

*Modifications to the Fourth Amended Plan*¹

I. Summary

To settle all issues and disputes between the Debtors and the SFI Noteholders regarding confirmation of the Debtors' Fourth Amended Plan, the Debtors have agreed to make certain limited modifications to the Plan (the "**Modifications**"). **The Modifications outlined herein are subject to adjustment based on the parties' ongoing discussions, and are subject to several conditions and contingencies, including: (i) addressing liquidity issues posed by the modified capital structure under the proposed Modifications given the Debtors' business plan and projections; (ii) reaching agreement with respect to the financing contemplated by the Modifications on terms that, where applicable, are substantially similar to those in the exit financing previously reviewed and approved by this Court; (iii) obtaining consent from Time Warner to the Modifications, including the exit financing contemplated thereby; (iv) reaching agreement on the necessary final documentation of the Modifications and all associated documents; and (v) obtaining the Court's resolution of certain currently-contested issues as contemplated by the Modifications, including issues relating to the claims asserted by the SFO Noteholders for post-petition interest be paid on the SFO Notes, to the claims asserted by the SFO Noteholders for a prepayment premium, make-whole amounts, no-call damages, or other similar claims (collectively, the "Make-Whole Claims"), and to certain plan structure issues and specific findings contemplated by the Modifications; provided, however, that it is a condition of confirmation of the Plan that the Make-Whole Claims be disallowed by the Court.**

As a result of the Modifications, (1) all allowed claims against SFO (including the SFO Notes but not including, unless allowed by the Court, any payment for post-petition interest on the SFO Notes and not including any payment of the Make-Whole Claims based on prepayment of the SFO Notes) will be paid in cash in full (the treatment of allowed claims against SFTP and its Debtor subsidiaries will be unchanged), and (2) upon exit from chapter 11, 100% of the issued and outstanding common stock in SFI will be owned by the SFI Unsecured Claims (Class 14) through (a) the conversion into SFI common stock of all allowed claims or credited expenses against SFI (including the SFI Notes), (b) the purchase of SFI common stock pursuant to a rights offering to SFI Noteholders that is fully backstopped by a group of SFI Noteholders (the "**SFI Backstop Group**"), (c) the direct purchase of SFI common stock by the SFI Backstop Group, and (d) the conversion into SFI common stock of certain claims in respect of SFO Notes held by two members of the SFI Backstop Group.

The payments required to be made under the Plan, as modified, will be funded with (a) borrowings under \$1.080 billion of new debt facilities, and (b) proceeds from the purchase of \$650 million of new SFI common stock (comprised of \$505.5 million from the rights offering, \$75 million from the discounted direct purchase, \$50 million from a direct undiscounted purchase, and \$19.5 million from the conversion of SFO Note Claims, and further specified in Section III below). In addition, the SFI Backstop Group has committed to provide up to \$75 million of additional equity capital by (1) purchasing \$25 million of additional common stock to

¹ Unless otherwise indicated, capitalized terms used herein shall have the same meaning ascribed to them in the Debtors' Emergency Motion For an Order Fixing a Period of Time to Amend Voting on the Debtors' Proposed Modified Fourth Amended Plan of Reorganization and Scheduling a Confirmation Hearing.

meet liquidity needs in 2011, and (2) converting into SFI common stock an additional \$50 million of claims in respect of SFO Notes to fund the payment of post-petition interest in respect of the SFO Notes if the Court allows such claims.

The Plan, as modified, has been structured to be confirmable regardless of whether or not the holders of SFO Unsecured Claims (Class 11) decide to change their votes with respect to the Plan from an acceptance to a rejection. However, it is a condition to confirmation of the Plan that the claims asserted by the SFO Noteholders for a prepayment premium, make-whole amounts, no-call damages, or other similar claims (collectively, the "Make-Whole Claims") be disallowed by the Court.

Based on the Debtors' adoption of the Modifications, the members of the SFI Backstop Group, who hold as of the voting deadline approximately \$650 million of SFI Notes, have committed to change their prior votes rejecting the Plan into acceptances of the Plan (as modified).

II. Treatment of Claims and Equity Interests

The Modifications do not change the treatment of any claims or equity interests under the Debtors' Fourth Amended Plan except for SFO Unsecured Claims (Class 11), SFO Equity Interests (Class 12) and SFI Unsecured Claims (Class 14). The claims in each of Class 11 and Class 14 will receive a higher recovery pursuant to the Modifications.

On the Effective Date of the Plan, each holder of an Allowed SFO Unsecured Claim shall receive a cash payment equal to the full allowed amount of its claim, which shall include principal and interest accrued as of the Petition Date. In addition, if the Court determines that transactions contemplated by the Plan, as modified, provide sufficient value to pay post-petition interest in respect of SFO Unsecured Claims and allows such claims, the amount of the cash payment to holders of Allowed SFO Unsecured Claims shall include interest accruing on their claims through the Effective Date of the Plan. Notwithstanding the foregoing, in no event shall the holders of SFO Note Claims recover any amounts in respect of any alleged Make-Whole Claims, all of which shall be disallowed in connection with confirmation of the Plan. The foregoing recovery, with or without post-petition interest, is substantially higher than that provided under the prior Fourth Amended Plan prior to the Modifications.

Pursuant to the Modifications, each holder of an Allowed SFI Unsecured Claim shall receive its pro rata share of (i) 9.5% of the SFI common stock and (ii) if eligible, rights to purchase 66.9% of the SFI common stock for \$505.5 million. Such distributions will provide holders of Allowed SFI Unsecured Claims with substantially greater recoveries than those contemplated under the prior Fourth Amended Plan. Because the allowed claims of the SFO Noteholders will be paid in cash in full by the SFO estate, the guaranty claim of the SFO Noteholders against SFI shall be deemed to be satisfied in full and shall receive no recovery. All of the percentages in this paragraph are estimates and, along with all other terms and conditions of the Modifications, are subject to adjustment based on the parties' ongoing discussions and other adjustments, including dilution for (i) shares issued to satisfy any allowed claim for post-petition interest; (ii) shares issued to management pursuant to stock or option grants; (iii) any additional equity investments included in the capital structure under the Modifications; (iv) any potential reallocation of shares with respect to the delayed draw

commitment by certain of the SFI Noteholders; and (v) any subsequent Modifications made to address the Debtors' business or liquidity needs.

SFI's equity interests in SFO shall be cancelled and annulled pursuant to the Modifications.

III. Financing and Equity Contributions

Pursuant to the Modifications, on the Effective Date of the Plan, the Debtors will receive no less than \$1.080 billion of new funded debt financing (the "*New Financing*"), which will be comprised of the following:

- \$730 to \$780 million of first lien term debt on terms substantially similar to those offered by JPMorgan, Bank of America, Deutsche Bank, and Barclays in connection with the Fourth Amended Plan;
- \$250 million of second lien debt on terms substantially similar to those offered by Goldman Sachs and UBS under the SFI Noteholders' alternative proposal; and
- \$50 to \$100 million of revolver availability on terms substantially similar to those offered by JPMorgan, Bank of America, Deutsche Bank, and Barclays in connection with the Fourth Amended Plan, \$20 million of which the Debtors anticipate will be drawn on the Effective Date.

Also on the Effective Date of the Plan, the Debtors shall receive up to \$725 million from the SFI Noteholders in exchange for 90% of the common stock of SFI (the "*New Equity*"),² which shall consist of the following:

- \$505.5 million from a rights offering to the holders of SFI Unsecured Claims to purchase the common stock of SFI fully backstopped by the SFI Noteholders;
- \$75 million from the discounted direct purchase of common equity of SFI by the SFI Noteholders;
- \$50 million from the undiscounted purchase of common equity by certain of the SFI Noteholders at the same buy-in as the rights offering;
- up to \$25 million from a delayed draw commitment by certain of the SFI Noteholders to purchase additional shares of common stock of SFI, which commitment will remain available at the discretion of the post-confirmation board until June 2011 (the commitment parties are receiving a fee of 0.5% of the SFI common stock); and
- \$19.5 million from the conversion of SFO Note Claims held by the SFI Noteholders into common equity of SFI, which will automatically upsize to \$69.5 million if the Court

² Not less than \$650 million of the New Equity shall be funded on the Effective Date, which shall consist of the \$505.5 million rights offering, the \$75 million discounted direct purchase, \$50 million undiscounted direct purchase, and \$19.5 million of converted SFO Note Claims.

determines that the holders of SFO Unsecured Claims are entitled to post-petition interest.

To fulfill their equity commitments, the SFI Noteholders already have deposited in escrow \$655.5 million of cash and have delivered binding agreements regarding the conversion of certain of their SFO Notes into common stock of SFI. The total equity value of SFI on the Effective Date will be approximately \$722 million.

IV. Plan Implementation

To implement the Plan on the Effective Date, SFI shall create a new wholly-owned subsidiary (“*NewCo*”). Pursuant to section 1123(b)(4) of the Bankruptcy Code, SFTP shall transfer all of its assets to NewCo in exchange for \$1.511 billion dollars in cash from SFI, which shall be funded by the proceeds of the New Financing and New Equity. SFTP then shall use that cash to satisfy in full (i) the approximately \$1.150 billion of Allowed Claims asserted against SFTP and its subsidiary Debtors, and (ii) other administrative expenses and related costs of the transaction (estimated at \$100 million).

The approximately \$350 million remaining after all of the obligations of SFTP and its subsidiary Debtors have been satisfied (the “*SFTP Residual Property*”) shall be transferred to SFO’s estate on account of SFO’s equity interests in SFTP. Additionally, SFI shall make another cash payment (the “*SFI Cash Payment*”) of approximately \$50.5 million³ to SFO to extinguish the SFO Note Guaranty Claims against SFI. SFO shall then distribute this cash to the holders of SFO Note Claims (other than the \$19.5 million of SFO Note Claims converted by the SFI Noteholders) in full satisfaction of the principal and prepetition accrued interest. Additionally, in the event that the Bankruptcy Court determines that the transactions contemplated by the Modifications provide sufficient value to pay post-petition interest in respect of SFO Unsecured Claims and that the claims of the SFO Noteholders for post-petition interest should be allowed, another \$50 million of SFO Note Claims held by the SFI Noteholders shall be converted into common stock of SFI to allow the other holders of SFO Note Claims to receive such additional interest.

Also, on the Effective Date of the Plan, SFI shall distribute to the holders of Allowed SFI Unsecured Claims 9.5% of the common stock of SFI and, if eligible, the rights to participate in a \$505.5 million equity rights offering to acquire up to an additional 66.9% of the common stock of SFI.⁴ The remaining 23% of the common stock of SFI shall be distributed to the SFI Noteholders in exchange for their direct equity investments (13.8% in respect of their discounted purchase and 6.6% in respect of their undiscounted purchase) and conversions of SFO Note Claims (2.6%). All of these percentages are estimates and, along with all other terms and conditions of the Modifications, are subject to adjustment based on the parties’ ongoing discussions and other adjustments, including dilution for (i) shares issued to satisfy any allowed claim for post-petition interest; (ii) shares issued to management pursuant to stock or option

³ The amount of this payment is calculated by subtracting the following from the SFO Notes’ allowed prepetition claim of approximately \$420 million: (i) \$350 million of SFTP Residual Property and (ii) \$19.5 million of SFO Note Claims held by the SFI Noteholders that will be converted into common stock.

⁴ The rights to participate in the rights offering shall be exercisable only by accredited investors.

grants; (iii) any additional equity investments included in the capital structure under the Modifications; (iv) any potential reallocation of shares with respect to the delayed draw commitment by certain of the SFI Noteholders; and (v) any subsequent Modifications made to address the Debtors' business or liquidity needs..

Finally, as a condition to confirmation and consummation of the Plan, any claim asserted by the holders of SFO Note Claims for amounts in respect of any alleged Make-Whole Claims shall be disallowed by the Court. Furthermore, if the SFO Unsecured Claims (Class 11) vote to reject the Plan, then the Plan will be withdrawn only as to SFO, but such withdrawal shall not affect the terms of the Plan with respect to any other Debtor. Notwithstanding a withdrawal of the Plan as to SFO, however, SFO's estate shall receive the SFTP Residual Property and the SFI Cash Payment.

V. Post-confirmation Board and Management

On the Effective Date of the Plan, the initial board of directors of SFI (the "***Post-confirmation Board***") will be composed of the following:

- Five (5) directors selected by the SFI Noteholders;
- Two (2) directors, which will meet New York Stock Exchange independence standards, one selected by the SFI Noteholders and the other selected by the Official Committee, with designated current Board members to be considered;
- Mr. Shapiro; and
- One (1) director of the current board selected by Mr. Shapiro, except that such director may not be Mr. Snyder unless mutually agreed by Mr. Shapiro and the SFI Noteholders.

The individuals who will make up the Post-confirmation Board will be disclosed prior to the confirmation of the Plan.

The Debtors' initial officers on the Effective Date of the Plan shall be the same as the officers serving immediately prior to confirmation of the Plan, and such officers' existing employment agreements shall be assumed. Notwithstanding the foregoing and in lieu of all existing or contemplated equity plans and arrangements for the Debtors' officers in such agreements or otherwise, the Plan will provide for the reservation of 15% of the common stock of SFI for a long-term incentive program for management, which shall be comprised of 5% in restricted shares and options to purchase an additional 10% of the common stock of SFI. The allocation and vesting of the shares of common stock reserved for management shall be determined by the mutual agreement of Mr. Shapiro and the Post-confirmation Board following the Effective Date of the Plan.