attend the meeting and vote in person. You may revoke your proxy in the manner described in the proxy statement at any time before the proxy has been voted at the annual meeting.

By Order of the Board of Directors,

/s/ SAMUEL ZELL

Samuel Zell  
Chairman of the Board

April , 2004

Preliminary Proxy Materials April \_\_, 2004

CAPITAL TRUST, INC.  
410 Park Avenue, 14th Floor  
New York, New York 10022

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PROXY STATEMENT

FOR

2004 ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON JUNE 17, 2004

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This proxy statement is being furnished by and on behalf of our board of directors in connection with the solicitation of proxies to be voted at the 2004 annual meeting of shareholders. The date, time and place of the annual meeting is:

Date: June 17, 2004  
Time: 10:00 a.m., New York City time  
Place: The law offices of Paul, Hastings, Janofsky & Walker LLP  
75 East 55th Street, New York, New York 10022

At the annual meeting, shareholders will be asked to:

- o Elect the following nominees as our directors to serve until our next annual meeting of shareholders and until such directors' successors are duly elected and qualify: Samuel Zell, Jeffrey A. Altman, Thomas E. Dobrowski, Martin L. Edelman, Craig M. Hatkoff, John R. Klopp, Henry N. Nassau and Lynne B. Sagalyn ("Proposal 1");
- o Approve our 2004 long-term incentive plan ("Proposal 2");
- o Approve, for purposes of the New York Stock Exchange listing standards, the issuance of up to 2,000,000 shares of our class A common stock in a proposed direct public offering that would exceed 20% of the number of such shares outstanding ("Proposal 3");
- o Ratify the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2004 ("Proposal 4"); and
- o Transact such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

Our principal offices are located at 410 Park Avenue, 14th Floor, New York, New York 10022 and our telephone number is (212) 655-0220.

The share based information contained in this proxy statement has been adjusted as appropriate to reflect our one-for-three reverse stock split that was effected on April 2, 2003.

This proxy statement and the enclosed proxy card are being sent on or about \_\_\_\_\_, 2004 to shareholders of record as of the close of business on April 27, 2004.

### GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

In this section of the proxy statement, we answer some common questions regarding the annual shareholders meeting and the voting of shares at the meeting.

Where and when will the annual meeting be held?

The date, time and place of the meeting is:

June 17, 2004  
10:00 a.m. (New York City time)

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The law offices of Paul, Hastings,  
Janofsky & Walker LLP  
75 East 55th Street,  
New York, New York 10022

Why did you send me this proxy statement?

We sent you this proxy statement and the enclosed proxy card because our board of directors is asking for your proxy to vote at the annual meeting. We have summarized information in this proxy statement you should consider in deciding how to vote at the meeting. But you don't have to attend in order to vote your shares. Instead, you may simply complete, sign, and return the enclosed proxy card.

Who can vote?

You can vote your shares of class A common stock if our records show that you owned the shares as of the close of business on April 27, 2004, the record date for the annual meeting. As of April 27, 2004, there were a total of 6,636,882 shares of our class A common stock outstanding and entitled to vote at the annual meeting. You get one vote for each share of class A common stock that you own. The enclosed proxy card shows the number of shares you can vote.

How are votes counted?

We will hold the annual meeting if shareholders representing the required quorum of shares of class A common stock entitled to vote either sign and return their proxy cards or attend the meeting. A majority of the shares of class A common stock entitled to vote at the meeting present in person or by proxy will constitute a quorum. If you sign and return your proxy card, your shares will be counted to determine whether we have a quorum even if you abstain or fail to vote as indicated on the proxy card.

The proposals to approve our 2004 long-term incentive plan and the issuance of our class A common stock in the proposed direct public offering are non-routine matters under the rules of the New York Stock Exchange. As a result, if your shares are held in the name of a nominee such as your brokerage firm, and you as beneficial owner do not tell your nominee by June 17, 2004 how to vote your shares, the nominee cannot vote them on the proposals to approve our 2004 long-term incentive plan and the issuance of our class A common stock in the proposed direct public offering (giving rise to what is known as a broker non-vote). If the nominee signs and returns the proxy card, your shares will be counted as present to determine whether a quorum exists.

If you abstain or withhold votes or your shares are treated as broker non-votes, your abstention, withheld vote or the broker non-votes:

- o will not be counted as votes cast and will have no effect on the result of the vote on the election of directors and the ratification of the appointment of Ernst & Young LLP as our independent auditors; and
- o will have the effect of a vote against the proposals to approve the 2004 long-term incentive plan and the issuance of our class A common stock in the proposed direct public offering, unless for purposes of the New York Stock Exchange listing standards holders of over 50% of the shares of class A common stock entitled to vote as of the record date cast votes, in which event your broker non-votes will not have any effect on the result of the votes on that proposal.

What is the required vote for approval?

The election of each of our nominees for director requires a plurality of the

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votes cast at the annual meeting and the ratification of the appointment of Ernst & Young LLP as our independent auditors requires a majority of the votes cast at the annual meeting on such matter.

The 2004 long-term incentive plan and the issuance of our class A common stock in the proposed direct public offering will be approved in accordance with the applicable New York Stock Exchange rules if the

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proposal receives in its favor a majority of the votes cast, provided that the total votes cast represent over 50% of the shares of class A common stock entitled to vote as of the record date.

How do I vote by proxy?

Follow the instructions on the enclosed proxy card to vote on the matters to be considered at the annual meeting. Sign and date the proxy card and mail it back to us in the enclosed envelope. The individuals named and designated as proxies in the proxy card will vote your shares as you instruct. You have the following choices in completing your voting.

- o You may vote on each matter, in which case your shares will be voted in accordance with your choices.
- o In voting on directors, you can either vote FOR all directors or withhold your vote on all or certain directors specified by you.
- o You may abstain on any other proposal, in which case no vote will be recorded.
- o You may return a signed proxy card without indicating your vote on any matter, in which case the designated proxies will vote to elect all eight nominees as directors and approve the other proposals.

What if other matters come up at the annual meeting?

The only matters we now know of that will be voted on at the annual meeting include the matters we have described in this proxy statement: the election of eight directors and the proposals to approve our 2004 long-term incentive plan, approve the issuance of our class A common stock in the proposed direct public offering and ratify the appointment of Ernst & Young LLP as our independent auditors for 2004. If other matters are properly presented at the meeting, the designated proxies will vote your shares in their discretion.

Can I change my vote after I return my proxy card?

Yes. At any time before the vote on a proposal, you can change your vote either by giving us a written notice revoking your proxy card or by signing, dating, and returning to us a new proxy card or by attending the annual meeting and voting your shares in person. We will honor the proxy card with the latest date.

Proxy revocation notices or new proxy cards should be sent to Capital Trust, Inc. c/o American Stock Transfer & Trust Company, 6201 Fifteenth Avenue, Brooklyn, New York 11219, Attention: Paula Caroppoli.

Can I vote in person at the annual meeting rather than by completing the proxy card?

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Although we encourage you to complete and return the proxy card to ensure that your vote is counted, you can attend the annual meeting and vote your shares in person even if you have submitted a proxy card.

What do I do if my shares are held in "street name"?

If your shares are held in the name of your broker, a bank, or other nominee, that party will give you instructions for voting your shares.

Who pays for this proxy solicitation?

We do. In addition to sending you these materials, some of our employees may contact you by telephone, by mail, or in person. None of these employees will receive any extra compensation for doing this. We do not expect to engage an outside firm to solicit votes, but if such a firm is engaged subsequent to the date of this proxy statement, the cost is estimated to be less than \$10,000, plus reasonable out-of-pocket expenses.

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### PROPOSAL 1 -- ELECTION OF DIRECTORS

As of the date of annual meeting, the number of directors that comprise our entire board of directors will be fixed at nine. Eight directors will be proposed for election at the annual meeting to hold office as directors until our next annual meeting of shareholders and until their successors are elected and qualify. All eight nominees currently serve on our board of directors.

In light of the provisions requiring a majority of independent directors and other corporate governance requirements recently adopted by New York Stock Exchange and the guidelines published by Institutional Shareholder Services imposing limits on the maximum number of boards on which an individual may concurrently serve, Sheli Z. Rosenberg resigned from our board and Gary R. Garrabrant and Steven Roth agreed not to stand for re-election.

As of the annual meeting, our board of directors will appoint another director who will meet the independence criteria set forth in the New York Stock Exchange listing standards to fill the vacancy created by the election of only eight directors at the annual meeting. The vacancy will be filled by board appointment and no nominations from the floor at the annual meeting will be considered or acted upon.

All of the nominees are willing to serve as directors but, if any of them should decline or be unable to act as a director, the individuals designated in the proxy cards as proxies will exercise the discretionary authority provided to vote for the election of such substitute nominee selected by our board of directors, unless the board alternatively acts to reduce the size of the board or maintain a vacancy on the board in accordance with our bylaws. The board of directors has no reason to believe that any such nominees will be unable or unwilling to serve.

Our board of directors has determined that Messrs. Altman, Dobrowski and Nassau and Dr. Sagalyn are independent under the criteria for independence set forth in the listing standards of the New York Stock Exchange. With the appointment of an additional independent director to fill the vacancy, we will

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meet the New York Stock Exchange requirement for a majority of independent directors serving on the board of directors.

### Nominees for Election as Directors

The names, ages as of April 27, 2004, and existing positions with us of the nominees, if any, are as follows:

Name ----	Age ---	Office or Position Held -----
Samuel Zell.....	62	Chairman of the Board of Directors
Jeffrey A. Altman.....	37	Director
Thomas E. Dobrowski.....	60	Director
Martin L. Edelman.....	62	Director
Craig M. Hatkoff.....	50	Director
John R. Klopp.....	50	Director, Chief Executive Officer and President
Henry N. Nassau.....	49	Director
Lynne B. Sagalyn.....	56	Director

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The name, principal occupation for the last five years, selected biographical information and the period of service as our director of each of the nominees are set forth below.

Samuel Zell has been the chairman of our board of directors since 1997. Mr. Zell is chairman of Equity Group Investments, L.L.C., a privately-held investment company. He is chairman of the board of trustees of Equity Residential, a REIT specializing in the ownership and management of multi-family housing, and of Equity Office Properties Trust, a REIT specializing in the ownership and management of office buildings. He also serves as chairman of the board of Anixter International Inc., a provider of integrated network and cabling systems; Manufactured Home Communities, Inc., a REIT specializing in the ownership and management of manufactured home communities; and Rewards Network, Inc., an administrator of consumer loyalty rewards programs. Additionally, he serves as chairman of Danielson Holding Corporation, a holding company for insurance, marine transportation and waste-to-energy businesses. Since July 2002, Mr. Zell has been chief executive officer of Danielson. Mr. Zell has announced his intention to step down as chief executive officer and as a director of Danielson prior to December 31, 2004.

Jeffrey A. Altman has been a director since 1997. Mr. Altman is the sole managing partner of Owl Creek Asset Management, L.P., a manager of distressed securities and value equities hedge funds, which he founded in February 2002. Mr. Altman previously served from November 1996 to 2001 as a senior vice president of Franklin Mutual Advisers, Inc., formerly Heine Securities Corporation, a registered investment adviser, and a vice president of Franklin Mutual Series Fund Inc., a mutual fund with assets in excess of \$20 billion,



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advised by Franklin Mutual Advisers. From August 1988 to October 1996, Mr. Altman was an analyst with Franklin Mutual Advisers.

Thomas E. Dobrowski has been a director since 1998. Mr. Dobrowski is the managing director of Real Estate and Alternative Investments for General Motors Asset Management, an investment manager for several pension funds of General Motors Corporation and its subsidiaries, as well as for several third party clients. Mr. Dobrowski is a trustee of Equity Office Properties Trust and a director of Manufactured Home Communities, Inc.

Martin L. Edelman has been a director since 1997. Mr. Edelman has been of counsel to Paul, Hastings, Janofsky & Walker LLP, and prior thereto Battle Fowler LLP, each a law firm that has provided services to us. Mr. Edelman was a partner with Battle Fowler LLP from 1972 to 1993. He has been a director of Cendant Corporation and a member of the executive committee of that corporation's board of directors since November 1993. Mr. Edelman also serves as a director of Ashford Hospitality Trust.

Craig M. Hatkoff has been a director since 1997. From 1997 to 2000, Mr. Hatkoff served as our vice chairman. Mr. Hatkoff is chairman of Turtle Pond Publications LLC, which is active in children's publishing and entertainment, and is a private investor in other entrepreneurial ventures. Mr. Hatkoff was a founder and a managing partner of Victor Capital Group, L.P., or Victor Capital, from 1989 until our acquisition of Victor Capital in July 1997. Mr. Hatkoff was a managing director and co-head of Chemical Realty Corporation, the real estate investment banking arm of Chemical Banking Corporation, from 1982 until 1989. From 1978 to 1982, Mr. Hatkoff was the head of new product development in Chemical Bank's Real Estate Division, where he previously served as a loan officer. Mr. Hatkoff is a trustee of the New York City Construction Authority, an agency responsible for the construction of all public schools in New York City.

John R. Klopp has been a director since 1997, and our chief executive officer and president since 1997 and 1999, respectively. Mr. Klopp was a founder and a managing partner of Victor Capital from 1989 until the acquisition of Victor Capital by us in July 1997. Mr. Klopp was a managing director and co-head of Chemical Realty Corporation from 1982 until 1989. From 1978 to 1982, Mr. Klopp held various positions with Chemical Bank's Real Estate Division, where he was responsible for originating, underwriting and monitoring portfolios of construction and permanent loans.

Henry N. Nassau has been a director since 2003. Mr. Nassau was the chief operating officer of Internet Capital Group, Inc., an internet holding company, from December 2002 until June 2003 having previously served as managing director, general counsel and secretary since May 1999. Since September 2003, Mr. Nassau has been a partner at the law firm, Dechert LLP. Mr. Nassau was previously a partner at Dechert LLP from

September 1987 to May 1999 and was chair of the firm's Business Department from January 1988 to May 1999. At Dechert LLP, Mr. Nassau engages in the practice of corporate law, concentrating on mergers and acquisitions, public offerings, private equity, and venture capital financing.

Lynne B. Sagalyn has been a director since 1997. Dr. Sagalyn is Professor of Real Estate Development and Planning at the University of

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Pennsylvania, with appointments at both the Department of City Planning and the Wharton School's Real Estate Department. From 1992 until her appointments at the University of Pennsylvania in 2004, Dr. Sagalyn served as a professor and the Earl W. Kazis and Benjamin Schore Director of the MBA Real Estate Program and Paul Milstein Center for Real Estate at the Columbia University Graduate School of Business. She also serves on the faculty of the Weimer School for Advanced Studies in Real Estate and Land Economics. Dr. Sagalyn is a director of United Dominion Realty Trust, a self-administered REIT in the apartment communities sector and serves as its audit committee chairperson. Additionally, Dr. Sagalyn is a board member of J.P. Morgan U.S. Real Estate Income and Growth Fund and has served on the New York City Board of Education Chancellor's Commission on the Capital Plan.

### Vote Required; Recommendation

The election to the board of directors of each of our eight nominees will require the affirmative vote of a plurality of the votes cast at the annual meeting. Our board of directors unanimously recommends that you vote for the election of all eight nominees.

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### Board of Directors; Committees

Our board of directors is currently comprised of Messrs. Zell, Altman, Dobrowski, Edelman, Garrabrant, Hatkoff, Klopp, Nassau and Roth and Dr. Sagalyn.

Our board of directors currently has three standing committees: an audit committee, a compensation committee and a performance compensation committee. Effective as of the date of our annual meeting, our board will have the following standing committees: an audit committee, a compensation committee and a corporate governance committee.

**Audit Committee:** The audit committee is currently comprised of Messrs. Dobrowski and Nassau and Dr. Sagalyn with Dr. Sagalyn serving as the committee's chairperson. All audit committee members meet the independence criteria and have the qualifications set forth in the listing standards of the New York Stock Exchange and Rule 10A-3 under the Securities Exchange Act of 1934. Each of Messrs. Dobrowski and Nassau is qualified as an audit committee financial expert within the meaning of Item 401(h) of Regulation S-K under the Securities Exchange Act of 1934 and our board of directors has determined that they have the accounting and related financial management expertise within the meaning of the listing standards of the New York Stock Exchange. The SEC has determined that the audit committee financial expert designation does not impose on the person with that designation any duties, obligations or liability that are greater than the duties, obligations or liability imposed on such person as a member of the audit committee of the board of directors in the absence of such designation. The audit committee appoints our independent auditors, oversees the quality and integrity of our financial reporting and the audits of our financial statements by our independent auditors and in fulfilling its oversight function, reviews with our management and independent auditors the scope and result of the annual audit, our auditors' independence and our accounting policies. Our board of directors has adopted a written charter under which the audit committee will operate following the annual meeting. This charter will be posted on our corporate website at [www.capitaltrust.com](http://www.capitaltrust.com) as of the annual meeting and is also included as Appendix A to this proxy statement.

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The audit committee has adopted complaint procedures for accounting, internal control and auditing matters in accordance with Rule 10A-3 under the Securities Exchange Act of 1934. The full text of these complaint procedures will be available on our corporate website at [www.capitaltrust.com](http://www.capitaltrust.com) as of the annual meeting.

**Compensation Committee:** The compensation committee is currently comprised of Mr. Altman and Dr. Sagalyn. Following the annual meeting, the compensation committee will be comprised of Messrs. Altman and [redacted] and Dr. Sagalyn, with [redacted] serving as the committee's chairperson. Mr. Altman and Dr. Sagalyn also serve as members of the performance compensation committee, which will be eliminated since its functions will be carried out by the compensation committee following the annual meeting. Following the annual meeting, all compensation committee members will meet the independence criteria set forth in the listing standards of the New York Stock Exchange. The compensation committee oversees the compensation of executive officers and senior management, including plans and programs relating to cash compensation, incentive compensation, equity-based awards and other benefits and perquisites and administers any such plans or programs as required by the terms thereof. Our board of directors has adopted a written charter under which the compensation committee will operate following the annual meeting. As of the annual meeting, this charter will be posted on our corporate website at [www.capitaltrust.com](http://www.capitaltrust.com).

**Corporate Governance Committee:** Following the annual meeting, the corporate governance committee will be comprised of [redacted], [redacted] and [redacted], with [redacted] serving as the committee's chairperson. All corporate governance committee members following the annual meeting will meet the independence criteria set forth in the listing standards of the New York Stock Exchange. The corporate governance committee identifies qualified individuals to become board members, recommends to the board individuals to be designated as nominees for election as directors at the annual meetings of shareholders, and develops and recommends to the board our corporate governance guidelines. Our board of directors has adopted a

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written charter under which the corporate governance committee will operate following the annual meeting. As of the annual meeting, this charter will be posted on our corporate website at [www.capitaltrust.com](http://www.capitaltrust.com).

During fiscal year 2003, our board of directors held three meetings. The audit committee held four meetings in 2003. The compensation committee and the performance compensation committee did not hold any formal committee meetings in 2003, but rather acted by unanimous written consent twice in performing their functions. During 2003, each director, other than Mr. Altman, who missed one meeting, attended all meetings of the board of directors (while he or she was a member), and all meetings of committees on which he or she served. Our board of directors eliminated the executive committee of the board which did not meet in 2003.

Corporate Governance

**Code of Business Conduct and Ethics:** We have adopted a code of business conduct and ethics that applies to all of our employees, including our principal executive officer, principal financial officer and principal accounting officer. This code of business conduct and ethics is designed to comply with SEC

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regulations and New York Stock Exchange listing standards related to codes of conduct and ethics and will be posted on our corporate website at [www.capitaltrust.com](http://www.capitaltrust.com) as of the annual meeting. A copy of our code of business conduct and ethics is available free of charge, upon request directed to Investor Relations, Capital Trust, Inc., 410 Park Avenue, 14th Floor, New York, N.Y. 10022.

**Corporate Governance Guidelines:** We have also adopted corporate governance guidelines to advance the functioning of our board of directors and its committees and to set forth our board of directors' expectations as to how it should perform its functions. Our corporate governance guidelines will be posted on our corporate website at [www.capitaltrust.com](http://www.capitaltrust.com) as of the annual meeting.

**Shareholder Nominations and Communications Policy:** Our board of directors has adopted policies with respect to the consideration of candidates recommended by shareholders for election as director and shareholder communications with the board of directors.

Shareholders may recommend nominees for consideration by the corporate governance committee by submitting the names and the following supporting information to our secretary at: Secretary, Shareholder Nominations, Capital Trust, Inc., 410 Park Avenue, 14th Floor, New York, N.Y. 10022. The submissions should include a current resume and curriculum vitae of the candidate and a statement describing the candidate's qualifications and contact information for personal and professional references. The submission should also include the name and address of the shareholder who is submitting the nominee, the number of shares which are owned of record or beneficially by the submitting shareholder and a description of all arrangements or understanding between the submitting shareholder and the candidate.

Shareholders and other interested parties may communicate directly with our board of directors or the non-management directors. All communications should be in writing and should be directed to our secretary at: Secretary, Shareholder Communications, Capital Trust, Inc., 410 Park Avenue, 14th Floor, New York, N.Y. 10022. The sender should indicate in the address whether it is intended for the entire board of directors, the non-management directors as a group or an individual director. Each communication intended for the board of directors or non-management directors received by the secretary will be forwarded to the intended recipients in accordance with the existing instructions.

The full text of the shareholder nominations and communications policy will be available on our corporate website at [www.capitaltrust.com](http://www.capitaltrust.com) as of the annual meeting.

**Director Attendance at Annual Meeting of Shareholders.** We do not have a formal policy regarding attendance by directors at our annual meeting of shareholders but invite and encourage all directors to attend. We make every effort to schedule our annual meeting of shareholders at a time and date to permit attendance by directors, taking into account the directors' schedules and the timing requirements of applicable law. At our last annual meeting, which was held on June 5, 2003, one director attended.

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Generally, our non-employee directors are not paid any cash fees for their services as such, but rather are compensated with an annual award of stock units under our 1997 amended and restated non-employee director stock plan with a value equal to \$30,000. However, two of our non-employee directors have elected and will continue to be paid an annual cash retainer of \$30,000. The number of stock units awarded to each director, which are convertible into an equal number of shares of class A common stock according to individual schedules set by each director, is determined quarterly in arrears by dividing one-quarter of the annual retainer amount (\$7,500) by the average closing price of the class A common stock for the quarter. The stock units vest when issued. There is currently no separate compensation for service on committees of the board of directors. All directors are also reimbursed for travel expenses incurred in attending board and committee meetings.

### Compensation Committee Interlocks and Insider Participation

The compensation committee of the board of directors was comprised during 2003 of Messrs. Altman, Edelman and Klopp, Ms. Rosenberg and Dr. Sagalyn. Other than Mr. Klopp, none of the committee's members was employed by us as an officer or employee during 2003. No committee member had any interlocking relationships requiring disclosure under applicable rules and regulations.

For a description of certain relationships and transactions with members of the board of directors or their affiliates, see "-Certain Relationships and Related Transactions" beginning on page 20.

### Executive and Senior Officers

The following sets forth the positions, ages as of April 27, 2004 and selected biographical information for our executive and senior officers who are not directors.

Jeremy FitzGerald, age 40, has served as a managing director since 1997. Ms. FitzGerald is responsible for originating, structuring and negotiating high yield investments. Prior to that time, she served as a principal of Victor Capital Group and had been employed in various positions at such firm since May 1990. She was previously employed in various positions at PaineWebber Incorporated.

Peter S. Ginsberg, age 41, has served as a managing director since 2003. Mr. Ginsberg is responsible for originating, structuring and negotiating high yield investments. He has been employed by us in various positions since 1997. He was previously employed as a senior associate at a New York City law firm focusing on real estate finance and investments.

Geoffrey G. Jervis, age 32, has served as our director of capital markets since 2004 and previously served as our vice president since 2003. He has been employed by us in various positions since 1999. Mr. Jervis is responsible for our capital markets activities that include the structuring, marketing and management of our equity and liability structures for our balance sheet and on behalf of our funds under management. Prior to joining us, Mr. Jervis was the Chief of Staff to the New York City Economic Development Corporation under the Giuliani Administration.

Brian H. Oswald, age 43, has served as our chief financial officer since 2003. Mr. Oswald joined us in 1997 as our director of finance and accounting and chief accounting officer. Prior to joining us, Mr. Oswald was employed for 10 years at KPMG Peat Marwick where he held various positions, including senior manager in the financial institutions group. After leaving KPMG, he was employed as the president of a savings and loan association, director of financial reporting and subsidiary accounting for a \$1.5 billion bank and corporate

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controller for an international computer software company. Mr. Oswald is a certified public accountant and certified management accountant.

Stephen D. Plavin, age 44, has served as our chief operating officer since 1998. Prior to that time, Mr. Plavin was employed for fourteen years with the Chase Manhattan Bank and its securities affiliate, Chase Securities Inc. Mr. Plavin held various positions within the real estate finance unit of Chase, including the

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management of: loan origination and execution, loan syndications, portfolio management, banking services and real estate owned sales. He served as a managing director responsible for real estate client management for Chase's major real estate relationships and in 1997 he became co-head of Global Real Estate for Chase. Mr. Plavin serves as a director of Omega Healthcare Investors, Inc., a skilled nursing real estate investment trust.

Thomas C. Ruffing, age 43, has served as our director of asset management since 2001. Mr. Ruffing is responsible for the asset management of our investment portfolios. Prior to joining us in 2001, Mr. Ruffing was employed by JP Morgan Chase serving in its real estate and lodging investment banking group since 1990. In various roles at the bank, his responsibilities included structured corporate real estate finance transactions, major asset property sales, and the restructuring and workout of problem real estate loans.

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### Report of the Audit Committee of the Board of Directors\*

Our board of directors' audit committee carries out oversight functions with respect to the preparation, review and audit of our financial statements and operates under a written charter adopted by the board of directors. The audit committee members are independent within the meaning of the applicable New York Stock Exchange listing standards and Rule 10A-3 under the Exchange Act. Our management is responsible for the development, maintenance and evaluation of internal controls and procedures and the financial reporting system, the maintenance of appropriate accounting and financial reporting principles or policies and the preparation of financial statements in accordance with generally accepted accounting principles. Our independent auditors perform an independent audit of our consolidated financial statements in accordance with generally accepted auditing standards and issue a report thereon. The audit committee's responsibility is to monitor and oversee the foregoing functions.

The audit committee has met and held discussions with management and the independent auditors with respect to our consolidated financial statements for fiscal year 2003 and related matters. Management advised the committee that our consolidated financial statements were prepared in accordance with generally accepted accounting principles and the committee has reviewed and discussed the

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consolidated financial statements with management and our independent auditors, Ernst & Young LLP. Our independent auditors presented to and reviewed with the audit committee the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees). Our independent auditors also provided to the committee the written disclosures and the letter from the auditors required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and in connection therewith the committee discussed with the independent auditors their views as to their independence. In undertaking its oversight function, the audit committee relied, without independent verification, on management's representation that the financial statements have been prepared with integrity and objectivity and in conformity with accounting principles generally accepted in the United States of America and on the representations of the independent auditors included in their report on our financial statements.

Based on the audit committee's considerations, discussions with management and the independent auditors as described above, the audit committee recommended to the board of directors that the audited consolidated financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2003 to be filed with the Securities and Exchange Commission.

### Audit Committee

Lynne B. Sagalyn  
Thomas E. Dobrowski  
Henry N. Nassau

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\* The material in this report is not "solicitation material," is not deemed filed with the SEC, and is not incorporated by reference in any filing of the company under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filing.

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### Executive Compensation

The following table sets forth for the years indicated the annual compensation of the chief executive officer and our other executive officers who earned annual salary and bonus in excess of \$100,000, which we refer to as the named executive officers.

#### Summary Compensation Table

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Annual Compensation (1)                      Long Term Compensation  
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Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Restricted Stock Award (\$)	Securities Underlying Options (#)	Other Compensation (\$)
John R. Klopp						
Chief Executive Officer and President	2003	600,000	1,000,000	--	--	6,000
	2002	600,000	1,100,000	--	83,334	6,000
	2001	600,000	1,400,000	400,000 (2)	33,334	20,000
Stephen D. Plavin	2003	371,671	650,000	203,500 (3)	--	6,000
Chief Operating Officer	2002	371,671	600,000	312,500 (4)	--	6,000
	2001	380,728	1,000,000	625,000 (4)	50,000	20,000
Brian H. Oswald						
Chief Financial Officer, Secretary and Treasurer (5)	2003	210,000	250,000	50,875 (6)	--	6,000

(1) The annual compensation presented for 2003 represents the annual base salary paid during the fiscal year ended December 31, 2003 and the annual bonus compensation that was paid in February 2004 and accrued as an expense by us for the fiscal year ended December 31, 2003. As permitted by rules established by the SEC, no amounts are shown with respect to certain "perquisites" where such amounts do not exceed, in the aggregate, the lesser of 10% of bonus plus salary or \$50,000.

(2) Represents the value of 29,630 shares of class A common stock awarded to Mr. Klopp in February 2001 (based on the \$13.50 per share closing price on the date of the grant). The value of such restricted stock award to Mr. Klopp at December 31, 2003 was \$672,601 (based on the \$22.70 per share New York Stock Exchange closing price on such date).

(3) Represents the value of 10,000 shares of class A common stock awarded to Mr. Plavin on October 22, 2003 (based on the \$20.35 per share closing price on the date of the grant). The value of this restricted stock award to Mr. Plavin at December 31, 2003 was \$227,000 (based on the \$22.70 per share closing price on such date).

(4) Represents the value of 16,667 and 33,334 shares of class A common stock granted to Mr. Plavin on August 31, 1998 and issued during 2002 and 2001, respectively (based on the \$18.75 per share closing price on the date of the grant). The value of these restricted stock awards to Mr. Plavin at December 31, 2003 was \$1,135,023 (based on the \$22.70 per share closing price on such date).

(5) Mr. Oswald was appointed chief financial officer on February 13, 2003.

(6) Represents the value of 2,500 shares of class A common stock awarded to Mr. Oswald on October 22, 2003 (based on the \$20.35 per share closing price on the date of the grant). The value of this restricted award to Mr. Oswald at December 31, 2003 was \$56,750 (based on the \$22.70 per share closing price on such date).

(7) Represents contributions made by us to our 401(k) profit sharing plan.



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### Employment Agreement

John R. Klopp serves as our chief executive officer and president pursuant to an employment agreement entered into on July 15, 1997, which will terminate effective July 15, 2004, the effective date of his new employment agreement that was entered into on April 19, 2004. The new employment agreement

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provides for Mr. Klopp's employment through December 31, 2008 (subject to earlier termination under certain circumstances as described below).

Under the new employment agreement, Mr. Klopp will receive a base salary of \$600,000 per year, subject to possible increase by our board of directors. The agreement provide for annual performance compensation awards, pursuant to our 2004 long-term incentive plan, referred to as the 2004 Plan, tied to the achievement of threshold, target or maximum performance criteria set by the compensation committee of the board each year after consultation with Mr. Klopp. Under these awards, Mr. Klopp can earn an annual cash bonus ranging from 100% of base salary at threshold performance, 150% of base salary at target performance to 200% at maximum performance. The agreement also provide for an annual performance compensation award of restricted shares ranging from \$250,000 at threshold performance, \$500,000 at target performance to \$750,000 at maximum performance. The restricted share awards will be subject to further vesting: 50% of the award will vest in equal installments over the three year period from the date of grant and 50% of the award will vest on the fourth anniversary from the date of grant provided the total shareholder return during the vesting period is at least 13% per annum.

Pursuant to the agreement, Mr. Klopp will be granted as of the effective date pursuant to the 2004 Plan an initial award of 218,818 restricted shares, 50% of which will be subject to time vesting in 24 equal monthly increments commencing on the 36th month from the date of grant and 50% of which will be issued as a performance compensation award and will vest on December 31, 2008 if the total shareholder return, measured from January 1, 2004 through December 31, 2008, is at least 13% per annum. Mr. Klopp will also be awarded as of the effective date pursuant to the 2004 Plan performance compensation awards tied to the amount of cash we receive as incentive management fees, if any, from CT Mezzanine Partners III, Inc. The agreement provides for an award entitling Mr. Klopp to cash payments equal to 8% of incentive management fees, if any, received by us. The agreement provides for an additional award on or before April 19, 2005 as determined by the compensation committee in its discretion up to an additional 10% of incentive management fees, if any, received by us. These awards vest 65% on the expiration of the investment period for the fund and 35% upon our receipt of the incentive management fees.

We may terminate Mr. Klopp's employment upon his death, upon disability that has incapacitated him for 180 consecutive days, or for conduct defined as "cause" in the agreement. Mr. Klopp has the right to terminate the agreement for "good reason" as defined in the agreement, which includes the assignment of materially inconsistent duties, responsibilities and title and change in control. In the event of our termination of Mr. Klopp's employment without "cause" or by Mr. Klopp for "good reason," Mr. Klopp is entitled to certain post termination benefits, including: a lump sum cash payment equal to the greater of (i) the sum of base salary and target performance bonuses for the balance of the

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term of the agreement assuming satisfaction of the performance criteria or (ii) twice current base salary and the highest annual cash bonus earned during the term of the agreement; the accelerated granting and vesting in full of all annual restricted share grants and the initial restricted share; the granting and vesting in full of all incentive management fee performance compensation awards; vested options may be exercised for the later of one year following termination or the expiration of the options; and we shall pay medical insurance coverage premiums for the earlier of 18 months following termination or the date Mr. Klopp receives comparable coverage from another employer. If Mr. Klopp is terminated upon expiration of the agreement, he receives the same post termination benefits, except he will be paid a lump sum cash payment equal to his base salary, earned unpaid bonus at target performance and all awards previously granted will continue to vest for an additional year following termination. The agreement also provides specified benefits upon death or disability.

Mr. Klopp's employment agreement contains provisions relating to non-competition during the term of employment, protection of our confidential information and intellectual property, and non-solicitation of our employees.

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Stock Options and Long Term Incentive Plan

No stock option grants were made to any named executive officer in 2003.

The following table shows the 2003 year-end value of the stock options held by the named executive officers. None of the named executive officers exercised stock options during 2003.

Year End 2003 Option/SAR Values

Name	Number of Securities Underlying Unexercised Options/SARs at Year End		Value of Unexercised In-the-Money Options/SARs at Year End (1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
John R. Klopp	141,668	66,668	\$667,502	\$480,011
Stephen D. Plavin	44,445	5,556	85,555	42,781
Brian H. Oswald	32,224	2,778	176,334	25,558

(1) Amounts shown reflect the excess of the market value of the underlying class A common stock at year end based upon the \$22.70 per share closing price reported on the New York Stock Exchange on December 31, 2003 over the exercise prices for the stock options. The actual value, if any, an executive may realize is dependent upon the amount by which the market price of class A common stock

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exceeds the exercise price when the stock options are exercised.

The following table provides information with respect to a long term incentive plan award made to three named executive officers in 2003.

### Long Term Incentive Plans - Awards in Last Fiscal Year

Name	Number of Shares, Units or Other Rights	Performance or Other Period Until Maturaton of Payment	Estimated Future Payouts under Non-Stock Price-Based Plans		
			Threshold(\$)	Target (\$)	Maximum (\$)
John R. Klopp	6.250% (1)	-- (2)	-- (3)	623,844	--
Stephen D. Plavin	1.875% (1)	-- (2)	-- (3)	187,153	--
Brian H. Oswald	0.625% (1)	-- (2)	-- (3)	62,384	--

(1) Represents rights to receive cash payments pursuant to incentive bonus agreements based on the distributions, if any, received by us from our incentive interest in CT Mezzanine Partners II LP, which we refer to as Fund II. During 2003, Messrs. Klopp, Plavin and Oswald were each granted a right to receive cash payments equal to the specified percentages of incentive distributions to be received by us from Fund II. These rights vest in equal increments of 50% upon the date of grant and 50% upon our receipt of incentive distributions from Fund II. Including these grants, incentive bonus agreements representing rights to receive cash payments equal to 25% of our total incentive distributions, if any, from Fund II have been granted to various employees.

(2) The incentive bonus agreements do not provide for any specified timeframe during which cash payments are to be made. Cash payments pursuant to incentive bonus agreements will be made when we receive incentive distributions, if any, from Fund II. We currently expect to receive incentives distributions from Fund II in 2006 and 2007.

(3) The incentive bonus agreements do not provide for minimum or maximum cash payments to the recipients. Cash payments will depend on the amount of incentive distributions, if any, we receive from Fund II. Our incentive distributions will depend on whether the investors in Fund II receive a return of 100% of their invested capital and a minimum return of 10% per annum on invested capital. The "Target" amounts shown in the table are based on numerous assumptions, including that all of Fund II's investments continue to perform and pay off in full by December 31, 2007. There can be no assurance that Fund II will perform in accordance with the foregoing assumptions and produce returns that will be sufficient to generate

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incentive distributions.

### Equity Compensation Plan Information

The following table provides information about the securities authorized for issuance under our equity compensation plans as of January 1, 2004:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (c) (c)
Equity compensation plans approved by security holders	602,470	\$20.30	147,001 (1)
Equity compensation plans not approved by security holders (2)	--	--	--
Total	602,470	\$20.30	147,001 (1)

(1) The number of securities remaining for future issuance in 2004 consists of 147,001 shares issuable under our amended and restated 1997 incentive stock plan and our amended and restated 1997 non-employee director stock plan, both of which were approved by our shareholders. Awards under the plan may include restricted stock, unrestricted stock, stock options, stock units, stock appreciation rights, performance shares or other equity-based awards, as the board of directors may determine.

(2) We have no equity compensation plans not approved by security holders.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act requires our officers and directors, and persons who own, or are part of a group that owns, more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC and the NYSE. Officers, directors and greater than ten percent shareholders are required by regulation of the SEC to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of Forms 3, 4 and 5 and amendments thereto available to us and other information obtained from our directors and officers and certain 10% shareholders or otherwise available to us, except as described below, we believe that no director, officer or beneficial owner of more than 10% of our class A common stock failed to file on a timely basis reports required pursuant to Section 16(a) of the Securities Exchange Act with respect to 2003. Form 4s required to be filed in October 2003 by Stephen D. Plavin and Brian H. Oswald as a result of grants of restricted stock were filed late in March 2004. In addition, to our knowledge, Rodney F. Dammeyer, a shareholder who was never an employee, officer or director of Capital Trust, failed to file reports with

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respect to three changes in his beneficial ownership of our class A common stock occurring on or before his remaining shares were sold in March 2002.

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### Report on Executive Compensation\*

#### Introduction

During 2003, our two existing compensation committees administered our compensation programs. The compensation committee established and administered the compensation and benefit arrangements for officers and key employees (except to the extent vested in the performance compensation committee). The performance compensation committee (which was comprised of the independent members of the compensation committee) established and administered the compensation programs as they relate to our executive officers. The performance compensation committee could receive recommendations from the compensation committee, but could accept or reject, or increase or decrease, any award or component of compensation recommended by the compensation committee. As of the annual meeting, the compensation committee will be reconstituted and operate under a new charter, and the performance compensation committee will be eliminated since its functions will be assumed by the reconstituted and newly chartered compensation committee.

#### Compensation for 2003

Our 2003 executive compensation program consisted of three elements: an annual base salary, annual bonus compensation and long-term incentive compensation.

Mr. Klopp received a \$600,000 annual salary which was previously approved by the board of directors and the other executive officers also received their previously established or negotiated salaries. The performance compensation committee's goal was to provide competitive executive compensation packages as a means of retaining its executive officers. To that end, the committee strived to compensate executive officers with salaries commensurate with prevailing compensation practices in the financial services industry. Salaries vary according to the levels of responsibility undertaken by the executive officers.

The performance compensation committee's goals with annual bonus and long-term incentive compensation was to focus executive behavior on the fulfillment of long-term and annual business objectives, and to create a sense of ownership in the company that causes executive decisions to be aligned with the best interests of our shareholders.

For 2003, the board of directors established the following goals for us:

- o complete all aspects of the previously-adopted plan to qualify as a REIT;
- o commence and maintain payment of quarterly dividends to our shareholders;
- o capitalize and launch CT Mezzanine Partners III, Inc., our third

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private equity fund; and

- o re-establish our profile in the public equity capital markets.

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The performance compensation committee considered executive officer performance in achieving these goals. We completed all steps necessary to qualify as a REIT as of January 1, 2003 and paid four regular quarterly dividends of \$0.45 per share. We successfully raised \$425 million of committed equity capital for CT Mezzanine Partners III, Inc. and began deploying that capital into new investments. For the year, new investments on behalf of our own balance sheet and our funds under management totaled \$371,607,399 million. We effectuated a one-for-three reverse stock split, completed a private placement of 1,075,000 shares of our class A common stock, and instituted an investor outreach program to raise our profile in the public equity markets. For the year, total shareholder returns, including reinvestment of dividends, equaled 57%.

In recognition of his leadership in achieving these goals, the performance compensation committee awarded Mr. Klopp a \$1,000,000 cash bonus. The performance compensation committee awarded cash bonuses to other executive officers based on each executive officer's contribution to achieving our goals for 2003. In connection with its evaluation, the committee considered the executive officer's level of job responsibility and relative influence on our ability to manage successfully and accomplish the goals. As long term incentives, the performance compensation committee awarded Mr. Klopp rights to receive cash payments equal to 6.25% of our total incentive distributions, if any, received from Fund II and awarded other executive officers shares of restricted stock and similar rights to receive specified percentages of Fund II incentive distributions.

Section 162(m) of the Internal Revenue Code of 1986 limits the deductibility in our tax return of compensation over \$1 million to any of our executive officers unless, in general, the compensation is paid pursuant to a plan which is performance-related, and non-discretionary and has been approved by our shareholders. The performance compensation committee's policy with respect to Section 162(m) was to make every reasonable effort to ensure that compensation is deductible to the extent permitted while simultaneously providing our executives with appropriate rewards for their performance. During 2003, we paid our executive officers approximately \$777,869 aggregate cash compensation that was non-deductible pursuant to Section 162(m). In awarding the cash bonuses that produced the non-deductible compensation expense, the performance compensation committee determined that the advantages to us of awarding compensation at that level as a reward for the previously discussed leadership of Mr. Klopp and the contributions of the other executive officers outweighed the loss of the tax deduction. Following the annual meeting, our compensation committee will continue to consider on a case-by-case basis whether particular compensation awards and programs that do not satisfy the conditions

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of Section 162(m) outweigh the costs to us of the loss of the related tax deduction.

Performance Compensation Committee

Jeffrey A. Altman  
Lynne B. Sagalyn

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Performance Graph\*

Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on shares of our class A common stock against (i) the cumulative total return of companies listed on the New York Stock Exchange, (ii) the cumulative total return of a peer group selected in the previous year by us (iStar Financial Inc., Blackrock, Inc., Allied Capital Corp., LNR Property Corp. and Federated Investors, Inc.), which we refer to as the Old Peer Group and (iii) the cumulative total return of a peer group newly selected by us (iStar Financial Inc., RAIT Investment Trust, Anthracite Capital Inc., Allied Capital Corp. and LNR Property Corp.), which we refer to as the New Peer Group. We have selected the New Peer Group as a basis for comparison because we believe that, as a result of changes in our operations and the competitive environment, a comparison of shareholder returns to the returns of our newly selected peer group companies provides a more appropriate basis of comparison. The five-year period compared commences December 31, 1998 and ends December 31, 2003. This graph assumes that \$100 was invested on January 1, 1999 in us and each of the market index and the peer group index, at the December 31, 1998 closing prices, and that all cash distributions were reinvested. Our class A common stock price performance shown on the graph is not indicative of future price performance.

[GRAPHIC OMITTED]

	1998	1999	2000	2001	2002	2003
CAPITAL TRUST	100.00	83.33	82.30	96.00	88.33	132.65
NYSE MARKET INDEX	100.00	109.50	112.11	102.12	83.42	108.07
OLD PEER GROUP INDEX	100.00	70.93	123.93	145.94	138.66	185.63
NEW PEER GROUP INDEX	100.00	59.93	74.98	104.95	115.09	162.44

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\* The price performance comparison information in the table is not "solicitation material," is not deemed filed with the SEC, and is not incorporated by reference in any filing of the company under the Securities Act or the Securities Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any filing.

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## Security Ownership of Certain Beneficial Owners and Management

The following table sets forth as of April 27, 2004, certain information with respect to the beneficial ownership of our class A common stock, by:

- o each person known to us to be the beneficial owner of more than 5% of our outstanding class A common stock,
- o each director, director nominee and named executive officer currently employed by us, and
- o all of our directors and executive officers as a group.

Such information (other than with respect to our directors and executive officers) is based on a review of statements filed with the SEC pursuant to Sections 13(d), 13(f) and 13(g) of the Securities Exchange Act of 1934 with respect to our class A common stock.

Name of Beneficial Owner -----	Number of Shares Beneficially Owned (1) -----	Percent of Class -----
Veqtor Finance Company, L.L.C. (2)	897,429	13.5%
EOP Operating Limited Partnership (3)	1,424,474 (4)	17.7
Vornado Realty, L.P. (5)	1,424,474 (4)	17.7
JPMorgan Chase Bank, as trustee for General Motors Employee Global Group Pension Trust (6)	99,713 (7)	1.5
JPMorgan Chase Bank, as trustee for GMAM Group Pension Trust II (6)	1,324,761 (8)	16.6
Lend Lease Rosen Real Estate Securities LLC (9)	340,000	5.1
Jeffrey A. Altman	--	--
Thomas E. Dobrowski	-- (10)	--
Martin L. Edelman	38,230 (11)	*
Gary R. Garrabrant	24,896 (11)	*
Craig M. Hatkoff	669,701 (12) (13)	10.0
John R. Klopp	835,446 (12) (13)	12.3
Henry N. Nassau	11,377 (14)	*
Brian H. Oswald	55,507 (15)	*
Stephen D. Plavin	170,942 (15)	2.6
Steven Roth	-- (16)	--
Lynne B. Sagalyn	21,563 (11)	*
Samuel Zell	82,229 (11) (17)	1.2
All executive officers and directors as a group (12 persons)	1,905,891	26.9

\* Represents less than 1%.

(1) The number of shares are those beneficially owned, as determined under the rules of the SEC, and such information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which a person has sole or shared voting power or investment power and any shares which the



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person has the right to acquire within 60 days through the exercise of any option, warrant or right, through conversion of any security or pursuant to the automatic termination of a power of attorney or revocation of a trust, discretionary account or similar arrangement.

- (2) Zell General Partnership, Inc. is the sole managing member of Veqtor Finance Company, L.L.C. The sole shareholder of Zell General Partnership is the Sam Investment Trust, a trust established for

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the benefit of the family of Samuel Zell. Chai Trust Company, L.L.C. serves as trustee of the Sam Investment Trust. Veqtor Finance Company, L.L.C. is located at c/o Equity Group Investments, L.L.C., Two North Riverside Plaza, Chicago, Illinois 60606.

- (3) Beneficial ownership information is based on a statement filed pursuant to Section 13(d) of the Securities Exchange Act of 1934 by EOP Operating Limited Partnership. The address of EOP Operating Limited Partnership is Two North Riverside Plaza, Chicago, Illinois 60606.
- (4) Represents shares which may be obtained upon conversion of \$29,914,000 in convertible amount of variable step up convertible trust preferred securities issued by our consolidated Delaware statutory business trust subsidiary, CT Convertible Trust I.
- (5) Beneficial ownership information is based on a statement filed pursuant to Section 13(d) of the Securities Exchange Act of 1934 by Vornado Realty, L.P. The address of Vornado Realty is c/o Vornado Realty Trust, Park 80 West, Plaza II, Saddle Brook, New Jersey 07663.
- (6) Each trust is a pension trust formed pursuant to the laws of the State of New York for the benefit of certain employee benefit plans of General Motors Corporation, its subsidiaries and unrelated employers. These shares may be deemed to be owned beneficially by General Motors Asset Management, a wholly-owned subsidiary of General Motors. General Motors Asset Management is registered as an investment adviser under the Investment Advisers Act of 1940. General Motors Asset Management's principal business involves investment advice and investment management services with respect to the assets of certain employee benefit plans of General Motors, its subsidiaries and unrelated employers and with respect to the assets of certain direct and indirect subsidiaries of General Motors and associated entities. General Motors Asset Management is serving as investment manager with respect to these shares and in that capacity it has the sole power to direct the trustee as to the voting and disposition of these shares. Because of the trustee's limited role, beneficial ownership of the shares by the trustee is disclaimed.
- (7) Represents shares which may be obtained upon conversion of \$2,093,980 in convertible amount of variable step up convertible trust preferred securities issued by our consolidated Delaware statutory business trust subsidiary, CT Convertible Trust I.
- (8) Represents shares which may be obtained upon conversion of \$27,820,020 in convertible amount of variable step up convertible trust preferred securities issued by our consolidated Delaware statutory business trust subsidiary, CT Convertible Trust I.
- (9) Beneficial ownership information is based on a statement filed pursuant to Section 13(g) of the Exchange Act by Lend Lease Rosen Real Estate Securities LLC. The address of Lend Lease Rosen Real Estate Securities LLC is 1995 University Avenue, Suite 550, Berkeley, CA 94704.
- (10) Does not include the shares that may be deemed beneficially owned by General Motors Asset Management, as to which Mr. Dobrowski disclaims beneficial ownership.

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- (11) In the case of Mr. Zell, Mr. Edelman, Mr. Garrabrant and Dr. Sagalyn, includes 13,229 shares obtainable by each upon conversion of vested stock units. In the case of Mr. Zell, Mr. Edelman, Mr. Garrabrant and Dr. Sagalyn, includes 40,000, 25,001, 11,667 and 8,334 shares issuable upon the exercise of vested stock options.
- (12) Includes, in the case of Mr. Hatkoff, the 610,044 shares owned by CMH Investment Partnership LP, a family partnership for which Mr. Hatkoff serves as a general partner. Includes, in the case of Mr. Klopp, 600,044 shares owned by JRK Investment Partnership LP, a family partnership for which Mr. Klopp serves as general partner.
- (13) Includes 180,558 and 47,223 shares issuable upon the exercise of vested stock options held by each of Messrs. Klopp and Hatkoff. Includes 21,882 shares for Mr. Klopp that are the subject of restricted stock awards for which he retains voting rights. Includes for Mr. Hatkoff 6,434 shares that may be obtained upon conversion of vested stock units.

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- (14) Includes 1,377 shares obtainable upon conversion of vested stock units. Includes 400 shares held by members of Mr. Nassau's family, as to which Mr. Nassau disclaims beneficial ownership except to the extent of his pecuniary interest therein.
- (15) Includes 35,002 and 50,001 shares issuable upon the exercise of vested stock options held by Mr. Oswald and Mr. Plavin, respectively. Includes 6,876 and 20,941 shares for Mr. Oswald and Mr. Plavin, respectively, that are the subject of restricted stock awards for which they retain voting rights.
- (16) Does not include the shares that may be deemed beneficially owned by Vornado Realty, L.P., as to which Mr. Roth disclaims beneficial ownership.
- (17) Does not include the shares that may be deemed beneficially owned by Equity Office Properties Trust, as to which Mr. Zell disclaims beneficial ownership. 25,000 of such shares are held by Samstock, L.L.C. The sole member of Samstock is SZ Investments, L.L.C. The managing member of SZ Investments is Zell General Partnership. Sam Investment Trust is the sole stockholder of Zell General Partnership, and Chai Trust Company is the trustee of the Sam Investment Trust. Mr. Zell is not an officer or director of Chai Trust Company and does not have voting or dispositive power over such shares. Mr. Zell disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein. 4,000 of such shares are owned by the Helen Zell Revocable Trust, the trustee of which is Helen Zell, Mr. Zell's spouse. Mr. Zell does not have a pecuniary interest in such shares.

### Certain Relationships and Related Transactions

#### Arrangement with Equity Risk Services, Inc.

We pay Equity Risk Services, Inc., an affiliate of Samuel Zell, the chairman of our board of directors, for certain services provided to us. These services include consulting on insurance matters. During the year ended December 31, 2003, we incurred \$48,000 of expenses in connection with these services.

#### Relationship with Martin L. Edelman

Martin L. Edelman, a director, is of counsel to Paul, Hastings, Janofsky & Walker LLP, a law firm that provides us with ongoing legal representation with

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respect to various matters.

### Consulting Agreement with Craig M. Hatkoff

Craig M. Hatkoff, a director, is a party to a two year consulting services agreement with our wholly owned subsidiary, CT Investment Management Co., LLC, that extends through 2005, and pursuant to which he provides services as requested by our chief executive officer and serves on the management committee or board of the two private equity funds that we manage. Mr. Hatkoff was paid \$120,000 in 2003 pursuant to the agreement.

### Relationship with Global Realty Outsourcing, Inc.

We pay Global Realty Outsourcing, Inc., a company in which we have an equity investment and on whose board of directors John R. Klopp, our chief executive officer, serves, for consulting services relating to monitoring assets and evaluating potential investments. During the 2003 fiscal year, we incurred \$147,000 of expenses in connection with these services.

Investments by trusts established for the benefit of Samuel Zell in our funds

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A trust established for the benefit of Mr. Zell and members of his family indirectly invested on the same terms available to third party investors in CT Mezzanine Partners II L.P. and CT Mezzanine Partners III, Inc., two private equity funds which we currently manage, pursuant to which capital commitments and capital contributions have been made, and from which income has been received, since January 1, 2003.

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.

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## PROPOSAL 2 -- APPROVAL OF THE CAPITAL TRUST, INC. 2004 LONG-TERM INCENTIVE PLAN

### Background

On April 26, 2004, our board of directors adopted, subject to shareholder approval, the Capital Trust, Inc. 2004 Long-Term Incentive Plan, which we refer to as the 2004 Plan. We are seeking shareholder approval of the 2004 Plan to enable us to design appropriate awards and incentives with benefits accorded by shareholder approval under the Internal Revenue Code and to satisfy New York Stock Exchange listing standards shareholder approval requirements. Except for the awards we have agreed to grant to John R. Klopp, our chief executive officer, pursuant to his employment agreement, the amount and nature of the proposed awards under the 2004 Plan have not yet been determined.

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If the 2004 Plan is approved, 3,000,000 shares of our class A common stock, which represents 45.2% of our outstanding shares of class A common stock, subject to adjustment as provided for in the 2004 Plan, will initially be available for issuance under the 2004 Plan pursuant to a variety of awards, including options, share appreciation rights, which we refer to as SARs, restricted shares, unrestricted shares, restricted share units, deferred share units, and performance-based awards. If the 2004 Plan is approved by the shareholders, our board of directors intends to cause the shares of our class A common stock that will become available for issuance to be registered on a Form S-8 registration statement to be filed with the SEC at our expense.

The following briefly summarizes our current share-based incentive plans and the impact that this proposal will have on such plans if the 2004 Plan is approved by our shareholders at the annual meeting.

The Company currently maintains two share-based incentive plans: the amended and restated 1997 long-term incentive stock plan, which we refer to as the 1997 Plan, and the amended and restated 1997 non-employee director stock plan, which we refer to as the 1997 Director Plan. As of April 27, 2004, there were 552,780 shares of our class A common stock subject to outstanding and unexercised awards issued pursuant to these plans. Adoption of the 2004 Plan will not affect these awards, and the two plans will remain in effect.

### Summary of the 2004 Plan

The 2004 Plan is set forth in full as Appendix B to this proxy statement and is summarized below. As a summary, the description is qualified in its entirety by reference to Appendix B which contains a complete statement of the terms and provisions of the 2004 Plan. Capitalized terms used in this summary and not otherwise defined will have the meanings ascribed to such terms in the 2004 Plan.

#### Purpose

The purpose of the 2004 Plan is to attract, retain and motivate select employees, officers and directors of ours and our affiliates, which we refer to collectively as Eligible Persons, and to provide incentives and rewards for superior performance.

#### Shares Subject to the 2004 Plan

The 2004 Plan provides that no more than 3,000,000 shares of our class A common stock may be issued pursuant to awards under the 2004 Plan. These shares of our class A common stock shall be authorized but unissued shares. The number of shares of our class A common stock available for awards, as

well as the terms of outstanding awards, are subject to adjustment as provided in the 2004 Plan for stock splits, stock dividends, recapitalizations and other similar events.

The shares of our class A common stock subject to any award that expires, or is forfeited, cancelled or becomes unexercisable, will again be available for subsequent awards, except as prohibited by law. In addition, future awards may occur with respect to shares of our class A common stock that

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we refrain from otherwise delivering pursuant to an award as payment of either the exercise price of an award or applicable withholding and employment taxes.

### Administration

Either our board of directors or a committee appointed by our board directors may administer the 2004 Plan. We refer to our board of directors and any committee exercising discretion under the 2004 Plan from time to time as the Committee. The board of directors may at any time appoint additional members to the Committee, remove and replace members of the Committee with or without cause, and fill vacancies on the Committee. To the extent permitted by law, the Committee may authorize one or more persons who are reporting persons for purposes of Rule 16b-3 under the Exchange Act, or other officers, to make awards to eligible persons who are not reporting persons for purposes of Rule 16b-3 under the Exchange Act, or other officers whom we have specifically authorized to make awards. With respect to decisions involving an award intended to satisfy the requirements of section 162(m) of the Internal Revenue Code, the Committee is to consist solely of two or more directors who are "outside directors" for purposes of that code section. The Committee may delegate administrative functions to individuals who are reporting persons for purposes of Rule 16b-3 of the Exchange Act, officers or employees of ours or our affiliates.

Subject to the terms of the 2004 Plan, the Committee has express authority to determine the Eligible Persons who will receive awards, the number of shares of our class A common stock, units, or SARs to be covered by each award, and the terms and conditions of awards. The Committee has broad discretion to prescribe, amend, and rescind rules relating to the 2004 Plan and its administration, to interpret and construe the 2004 Plan and the terms of all award agreements, and to take all actions necessary or advisable to administer the 2004 Plan. Within the limits of the 2004 Plan, the Committee may accelerate the vesting of any awards, allow the exercise of unvested awards, and may modify, replace, cancel, or renew them. In addition, the Committee may buy-out options or SARs, subject to certain conditions may terminate and cancel options or SARs in exchange for a commitment to issue new options or SARs after more than six months or, subject to shareholder approval or under certain circumstances, reduce the exercise price for outstanding options or SARs.

The 2004 Plan provides that we and our affiliates will indemnify members of the Committee and their delegates against any claims, liabilities, or costs arising from the good faith performance of their duties under the 2004 Plan. The 2004 Plan releases these individuals from liability for good faith actions associated with the 2004 Plan's administration.

### Eligibility

The Committee may grant options that are intended to qualify as incentive stock options, which we refer to as ISOs, only to employees, and may grant all other awards to Eligible Persons. The 2004 Plan and the discussion below use the term "Participant" to refer to an Eligible Person who has received an Award.

The 2004 Plan provides that no more than 3,000,000 shares of our class A common stock may be issued pursuant to awards under the 2004 Plan. As of April 27, 2004, substantially all of our 24 employees, including officers, and our affiliates and our eight non-employee directors would have been eligible to participate in the 2004 Plan.

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### Options

Options granted under the 2004 Plan provide Participants with the right to purchase shares of our class A common stock at a predetermined exercise price. The Committee may grant options that are intended to qualify as ISOs, or options that are not intended to so qualify, which we refer to as Non-ISOs. The 2004 Plan also provides that ISO treatment may not be available for options that become first exercisable in any calendar year to the extent the value of the underlying shares that are the subject of the option exceed \$100,000, based upon the fair market value of the shares of our class A common stock on the option grant date.

### Share Appreciation Rights (SARs)

A share appreciation right generally permits a Participant who receives it to receive, upon exercise, cash and/or shares of our class A common stock equal in value to the excess of (i) the fair market value, on the date of exercise, of the shares of our class A common stock with respect to which the SAR is being exercised, over (ii) the exercise price of the SAR for such shares. The Committee may grant SARs in tandem with options, or independently of them. SARs that are independent of options may limit the value payable on its exercise to a percentage, not exceeding 100%, of the excess value.

### Exercise Price for Options and SARs

The exercise price of Non-ISOs may not be less than 50% of the fair market value on the grant date of the shares of our class A common stock subject to the award, and the exercise price of SARs may not be less than 50% of the fair market value on the grant date of the shares subject to the award. The exercise price of ISOs may not be less than 110% of the fair market value on the grant date of the underlying shares of our class A common stock subject to the award for Participants who own more than ten percent of our shares of class A common stock on the grant date. For ISOs granted to other Participants and for options intended to be exempt from Internal Revenue Code Section 162(m) limitations, the exercise price may not be less than 100% of the fair market value of the underlying shares of class A common stock on the grant date.

As of April 27, 2004, the closing price of our class A common stock on the New York Stock Exchange was \$22.86 per share.

### Exercise of Options and SARs

To the extent exercisable in accordance with the agreement granting them, an option or SAR may be exercised in whole or in part, and from time to time during its term; subject to earlier termination relating to a holder's termination of employment or service. With respect to options, unless otherwise provided in an award agreement, payment of the exercise price may be made in any of the following forms, or combination of them: cash or check in U.S. dollars, certain shares of our class A common stock, cashless exercise under a program the Committee approves and surrender of restricted shares, restricted share units, SARs or deferred share units.

The term over which Participants may exercise options and SARs may not exceed ten years from the date of grant; five years in the case of ISOs granted to employees who, at the time of grant, own more than 10% of our outstanding shares of class A common stock.

### Restricted Shares, Restricted Share Units, Unrestricted Shares and Deferred Share Units

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Under the 2004 Plan, the Committee may grant restricted shares that are forfeitable until certain vesting requirements are met, may grant restricted share units which represent the right to receive shares of our class A common stock after certain vesting requirements are met, and may grant unrestricted shares as to

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which the Participant's interest is immediately vested. For restricted awards, the 2004 Plan provides the Committee with discretion to determine the terms and conditions under which a Participant's interests in such awards become vested. Unless otherwise provided in an award agreement, recipients of restricted shares will be entitled to the dividends declared and paid on the underlying shares and recipients of restricted share units will be entitled to cash payments equal to the amount of the dividends otherwise payable if the shares underlying the restricted share units were outstanding. The 2004 Plan provides for unrestricted shares that vest in full upon the date of a grant or other date determined by the Committee. The 2004 Plan also provides for deferred share units in order to permit certain directors, consultants, or select members of management to defer their receipt of compensation payable in cash or shares of our class A common stock, including shares that would otherwise be issued upon the vesting of restricted shares and restricted share units. Deferred share units represent a future right to receive shares of our class A common stock.

If an award agreement does not provide for earlier payment of dividends, whenever shares of our class A common stock are released pursuant to these awards, the Participant will be entitled to receive additional shares of our class A common stock that reflect any stock dividends that our shareholders received between the date of the award and issuance or release of the shares of our class A common stock. Likewise, a Participant will be entitled to receive a cash payment reflecting cash dividends paid to our shareholders during the same period. Such cash dividends will accrue interest, at 5% per annum, from their payment date to our shareholders until paid in cash when the shares of our class A common stock to which they relate are either released from restrictions in the case of restricted shares or issued in the case of restricted share units.

### Performance Awards

The 2004 Plan authorizes the Committee to grant performance-based awards in the form of Performance Units that the Committee may, or may not, designate as "Performance Compensation Awards" that are intended to be exempt from Internal Revenue Code Section 162(m) limitations. In either case, performance units vest and become payable based upon the achievement, within the specified period of time, of performance objectives applicable to the individual, us, or any affiliate. Performance units are payable in shares of class A common stock, cash, or some combination of the two; subject to an individual Participant limit of \$5,000,000 and 250,000 shares of our class A common stock per performance period. The Committee decides the length of performance periods, but the periods may not be less than one fiscal year.

With respect to Performance Compensation Awards, the 2004 Plan requires that the Committee specify in writing the performance period to which the award relates, and an objective formula by which to measure whether and the extent to which the award is earned on the basis of the level of performance achieved with respect to one or more performance measures. Once established for a performance period, the performance measures and performance formula applicable to the award may not be amended or modified in a manner that would cause the compensation

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payable under the award to fail to constitute performance-based compensation under Internal Revenue Code Section 162(m).

Under the 2004 Plan, the possible performance measures for Performance Compensation Awards include basic, diluted or adjusted earnings per share; sales or revenue; earnings before interest, taxes and other adjustments, in total or on a per share basis; basic or adjusted net income; basic or adjusted funds from operations or cash flow; returns on equity, assets, capital, revenue or similar measure; level and growth of dividends; the price or increase in price of Shares; total shareholder return; distributions received on the account of so called carried interests or incentive management fees from CT Mezzanine Partners II LP, CT Mezzanine Partners III, Inc., and any other private equity fund managed by us; total assets; growth in assets on new origination of assets; equity market capitalization; assets under management; third-party equity capital under management or raised; and mergers, acquisitions, and sales of assets of affiliates or business units. Each measure will be, to the extent applicable, determined in accordance with generally accepted accounting principles as consistently applied by us, or such other standard applied by the Committee and, if

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so determined by the Committee, and in the case of a Performance Compensation Award, to the extent permitted under Internal Revenue Code Section 162(m), adjusted to omit the effects of extraordinary items, gain or loss on the disposal of a business segment, unusual or infrequently occurring events and transactions and cumulative effects of changes in accounting principles. Performance measures may vary from performance period to performance period, and from Participant to Participant, and may be established on a stand-alone basis, in tandem or in the alternative.

### Income Tax Withholding

As a condition for the issuance of shares of our class A common stock pursuant to awards, the 2004 Plan requires satisfaction of any applicable federal, state, local, or foreign withholding tax obligations that may arise in connection with the award or the issuance of shares of our class A common stock.

### Transferability

Awards may not be sold, pledged, assigned, hypothecated, transferred, or disposed of other than by will or the laws of descent and distribution, except to the extent the Committee permits lifetime transfers to charitable institutions, certain family members, or related trusts, or as otherwise approved by the Committee for a select group of management or highly compensated employees.

### Certain Corporate Transactions

The Committee shall equitably adjust the number of shares covered by each outstanding award, and the number of shares that have been authorized for issuance under the 2004 Plan but as to which no awards have yet been granted or that have been returned to the 2004 Plan upon cancellation, forfeiture, or expiration of an award, as well as the price per share covered by each such outstanding award, to reflect any increase or decrease in the number of issued shares resulting from a stock split, reverse stock split, stock dividend, combination, recapitalization or reclassification of the shares of our class A



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common stock, or any other increase or decrease in the number of issued shares effected without receipt of consideration by us. In the event of any such transaction or event, the Committee may provide in substitution for any or all outstanding options under the 2004 Plan such alternative consideration, including securities of any surviving entity, as it may in good faith determine to be equitable under the circumstances and may require in connection therewith the surrender of all options so replaced. In any case, such substitution of securities will not require the consent of any person who is granted options pursuant to the 2004 Plan.

In addition, in the event or in anticipation of a Change in Control, as defined in the 2004 Plan, the Committee may at any time in its sole and absolute discretion and authority, without obtaining the approval or consent of our shareholders or any Participant with respect to his or her outstanding awards, except to the extent an award provides otherwise, take one or more of the following actions: (i) arrange for or otherwise provide that each outstanding award will be assumed or substituted with a substantially equivalent award by a successor corporation or a parent or subsidiary of such successor corporation; (ii) accelerate the vesting of awards for any period, and may provide for termination of unexercised options and SARs at the end of that period, so that awards shall vest (and, to the extent applicable, become exercisable) as to the shares of our class A common stock that otherwise would have been unvested and provide that our repurchase rights with respect to shares of our class A common stock issued upon exercise of an award shall lapse as to the shares of our class A common stock subject to such repurchase right; or (iii) arrange or otherwise provide for payment of cash or other consideration to Participants in exchange for the satisfaction and cancellation of outstanding awards.

Notwithstanding the above, in the event a Participant holding an award assumed or substituted by the successor corporation in a Change in Control is Involuntarily Terminated, as defined in the 2004 Plan, by the successor corporation in connection with, or within 12 months following consummation of, the Change in

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Control, then any assumed or substituted award held by the terminated Participant at the time of termination shall accelerate and become fully vested, and exercisable in full in the case of options and SARs, and any repurchase right applicable to any shares of our class A common stock shall lapse in full. The acceleration of vesting and lapse of repurchase rights provided for in the previous sentence shall occur immediately prior to the effective date of the Participant's termination.

In the event of any distribution to our shareholders of securities of any other entity or other assets, other than dividends payable in cash or our stock, without receipt of consideration by us, the Committee may, in its discretion, appropriately adjust the price per share covered by each outstanding award to reflect the effect of such distribution. Finally, if we dissolve or liquidate, all awards will immediately terminate, subject to the ability of our board of directors to exercise any discretion that the board may exercise in the case of a Change in Control.

### Term of 2004 Plan; Amendments and Termination

The term of the 2004 Plan is ten years from April 26, 2004, the date it was approved by our board of directors. Our board of directors may from time to

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time, amend, alter, suspend, discontinue, or terminate the 2004 Plan; provided that no amendment, suspension, or termination of the 2004 Plan shall materially and adversely affect awards already granted unless it relates to an adjustment pursuant to certain transactions that change our capitalization or it is otherwise mutually agreed between the Participant and the Committee. Notwithstanding the foregoing, the Committee may amend the 2004 Plan to eliminate provisions which are no longer necessary as a result of changes in tax or securities laws or regulations, or in the interpretation thereof.

### Expected Tax Consequences

The following is a brief summary of certain tax consequences of certain transactions under the 2004 Plan. This summary is not intended to be complete and does not describe state or local tax consequences.

#### United States Tax Laws

Under the Internal Revenue Code, we will generally be entitled to a deduction for federal income tax purposes at the same time and in the same amount as the ordinary income that Participants recognize pursuant to awards, subject to the Participant's overall compensation being reasonable, and to the discussion below with respect to Internal Revenue Code Section 162(m)). For Participants, the expected U.S. tax consequences of awards are as follows:

**Non-ISOs.** A Participant will not recognize income at the time a Non-ISO is granted. At the time a Non-ISO is exercised, the Participant will recognize ordinary income in an amount equal to the excess of (i) the fair market value of the shares of our class A common stock issued to the Participant on the exercise date over (ii) the exercise price paid for the shares. At the time of sale of shares acquired pursuant to the exercise of a Non-ISO, the appreciation, or depreciation, in value of the shares after the date of exercise will be treated either as short-term or long-term capital gain, or loss, depending on how long the shares have been held.

**ISOs.** A Participant will not recognize income upon the grant of an ISO. There are generally no tax consequences to the Participant upon exercise of an ISO, except the amount by which the fair market value of the shares at the time of exercise exceeds the option exercise price is a tax preference item possibly giving rise to an alternative minimum tax. If the shares of our class A common stock are not disposed of within two years from the date the ISO was granted or within one year after the ISO was exercised, any gain realized upon the subsequent disposition of the shares will be characterized as long-term capital gain and any loss will be characterized as long-term capital loss. If both of these holding period requirements are not met, then a

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"disqualifying disposition" occurs and (i) the Participant recognizes wages in the amount by which the fair market value of the shares at the time of exercise exceeded the exercise price for the ISO and (ii) any remaining amount realized on disposition, except for certain "wash" sales, gifts or sales to related persons, will be characterized as capital gain or loss.

**Share Appreciation Rights.** A Participant to whom a SAR is granted will not recognize income at the time of grant of the SAR. Upon exercise of a SAR, the Participant must recognize taxable compensation income in an amount equal to the value of any cash or shares of our class A common stock that the Participant

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receives.

Restricted Shares, Restricted Share Units, Deferred Share Units, and Performance Units. In general, a Participant will not recognize income at the time of grant of restricted shares, restricted share units, deferred share units or performance units, unless the Participant elects with respect to restricted shares or restricted share units to accelerate income taxation to the date of the award. In this event, a Participant would recognize ordinary income equal to the excess of the market value of the restricted shares over any amount the Participant pays for them, in which case subsequent gain or loss would be capital in nature. In the absence of an election to accelerate income taxation to the date of an award, a Participant must recognize taxable compensation income equal to the value of any cash or shares of our class A common stock that the Participant receives when the award vests. The same tax consequences apply to performance units.

Special Tax Provisions. Under certain circumstances, the accelerated vesting, cash-out or accelerated lapse of restrictions on awards in connection with a change in control of us might be deemed an "excess parachute payment" for purposes of the golden parachute tax provisions of Internal Revenue Code Section 280G, and the Participant may be subject to a 20% excise tax and we may be denied a tax deduction. Furthermore, we may not be able to deduct the aggregate compensation in excess of \$1,000,000 attributable to awards that are not "performance-based" within the meaning of Internal Revenue Code Section 162(m) in certain circumstances.

### Tax Laws in Other Countries Differ from Those in the United States

In certain countries, awards under the 2004 Plan may be taxable at the time the awards are granted or when they vest. In certain jurisdictions, options and SARs may also be taxable when they are exercised and the sale of the underlying shares may be subject to various taxes.

### General Tax Law Considerations

The preceding paragraphs are intended to be merely a summary of certain important tax law consequences concerning a grant of options under the 2004 Plan and the disposition of shares issued thereunder in existence as of the date of this proxy statement. Special rules may apply to our officers, directors or greater than ten percent shareholders. Participants in the 2004 Plan should review the current tax treatment with their individual tax advisors at the time of grant, exercise or any other transaction relating to an award or the underlying shares.

### New Plan Benefits

The Committee will grant awards under the 2004 Plan at its discretion. Consequently, it is not possible to determine at this time the amount or dollar value of awards to be provided under the 2004 Plan, other than we have agreed, in our employment agreement with our chief executive officer, John R. Klopp, to grant, subject to shareholder approval, performance compensation awards and restricted share awards described under the caption Proposal 1 -- Election of Directors -- Employment Agreement.

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The affirmative vote of a majority of the votes cast on the matter at the annual meeting is required to approve the 2004 Plan in accordance with the applicable New York Stock Exchange rules, provided that the total votes cast represent over 50% of the 6,636,882 shares of class A common stock entitled to vote as of the record date. Our board of directors unanimously recommends that shareholders vote for the approval of the 2004 Plan.

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### PROPOSAL 3 -- EQUITY FINANCING

#### Background

We are seeking your approval to issue up to 2,000,000 shares of our class A common stock in a proposed direct public offering which number of shares would exceed 20% of our outstanding shares of class A common stock immediately prior to such issuance. The proposed direct public offering is covered by and is made pursuant to our effective shelf registration statement on Form S-3 (SEC file number 333-111261).

We have offered to sell up to 2,000,000 shares of our class A common stock to a prospective investor and are currently negotiating the terms of such purchase. We may offer the shares to other prospective investors if we do not reach agreement with the prospective investor. We expect to sell the shares of our class A common stock offered to the prospective investor at a price per share of \$23.40. In addition, we intend to offer the prospective investor a right to designate an individual for appointment to our board of directors.

Because our direct public offering described above involves the issuance by us of a number of shares of our class A common stock that would exceed 20% of our currently outstanding class A common stock, shareholder approval is required by applicable New York Stock Exchange listing standards. We are seeking your approval so that we can conclude the offering and raise the approximately \$46.8 million of new equity capital.

#### Description of the Direct Public Offering

The direct public offering will consist of shares of our class A common stock we have previously registered on our effective Form S-3 shelf registration statement. The price per share of our class A common stock issued to the investor may be at a discount or premium to the closing price of our class A common stock on the New York Stock Exchange on the closing date of the offering. We anticipate that the direct public offering will close as soon as practicable following receipt of shareholder approval. However, we are not bound to sell and no investor is bound to purchase any or all of the up to 2,000,000 shares of class A common stock to be offered by us and we reserve the right to reject any offers to purchase our class A common stock. We cannot assure you that we will sell any of the up to 2,000,000 shares of class A common stock to be offered by us.

The proceeds received by us from the direct public offering are

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expected to be used by us for general corporate purposes, including funding our balance sheet investments and capital commitments to private equity funds managed by us, repayment of indebtedness, including our convertible trust preferred securities and our credit facility, working capital and potential business acquisitions.

### Necessity of Shareholder Approval

Section 312.03 of the New York Stock Exchange Listed Company Manual requires that companies listed on the New York Stock Exchange obtain shareholder approval prior to the issuance of common stock (or securities convertible into or exercisable for common stock), in any transaction or series of related transactions if: (1) the common stock has, or will have upon issuance, voting power equal to or in excess of 20 % of the voting power outstanding before the issuance of such stock or of securities convertible into or exercisable for common stock; or (2) the number of shares of common stock to be issued is, or will be upon issuance, equal to or in excess of 20 % of the number of shares of common stock outstanding before the issuance of the common stock or of securities convertible into or exercisable for common stock.

If we sell 2,000,000 shares of our class A common stock in the direct public offering, we will have issued a number of shares that exceeds 20% of our currently outstanding common stock, based on 6,636,882

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shares outstanding as of April 27, 2004. Therefore, we must obtain shareholder approval to comply with this New York Stock Exchange listing requirement.

We are therefore now asking that the shareholders approve the issuance by us of up to 2,000,000 shares of our class A common stock to be issued in the direct public offering.

### Vote Required, Recommendation

The affirmative vote of a majority of the votes cast on the matter at the annual meeting is required to approve the proposed issuance of up to 2,000,000 shares of our class A common stock, provided that the total votes cast represent over 50% of the 6,636,882 shares of class A common stock entitled to vote as of the record date. Our board of directors unanimously recommends that you vote for the approval of the issuance of our class A common stock in the proposed direct public offering.

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## PROPOSAL 4 -- RATIFICATION OF INDEPENDENT AUDITORS

### Description of Proposal

Our board of directors has appointed Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2004, and has

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further directed that the appointment of such accountants be submitted for ratification by the shareholders at the annual meeting. We have been advised by Ernst & Young LLP that neither that firm nor any of its associates has any relationship with us or our subsidiaries other than the usual relationship that exists between independent certified public accountants and clients. Ernst & Young LLP will have a representative at the annual meeting who will have an opportunity to make a statement, if he or she so desires, and who will be available to respond to appropriate questions.

Shareholder ratification of the appointment of Ernst & Young LLP as our independent auditors is not required by our charter or otherwise. However, our board of directors is submitting the appointment of Ernst & Young LLP to the shareholders for ratification as a matter of what it considers to be good corporate practice. Even if the appointment is ratified, our board of directors in its discretion may direct the appointment of a different independent accounting firm at any time during the year if the board determines that such a change would be in our and our shareholders' best interests.

Principal Accounting Firm Fees

Aggregate fees we were billed for the fiscal years ended December 31, 2003 and 2002 by our principal accounting firm, Ernst & Young LLP are as follows:

	Fiscal Year Ended December 31,	
	2003	2002
Audit fees.....	\$206,917	\$183,345
Audit-related fees (a).....	\$ 20,300	--
Total audit and audit-related fees.....	\$227,217	\$183,345
Tax fees (b).....	\$291,406	\$300,707
All other fees (c).....	\$318,802	\$260,933
	-----	-----
Total.....	\$837,425	\$774,985

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- (a) The audit-related fees include amounts billed to us for review of our registration statement and REIT accounting consulting advice in 2003.
  - (b) Tax fees include amounts billed to us primarily for tax planning and consulting, tax compliance and preparation and review of federal, state and local tax returns and tax fees related to REIT matters.
  - (c) All other fees include amounts billed to us related to audit of Fund II and Fund III and tax return preparation for these funds for which we are reimbursed by the funds.

The audit committee of the board of directors was advised of the services provided by Ernst & Young LLP that are unrelated to the audit of the annual fiscal year end financial statements and the review of

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interim financial statements and has considered whether the provision of such services is compatible with maintaining Ernst & Young LLP's independence as our independent auditor.

### Audit Committee Pre-Approval Policy

In accordance with our audit committee pre-approval policy, all audit and non-audit services performed for us by our independent accountants were pre-approved by the audit committee of our board of directors, which concluded that the provision of such services by Ernst & Young LLP was compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

The pre-approval policy provides for categorical pre-approval of specified audit and permissible non-audit services and requires the specific pre-approval by the audit committee, prior to engagement, of such services, other than audit services covered by the annual engagement letter, that are individually estimated to result in an amount of fees that exceed \$50,000. In addition, services to be provided by the independent accountants that are not within the category of pre-approved services must be approved by the audit committee prior to engagement, regardless of the service being requested or the dollar amount involved.

Requests or applications for services that require specific separate approval by the audit committee are required to be submitted to the audit committee by both management and the independent accountants, and must include a detailed description of the services to be provided and a joint statement confirming that the provision of the proposed services does not impair the independence of the independent accountants.

The audit committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the audit committee at its next scheduled meeting. The audit committee does not delegate to management its responsibilities to pre-approve services to be performed by the independent accountants.

### Vote Required; Recommendation

The affirmative vote of a majority of the votes cast at the annual meeting is required to ratify the appointment of Ernst & Young LLP as our independent auditors. Our board of directors unanimously recommends that you vote for the ratification of Ernst & Young LLP as our independent auditors.

### ANNUAL REPORT

Our annual report to shareholders is being concurrently distributed to shareholders herewith.

### OTHER MATTERS

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Our management does not know of any other matters to come before the annual meeting. If, however, any other matters do come before the annual meeting, it is the intention of the persons designated as proxies to vote in accordance with their discretion on such matters.

### SHAREHOLDER PROPOSALS

If you wish to submit a shareholder proposal pursuant to Rule 14a-8 under the Securities Exchange Act for inclusion in our proxy statement and proxy card for our 2005 annual meeting of shareholders, you must submit the proposal to our secretary no later than January 1, 2005. In addition, if you desire to bring business (including director nominations) before our 2005 annual meeting, you must comply with our bylaws, which currently require that you provide written notice of such business to our secretary no earlier than March 19, 2005 and no later than April 18, 2005. For additional requirements, shareholders should refer to our bylaws, article II, section 12, "Nominations and Proposals by Stockholders," a current copy of which may be obtained from our secretary. If we do not receive timely notice pursuant to our bylaws, any proposal will be excluded from consideration at the meeting, regardless of any earlier notice provided in accord with SEC Rule 14a-8.

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APPENDIX A

### CAPITAL TRUST, INC.

#### Charter of the Audit Committee of the Board of Directors

##### PURPOSE

The Audit Committee (the "Committee") is appointed by the Board of Directors (the "Board") to assist the Board in fulfilling its responsibility to oversee the quality and integrity of the Company's financial reporting and the audits of the financial statements of the Company. The Committee's purpose is to:

- o Assist the Board's oversight of:
  - o The integrity of the Company's financial statements and internal controls;
  - o The Company's compliance with legal and regulatory requirements;
  - o The Company's overall risk management profile;
  - o The independent auditors' qualifications and independence; and



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- o The performance of the Company's internal audit function and independent auditors.
- o Prepare the report of the Committee required by the rules of the Securities and Exchange Commission (the "SEC") to be included in the Company's annual meeting proxy statement.

### MEMBERSHIP

The Committee shall be comprised of not less than three members of the Board. Members of the Committee shall be appointed by the Board and may be removed by the Board in its discretion. The Board shall designate a chairperson of the Committee. All members of the Committee shall meet the independence criteria and have the qualifications set forth in the listing standards of the New York Stock Exchange (the "NYSE") and Rule 10A-3 under the Securities Exchange Act of 1934 (the "Exchange Act").

Accordingly, all of the members of the Committee shall be directors:

- o Who do not accept any direct or indirect consulting, advisory or compensatory fee from the Company other than for board service or in respect of retirement or deferred compensation for prior service, who are not "affiliated persons" within the meaning of Rule 10A-3 under the Exchange Act and who otherwise satisfy the independence criteria set forth in the NYSE listing standards; and

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- o Who are financially literate (i.e. have the ability to read and understand fundamental financial statements as determined by the Board).

At least one member of the Committee shall qualify as an "audit committee financial expert" as defined in Item 401(h) of Regulation S-K under the Exchange Act (which the Board may presume satisfies the NYSE listing standard that one member have accounting or related financial management expertise).

Committee members shall not serve simultaneously on the audit committee of more than two other companies, unless the Board determines that such service will not impair the member's ability to serve on the Committee.

### DUTIES AND RESPONSIBILITIES

The Committee's responsibility is one of oversight. The Company's management is responsible for preparing the Company's financial statements and the independent auditors are responsible for auditing those financial statements.

To carry out its oversight responsibility, the Committee shall undertake the activities set forth below. These activities are set forth as a guide with the understanding that the Committee may diverge from this guide as appropriate given the circumstances.

Independent Auditors and Audit Process  
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- o The Committee, subject to any action that may be taken by the full Board, shall have the ultimate authority and responsibility to appoint, retain (or nominate for shareholder ratification), oversee, evaluate and, where appropriate, replace the independent auditors.
  - o The independent auditors shall report directly to the Committee.
  - o The Committee shall evaluate at least annually the experience, qualifications and performance of the lead partner and the senior members of the independent auditors' engagement team.
- o The Committee shall review and approve the scope of the audit services outlined in the independent auditors' annual engagement letter.
- o The Committee shall review the scope of the annual audit outlined by the independent auditors and their proposed audit plan and procedures.
- o The Committee shall review with the independent auditors any problems, difficulties or disputes the auditors may have encountered in the course of the audit work or otherwise and any management letter provided by the auditors and the Company's response to that letter.
- o At least annually, receive and review a report by the independent auditors describing:
  - o the independent auditors' internal quality-control procedures;

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- o any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditing firm, or by an inquiry or investigation by governmental or professional auth