

# Indicative Terms – Senior [Secured 2<sup>nd</sup> Lien] Notes

Indicative Terms – Senior Secured 2 <sup>nd</sup> Lien Notes	
<b>Issuer:</b>	SpinCo (the “Issuer”)
<b>Book-Running Manager:</b>	Lehman Brothers Inc.
<b>Securities Offered:</b>	\$1,850 million Senior [Secured Second Lien] Notes (the “Notes”)
<b>Tenor:</b>	5-6 years
<b>Coupon:</b>	15% for the first 3 years; 18% in year 4; 20% thereafter, of which any amount above 15% will be payable in additional Notes or in cash at the option of the Issuer
<b>Assumed Ratings:</b>	TBD
<b>Ranking:</b>	<i>Pari passu</i> with all existing and future senior indebtedness and senior to all existing and future subordinated indebtedness
<b>Guarantees:</b>	All current and future domestic subsidiaries
<b>Security:</b>	[A perfected second priority security interest in all tangible and intangible assets, including capital stock, of the Issuer and its domestic subsidiaries]
<b>Optional Redemption:</b>	Non-callable for the first 2-3 years; thereafter callable at 107, 105, 103
<b>Mandatory Offer to Purchase:</b>	Beginning 18 months after the issue date, the Issuer must offer to purchase the Notes with 50% of quarterly Excess Cash Flow after the amortization/ sweep of all first lien debt
<b>Equity Clawback:</b>	None
<b>Change of Control:</b>	Investor put at 101%
<b>Covenants:</b>	Customary for high yield offerings, including but not limited to, limitations on: restricted payments, additional indebtedness, liens, asset sales, mergers/consolidations and transactions with affiliates
<b>Use of Proceeds:</b>	Fund a distribution of cash in connection with the spin-off
<b>Warrants:</b>	Penny warrants for up to [ ]% of the stock of SpinCo
<b>Expected Investor IRR:</b>	20-25%

# Potential Junior Debt Investors

Real Estate Investors <sup>(1)</sup>		Credit Investors <sup>(2)</sup>	Unlikely Investors
◆ ADIA*	◆ Meraas*	◆ Ares	◆ Caisse de Depot
◆ <u>Apollo</u>	◆ <b>Morgan Stanley Real Estate Fund</b>	◆ Blackrock	◆ Goldentree
◆ Baupost	◆ <b>Och-Ziff</b>	◆ Centerbridge	◆ Olayan*
◆ <u>Blackstone</u>	◆ QIA*	◆ Citadel	◆ ONEX
◆ Carlyle	◆ Oman Investment Fund*	◆ D.E. Shaw	◆ Omers
◆ <b>Cerberus</b>	◆ Orix	◆ <b>Eton Park</b>	◆ Rothschild
◆ <u>Colony</u>	◆ Prudential	◆ <b>Highbridge</b>	◆ Starwood Capital
◆ CV Starr	◆ Temasek / GIC*	◆ Magnetar	◆ Vornado
◆ Dubai Investment Group*	◆ <u>Walton Street</u>	◆ Sankaty	◆ Warburg Pincus
◆ Dune Capital	◆ <b>Westbrook</b>	◆ <u>Taconic</u>	
◆ Farallon	◆ <b>Whitehall</b>	◆ TCW	
◆ Fortress		◆ Tennenbaum	
◆ <u>General Electric</u>		◆ <b>York</b>	
◆ KIA*			
◆ KKR			
◆ ICD			
◆ <u>Lubert Adler</u>			
◆ Lone Star			
◆ <u>MSD Capital</u>			
◆ Marathon			

1. Could invest \$250+ million.

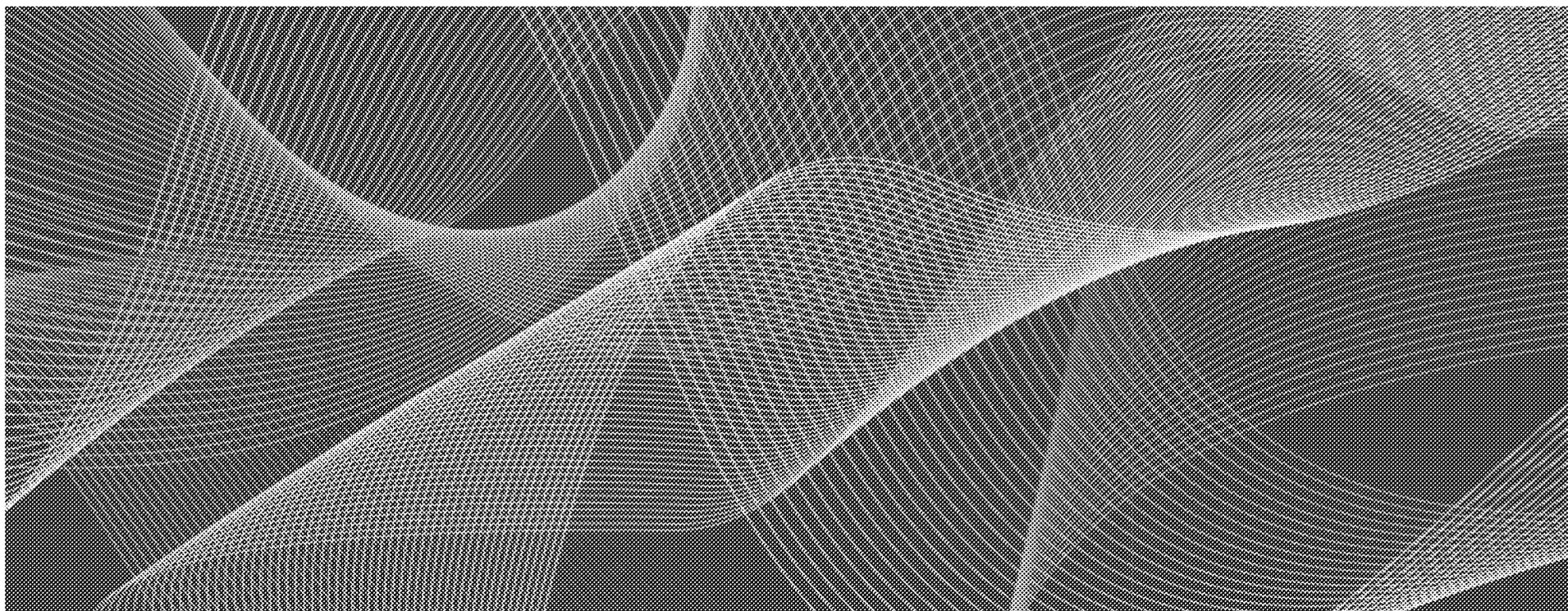
2. Could invest \$100+ million.

Note: Bold indicates most likely investors.

Underline indicates investors with whom we would discuss the structure / terms of the deal.

\* indicates sovereign wealth funds most likely to partner with others.

# iStar Q2 Overview and Comparison to SpinCo



Confidential Presentation

# iStar Q2 2008 Earnings Highlights

## Earnings Highlights

- ◆ Revenues of \$324 mm, up 6% from Q2 2007, but down 23% from Q1 2008
- ◆ Reported adjusted loss of \$196 mm ((\$1.46) diluted EPS); adjusted earnings plus net realized gains of \$106 mm (\$0.79 diluted EPS)
- ◆ **Leverage<sup>(1)</sup> (Debt to book equity plus accumulated depreciation / depletion and loan loss reserves) of 3.2x vs. 3.5x as of Q1 2008**
- ◆ **Board approved \$50 mm share buyback plan**
  - Based on prior close of \$6.64, iStar would be able to repurchase ~7.5 mm shares of common stock (currently 134.9 mm shares outstanding)
- ◆ As of June 30, 2008, the Company had \$1.4 bn of cash and available capacity under \$3.9 bn in revolving credit facilities versus \$890.6 mm at the end of the prior quarter
  - Currently in compliance with all bank and bond covenants
- ◆ Weighted average last dollar LTV ratio for all structured finance assets was 74.5%
- ◆ Set aside \$217 mm in noncash assets for bad loans and took a \$45 mm charge for mark-to-market impairments, less than the \$265 mm of direct impairment and \$50 mm of goodwill impairment it had warned of two weeks ago
- ◆ Current book value per share of \$17 (company trading at ~0.5x book)
- ◆ **NPLs and watch list assets combined now represent 22% of loans**
  - NPLs increased to \$1.3 bn (10.5% of loans) from \$1.1 bn (8.0%),
  - Watch list assets rose to \$1.5 bn (11.4% of loans) from \$1.2 bn (9.4%)
- ◆ Realized asset sales of \$308 mm in Q2
- ◆ **Fremont portfolio detail**
  - \$10 bn portfolio bought with expected losses of \$300 mm
  - Now expect total aggregate losses of ~\$400-\$500 mm, as compared to initial estimate of \$300 mm
  - Current gross loan value of \$4.5 bn, consisting of 178 loans
- ◆ Predicted diluted FY2008 EPS of (\$1.00) – (\$0.25) with expected Q3 dividend of \$0.30 - \$0.40 per share
  - At the midpoint, this represents a dividend cut of (60%) and implies an annualized yield of 21% at current market prices

## Key Financials (as reported)

	Q2		% Change Y-o-Y
	2008	2007	
<i>(\$ in thousands, except per share amounts)</i>			
Revenue:			
Interest income	\$235,354	\$192,165	22%
Operating lease income	80,955	76,449	6%
Other income	7,760	37,953	(80%)
<b>Total Revenue</b>	<b>\$324,069</b>	<b>\$306,567</b>	<b>6%</b>
Costs and expenses:			
Interest expense	\$162,876	\$139,174	17%
Provision for loan losses	276,660	5,000	5433%
Impairments of goodwill and other assets	96,784	-	NA
Other Expense	75,634	67,945	11%
<b>Total Costs and Expenses</b>	<b>\$611,954</b>	<b>\$212,119</b>	<b>188%</b>
Income from continuing operation before other items	(\$287,885)	\$94,448	(405%)
Gain on sale of JV interest, net of minority interest	261,659	-	NA
Other gains / (losses)	57,317	14,614	292%
<b>Net Income</b>	<b>\$31,091</b>	<b>\$109,062</b>	<b>(71%)</b>
Preferred dividend requirements	(10,580)	(10,580)	0%
<b>Net income Allocable to Common Shareholders</b>	<b>\$20,511</b>	<b>\$98,482</b>	<b>(79%)</b>
Basic earnings per common share	\$0.15	\$0.76	(80%)
Diluted earnings per common share	\$0.15	\$0.75	(80%)
Loans and other lending investments, net	\$10,823,099	\$7,694,183	41%
Corporate tenant lease assets, net	3,120,804	3,324,186	(6%)
Other investments	688,065	490,741	40%
Total assets	15,619,140	12,322,330	27%
Debt obligations	12,240,439	8,987,059	36%
Total liabilities	12,649,933	9,219,894	37%
Total equity	2,897,373	3,071,834	(6%)
Leverage <sup>(1)</sup>	3.2 x	2.5 x	28%

1. Leverage defined as book debt divided by sum of book equity, accumulated depreciation / depletion and loan loss reserves.

# iStar – Research Commentary

## Equity Analysts

View: Market Perform

*“Though we had fully expected a dividend cut, we did not expect a cut of this magnitude. In addition, its new 2008 earnings guidance is lower than we expected and we were the lowest estimate on the Street”*

*“On the positive side, leverage improved to 3.2x from 3.5x sequentially owing to asset sales. Maintaining conservative leverage in this environment is very important, but the consequence of de-leveraging is lower earnings power for the company. Our estimates are under review.”*

**BMO Capital Markets, July 31, 2008**

View: Market Perform

*“Not surprisingly, management also signaled a lower dividend for Q3 2008, within a range of \$0.30-0.40 (\$0.87 currently). We view this decision favorably, as it will support capital and liquidity. The new dividend implies a yield of 18-24% based on a recent price of \$6.64.”*

*“With the preannouncement of weak Q2'08 results, the trend of negative and deteriorating performance continues. SFI is in a challenging part of the commercial real estate cycle with significant exposure to some of the weakest subsectors. We believe SFI shares will struggle until there is evidence that credit issues have stabilized. There could be a lot of value here for long-term investors, but there do not appear to be any positive near-term catalysts”*

**Wachovia, July 31, 2008**

View: Sell

*“Ugly Results; Ugly Outlook”*

*“The biggest near-term risk to the SFI story is the credit performance of the recently acquired Fremont portfolio is worse than what SFI underwrote the portfolio to. Should the credit market dislocation persist for a prolonged period, asset growth at SFI could be constrained, and funding costs would likely increase materially.”*

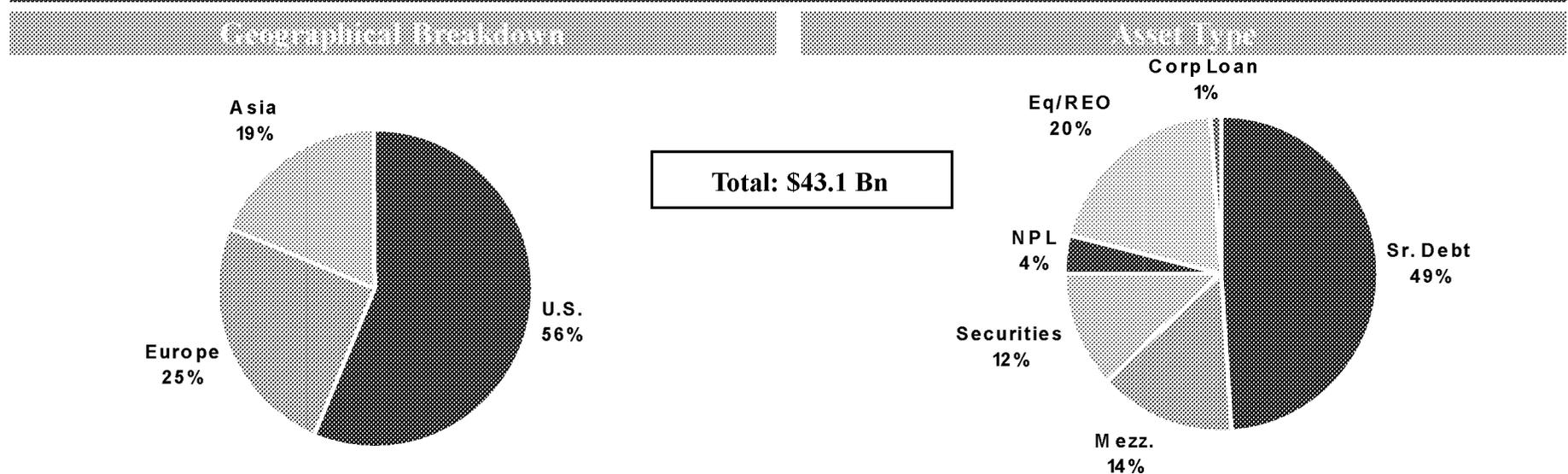
*“Credit issues are accelerating but leverage is improving. It appears credit will remain a significant issue going forward.”*

*“\$50m stock buyback a modest positive but longer-term issues remain. At \$6.25/share, buyback would be 8m shares or 6% of shares outstanding. We do not think this will offset our larger concerns that: 1) provision levels are likely to rise to 7-9% from 4.3% currently; 2) declining earnings raise the risk of debt covenant violations; 3) further writedowns and mark-to-market adjustments; and 4) dilutive equity raise (we estimate ~\$750m).”*

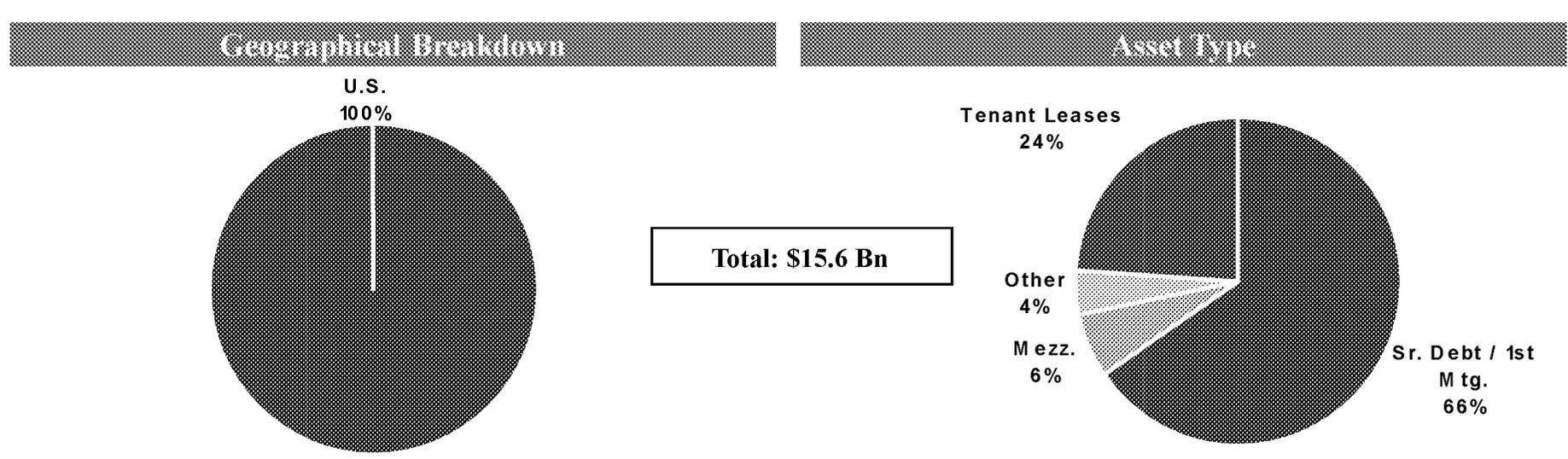
**UBS, July 31, 2008**

# Comparison of Green CRE vs. iStar

## Green CRE Asset Overview



## iStar Asset Overview



# Financial Comparison Page

## Projected CRE Co will be approximately 2x the size of iStar, and while levered less, will have a lower net finance margin

- ◆ Total assets of CRE Co represent estimated December 1, 2008 size
  - Includes \$5 billion planned asset sales before Q1'09
  - Includes \$6 billion incremental mark before Q1'09
- ◆ Seller financing capital stack (L+222 1st lien debt, 12.0% current pay 2nd lien subordinated debt)

<i>(\$ in millions)</i>	Q1'09E CRE Co	Q2'08A iStar
Total Assets	\$28,688	\$15,619
Total Debt	20,082	12,240
Total Equity	8,606	2,897
Reported Leverage	NA	3.2 x <sup>(1)</sup>
Assets / Equity	3.3 x	5.4 x
Debt / Equity	2.3 x	4.2 x
Debt / Assets (Loan to Value)	70%	78%
Net Interest Income	\$421	\$235
Net Interest Expense	353	163
Net Finance Margin	1.2 x	1.4 x
Ratings	TBD	BBB / NA / BBB-
Market Capitalization <sup>(2)</sup>	\$4,303	\$892

1. Leverage defined as book debt divided by sum of book equity, accumulated depreciation / depletion and loan loss reserves.

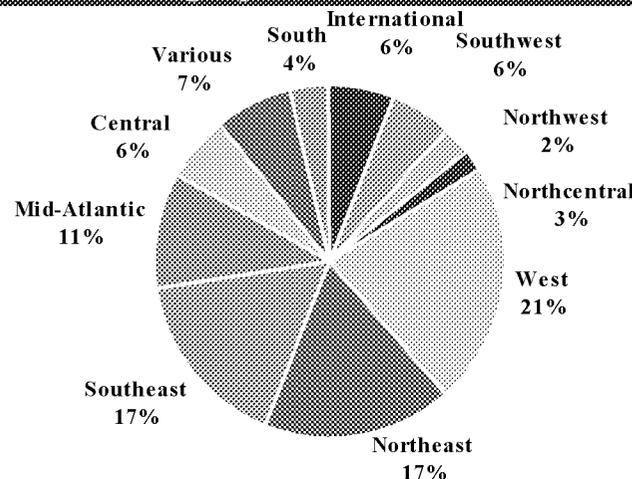
# iStar Asset Overview

Asset base broadly diversified across product line, asset type, geography, obligor and property type

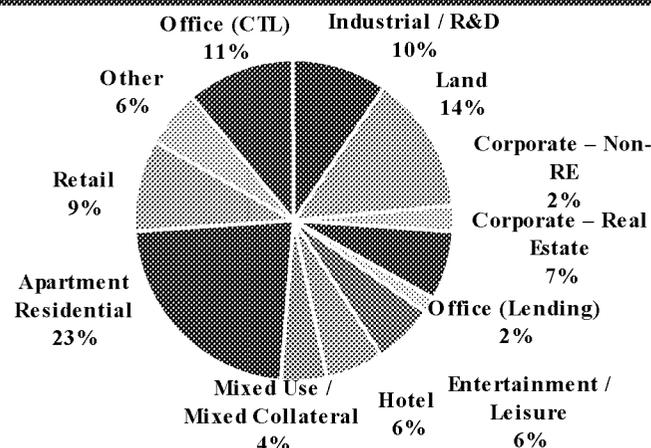
## Summary

- ◆ \$14 billion unencumbered assets; 81% of gross balance sheet assets<sup>(1)(2)</sup>
  - 89.2% first mortgages, senior debt and corporate tenant leases
  - Over 10,000 underlying collateral properties and leased facilities
- ◆ Loans (\$10.8 billion)
  - Weighted average loan-to-value of 74.5%
  - 78.9% floating rate / 21.1% fixed rate
  - 2.8-year weighted average maturity
  - Cushioned at asset level; further protected by reserves and discounts
- ◆ Leases (\$3.1 billion)
  - Credit and diversification remain strong
  - 66% public companies in 37 different standard industrial code (SIC) classifications<sup>(1)</sup>
  - 12.1-year average remaining lease term
  - 96% leased; 28% investment grade credits<sup>(1)</sup>
  - Significant embedded gains
- ◆ Other platforms
  - AutoStar, iStar Europe, Corporate Fixed Income
  - Overall gains in value

## Geographic Diversification



## Collateral Diversification



Note: As of June 30, 2008, unless otherwise noted.

1. As of March 31, 2008.

2. Pro forma for the \$960 million first mortgage financing secured by \$1.1 billion of the CTL portfolio entered into on May 1, 2008 as well as the \$750 million bond issuance closed on May 21, 2008.