Solutia Inc.’s Chapter 11 Cases
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“Solving cases is kind of like solving a maze and you can’t always be sure which direction to go and you may have to back yourself out and go down a different direction in order to solve a problem.”

-- Judge Prudence Carter Beatty, at hearing held on Sept. 25, 2007 in Solutia’s chapter 11 cases
Part I: Solutia’s Chapter 11 Cases
## Solutia’s Businesses

*Solutia is a global manufacturer of chemical-based materials for industrial and consumer use.*

- The company was formed in 1997 as a spinoff of Pharmacia Corporation (then known as Monsanto) (the “Spinoff”).
- Today, Solutia is a world leader in a number of the markets in which it operates.
- The company is organized in five business units:

<table>
<thead>
<tr>
<th>Business Segment</th>
<th>Nylon</th>
<th>Saflex</th>
<th>Flexsys</th>
<th>CPFilms</th>
<th>Specialty Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main Products</td>
<td>nylon plastic, resins and fibers used in textiles, carpet, cars</td>
<td>protective interlayers for laminated glass</td>
<td>chemicals that improve durability, heat resistance etc. of rubber used in cars, planes, tires, belts and hoses</td>
<td>window films</td>
<td>aviation hydraulic fluids and synthetic heat transfer fluids</td>
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Solutia’s History

The Spinoff

- Solutia was formed on September 1, 1997 by Pharmacia Corporation (then known as Monsanto) to operate its chemicals business.

- Subsequently, in 2002, the remaining businesses of Monsanto were divided further into New Monsanto and Pharmacia (which is now owned by Pfizer).
Solutia’s History

The Legacy Liabilities

- At the Spinoff, Monsanto’s chemical assets and chemical liabilities were transferred to Solutia.
- Solutia agreed to indemnify Monsanto from and against liabilities associated with the ownership and operation of the chemical business, *i.e.*, the Legacy Liabilities.
- The Legacy Liabilities included:
  1. **Tort Liability**: litigation liability arising out of chemical products manufactured, released or used by Old Monsanto prior to the Spinoff
  2. **Environmental Liability**: liability for environmental remediation and compliance related to sites owned or operated by Old Monsanto prior to the Spinoff
  3. **Retiree Liability**: liability for medical and other benefits to pre-Spin Retirees
  4. **Pension Liability**: liability under its pension plans

Ongoing obligations on account of the Legacy Liabilities cost Solutia more than $100 million per year following Solutia’s formation.
Solutia’s History

The Triangle of Indemnities

Monsanto must indemnify Pharmacia if Solutia fails to perform

Solutia must indemnify Pharmacia

Solutia must indemnify Monsanto

Pharmacia is legally responsible as the original corporate entity
Starting in 1999, Solutia began to suffer negative financial results that left Solutia unable to support its significant Legacy Liability obligations due to:

- a downturn in the economy,
- increasing raw material costs;
- excess capacity in the chemicals industry;
- September 11th; and
- alleged PCB exposure at Anniston, Alabama.

On December 17, 2003, Solutia commenced its chapter 11 cases with four goals in mind:

1. Improve its Businesses
2. Change its Asset Portfolio
3. Change its Capital Structure
4. Reallocate the Legacy Liabilities
Resolving all of the issues in Solutia’s chapter 11 cases meant negotiating with numerous parties, including the following:

- Solutia
- Creditors’ Committee
- Equity Committee
- Retirees’ Committee
- 2027/2037 Notes
- 2009 Notes
- Pharmacia
- Monsanto
- Monsanto
Solutia’s Chapter 11 Cases

Reallocation of the Legacy Liabilities

- **Agreement in Principle:** in June 2005, Solutia, Monsanto and the Creditors’ Committee reached an initial agreement in principle to allocate responsibility for the Legacy Liabilities between Solutia and Monsanto.
  - **Tort Liability:** Monsanto would be responsible for all Legacy Tort Claims
  - **Environmental Liability:** Monsanto and Solutia would share responsibility for environmental remediation based on the type of site at which liability arose.
  - **Retiree Liability:** Solutia would retain responsibility for obligations to Retirees.

- **Retiree Settlement:** Solutia, Monsanto, the Creditors’ Committee and the Retirees’ Committee reached the Retiree Settlement in February 2006, preserving benefits for Solutia’s 20,000 Retirees.
  - **Retiree Trust:** Solutia would fund a $175 million trust for payment of benefits
  - **Retiree Claim:** Retirees also would have a $35 million unsecured claim against Solutia
  - **Savings for Solutia:** Solutia would save approximately $110 million from consensual benefit modifications
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The Valentine’s Day Plan

  - **GUC Recovery**: Stock in Reorganized Solutia, constituting a recovery of approximately 48-56 cents on the dollar
    - Included a $250 million Rights Offering to Unsecured Creditors, backstopped by Monsanto
  - **Monsanto’s Recovery**: Stock in Reorganized Solutia, resulting in up to 45% to 49% of the equity ownership in Reorganized Solutia -- if Monsanto had to fund the entire $250 million Rights Offering pursuant to its backstop commitment
  - **Equity Recovery**: None
Solutia’s Chapter 11 Cases

The Plan Process Stalls

*The Court decides not to considered the Valentine’s Day Plan until two pending adversary proceedings are resolved.*

- **JPM Adversary Proceeding:**
  - On May 27, 2005, the indenture trustee for Solutia’s 2027/2037 notes sought declaratory judgment that the notes were secured.
  - If the notes were secured, the noteholders would be entitled to a much greater recovery than proposed in the Valentine’s Day Plan.

- **Equity Committee Adversary Proceeding:**
  - On March 7, 2005, the Equity Committee filed a complaint against Monsanto and Pharmacia, seeking to reallocate the Legacy Liabilities to Monsanto and Pharmacia and disallow their claims against Solutia.
  - If these claims were disallowed, and the Legacy Liabilities reallocated completely back to Monsanto and Pharmacia, equityholders would be more likely to receive a recovery.
Solutia’s Chapter 11 Cases

JPM Adversary Proceeding

Under the February 2006 Plan, the holders of Solutia’s 2027/2037 notes were treated as unsecured creditors. The holders believed otherwise.

- On May 27, 2005, the indenture trustee for Solutia’s 2027/2037 notes sought declaratory judgment that the notes were secured.
  - The secured status of the Notes depended on the amount of Solutia’s outstanding secured indebtedness. Below a certain level, the Notes were unsecured.
  - Solutia asserted that its October 2003 refinancing reduced its secured indebtedness below the level that had triggered this provision, thus returning the Notes to their original unsecured status.
  - The Notes asserted that the refinancing did not impact their secured status or, in the alternative, that they should be treated as secured as a matter of equity.
- A six-week trial before the Bankruptcy Court started on May 23, 2006.
- On May 1, 2007, the Bankruptcy Court ruled in favor of Solutia, finding that the 2027/2037 notes were properly desecuritized under the terms of the indenture.
- Based on this ruling, Solutia filed its Amended Plan on May 16, 2007. The Amended Plan treated the 2027/2037 notes as unsecured claims.
- On May 29, 2007, the indenture trustee appealed.
Solutia’s Chapter 11 Cases

**Equity Committee Adversary Proceeding**

*Under the February 2006 Plan, Equity Holders would not receive a recovery. The Equity Committee believed the holders were entitled to one.*

- On March 7, 2005, the Equity Committee filed a complaint against Monsanto and Pharmacia, seeking to reallocate the Legacy Liabilities to Monsanto and Pharmacia and disallow their claims against Solutia.

- In September 2006, the Bankruptcy Court ruled that the Committee did not have standing to pursue these claims on behalf of Solutia, but that the Committee could pursue its own objections to these claims.

- In May 2007, the Bankruptcy Court stayed the Equity Committee Adversary Proceeding pending a determination of the reasonableness of the Legacy Liability Settlement.
On August 17, 2007, after extensive negotiations, Solutia successfully resolved the outstanding issues with the 2027/2037 Notes and the Equity Committee.

- **Resolution of Litigation**: Modified recoveries under the Amended Plan for the 2027/2037 Notes and Equity Holders to resolve pending disputes with both groups, and their objections to the terms of Legacy Liability Settlement.

- **Legacy Liabilities**: Preserved the allocation of Legacy Liabilities between Solutia and Monsanto and the terms of the Retiree Settlement.

- **Support**: All key constituency groups, including the 2027/2037 Notes and the Equity Committee, except for the 2009 Noteholders.
Solutia’s Chapter 11 Cases

**Creditor Recoveries and Stock Ownership under the Amended Plan**

- **General Unsecured Creditors**: 31.4% of stock in Reorganized Solutia (83.1% recovery)
- **Retirees**: 2% of stock in Reorganized Solutia, plus the benefits of the Retiree Settlement, including the preservation of benefits and a $175 million trust for future benefits (69.8% recovery)
- **2027/2037 Noteholders**: 43.8% of stock in Reorganized Solutia (88.4% recovery)
- **2009 Noteholders**: $220.5 million in cash
- **Monsanto**: $175 million in cash, in exchange for allocation of Legacy Liabilities between Solutia and Monsanto and other terms of the Monsanto Settlement
- **Equity Holders**: 1% of stock in Reorganized Solutia, warrants and the right to participate in Equity Purchase for an additional 17% of stock in Reorganized Solutia
Solutia’s Chapter 11 Cases

The 2009 Claim Dispute

Under the May 2007 Plan, holders of Solutia's secured 2009 Notes would be paid in cash in the full allowed amount of their claim. Solutia and the 2009 Noteholders, however, disagreed as to what that allowed amount was.

- The 2009 Noteholders sought payment of the full face amount of the the 2009 Notes ($223 million) plus “dashed expectations" damages ($50 million).
- On November 9, 2007, the Bankruptcy Court ruled in favor of Solutia, finding that the 2009 Notes’ claim (1) should be reduced by the amount of the discount which would not amortize by the time Solutia emerged from bankruptcy and (2) should not be increased for “dashed expectations” of an uninterrupted payment stream.
  - The 2009 Notes appealed this decision.
  - On November 27, 2007, the Creditors’ Committee sought to recharacterize some of the interest payments the 2009 Notes had received during the chapter 11 cases as payments of principal. The Bankruptcy Court denied this motion. This decision also was appealed.
- On January 15, 2008, the parties engaged in Court-directed mediation. At the conclusion of that session, they settled the dispute. The Bankruptcy Court approved the settlement on February 27, 2008.
Solutia’s Chapter 11 Cases

The Amended Plan is Confirmed

- On October 19, 2007, the Court approves Solutia’s disclosure statement and authorizes Solutia to solicit votes on the Amended Plan.
- On November 29, 2007, the Court confirms the Amended Plan.
- Key Terms:
  - Settlement of All Litigations and Adversary Proceedings, including with the 2009 Notes
  - Reallocation of Legacy Tort and Environmental Liabilities between Solutia and Monsanto
  - $250 Million of New Investment in Reorganized Solutia through a rights offering, backstopped by certain hedge funds and investment banks
  - Equity Purchase Right: equity holders had right to purchase up to 17% of stock in Reorganized Solutia at a discount. This stock purchase was registered with the SEC.
  - Exit Financing: commitment for a $2 Billion exit financing facility, to be used to operate Reorganized Solutia and make distributions to creditors under the Plan
Part II: The Credit Market and The Exit Financing
Timeline

Aug. 17, 2007 - Global Settlement Reached

Oct. 19, 2007 - Court approves disclosure statement

Nov. 20, 2007 - Court approves Commitment Letter

Oct. 25, 2007 - Commitment Letter Executed

Nov. 29, 2007 - Court confirms Plan

Jan. 22, 2008 - Lenders call Market MAC

Feb. 21 - 23, 2008 - Exit Financing Trial

Feb. 26, 2008 - Court approves Settlement with Lenders

Feb. 28, 2008: PLAN GOES EFFECTIVE

Feb. 28, 2008:

June 1, 2007 - First round RFPs sent

Sept. 17, 2007 - Second round RFPS sent

Nov. 27, 2007 - Lenders suggest SOI postpone emergence until after year-end

Nov. 26, 2007 - Court approves Settlement with Lenders

June 17, 2007 - Lenders suggest SOI postpone emergence until after year-end

Subprime Crisis

Sept. 26, 2007 - Second round RFPS sent

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Part III: The Exit Financing Dispute
The Exit Financing Dispute

“... the Commitment Parties agree that completion of such syndications is not a condition to their commitments hereunder or the initial funding under the [Exit Financing].”

“You have advised Citi (as defined below), Goldman Sachs Credit Partners L.P. ("GS CP"), Deutsche Bank Trust Company Americas ("DBTCA") and Deutsche Bank Securities Inc. ("DBSI") that Solutia Inc., a Delaware corporation (the "Borrower" or "you"), intends to emerge from chapter 11 protection by implementing and consummating its Fifth Amended Joint Plan of Reorganization dated October 15, 2007 (as amended, restated or supplemented from time to time prior to the date hereof, the

“... The several and joint commitments of each of the Commitment Parties hereunder...to perform the services described herein are subject to... the absence of any adverse change since the date of this Commitment Letter in the loan syndication, financial or capital markets generally that, in the reasonable judgment of such Commitment Party, materially impairs syndication of the Facilities.”

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The Exit Financing Dispute

Exit Financing Trial

- On February 6, 2008, Solutia filed a complaint against the Lenders asking the Court to require the Lenders to fund pursuant to the Commitment Agreement or, in the alternative, for damages in the amount of not less than $2.25 Billion.

  - The key issue to how to reconcile the market MAC clause with the statement that the funding commitment is not conditioned on syndication of the loans.

- The Bankruptcy Court agrees to an expedited trial.

- Trial takes place on February 21 -23, 2008. All evidence is presented, including testimony from:
  - Jeffry Quinn, CEO, Solutia
  - James Sullivan, CFO, Solutia
  - James Tichenor, Assistant Treasurer, Solutia
  - David Jaffe, Director, Citigroup (Asset Based Finance Group)
  - Dhruv Narain, Managing Director, Goldman Sachs (Financing Group)
  - Stephen Cunningham, Managing Director, Deutsche Bank (Leveraged Finance Group)
  - Jared Dermont, Director, Rothschild
  - Two Expert Witnesses
The Exit Financing Dispute

Exit Financing Settlement

- The parties engage in settlement discussions on February 24, 2008. They reach a settlement:
  - Lenders waive the market MAC clause
  - Solutia agrees to certain modifications of economic terms of the Commitment Agreement
  - Parties agree to pay their own fees and costs of the litigation
- The parties resolve other outstanding issues
  - Waiver of condition in Backstop Commitment
  - The Bankruptcy Court approves this settlement on February 26, 2008
- Solutia emerges from chapter 11 on February 28, 2008.